ROUNDTABLE

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Dispelling Africa's infrastructure myths

Overcoming misconceptions about risk is essential to attracting more private capital to Africa, four specialists tell Amy Carroll and Kalliope Gourntis

The pre-pandemic infrastructure funding gap in Africa fell somewhere between $68 billion and $108 billion a year, according to the African Development Bank. That figure ignores the $10 billion a year needed to fund broadband rollout across the continent and pre-dates vulnerabilities exposed by covid-19. The chasm is clearly widening.

"Covid has shown us that Africa ended up at the bottom of the queue of global pharmaceutical supply chains during the pandemic," says Solomon Quaynor, vice-president of private sector, infrastructure and industrialisation at the African Development Bank.

"Pharmaceutical manufacturing, while not infrastructure in itself, does require the storage and logistics infrastructure which has been a key part of the challenge in Africa's readiness to deploy vaccines. Overall, the infrastructure funding gap in Africa is huge relative to its resources to address this gap, and at the moment African governments do not have the fiscal space to pursue a primarily public sector infrastructure programme, so there is a need to attract the private sector through PPPs and private sector projects to close the gap."

$6bn
Average annual private sector investment across Africa, 2013-18

600m
Number of people across Africa who still lack access to electricity

Africa is lagging other emerging economies when it comes to private sector investments in infrastructure. An average of $6 billion was deployed on the continent from 2013 to 2018, according to Alain Ebobissé, chief executive at Africa50, compared with $34 billion in Latin America. "Increasing that figure is crucial to closing the funding gap, and it is possible. We need to do everything we can to make that happen," he says.

The growth characteristics that define the market should be drawing international investors in their droves. "Africa is the world's most underserved market from an infrastructure perspective. The three mega-trends that are driving the global infrastructure investment opportunity, namely digitisation, urbanisation and the energy transition, are particularly pronounced in Africa," says Olusola Lawson, managing director and co-head of AIIM.

"Data usage per subscriber in Africa is set to grow eightfold over the next

Alain Ebobissé

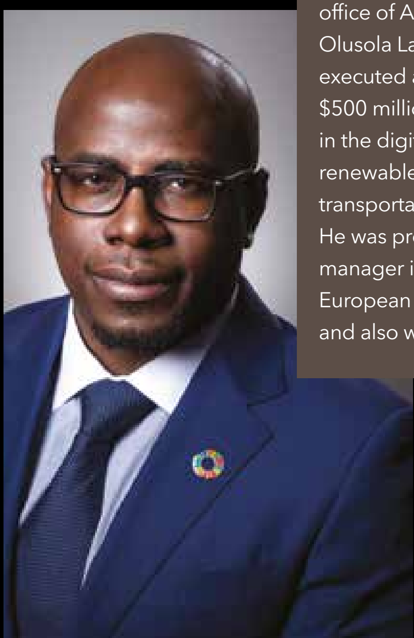
Chief executive, Africa50

Alain Ebobissé became chief executive of Africa50 in 2016. Prior to this, he served as global head for the World Bank's global infrastructure project development fund, IFC InfraVentures. He has also served as chief investment officer in the IFC's global infrastructure and natural resources department. Prior to joining the IFC in 1998, he held several positions in the financial services industry in France, including at Caisse des dépôts et consignations.

Amani Abou-Zeid

Commissioner for infrastructure and energy, African Union

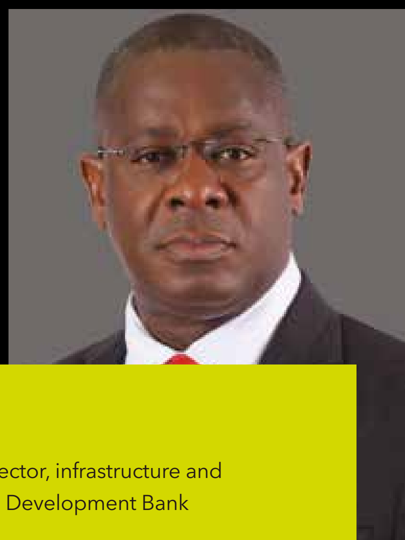
Prior to joining the African Union Commission, Amani Abou-Zeid held a number of leadership roles at international organisations including the African Development Bank, United Nations Development Programme and the US Agency for International Development, with a focus on infrastructure and energy programmes. She is also a trained telecommunications engineer.



Olusola Lawson

Co-managing director, AIIM

Having founded the Nigerian office of AIIM over a decade ago, Olusola Lawson has originated, executed and managed more than $500 million of equity investment in the digital infrastructure, power, renewables, midstream and transportation sectors across Africa. He was previously an investment manager in Macquarie Group's European infrastructure funds team and also worked at PwC in London.



