

Africa's infrastructure revolution

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The 'Africa rising' narrative has stalled somewhat on the Chinese rebalancing story. As commodities plunge to their lowest level in decades and oil dependent nations struggle to balance the fiscal books, some commentators have questioned whether investors were jumping the gun on their African investment safaris.

However, infrastructure is the one sector standing firm in the commodities induced storm, firmly rooted to the African agenda. Despite declining government revenues, those at the sharp edge of infrastructure investment reckon creative solutions will be found to fund Africa's multibillion dollar shortfall over the next decade.

Old Mutual Alternative Investments' (OMAI) November buyout of the 50% of African Infrastructure Investment Managers (AIIM) that it does not already own is further evidence of this optimism about the future of infrastructure investment on the continent.

Paul Boynton, CEO of OMAI, says that the transaction allows Old Mutual to secure a business with strategically significant growth opportunities. "The global alternative investment industry is estimated to be worth around \$13 trillion by 2020, and is predicted to be the fastest growing segment of the asset management industry globally over the next 10 years. In addition, the African market is becoming increasingly attractive to global investors and as an established pan-African asset manager, AIIM is ideally positioned to capitalise on this key growth sector," he explains.

"AIIM was a JV set up in 2000 between ourselves and Macquarie, who had some significant experience in infrastructure globally. We got together and purchased from Standard Bank management rights for a fund that Standard Bank had established called the South African Infrastructure Fund," recalls Boynton. "We called the JV AIIM and the first fund that we had under management was this fund, which had had a few difficulties under Standard Bank's management. I think Standard Bank did the honorable and correct thing by saying look let's try and get in some guys who can make a better cut at this."

Macquarie is now a global powerhouse in infrastructure investment, the largest infrastructure manager on the planet. "When Macquarie did this transaction with us it was their first foreign JV so we've always had a warm place in their hearts as result," says Boynton.

Looking back over the last fifteen years, AIIM has become a major player in the road toll concession arena and cellular towers, which has provided ample learning, according to Boynton.

"I think attention to detail is critical. And also trying to leverage the experience that you've gained. So for instance, in the toll road sector, we were an early investor in the toll road space and we went on to make multiple different investments into that area driven off the experience we gained from the first one or two transactions we executed."

One of the perennial challenges facing Africa's infrastructure requirements is in the actual project scope and concession, something Boynton points to as the key to unlocking private sector capital.

"The other learning I would put out there is that from governments' point of view – because often on the other side of an infrastructure investment there's a concession made by government – is that if governments plan and put out a well-structured investment programme then they attract capital, they attract guys who will concentrate on the opportunity with resources and effort to be able to bid on the concession. And if there is ready or continuous stable pipeline of opportunity then you build a strong investor community around the space and I think that's important," explains Boynton.

The renewable energy independent power producer programme (or REIPP) is a model of how government and the private sector can and should work together to clear bottlenecks to growth in South Africa. According to data from SANEDI it has attracted R192.6 billion investment of which 28% is foreign investment – equal to 85% of the country's total FDI in 2014.

“The Government has done a considerable job in the renewable energy space here recently with that specific approach,” says Boynton. “It keeps pricing very tight. Tariffs have been driven down enormously to the benefit of the consumer and ultimately the taxpayer. That’s how we as a country and a continent can think about getting infrastructure built, because there’s an enormous amount that we need to put into infrastructure over the next decade. We need to be consistent about what we’re trying to attract private sector capital into and have a programme that is predictable and consistent over time.”

At the recent World Economic Forum meeting in Davos, African heads of state and various development finance institutions were unanimous in their call for investment into power infrastructure in particular.

“More than a century after Edison invented the light bulb, half of Africa is still in the dark,” said Akinwumi Ayodeji Adesina, President of the African Development Bank (AfDB), Abidjan. “We talk about the fourth industrial revolution, but it all starts with the need for electricity, which is like blood in the system. If we don’t have it, we can’t live.”

With 645 million Africans deprived of electricity, schools, hospitals and homes suffer. Some 600 000 women die each year from inhaling the smoke of cooking with wood or dung. To secure universal access by 2025, African heads of state have launched a new deal on energy, focused on power, potential and partnership.

“Africa has an infrastructure investment requirement of R100 billion per year over the next decade,” explains Boynton. “Of that amount approximately 40% needs to go into power generation, so that is the biggest opportunity and that is where we are focusing. If you look at a country like Nigeria over the next eight years they need to install 16 000MW and given their current installed capacity is only around 500MW, it’s an enormous jump.”

“The second major deficit in Africa is transport infrastructure. It costs three to four times as much to get goods to port in Africa as it does in Europe – so rail, road and port logistics, there is just a heap of investment that needs to go into that space as well.”

Overall the AIMM deal underlines Old Mutual Investment Group’s African strategy, which focuses on expanding its presence in Africa where infrastructure plays a crucial role. “This acquisition facilitates the leveraging of AIMM’s resources and infrastructure across the broader Old Mutual Group, while also broadening Old Mutual’s geographic footprint, most notably in Africa, and introducing new client opportunities for the enhancement of cross-selling and distribution opportunities,” says Boynton.

All the talk at this year’s World Economic Forum meeting in Davos has been of the fourth industrial revolution.

The only thing that worries Africa’s political and economic leaders about disruptive revolutions in industry, energy, trade and education is that they won’t be fast or big enough to keep up with growing demand for them. Ultimately though, revolutions are public-sector-enabled, but private-sector-led.

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