KEYNOTE INTERVIEW

Unlocking Africa's potential

The continent's infrastructure assets are increasingly appealing as impact plays for global investors, says African Infrastructure Investment Managers' Tania Swanepoel. But long-term local knowledge remains essential

Africa is home to some of the most underserved infrastructure markets in the world, offering huge potential for investors in terms of both financial returns and scope for environmental and social impact.

Indeed, ESG concerns are increasingly driving capital into new markets right across the continent – often the kind of opportunities that will deliver untold benefits to local communities and international backers alike.

It is something that African Infrastructure Investment Managers (AIIM) knows first-hand. According to Tania Swanepoel, head of ESG, the untapped potential of the African market relies on investors having access to both local expertise and knowledge of broader, global challenges – especially when it comes to sustainable infrastructure assets and the positive impact they can have.

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Q Why are African infrastructure assets appealing as impact plays for global investors?

Infrastructure is a key building block for a country's development. It is easy to take basic, working infrastructure for granted if you are fortunate enough to have it, whether that's access to electricity, internet connectivity or well-maintained roads. However, in Africa, 600 million people do not have access to electricity, less than half (43 percent) have access to all-season roads, and it remains the region with the lowest level of mobile internet connectivity, although this is growing faster than in any other part of the world.

Thankfully, infrastructure is a very tangible sector, where investors can have a direct, quantifiable impact. This is in addition to the many indirect and induced positive impacts that infrastructure delivers in terms of job creation, skills transfers, access to markets, greater financial inclusion, food security and economic growth. Being able to demonstrate the positive impact of your investments and share those real stories is appealing to international investors.

This appeal has persisted even in a difficult global fundraising market. Covid-19 was devastating to many African governments and markets, and the challenges associated with the post-pandemic recovery have been compounded by the geopolitical issues around Ukraine, the conflicts in the Middle East, and various supply-chain disruptions. These issues, alongside climate change, provide a global backdrop that investors will weigh against projected long-term growth potential. There are Africa-specific sources of complexity too, but this does not seem to have dampened the appeal of infrastructure investment on the continent. If anything, the resilience of these investments and their growth potential means they have only become more appealing.

SOURCE: AIIM

The 27MW Metrowind facility, in South Africa's Eastern Cape Province

Q How can ESG criteria help to mitigate risk around infrastructure assets?

ESG criteria helps when it comes to fully evaluating the risks and opportunities associated with an investment. Traditionally, we have looked at commercial and operational risks, including governance, but ESG is about looking at environmental and social risks in addition to all of these. That includes issues around regulatory risks, how you factor in environmental degradation, what your policy is regarding stakeholder engagement, and making sure you have a social licence to operate. A lot of these factors have historically been overlooked in Africa.

Incorporating ESG into the investment process – something we have done since our inception – means looking at every asset as a whole entity, including any monetary risks, considering and fully quantifying the risks associated with that asset, and then factoring all of these into the financial model before any final decisions are made.

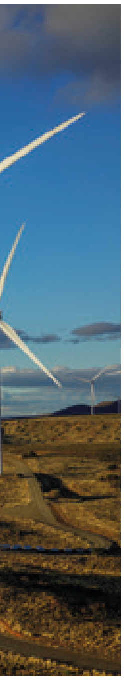
For every potential investment, it is important to carry out extensive ESG due diligence, including examining the supply chain. Greenhouse gas emissions, water usage, waste generated, employment numbers, the gender diversity of the workforce, the gender pay gap, and health and safety records can all be quantified, but it is also important to create a list of actions to close any gaps you identify in that process. While this may sound like focusing on the negatives, it is also about highlighting the positive ESG impacts of a particular asset and how you can maximise those.

> *"There are a lot of nuances across the African investment market that are important to take into account"*

Finally, it is important to remember that ESG encompasses much more than just environmental matters. By focusing on climate change, decent work, diversity and governance, we are able to demonstrate effective risk management and simultaneously deliver positive impacts. In terms of social issues specifically, infrastructure assets can improve community health and safety, as well as security – ideas that extend beyond the workforce and affect all stakeholders.

