FEATURE: Paul Boynton, Old Mutual Alternative Investments

29 October 2015

SAVCA speaks to Paul Boynton, head of Old Mutual Alternative Investments, about the infrastructure investment opportunity in sub-Saharan Africa.

SAVCA: Your team has exposure to a range of private equity opportunities, from direct investments, to fund of funds, to infrastructure. What are the particular opportunities for unlisted investments in the next decade?

PB: There are a range of attractive opportunities for unlisted investments across Africa; one of these opportunities is that presented by the significant gap in funding for infrastructure assets in various African markets. The World Bank estimates that, in aggregate, African countries would need to spend around $90bn per annum over the coming decade to bridge the infrastructure shortfall. For example, energy is an enormous need in Africa. Spain, with a population of 50 million people, has the same energy-generating capacity as sub-Saharan Africa, with a population of 1 billion. The other massive deficit is in logistical capacity. It costs three to four times as much to get goods to port in Africa as it does in Europe, with a significant impact on the cost of goods in a region with the highest proportion of landlocked countries which are reliant on these transport links. Governments are estimated to have the funding capacity for around half of the required infrastructure spend, implying a notable funding and investment opportunity for the private sector.

SAVCA: Which countries and regions, in your view, provide an attractive market context for investment into infrastructure assets? Given the long-term nature of infrastructure investments and assets, which typically are developed from a zero base, and which are reliant on rigorously negotiated offtake agreements and guarantees from governments, it seems that the political and regulatory context for this type of investment is an especially important consideration.

PB: We have offices in both East Africa and West Africa, in addition to our teams in South Africa. As a consequence, whilst we are happy to look at investments across the continent, we focus on opportunities in those particular regions. Jurisdictional risk is an issue, as you suggest, and so, in looking at these pervasive opportunities, we are very careful around specific country and project risks. We look to focus on countries which have an established democratic political system, and which have a track-record of consistency of policy between administrations. We have also focussed on countries with established legal regimes, where one is able to look to the courts to uphold the contractual protections as negotiated. Increasingly, however, we are seeing opportunities, particularly in the power sector, for integrated infrastructure projects where the offtake is directly with commercial counterparties. Through progressing these opportunities, we are able to diversify the potential political-risk exposure of our investment portfolio.

SAVCA: What is your strategy for accessing this investment opportunity?

PB: Across our alternative investment platform we have over 100 investment professionals. Forty percent of the team are infrastructure focused. We have folk on the ground in Nigeria and in Kenya and our team has deep experience in most infrastructure assets, including renewable energy, thermal power, roads, rail, airports and PPPs. As one of the biggest equity investors in infrastructure assets on the continent, we see a considerable portion of available dealflow and we worked hard to sustain and improve that network.

SAVCA: What is your view on the medium-term and long-term prospects for growth from the major African economies? The hype and appetite for African growth, that was so evident around two years ago, appears to have been replaced by a more sober assessment of the outlook for this exciting region.

PB: On a year-to-year basis, different countries in Africa may trade up or down, but the long-term secular picture on Africa is extraordinarily positive. Our thesis is predicated on three underling factors: Firstly, demographics are positive. The global population will increase from 7 billion to 9 billion by 2050. Half of that growth will be through Africa's population increasing from 1 billion to 2 billion. Middle-class households have trebled over the last 15 years in sub-Saharan Africa, and will virtually repeat that growth rate over the next 15 years.

Secondly, the continent has extraordinary endowments. Around 30% of the planet's mineral resources are in Africa. Africa boasts around 60% of Earth's uncultivated arable land.

The third factor is governance. Although governance in various African countries is up and down, there clearly is a long-term, secular improving trend. The first democratic election in Africa that led to a democratic change of government was in 1982. Ten years later it happened for the second time. At present, 20 countries in Africa are considered electoral democracies and – importantly – a democratic election resulted in a peaceful change in ruling party in the largest country in Africa earlier this year, in a very profound way.

Mo Ibrahim, through his foundation, monitors 90 factors pertinent to governance across each country in Africa, and publishes the findings. One can download an app to monitor this in real time. The data show a gradual improvement in this space across the continent. In our view this supports a strong and positively constructive view on Africa over the next decade or two.