

INVESTMENT OPPORTUNITIES IN AFRICA

AFRICAN **INFRASTRUCTURE INVESTMENT MANAGERS**

MARCH 2012



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Snapshot of Africa



The key reasons for investing in SSA

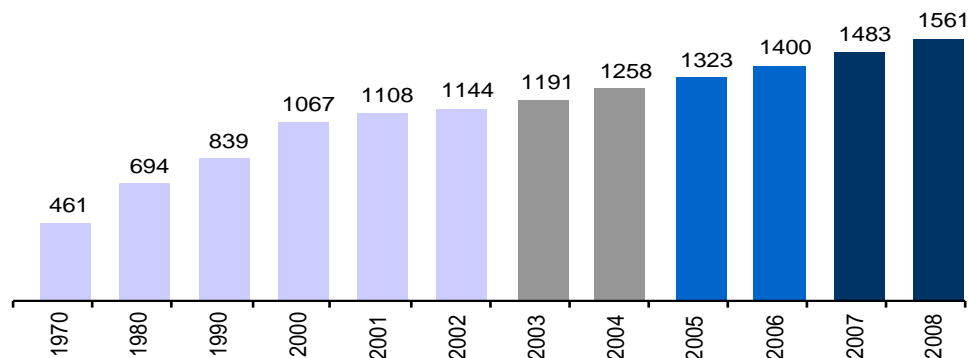
- Robust economic performance, 5.6% over the last decade, 4.4% over the next decade
- A sharp reduction in political conflicts
- An improved macroeconomic environment, with inflation and budgets broadly under control
- A better business climate owing to regulatory reform and privatisation
- Improved access to and integration with international capital markets
- Favourable demographics: from a young population and labour force, to urbanisation and growth in the middle class
- The perception of it being the “last frontier”

Key macroeconomic statistics on SSA

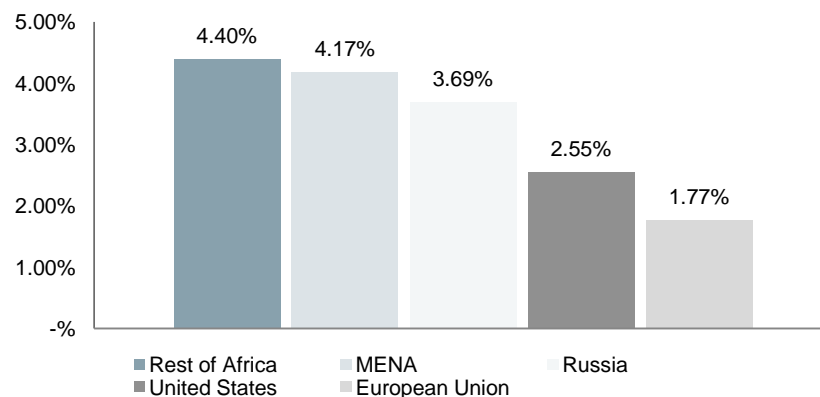
- 46 countries
- 840 million people
- Young, growing population
- Rapid urbanisation; 50% of the population will live in cities by 2035
- USD1.1 trillion economy at market prices
- USD1.9 trillion purchasing power
- Average of USD1,340 GDP/capita
- Geographical area of 20 million square kilometers

Africa's economic growth since 1970

African annual real GDP, 2008 \$ billion



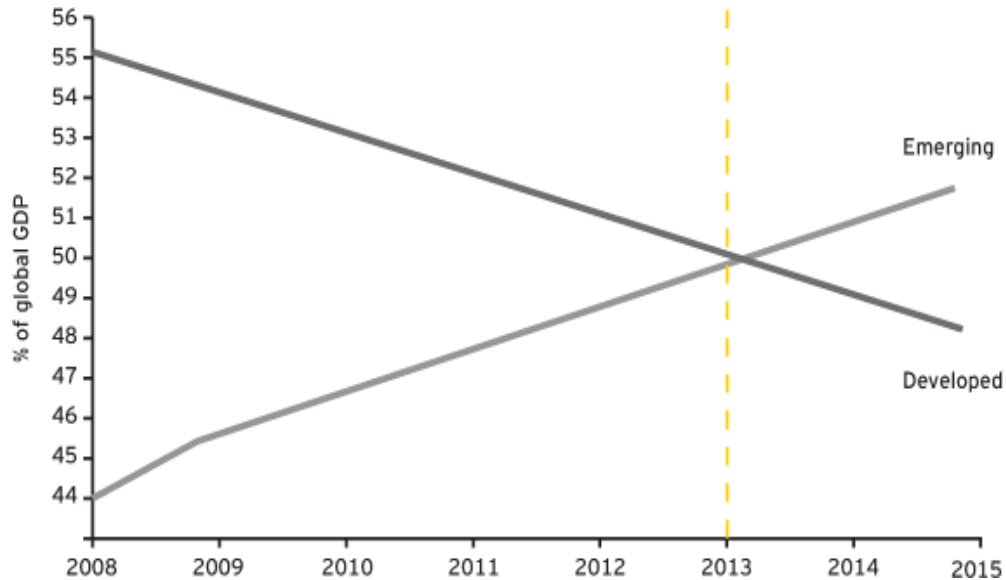
Real GDP CAGR (2011-2020)