Solomon Quaynor

Vice-president private sector, infrastructure and industrialisation, African Development Bank

Solomon Quaynor joined the African Development Bank in May last year. Since 2018, he has served as senior advisor for Rothschild Global Advisory for Africa. He was also senior advisor to Danish development financial institution IFU, served on the investment committee of a West African private equity fund and has been a board member of several African corporates and international corporates seeking to gain entry to Africa. Prior to 2018, Quaynor served at the International Finance Corporation for almost 20 years.

five years. Two-thirds of the world's population without access to electricity live in Africa – around 600 million people. And 24 million people are moving from rural locations to cities every year, twice the rate of either China or India. These global themes are magnified in this market."

And there is no doubt that the private sector has a critical role to play and the political will to make that happen is there. Debt to gross domestic product in Africa has increased from 28 percent to 61 percent, on average, over the past decade, and is expected to increase to about 75 percent this year, which means governments that could once afford to fund public sector projects now have no choice but to look to private sector and PPP projects, explains Quaynor.

"Closing the funding gap is even more crucial now as we need to recover from the pandemic and build back more resilient societies," adds Ebobissé. "Infrastructure needs to be a strong component of any government's post-pandemic stimulus plans. But the private sector also has a very important role to play. It is vital we increase the volume of private capital coming to the continent."

Bankability

So, what is preventing private capital inflow into African infrastructure? According to Ebobissé, one of the key constraints is that there are insufficient early-stage project resources to create enough bankable deals to close the gap.

"We not only need money, we need expertise in project preparation, everything required to bring projects to the bankability stage. We also need to speed up and scale up the development of these projects. It takes far too long, and it doesn't have to," he says.

Lawson, however, says that infrastructure investors could create their own opportunities in the private sector. "We don't have to sit and wait for governments to deliver projects," he says, citing towers, fibre and data centres as examples. "We have the opportunity to build the communications backbone of Africa, without having to rely on pre-prepared projects from government. The same is true of power. We can undercut the self-provision of diesel generators with rooftop solar and battery services to the private sector."

But Amani Abou-Zeid, commissioner for infrastructure and energy at the African Union, counters that while digital infrastructure is vitally important, it is not the only infrastructure Africa needs. "We need to find ways to attract private capital to help build transport networks, as well as digital networks," she says.

"The will of our governments is there. I don't think there has been a speech by an African leader that hasn't mentioned the importance of encouraging the private sector, but we have to tackle the concerns that investors have, head on."

The biggest inhibitor to private capital investment is undoubtedly perception around risk, which market participants are adamant is wildly overinflated. "We have to dispel the myth that the continent is too risky. We

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> **AMANI ABOU-ZEID**
> **African Union**

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> **ALAIN EBOBISSÉ**
> **Africa50**

should emphasise that investment risks in Africa are not significantly different from other continents and focus on the success stories," implores Ebobissé, citing the Benban solar park in Egypt, a 1.5GW portfolio of utility-scale solar power plants.

"There are also some great wind projects in Kenya. South Africa has raised several billion dollars for its renewables programme. Even a smaller country like Senegal has over 22 percent of its power coming from renewable projects, most of which are funded with private capital. We need to share those stories. Success breeds success."

Abou-Zeid wholeheartedly agrees. "We need to think about the image that we are exporting to the world. All I ever hear about are the risks associated with investing in African infrastructure. But we have the proof to show that these perceptions simply aren't true. That is not a political statement. It's a fact. We have to do a much better job at communicating that."

Overcoming misconceptions around risk is therefore key. But first those misconceptions must be identified. According to Lawson, there are three key perceived risks that deter investors from investing in African infrastructure.

Myth-busting

The first is currency. This manifests in multiple forms. "There is convertibility risk: if I put my money into a certain jurisdiction can I get it back out? There is liquidity risk: if I put my money into a jurisdiction where the asset is generating cashflows in a local currency, can I get the hard currency liquidity in market I need to service my debt and meet other hard currency obligations? And then there is the volatility of the currency: if I put my money in at 10:1, am I going to get it out at 30:1? In which case I have lost two-thirds of my capital before I have even started."

The second perceived risk, Lawson says, is contractual sanctity. "If I enter into a long-term agreement – a concession or a PPA for example – is that contract going to be respected?"

The third is a relatively less liquid exit market. "How will I get my money back? Are there sufficiently deep pools of long-term local capital seeking yield? In the more mature markets such as South Africa there definitely is. In other parts of Africa, investors are still largely seeking growth. Those are the things that keep international equity investors up at night," Lawson says.

