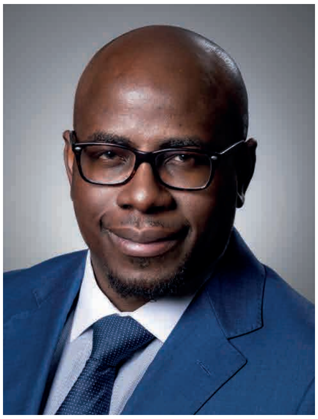
KEYNOTE INTERVIEW

Why impact won't run out of steam



The growing momentum to create positive impact alongside financial returns could ripple down the supply chain, say African Infrastructure Investment Managers' managing director & co-head Olusola Lawson and head of ESG Dean Alborough

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Q Why is Africa such an important market for investors that are looking to deliver impact?

Dean Alborough: There is still much ground to cover in Africa's development journey, which means there is a huge opportunity to create impact in a whole raft of different areas. Many African countries are struggling with poverty, power deficits and a lack of infrastructure, which means there is immense demand for services. Therefore, on a per dollar basis, you can potentially create a far higher level of impact in Africa than is the case in other jurisdictions.

Olusola Lawson: Just to give a few examples of the opportunity to drive sustainable development across our investment themes: from a connectivity perspective, Africa's fixed broadband access penetration per 100 inhabitants stood at 0.5 percent at the end of 2019, versus well above 30 percent in Europe and the Americas. From an energy perspective, three-quarters of the world's population without access to electricity live in Africa – around 580 million people – accounting for an electricity access rate of 48 percent compared with 96 percent of the population in emerging Asia. In the ports space, seven of the top 10 least efficient ports in the world are in Africa, with average cargo waiting times of 20 days compared with three to four days internationally.

Capital applied to address these bottlenecks will drive tremendous impact outcomes across economic growth, industry and innovation and the provision of affordable energy.

Q What does impact mean for you as a firm, and what are the fundamental

tenets of your impact thesis?
DA: Fundamentally, we want to create positive change to the baseline of any investment we go into. In order to do so, we have a series of core focus areas covering climate change, access to decent work, diversity, governance and sustainable infrastructure. We apply those areas of impact to each of our three investment themes – digitisation, the energy transition and urbanisation – using an approach called the Theory of Change, which is essentially a way of mapping impact pathways.

OL: I would add that when it comes to our investment process, we run fully integrated teams. ESG professionals are embedded alongside deal professionals, right from the screening stage. We are not only identifying ESG risks, but also actively looking to define and target impact opportunities from the outset, using our Theory of Change framework.

Q What is your approach to measuring impact and why is that important?

DA: Measurement is absolutely key. It gives you something to hold on to in terms of your impact thesis. We are very specific about the impact we are looking to achieve, within the overall UN SDG framework. We then select the metrics that best reflect that impact story. There is a danger that you can sometimes end up with a laundry list of metrics, which actually becomes counterproductive. We look to be focused about our impact ambitions and specific on measurement.

We collect the requisite data directly from our portfolio companies, and then manage that data in our own data management systems, tracking it against our thesis, so that we can monitor whether or not that thesis is playing out. We also try to have uniformity in the metrics we select in each sector, to give us an aggregation capability.

Q Does your approach to impact also extend into your supply chain?

DA: This is something that we have been looking at very closely over the last few months. Rightly so it is a hot topic for our investors, and we are increasingly seeing big corporates make disclosures around their supply chains. Up until the middle of last year, the general approach was that as long as a portfolio company had a good management system for vetting the supply chain and had adequate oversight, that was as far as it went. However, we are now working on management system improvements to provide a greater degree of supply chain monitoring.

The first port of call, as always, is risk management. But we are also starting to have more conversations around how that work could factor into our impact thesis as well, starting with procurement. Ultimately, we hope to be able to generate a ripple effect right down the supply chain.

> *"Three-quarters of the world's population without access to electricity live in Africa"*
>
> **OLUSOLA LAWSON**

Q Where are you seeing the most interesting and impactful opportunities when it comes to digital infrastructure, in particular?