Africa growth



Emerging and developed markets' share of global GDP

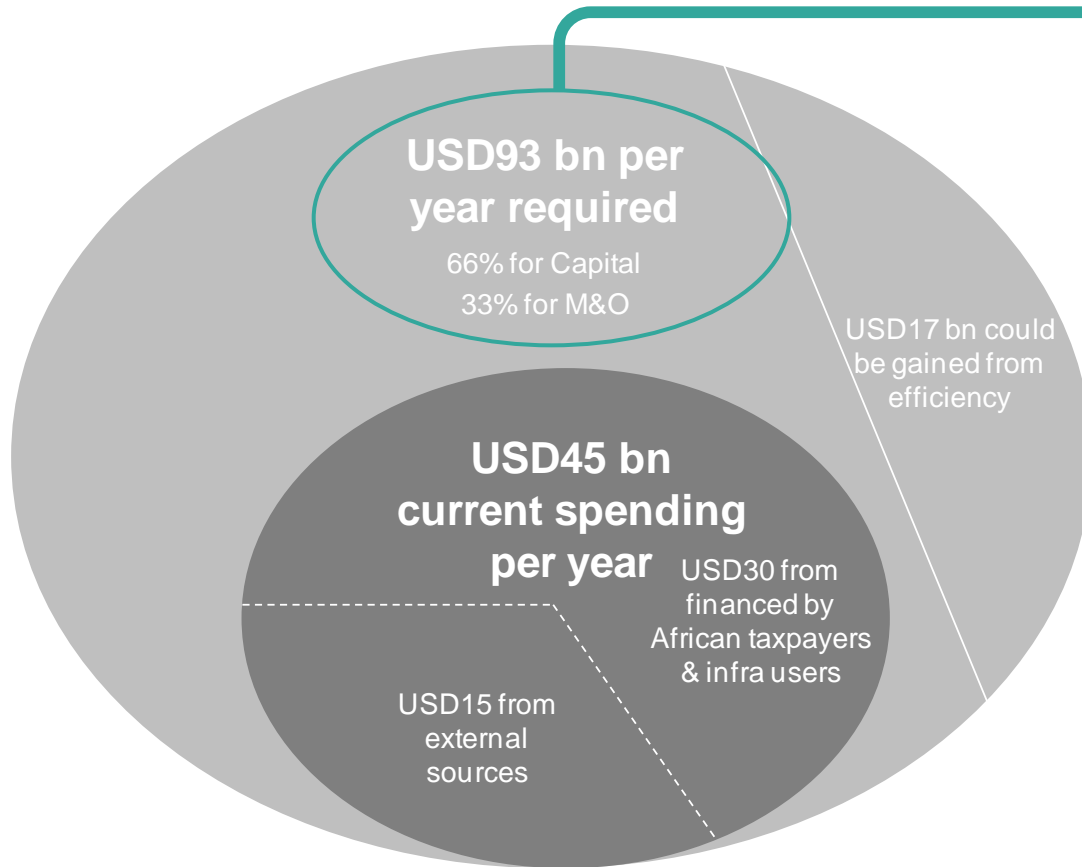


Average projected real GDP growth during 2011-2012



According to the IMF, by 2014 emerging markets will have overtaken developed economies in terms of share of global GDP

Africa's infrastructure gap



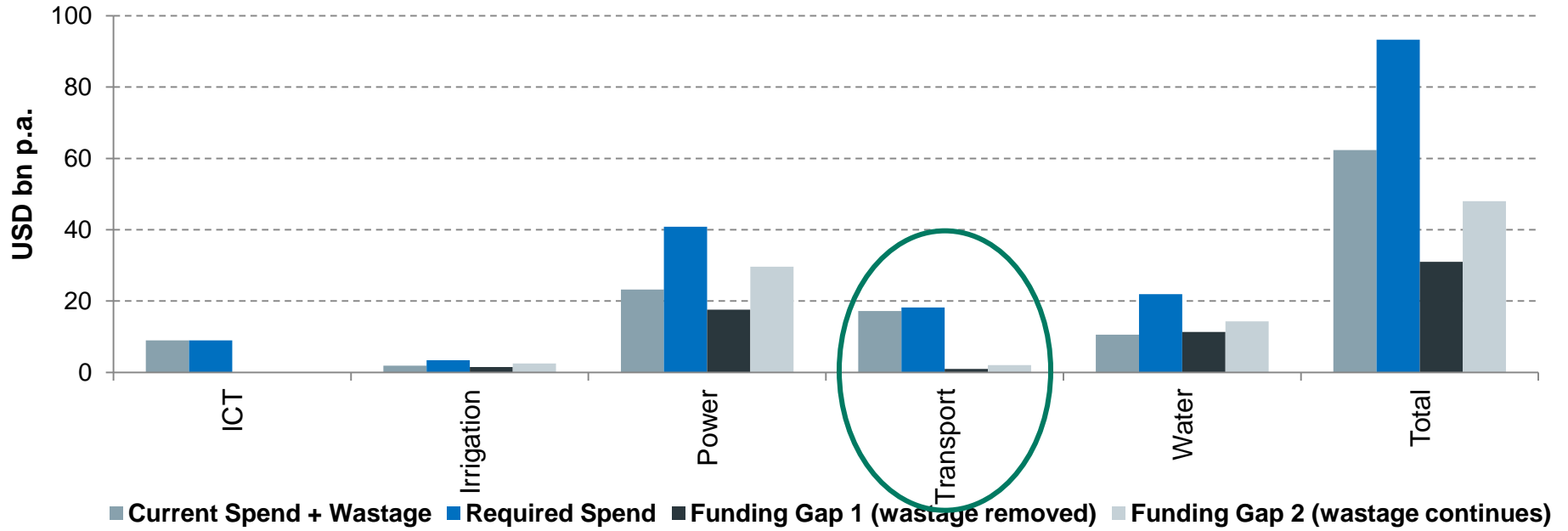
Poor state of infrastructure in Sub-Saharan Africa cuts national economic growth by 2% every year and depresses business productivity by as much as 40%