Q What are some of the key ESG standards for infrastructure investments in Africa?

Certain standards have been in play for a while and continue to be important. From an investment point of view, for



Q Given that Africa is the most underserved infrastructure market globally, what do you think the future holds?

I am optimistic because I see both Africa's unrivalled long-term growth potential and the emergence of investments with well-defined sustainability and impact strategies. After all, when you talk about the investment gap for African infrastructure, whether that relates to transport, logistics, the energy transition or Africa's rapid digitisation, the numbers are mind-boggling. For instance, two-thirds of the world's population who still lack access to electricity today are in Africa, and it is anticipated that sub-Saharan Africa will add 900 million urban dwellers by 2050.

There is also still a major imbalance between the demand for high-quality sustainable infrastructure and the supply of those services, in both rural and urban areas. That brings with it some major opportunities. Between $130 billion and $170 billion is needed for infrastructure development every year, leaving a financing gap of $68 billion to $108 billion.

While Africa and emerging markets more broadly were not necessarily part of investors' strategic asset allocations previously, there is now an increased willingness to look at new growth areas and to consider how investors might access that growth opportunity. As allocations increase, applying strong ESG and impact standards across all investments will ensure that we can achieve these outcomes sustainably and inclusively.

example, the IFC Performance Standards in their original form have been around since the late 1990s. They were revised in 2012 and remain applicable, alongside the Equator Principles, which were adopted in 2003 and then revised in 2006 to align with the Performance Standards. There are also the World Bank's Environmental, Health and Safety Guidelines, the UN Principles for Responsible Investment, the UN's Guiding Principles on Business and Human Rights, the International Labour Organization's Conventions and many others to factor into investment decisions.

Plus there are a growing number of ESG metrics to collect. For instance, the 2X Challenge criteria are increasing in prominence as the global industry standard for assessing and structuring investments that provide women with leadership opportunities, quality employment, finance, enterprise support, and products and services that enhance economic participation and access. Having such a clear set of metrics that you can gather across your portfolio is extremely important – as is being able to supply portfolio companies with a list of these metrics ahead of time, from both the social and environmental perspectives.

Q What kinds of infrastructure assets are generating the most investor attention in Africa?

Across sustainable infrastructure investment, we have seen an increased focus on impact investing and being able to demonstrate this impact, including via gender-lens investing and nature-based solutions.

For instance, with the establishment of our latest sustainable infrastructure fund, African Infrastructure Investment Fund 4 (AIIF4), we thought very carefully about what verticals we wanted to focus on, to deliver strong long-term growth alongside well-defined sustainability and impact. Our three core focus areas were backed up by strong investor interest, and each investment is being tracked against climate, gender and governance objectives. These areas are: digital infrastructure investments, including transmission infrastructure and data centres; electrification and the energy transition, to support the shift to cleaner energy sources; and mobility and logistics infrastructure, which will be needed to support increasing urbanisation. AIIF4 is also a 2X Challenge fund.

Q Given that many investors may be new to the African market, how important is it that they work with investment managers that have regional experience and expertise?

Choosing the right partner is of the utmost importance. It takes a long time to build networks, especially for infrastructure projects, so working with an investment manager who can build and maintain the right relationships is essential. Our approach has always been locally driven, building on a long track record in the region and a strong on-the-ground local presence.

Approximately half the capital for our latest fund came from new investors – both investing with us for the first time and into Africa for the first time. This included a mix of global institutional capital and development finance institutions. While development finance institutions have been investing on the continent for decades, that additional commitment from institutional capital is a validation for our strategy.

When it comes to fostering successful investments, stability is key. That's why we focus on certain key markets (including South Africa, Morocco, Kenya, Nigeria, Ghana, Côte d'Ivoire, Senegal and Egypt), building on more than 20 years of on-the-ground experience. There are a lot of nuances across the African investment market that are important to take into account when navigating sustainable infrastructure investment at scale. When looking at a range of factors, such as regulatory frameworks, ESG risk, levels of economic and political stability, and economic size and growth trajectory, you cannot underestimate the importance of drawing upon the right experience. ■