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Key Markets: Africa

Paul Bishop examines the African infrastructure market, providing a detailed analysis of the key issues and trends in this developing continent, and the opportunities for infrastructure to support the region's growth and development.

The African Infrastructure Investment Environment

Continuing the Key Markets series, this month's Spotlight feature article examines the African infrastructure market and provides a top-down examination of all aspects of the continent's burgeoning market, including investors, deals, funds and key themes. Within Africa's rapidly emerging, unique marketplace, infrastructure investment is a critical component of any sustainable market growth, and is crucial to support and sustain the region's projected rise to a key market globally.

To close the infrastructure gap with other regions, meet the Millennium Development Goals, and achieve national targets in Sub-Saharan Africa within 10 years, an annual investment of $93bn into infrastructure is required. These were the findings of the Africa Infrastructure Country Diagnostic Study (AICD) in 2008. A study by the World Bank in 2010 found that infrastructure has been responsible for more than half of Africa's recent growth and has the potential to contribute even more in the future. With the total share of GDP of emerging market economies set to overtake developed economies in 2014, according to forecasts by the International Monetary Fund, there is potential for infrastructure investment to play a significant part in driving this change. As a result, investment opportunities within African infrastructure are beginning to attract serious consideration from private investors.

Private sources of infrastructure finance in Africa can be split into two main types: for-profit investment managers seeking to capitalize on infrastructure requirements within Africa, and developmental bodies and agencies, including regional governments, seeking to mobilize private capital to meet the demands of a rapidly growing and expanding economy. An example of the latter would be the plans recently announced by the African Development Bank to create a fund to finance infrastructure on the continent, hoping to draw in capital from sovereign wealth funds, pension funds, and other private investors internationally and within Africa.

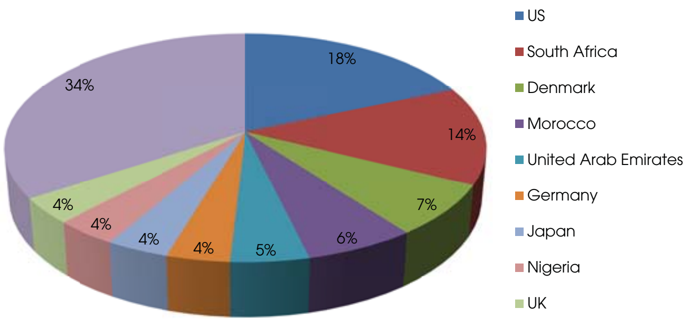
Investors in African Infrastructure

As shown in Fig. 1, US-based investors make up the largest proportion of institutional investors that will consider gaining exposure to African infrastructure, accounting for 18% of all active investors considering the region. South Africa is home to the second largest proportion of active investors in Africa and the largest proportion of African investors in the asset class, with 14% of the total. Other significant regions for institutional investors open to exposure to African infrastructure include Denmark (7%), Morocco (6%), the United Arab Emirates (5%) and Germany (4%).

One of the most significant barriers to investment for institutional investors within Africa is the risk profile of the region. Investors focusing on for-profit investment in infrastructure, as opposed to developmental investment, may find it hard to justify investments in certain parts of the continent, when compared with lower-risk economies such as Europe and the US. As a result, the largest proportion of investors in the region is accounted for by government agencies, with 18% of all active investors falling under this classification. Private sector pension funds and investment companies make up the second and third most prominent investor types in the region, accounting for 12% and 10% respectively.

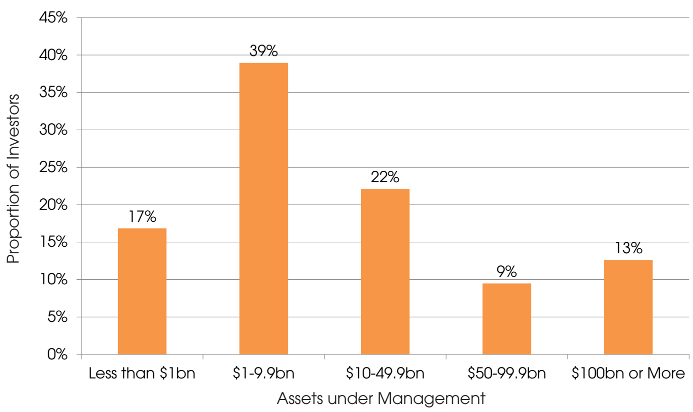
Thirty-nine percent of investors open to gaining exposure to African infrastructure have assets under management between $1bn and $9.9bn, as shown in Fig. 2. However, 13% of investors manage assets of $100bn or more and the mean assets under management for investors active in Africa is $71.2bn, a reflection of the number of the larger development banks which are active in the region. In terms of strategy, 81% of the active investors in