Even with the gains from efficiency, Funding Gap of USD31bn

Why accelerate?



Overall Infrastructure Spending Needs for Sub-Saharan Africa



What needs to be done



Current state of PPP's in Africa

- Lots of false starts – poor planning
- Re-inventing the wheel – “the African solution”
- Implementing Authorities should borrow skills/models/tools from leverage off each other and get integration
- Insufficient focus on enforcement of Government obligations, nor authority in PPP units to enforce Government compliance
- Framework pointless if players don't obey the rules

Finding a solution

- Limited re-invention of the wheel
- An implementing authority that knows what it doesn't know
- Contract vs Partnerships
- Not a political wish-list
- Reasonable “development profit” expectation
- Not too big
- Is affordable – but not underpriced
- Can turn a real project within 2 years



Equity should be Agile

Agile

Mobile

- ▶ Capital needed for final close is not necessarily the capital needed for project life
- ▶ Equity based at beginning of project – more simple, faster deployment
- ▶ Debt later in project life – more complicated structure
- ▶ Informed equity should be the party driving the process

Innovative

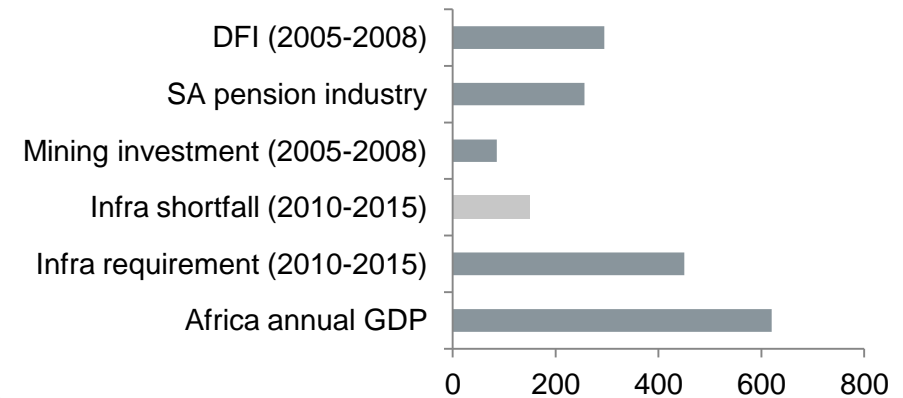
Faster deployment

Best type of capital

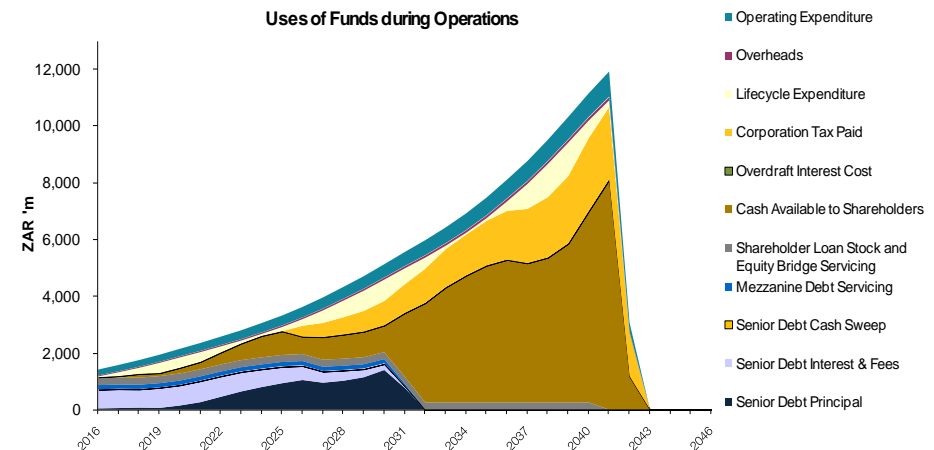


- The capital requirement is large, but not insurmountable
- Infrastructure assets are best suited to long term investors
 - Pension asset
 - Insurance asset
 - Long term liability match
- Ideally want to match source of capital to location of asset
- So, can pension funds be the answer to the funding deficit?

