

AFRICAN INFRASTRUCTURE

A major pull

A key differentiator for private equity funds is that investors are prepared to wait for their investments to bear fruit. This makes private equity the preferred equity finance option for illiquid infrastructure projects.

"Private equity is an excellent financing model for infrastructure investment because it has a long time horizon; it is patient capital that understands the risk associated with long-life projects," says Southern African Venture Capital & Private Equity Association (Savca) CEO Erika van der Merwe.

In 2013, more than half of new investments into Africa were in infrastructure.

Says Rory Ord, head of RisCura Fundamentals: "Early-stage infrastructure, with proven technology and support from the regulators, can make for attractive private equity investments." The reason is that the returns on offer from such projects vary dramatically, depending on their type and

life stage. Early stage and/or projects with an unproven track record are seen as riskier and therefore attract higher returns for funding, while more mature projects present a lower risk return profile and lower returns.

Garth Willis, a partner at Capitalworks, says private equity funds should develop a vision for each business that extends at least five to seven years beyond the initial investment horizon. "International investors pay attention to sustainability and it's imperative that local funds apply this philosophy throughout the investment lifecycle."

Private equity also plays a valuable role in assisting SA firms with their expansion into the rest of Africa. "Local banks are often reluctant to fund African expansion with debt since the corresponding security is located outside SA's borders," says Horizon Equity MD Richard Flett.

JP Fourie of Metier says SA is a large provider of foreign direct investment into Africa. "We are well positioned for this as the regulatory framework for private equity and mergers and acquisition activity is established and allows for a de-risking of entry into markets where a standalone investment may be too risky or where the market scale limits the deployment of capital." ■



Rory Ord

**Projects with attractive returns
and reasonable risk are preferable**