Fig. 1: Breakdown of Infrastructure Investors with an Appetite for Africa-Focused Investments by Location



Source: Preqin Infrastructure Online

Fig. 2: Breakdown of Infrastructure Investors with a Preference for Africa-Focused Investments by Assets under Management



Source: Preqin Infrastructure Online

Fig. 3: 10 Largest Africa-Focused Unlisted Infrastructure Funds Closed, All Time

Fund	Manager	Fund Vintage	Target Size (mn)	Final Close Size (mn)	Final Close Date	Manager Location
Abraaj Infrastructure and Growth Capital Fund	Abraaj Capital	2007	2,000 USD	2,000 USD	31-Dec-07	United Arab Emirates
Actis Infrastructure Fund II	Actis	2008	1,000 USD	752 USD	30-Sep-09	UK
IDB Infrastructure Fund	EMP Bahrain	2001	1,000 USD	731 USD	01-Dec-06	Bahrain
ADCB Macquarie Infrastructure Fund	Macquarie Infrastructure and Real Assets (MIRA)	2008	1,000 USD	630 USD	15-Dec-08	UK
Pan African Infrastructure Development Fund	Harith	2007	1,000 USD	630 USD	31-Mar-09	South Africa
African Infrastructure Investment Fund II	African Infrastructure Investment Managers	2011	1,000 USD	500 USD	13-Oct-11	South Africa
InfraMed Infrastructure	InfraMed Management	2010	1,000 EUR	385 EUR	21-May-13	France
Mubadala Infrastructure Partners Fund	Mubadala Infrastructure Partners	2010	500 USD	425 USD	31-Mar-11	United Arab Emirates
Alcazar Capital Partners Fund I	Alcazar Capital	2007	300 USD	300 USD	15-Jun-08	United Arab Emirates
GCC Energy Fund	GCC Energy Fund Managers	2005	300 USD	300 USD	01-Sep-06	United Arab Emirates

Source: Preqin Infrastructure Online

African infrastructure pursue unlisted routes to market, which is a reflection of the broader trend in the asset class. Fifty-four percent access African infrastructure directly, while only 8% pursue listed investment strategies.

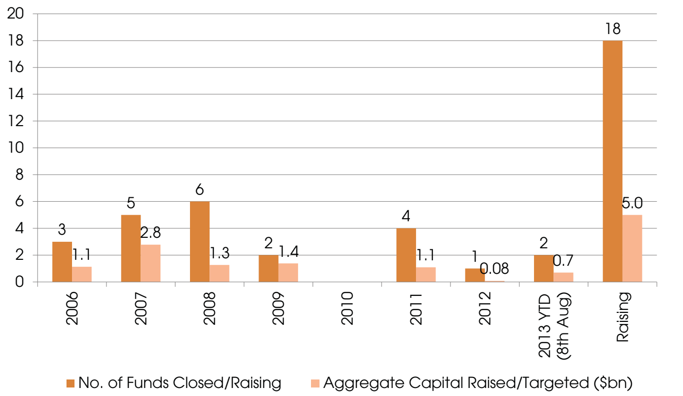
Fund Managers and Vehicles Active in Africa

There are numerous private equity-style vehicles raised and managed by domestic private investors that seek to capitalize on the opportunities that Africa presents, but an increasing number of international firms are also targeting the region. As of August 2013, 51 closed- or open-ended unlisted infrastructure funds were in market or had closed historically that either solely or partially target investment in African infrastructure. Historically, 26 closed-end funds targeting the continent have reached a final close, having raised an aggregate $9.2bn, as illustrated in Fig. 4. The largest unlisted infrastructure fund currently active in Africa is Abraaj Infrastructure and Growth Capital Fund, as shown in Fig. 3. The fund, co-sponsored by Deutsche Bank and Ithmaar Bank, raised $2bn and utilizes both equity and debt investment strategies, focusing on major infrastructure projects located within the Middle East and North Africa.

The largest dedicated African infrastructure fund to have closed to date is Pan African Infrastructure Development Fund, managed by South Africa-based Harith. The fund closed in March 2009 and raised $630mn for an investment strategy that focuses solely on African infrastructure. Pan African Infrastructure Development Fund focuses on economic infrastructure assets and projects, including energy and transportation assets. Importantly, the fund also includes provisions for investments alongside corporate and government partners, pointing to the recognition among fund managers of the part that co-operation has to play in investment into regional infrastructure. Harith has launched a follow-on fund, which is currently in market seeking $1.2bn in capital commitments.