Relative Scale (USD bn)



Cash-flow characteristics



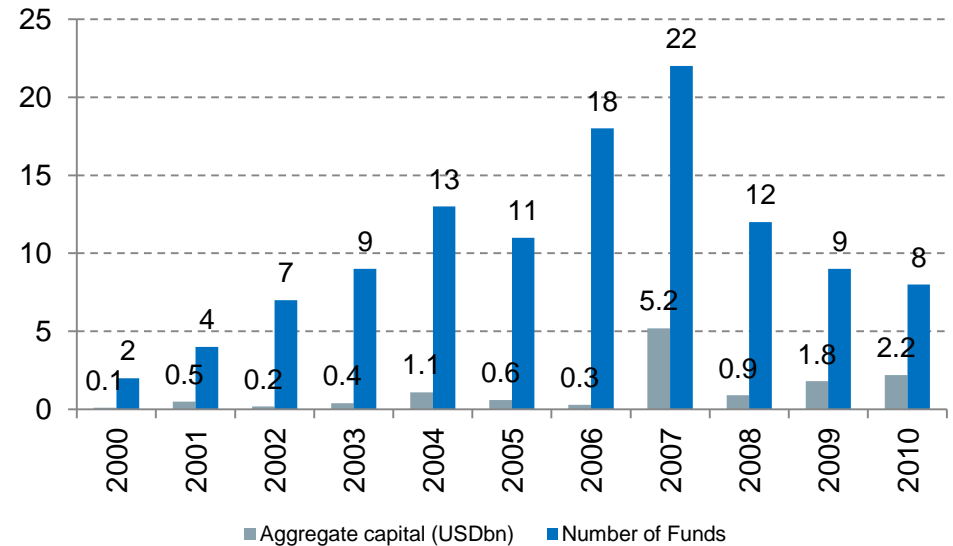
1. Africa Development forum: "A Time for Transformation", November 2009
2. Africa Development forum: "A Time for Transformation", November 2009
3. UNCTAD: "Economic Development Report 2010", 2010
4. Tower Watson: "Global Asset Pension Study" February 2011

Sources of equity capital for Infrastructure



- Current sources of capital
 - Equity: Funds, DFI, Sponsor, SWFs
 - Debt: Commercial Banks, Financial Institutions, DFI, Government
- Both important for different reasons
 - Debt: scale
 - Equity: mobiliser and risk taker
- Capacity
 - USD 11bn raised for PE in last 5 years
 - Approximately USD 5bn infrastructure focused
 - Deployment period 3-5 years
 - USD 1 - 1.5bn pa
 - Ability to leverage
 - USD 3 - 4bn debt pa
 - Total funding circa USD 5bn pa
- Current “dry powered” of equity approximately USD 2-3bn
 - Looking for viable projects

Solely Africa focused annual equity fund raising 2000 - 2010



Pensions industry

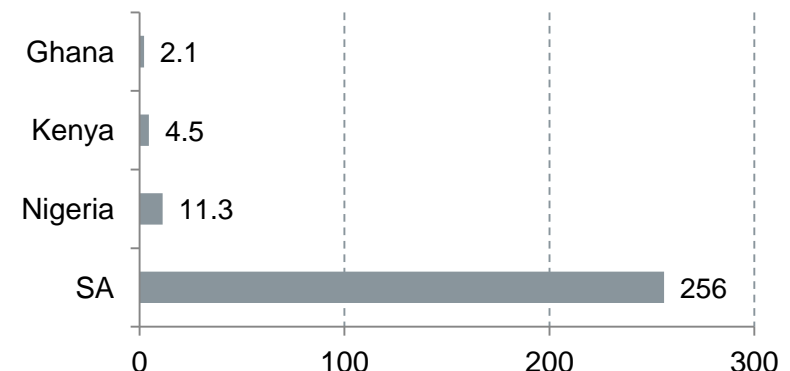


- Recent Study by Towers Watson of the UK
 - Top 13 global market = USD27 trillion in assets
 - Represents 76% of combined GDP
 - 12% increase year on year from 2009
 - Record value levels, but off the GDP proportion peak of 78% in 2007
- Largest markets are US (58%), UK (13%) and Japan (9%)
- Fastest year on year growth occurred in SA (28%)
- Characteristics
 - 44% as assets in Defined Contribution schemes, up from 40% in 2005, and 35% on 2000
 - Average asset allocation remain largely unchanged
 - 65% of assets held by private sector funds
 - Japan and Canada anomalous
- African markets
 - Dominated by SA, but others growing
 - Capital is mobile and flows across regions

