Jurie Swart – CEO, African Infrastructure Investment Managers (AIIM), South Africa

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March 3, 5877521

Jurie Swart, CEO of African Infrastructure Investment Managers (AIIM), discusses the role of the private sector in covering the continent's infrastructure needs. Furthermore, he highlights the potential of Africa for investors and how AIIM mitigates the risk of investment within African projects as well as touching on the importance of a solid infrastructure foundation for future continental development.

In 2015, Old Mutual bought the entire share of AIIM from Macquarie. What potential do they see in Africa?

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Old Mutual within its emerging markets division has a focus on broadening its African footprint. It currently has a presence in 14 locations on the continent and another ten in future plans, with infrastructure playing a big role in this African strategy. Macquarie on the other hand is focused on raising money for large international projects; therefore, Africa is not at the top of their agenda.

The current business of African Infrastructure Investment Managers (AIIM) is split into two branches. The first concerns specifically South Africa where we attract local investment into South African projects, largely in the field of alternative energy. The second business arm is for the rest of Africa where we approach international investors for continent-wide projects that focus on infrastructure development.

A recent AIIM report indicated USD 100 billion annually is required for Sub-Saharan African infrastructure development. What role can the private sector play to bridge this gap between current investments and requirements?

The USD 100 billion figure is based around an average assessment of what is required in the region per annum in the foreseeable future. If you break this number down, around USD 70 billion is debt, while USD 30 billion is within the equity space, and this is the area the private sector plays a key role in.

Now, this amount is not just readily available, and we cannot invest into projects that have no direct commercial rationale. For example, there may be certain rural roads that go from agri-processing and producing areas to ports. This infrastructure is vital for the development of a country, though it is not necessarily commercially viable for private investors; therefore, the government must deliver on these types of projects.

The amount of private investment can be sliced and diced in a number of ways, though overall, we see impressive opportunities in the energy sector. Statistically, more than half of the countries on the continent have power grids with a generating capacity of less than 500 megawatts, an incredibly low number. Sub Sharan Africa, excluding South Africa, generates the same energy as Spain; therefore, 900 million people are being given the same energy capacity as 40 million Spaniards.

Is enough being done in the region to attract private investors?

Within Africa we are still closing projects on a robust basis, similar to what we witnessed in developed markets some 20 years ago. This means that the tariff you are earning at the top end makes the project work, rather than looking at government subsidies and tax breaks. In many ways this puts the region in a better space, as what you see is what you get, meaning you know prior to the project the tariff, output and revenue.

More could still be done, however. Liberalised pension fund regulation that allows local investors to be more involved in local projects would support private investment in the region as would consistent policy frameworks that create a stable environment for investment. Governments must buy-in to infrastructure developments in the long-term.

Across the globe, many regions are developing cross-border infrastructure. Do you believe this can also happen in Africa?

This is certainly a long-term vision we should aspire to. It makes sense to have cross border projects, though to do so successfully requires the navigation of an increased level of inter-reliance between those involved. There are some successful examples of this taking place, however, the priority in the short-term should be to solve individual country's needs before taking on this regional mindset.

South Africa has been talking for ten years about taking the next step in global relevance. What has prevented this from happening?

There has been a lack of consistent political leadership for the last nine years or so, and the country has been functioning randomly with no set objectives. Past Presidents have had the plan to make South Africa a fulcrum of Africa's age of relevance, but this has not come to fruition yet.

On my travels I have seen that South Africa has been viewed skeptically across the continent. To counter this, AIIM have opened various offices, such as in Lagos and Nairobi, that have helped us open up the market to our ideas. We are now not perceived as the opportunistic South Africans, but collaborative partners in Africa's development.

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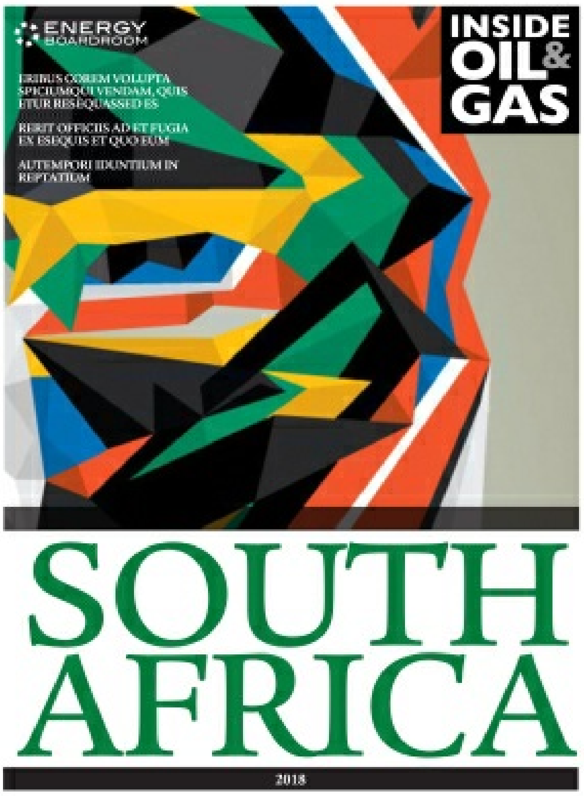

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How encouraging is the appointment of Cyril Ramaphosa?