OL: In the digital infrastructure space, we are delivering impact in a number of ways. Firstly, we have backed a build-to-suit towers platform, Eastcastle Infrastructure, to build new towers for mobile operators across Southern and West Africa, for example. From an impact perspective, building out connectivity infrastructure is critical. But there is also a climate overlay as we are integrating solar PV and batteries into the new builds.

In the data centre space, we are specifically looking at opportunities in the smaller metro areas where we believe there is often better value. As with towers, there is an opportunity to integrate renewable energy generation into our facilities. For example, we own the Onix DC facility in Ghana, the only Tier IV data centre in West Africa, and that is being partly powered by a solar farm co-located on the premises. We expect to replicate this model in our new facilities.

In the fibre space, we are focusing our efforts in building out our last-mile fibre platform, Metro Fibre Networx, in South Africa. Even in a market such as South Africa, which is comparatively well developed from a fibre perspective, only 2.6 million out of 16 million households in the country have been passed by a fibre connection – we are focused on how to drive down rollout costs to allow cost-efficient access to a greater share of the population.

Q What about opportunities to create impact by supporting the energy transition more broadly?

OL: Starting with renewable energy, there are opportunities to invest in utility-scale solar and wind where we can find the appropriate risk-adjusted return. We are one of the largest investors in utility-scale renewable energy on the continent, with a portfolio and awarded pipeline significantly exceeding 2GW. We also focus on distributed energy – commercial and industrial solar – where we have helped build a leading pan-African platform.

In addition, we have invested in energy efficiency strategies as well as 'clean cooking' companies – energy substitution away from high-cost, high-carbon cooking fuels such as kerosene and biomass charcoal and towards LPG. That both reduces the carbon intensity of cooking and has additional impacts in terms of a reduction in deforestation and improved health and safety in the home.

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>
> **DEAN ALBOROUGH**

DA: We take a pragmatic and broad view of the energy sectors in different jurisdictions, taking into account not just the obvious climate change imperative, which is of course a top priority, but also the developmental requirements of the continent, as well. We take time to understand the energy systems of each market, how that country may transition in terms of its energy mix and what role we can play to support that.

Strategically, when we look back at our funds, we want to see that we have a set of assets that have been instrumental in driving the energy transition.

Q Are you also focused on the potential social ramifications of that process, in terms of ensuring a just transition?

DA: Definitely. That is always front of mind, particularly for us in the South African context. South African energy is dominated by a large coal fleet which needs to transition, and that was a key area of focus at COP26. We are very sensitive to the need to ensure that the transition is just, which comes back to this idea of taking a holistic and pragmatic approach. We currently have 32 renewables facilities in South Africa, and we are committed to understanding the social dynamics that entails. In particular, the need to retrain and upskill workforces that have come from different sectors is a recurring discussion within our renewables businesses. It is something that we are alive to on a day-to-day basis.

Q Where are the most impactful opportunities within transport and logistics?

OL: In terms of interesting opportunities, we are focusing on bulk handling facilities and building transport ecosystems geared towards the handling of battery metals/transition minerals. That, of course, has implications for the energy transition. For example, we have recently signed a deal to acquire a logistics company operating across South Africa and Mozambique with a particular capability in the handling of manganese, a key commodity used to manufacture batteries.

Elsewhere, we are pursuing opportunities in the cold storage space – energy-intensive assets with a material decarbonisation opportunity.

DA: As Sola said, the types of products being dealt with in our ports and logistics investments have an energy transition angle, but a big part of the thesis is also the ability to drive more stable and growing economies in the local area. That, in turn, has implications for job creation and better livelihoods overall.

The impact created by investments in roads is similar. Free-flowing trade is critical to any economy. Cold storage, meanwhile, has the added benefit that it helps tackle food security and so contributes to the UN SDG of zero hunger. And, once again, our approach to all of these assets is also overlayed by the impact themes of gender equality and access to decent work. ■