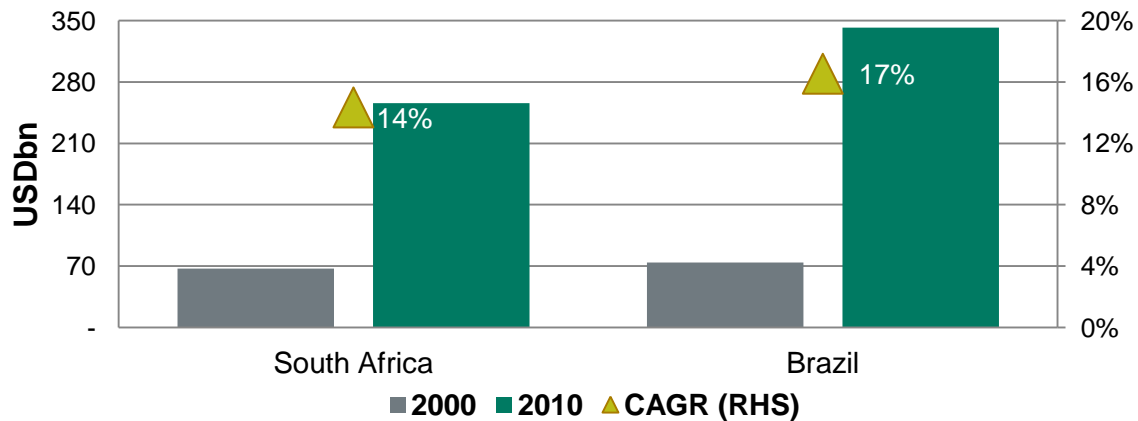
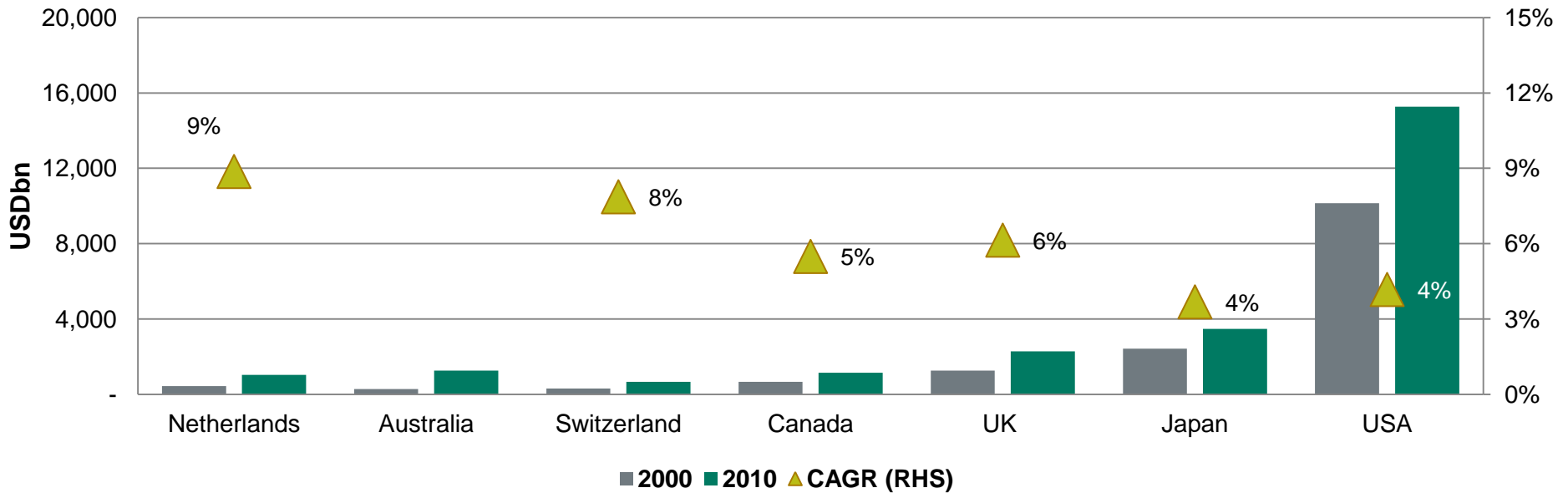
Global Pension Asset Allocations

Asset Type	Allocation
Equities	47%
Bonds	33%
Cash	1%
Other (incl. infrastructure)	19%