Very encouraging. His track record as a union leader, politician and all-round business man is excellent, and he has always had a sound long-term strategy. He has all the tools to be able to get the country moving forward, and he commands the respect of South Africa within the international landscape.

AIIM's primary goals in South Africa are focused around alternative energy. How can this sector play a larger part of the nation's energy mix?

Firstly, one must be sensitive to the fact that the coal industry is a huge job provider for South Africa and when the nation has such a high unemployment rate we must remain conscious of its large impact. Nevertheless, if South Africa is to be a good citizen of the world, we must consider the damages of coal to the environment, particularly the use of old coal technology.

Alternative energy will clean up the country's environmental footprint, while, as proven by the renewable energy program, while being effective from a cost point of view. Furthermore, it has the potential of being a job providing industry, especially if a tariff basis can be established for production in the sector.

From a private investor point of view, given the international coal focus, it makes it challenging to invest in alternative energy. It is a variable energy source; therefore, a good energy base load is required so there must be collaboration with the coal sector, especially in isolated regions.

Investment is all about risk and reward. How do you convince investors that Africa is the place to put their money, and that AIIM is the preferred partner to do this?

The reason to choose AIIM is that we are the largest and most experienced private equity investment manager focused exclusively on infrastructure. We have a strong track record of 18 years of investing in Africa and have raised over US$2 billion across seven funds in the power, telecommunications and transport sectors in sub-Saharan Africa. We have a diversified investment portfolio spanning 40+ investments in 15 countries and the largest team on the continent, with over 400 years of experience, dedicated to African infrastructure fund management. We are experienced in how to deal in Africa on a sustainable basis and have the scars to prove it.

Why Africa? There are a number of tail winds that make it a place to invest. In 1994, there was not a single electricity regulator on the continent, now more than half the countries have one. Additionally, there is definitely a larger emphasis on democracy taking place, as shown in nations such as Nigeria, Angola and Kenya.

The next question is; how do we convince investors? There are a number of concerns we must navigate in Africa. Within the spectrum of exit strategy, we have clear examples and experiences that indicate this is possible in Africa. We see a growing number of groups raising funds for Africa, in turn increasing the number of active players, a strong sign for any investor.

The most concerning question is the sanctity of the contract you are entering into and we counter this in a number of ways. Firstly, we build a deal utilizing first tier contractors and that holds people responsible. This is also the case for original equipment manufacturers (OEMs). Additionally, behind most projects we enter into there is a stable state-owned utility behind it, with the government supporting them. This allows us to take out a political insurance policy if a challenging situation occurs.

On a different level, Africa is a dollarized environment and within our projects we deal with hard currency. We are dealing purely on an infrastructure basis, so our tariffs are set in dollars, dropping the risk involved with exposure to local currency.

In regard to risk and return, 24 months ago if you spoke to a US investor about Africa, they were less interested as they could generate a 12 percent return within their borders. Within the infrastructure space we saw huge amounts of capital raised in developed markets with investors receiving excellent revenues on assets on their exit. Nevertheless, we do not believe this can continue, and the world of developed markets is not as rosy as the past. Therefore, if investors are looking for markets with high single digit returns, Africa is going to be able to offer this well into the future.

The last point, if you look at the way we transact and the overlay of risk mitigation we put in place, the perceived risks are definitely higher than the reality. Therefore, to get people to invest in Africa it is about telling the story of the continent, and this a process that does not happen overnight.

What opportunities do you envision for AIIM in the future?

In South Africa, we still see renewable energy as the future, and round-four of the renewable energy program will commence shortly, after facing many challenges. It is really a matter of when, rather than if for this sector in South Africa, and I must take my hat off to the wonderful work of the Department of Energy in this process. Furthermore, we hope to play a large role in the gas industry, and possibly even water, as this is a huge problem sector, especially in the Western Cape.

Across Africa, around 60 percent of our work will be in power generation. We see the opportunity in thermal energy, rather than renewable, as there are still too many regions across the continent that lack a decent base power load. Secondly, transport, such as roads and ports, will make up around 20 percent of our work and also midstream development of energy, such as pipes and storage will be a key element.

What will make the difference between success and failure?

The most important factor is that we transact on a sustainable basis. We spend a huge amount of time on Environment, Social and Governance (ESG) analysis to ensure we encapsulate all facets in our decisions. Secondly, we must continue to grow our regional representation and have local people working in local offices.

Lastly, as aforementioned AIIM has an 18-year track record of investing in Africa, built on learning from experience and interacting deeply throughout the regions. This interaction sets us apart from our competitors, and we must continue to walk that path, growing our African knowledge.

What is your dream project?

There is not one specific project, but more of a dream to touch the continent in a way that can build momentum. We can make known Africa’s huge potential, with a young population and vast land. Though there is a flipside, we must build something for these young people, understanding that infrastructure leads to development, not the other way around.