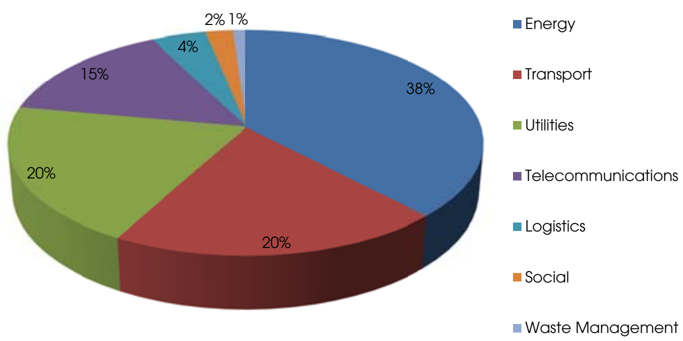
There are currently 18 Africa-focused unlisted infrastructure funds in market, aiming to attract an aggregate $5.0bn in investor capital. Recent entrants to the market include domestic investment managers such as Stanlib Asset Management and Pembani Remgro. Stanlib Asset Management is currently raising Stanlib Infrastructure Private Equity Fund, which is targeing ZAR 1bn in investor capital. Pembani Remgro Infrastructure Fund is managed by Pembani Remgro Infrastructure Managers and focuses on equity and quasi-equity investments into infrastructure projects located in Sub-Saharan Africa. Pembani Remgro Infrastructure Fund is targeting $1bn from domestic and international investors.

Fig. 4: Africa-Focused Unlisted Infrastructure Fundraising, 2006 - 2013 YTD (As at 8 August 2013)



Source: Preqin Infrastructure Online

Fig. 5: Breakdown of Infrastructure Deals in Africa by Industry Sector, 2004 - 2013 YTD (As at 8 August 2013)



Source: Preqin Infrastructure Online

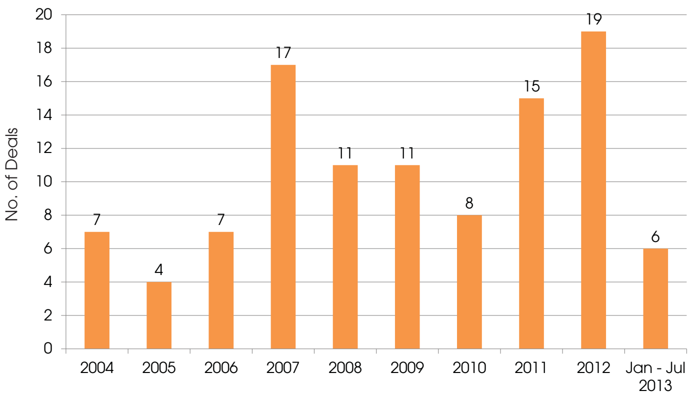
Infrastructure Deals and Key Projects

Unlisted infrastructure fund managers have driven a number of key infrastructure projects within Africa to be completed, as well as numerous acquisitions of operational assets. Since 2004, Preqin has tracked 105 deals in African infrastructure assets and, as shown in Fig. 5, energy is the most active industry sector for African infrastructure deals, with 38% of the total deals since 2004 made in this sector. Transport and utilities make up 20% of the total deal flow each, with telecommunications accounting for 15% of the total.

Social infrastructure is significantly underserved regarding private investments, with only 2% of the total deal flow in this sector. This is perhaps because of the lack of coherent investment framework for concessionary deals within the continent, an issue that many countries in Africa are working to rectify. Significant work is being done by fund managers and African governments to establish viable public-private partnership mechanisms to further increase the level of private capital participation within greenfield infrastructure investment. While public-private partnerships are well established in African construction, what is notable is the movement of key governments to address issues previously highlighted with PPP frameworks within Africa. These include transparency of procurement, protections against corruption and systematic abuse, and the establishment of a politically consistent environment that concessionaires need before they commit to a project for 20 to 30 years.

As shown in Fig. 6, 2012 was a record year in terms of the number of deals in infrastructure assets in Africa, with the total for 2013 to date expected to rise as more information comes to light. A number of notable deals have been conducted in 2013 in African infrastructure assets. For example, in March 2013, Actis Infrastructure II acquired the Moroccan arms of Veolia Environnement's utility business, Amendis Tetouan, Amendis Tangier and Redal. The acquisition of these businesses by Actis is reflective of the optimistic stance that many fund managers have towards operational infrastructure within Africa. With expected growth within the region, many fund managers are keen to source operational assets with no associated construction risk.

Fig. 6: Annual Number of Deals in Africa by Unlisted Infrastructure Fund Managers, 2004 - July 2013



Source: Preqin Infrastructure Online

Conclusion

The need for finance to plug the infrastructure gap in Africa means that plenty of attractive investment opportunities exist for private capital investment into African infrastructure. Although there are a number of issues that can prevent private equity managers from investing in the continent, steps are being taken to remedy these problems and to establish a progressive mindset towards private infrastructure finance. Infrastructure investment is vital to aid development in Africa and continue the high level of growth seen in recent years, and private investors stand ready to assist this undertaking.