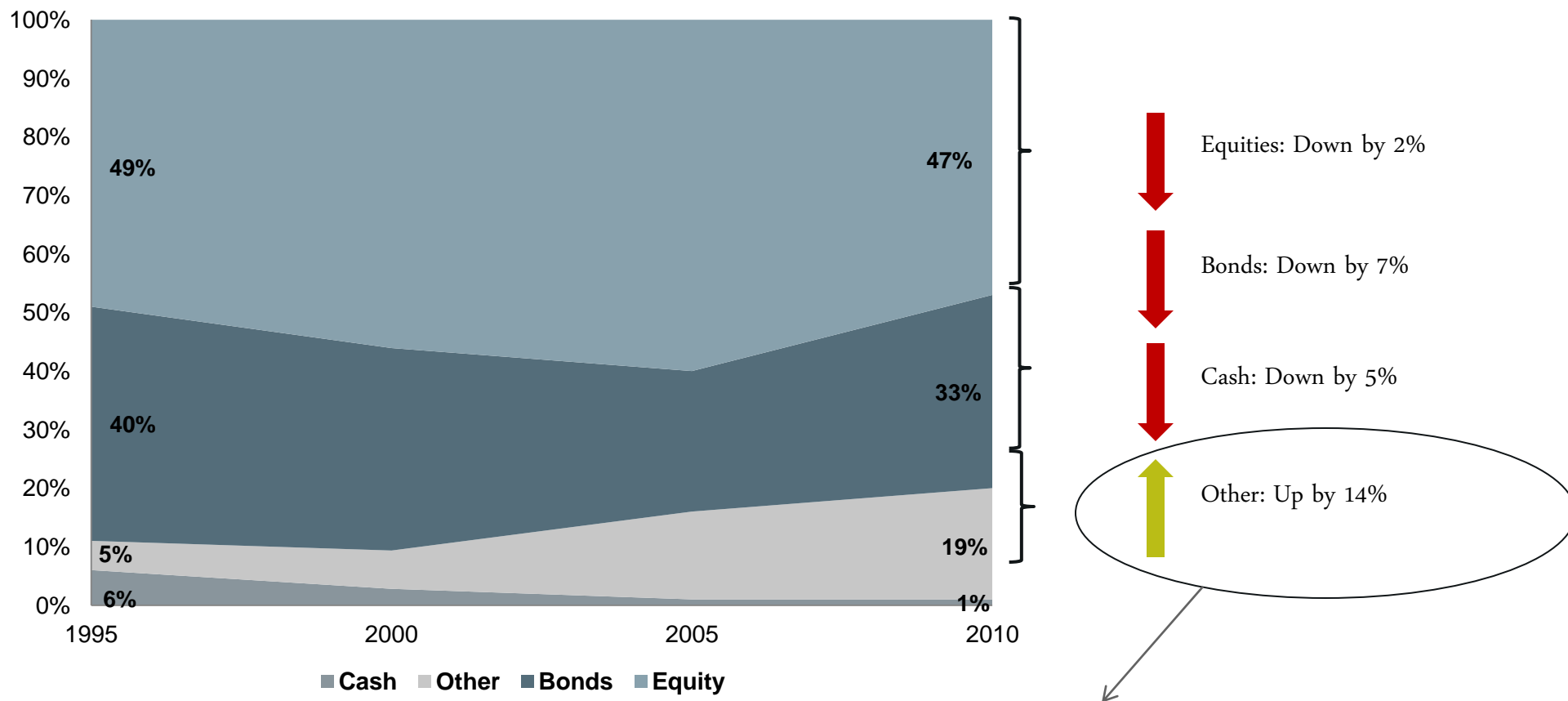
African Pension Industries (USD bn), 2010



Global pension market



Pension asset allocation: A shift toward alternatives



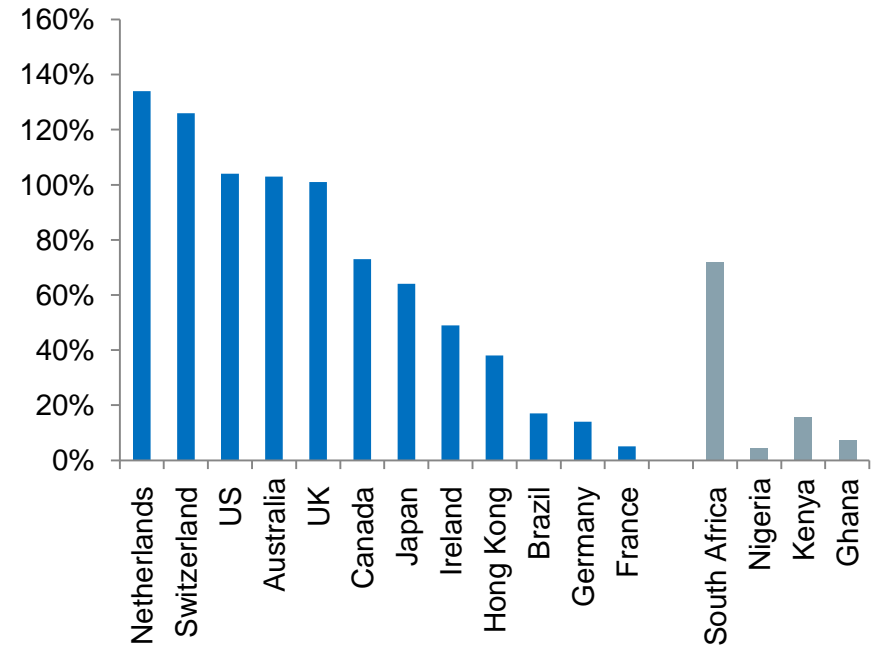
A shift toward alternatives

What are Investors saying?



- Can we get Global Pension into Africa?
 - SA industry are already the majority owners of infra assets
 - Other African pensions growing, and
 - International pensions looking
- Don't need to mobilise a lot
 - 1% of global pension for Africa
 - 1% of global pension for Africa
 - 10 years shortfall
- Pensions funds behind most sources of capital, so “private sector” is a combination of both public and private funds
- But importantly, there is exiting capital available for viable projects