But for each of those perceived risks, there are mitigants. For example, with currency, you can try to get as much borrowing in the local currency as possible, so while the equity may be exposed, the larger part of the capital structure is protected.

"You can also mitigate currency risk through contract. For example, the capital and fuel charge in a power tariff are often linked to a foreign currency," says Lawson. "There was one particular power asset that we sold at a strong mark-up in US dollar terms, even though the local currency had halved over our holding period. This is an illustration of how infrastructure affords currency protection in emerging markets in a way that many other private equity opportunities potentially do not."

With regards to sanctity of contract, you can get guarantees from the

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> **OLUSOLA LAWSON**
> **AIIM**

government sitting behind that contract. "Typically, we will reinsure that guarantee with an entity like Multilateral Investment Guarantee Agency, while still earning our target equity returns despite the AAA commercial and political guarantee," Lawson adds.

"Finally, when it comes to exit, we are starting to see a proliferation of IPOs and strategic sales in addition to financial buyers. Recent examples include the IPO of Helios Towers Africa, or American Towers which came in to buy Eaton Towers."

There are also financial mitigants from a lending perspective on infrastructure projects. Multilaterals can credit enhance debt financing by taking a first loss piece, that will help attract more investment into debt, and assure equity investors they will achieve financial close, says Quaynor.

"Then there are other financial mitigants such as partial risk guarantees that effectively counter-guarantee a government's ongoing payment obligation on offtake agreements, which can be an even more powerful role by multilaterals in ensuring bankability of projects. For example, we could guarantee to make PPA payments for two payment periods and then use the might of our programmes as leverage for governments to resolve payment matters within six months to a year."

Local support

Ebobissé, meanwhile, believes that the participation of local investors and lenders is another important risk mitigant. "It is not a guarantee, but when local players are involved in projects, governments are more likely to listen if policy decisions will negatively affect them," he says.

Quaynor agrees: "Global investors are not comfortable investing in countries where local investors are themselves not investing, or global investors are more likely to invest in sectors where they see experienced local investors investing. We therefore need to harness the African sovereign wealth funds, pension funds and life insurance investment funds that are sitting on as much as $2 trillion.

"This is African money that should be prudently investing in African infrastructure, but 80-90 percent in most countries continues to be invested in government treasuries, which a lot of the time are funding recurring expenses and not capital projects.

"Multilaterals should credit enhance infrastructure and corporate bonds to crowd-in this African institutional money into infrastructure. The investment guidelines for these institutions will need to concurrently change to give them access to the infrastructure market."

Changes are already underway that could unleash this local firepower. Regulation 28, which governs how much money managers can invest in certain asset classes, is under discussion in South Africa. This would affect the largest pool of domestic institutional capital on the continent at more than $200 billion, according to Lawson.

"Discussions are ongoing regarding increasing the limit that can be invested in infrastructure to up to 45 percent. That is happening because President

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>
> **SOLOMON QUAYNOR**
> **African Development Bank**

Ramaphosa is putting infrastructure at the top of the country's build back better agenda. Other countries can look to what South Africa is doing, to make it easier for domestic capital to support African infrastructure. And where domestic capital goes, international capital will follow." ■

Free trade needs infrastructure

The African Continental Free Trade Agreement came into effect in January and, in theory, represents a huge opportunity to stimulate private sector investment in African infrastructure.

"We are now one big single market of over 1.3 billion people," says Alain Ebobissé of Africa50. "One of the challenges we have historically faced is that individual markets can be too small for big-ticket investment. Now investors can access regional projects that enable them to put more money to work."

It is these regional infrastructure projects that will prove vital to the success of the free trade agreement. "How is a free trade agreement going to work without transport infrastructure?" asks Amani Abou-Zeid, commissioner at the African Union. "We need to find a way to bring private sector expertise and investments into these regional projects at scale. Without that, the free trade agreement is just a slogan."

However, financing regional projects through PPPs is significantly more challenging than at a national level, according to Ebobissé. "But it's not impossible," he adds, citing the Landmark Bridge project linking the capitals of the Democratic Republic of Congo and the Republic of Congo, Kinshasa and Brazzaville.

"We have to focus on transformative infrastructure that will catalyse the economic recovery post-pandemic. And that means expanding beyond national to regional infrastructure," agrees Solomon Quaynor of the African Development Bank. "We cannot focus only on the infrastructure needs within 54 individual countries. We need to also focus on infrastructure that connects these markets – whether that's roads or broadband connectivity, for example, in order to harness the potential of the African Continental Free Trade Area."