Attractive returns while making a difference

African infrastructure offers attractive risk-adjusted returns while making a tangible difference to the lives of African people. **Jurie Swart,** chief executive of Africa Infrastructure Investment Managers, shares some lessons learned and explains why transportation is an overlooked but promising sector

Q What kind of investor does it take to be successful in Africa?

JS: There's a lot to learn about culture, way of engagement and the way things are done in Africa. I think it's incumbent on us at AIIM or any other manager on the continent to make sure that what we're doing is sustainable. If anybody is of the opinion that Africa is a place where you can come, make a quick buck and run, that would be a great misconception. We've been around for a long time. We've got offices on the ground, $2 billion under management. We're in for the long haul. If you don't have that approach, I think you're going to have a hard time.

Q What does it mean to you to be a first mover?

JS: It means you're able to exploit opportunity before so many people arrive that returns are driven down by sheer volume of interest. So, a first-mover advantage is to explore and understand markets before they become overtraded. In some markets, returns have gone below where they should be to give you a good risk-adjusted return, such as with certain sectors of renewable energy.

Q How great is the need for infrastructure investment in Africa and, specifically, the transportation sector?

JS: Over the past 15 years, GDP growth in Africa has been north of 5 percent – even where there has been some slowdown in commodity-based and oil-based countries, particularly on the western side of Africa. This growth is taking place in a hopelessly insufficient infrastructure environment across the board – power, transport, energy, water. We've come to the conclusion that the total required infrastructure spending in Africa is around $100 billion per annum. Current spending in the region is $40 billion to $50 billion, meaning there's a gap of around $50 billion per annum for total infrastructure.

The transport piece of that is around $40 billion required per annum – current spending is only around $10 billion, so there is a $30 billion gap on transport spend. There is a huge amount of focus in the power space, and some obviously good opportunities in markets where people use diesel generators at exorbitant prices to generate power. But we think transportation is somewhat neglected from a private sector point of view.

Q What kind of transportation assets interest AIIM at the moment?

JS: We see great opportunity with roads and ports in the transportation sector. For ports, it's unlikely AIIM will be involved with large greenfield, new-build ports. But we see opportunity in sectors within existing ports, such as bulk-handling facilities or container facilities.

In the road space, we've had very good experience with the development of economic corridors. Large, intra-city highways. Our first fund became a toll road fund, with three large toll roads as the anchor assets.

Q What other opportunities are being pursued by AIIM?

JS: We're also currently constructing two power stations in Ghana and Nigeria, 350MW and 450MW in size and are kicking off with a 90MW project in Mali. In a market like Ghana, that's 10 percent of current grid generation. So, high-profile, priority projects.

Q How are infrastructure opportunities different between rural and urban communities?

JS: The investment principles for urban and rural projects are generally the same. However, there is a clear need for urban infrastructure with ever-increasing urbanised populations in Africa. But the real generation of trade comes from inter-city networks of transportation infrastructure across the continent.

Africa currently spends $25 billion importing food and the cost of moving goods in Africa is around three times the amount it costs in developed markets. Half the world's underutilised agricultural land is in Africa. Now, how is that going to be unlocked? The only way is to have decent infrastructure in place.

There is a need for both urban and rural infrastructure, but my personal feeling is rural roads that will connect the large urban centers in Africa should be the priority to get trade going.

Q From an investor's perspective, does the business opportunity in Africa's transportation sector outweigh the risks?

JS: Relative to developed markets, we think returns in African markets are attractive. I don't believe outsized returns are available in any of these projects. And, to be honest, I don't think they would be sustainable. If your deal is too good to be true, it's going to unwind at some point.

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As for risk, we have been able to secure contracts in a very sound, robust way. This has allowed us to mitigate the various buckets of risk – for example, currency, engineering and procurement, government intervention or expropriation and war. We've got major risks well boxed and the method of transacting is very robust, and so we offer attractive risk-adjusted returns.

Q How important are contracts to securing the projects AIIM invests in?

JS: There is hardly any project we would enter into without a secure contract. We won't start turning soil on any project if we don't have a secure contract in place. If you roll out a road between somewhere and nowhere in the middle of Africa, you're there for a long haul – 20 to 30 years. Government obligations backing those contracts form the foundation for our political risk insurance, which is our ultimate fallback.

Q What is AIIM's relationship with multilateral development banks and financing institutions?

JS: There are a number of funding institutions that are considering or executing direct investment programmes. At the moment, the need for infrastructure investment is so great that funds alone will not completely address it. The more sources of funding, the better. We view finance institutions as additive and collaborative rather than competitive.

However, it's important that these institutions keep playing a role where projects are at the margin, where mobilising capital is more difficult. They should not end up crowding out private-sector capital that is willing to play in this space. ■

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