Pensions Assets as % of GDP

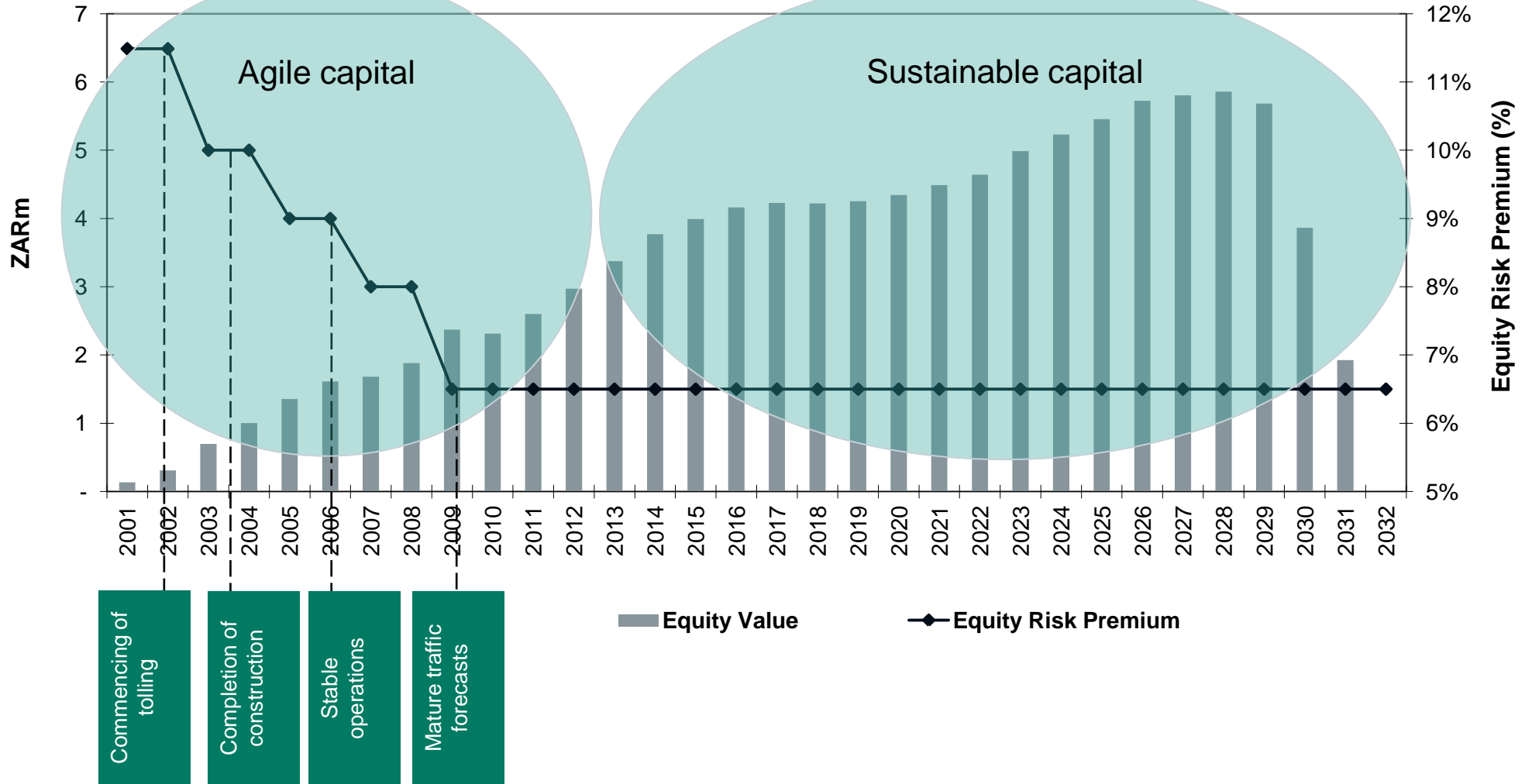


Source: Adapted from World Bank's Private Participation in Infrastructure (PPI) database

Right capital – Right time



Risk dissipation and Value



Unpacking the risks



Specific risk can be mitigated through project finance structuring

Inflation and Forex

Tariff escalation designed to mitigate variations around forecasts

Short term equity hedging to cover transaction exposure

Longer term hedging instruments for fixed debt obligations to link costs to revenue currency

Realizations

Development of local long term capital markets create natural acquirers of matched currently assets)

Corruption

Transparent procurement process and multiple party due diligence, plus DFI funding participation

Quality

Strong international (incl. South African, French and Chinese) contractor interest and competence

Political Commitment

Central government direct agreements guaranteeing implementing authorities obligations

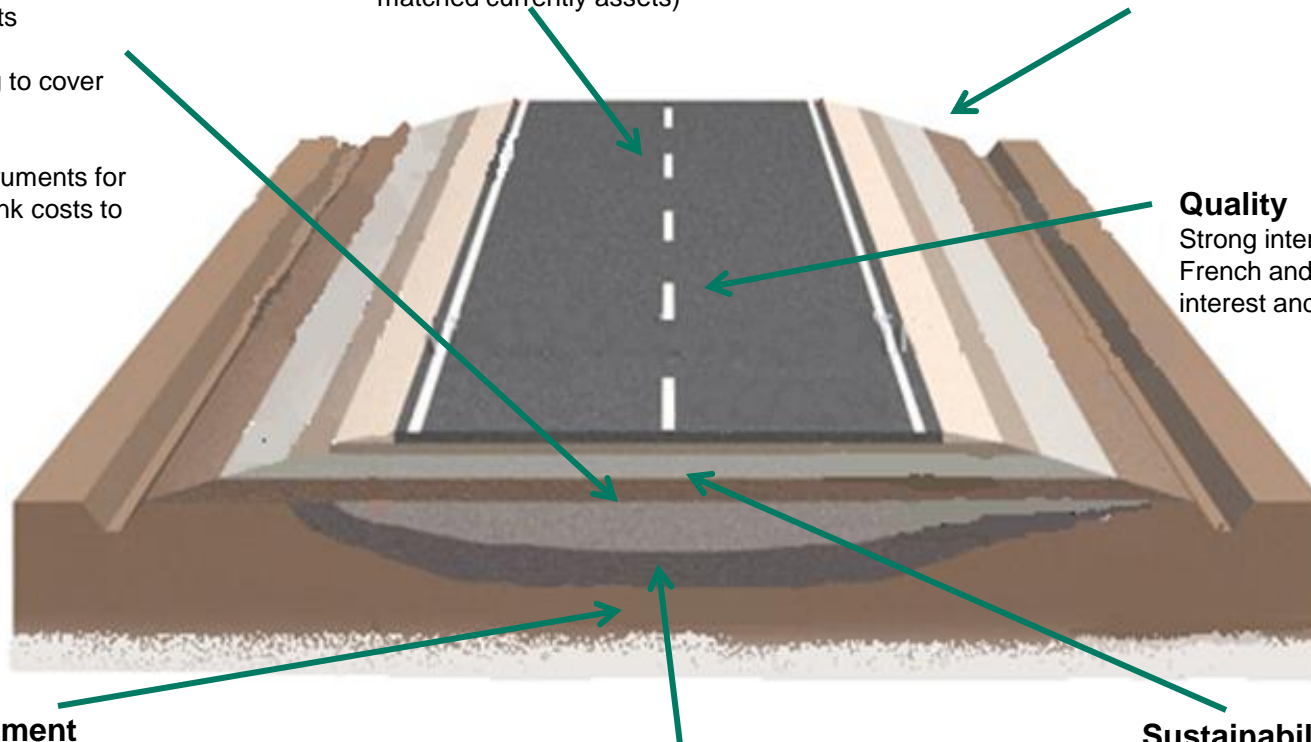
Government Default and Country Risk

Political Risk Insurance to cover government default, currency convertibility, repatriation and contract frustration. 52 countries in Africa – only pick the best

Sustainability

Local lenders and investors capacity creating long term local vested interest

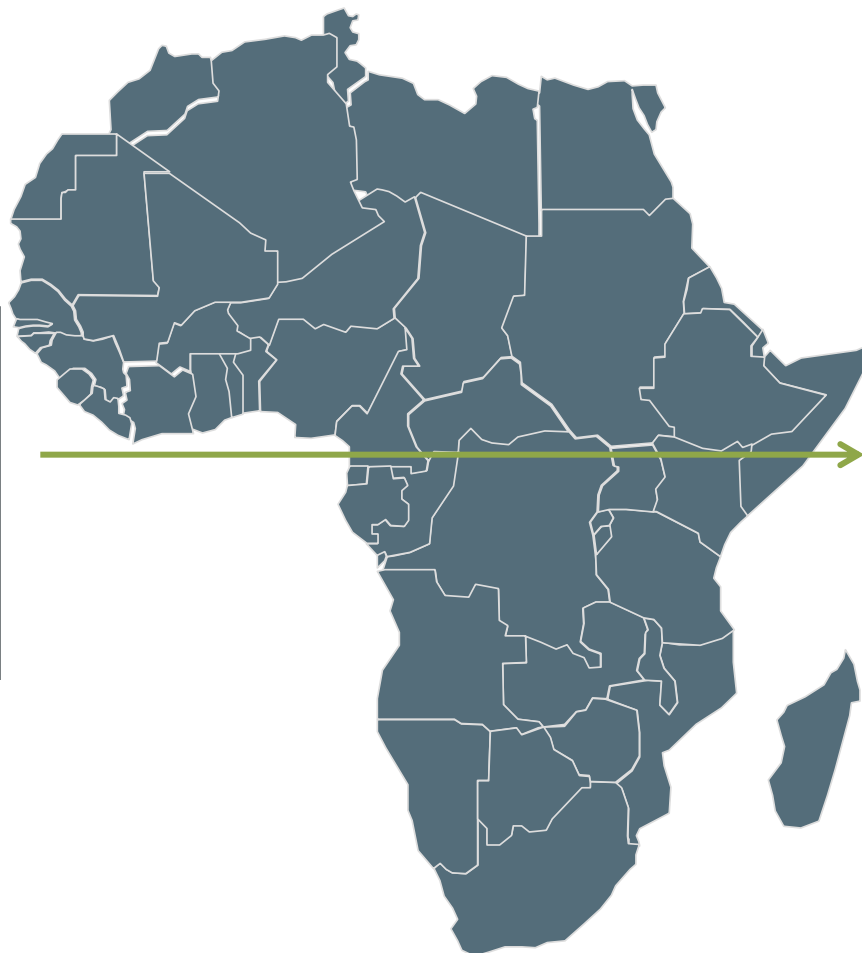
Dependency on infrastructure makes assets critical service providers



Unpacking the risks



To solve Africa's infrastructure gap...



Source: aidinfo.org



Source: AIIM

Need to deploy capital faster

Thank you

