

KEYNOTE INTERVIEW

Africa: 'Big challenges, big opportunities'



*Across Africa, various markets are pursuing both digitalisation and decarbonisation. While these twin aims may create investor challenges, the opportunities can't be dismissed, says African Infrastructure Investment Managers' **Olusola Lawson***

Africa has a more difficult energy transition challenge than most other regions in the world. No other continent is tasked with improving electricity access to the same extent, while simultaneously being told that decarbonisation must be prioritised.

Olusola Lawson, managing director and co-CEO at African Infrastructure Investment Managers (AIIM), a division of Old Mutual Alternative Investments, explains how investors are supporting these twin aims on the continent, while targeting attractive risk-adjusted returns. Indeed, the continent is home to a range of assets that could make a positive impact on

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societies, economies, the environment and the bottom line.

Q The energy transition opportunity throughout Africa forms a key part of many climate investment strategies. What trends are you seeing?

The energy transition undoubtedly represents a broad opportunity set across the African continent.

From a generation and transmission

perspective, we are seeing opportunities in markets which are liberalising and rolling back regulation to allow energy-generation companies to supply commercial and industrial customers directly. We are seeing this momentum across markets in south, east and north Africa. Currently, we see the greatest opportunity in South Africa.

South Africa is facing a severe energy crisis. Eskom, the state-owned electricity utility supplying over 90 percent of the nation's power, has suffered from operational failures, maintenance issues and full mechanical breakdowns, resulting in a steady decline in energy availability from its plants since 2016,

leaving most of the population with electricity shortages and blackouts.

By the end of 2022, Eskom had only half of its power generation capacity operational, creating an estimated 6GW baseload energy gap, forcing the company to increase its daily rationing of electricity to manage demand. From the start of this year, users in South Africa have been experiencing scheduled power cuts (loadshedding) for approximately eight to 10 hours per day, a figure expected to continue rising.

South Africa is predominantly powered by coal, which contributes 80 percent of the total system load, while renewable energy technologies account for only 7.3 percent. This is a highly carbon-intensive market, with an urgent requirement to add significant clean generation capacity (upwards of 50GW over the next decade).

The government in South Africa has liberalised the sector in such a way as to allow for the construction of new power generation facilities and streamlined the ability of owners to connect the energy produced with private customers without the need for overbearing licensing. This has created significant momentum in the private market.

Net Zero Africa (NOA) is a platform we have established specifically to address this opportunity, combining wind, solar and battery storage in our generation fleet and aggregating commercial and industrial customers downstream to account for more than 80 percent of their total energy needs. Our managed funds have committed \$180 million in equity capital to grow the platform so far.

Across other energy transition strategies, we see opportunities to create and scale assets within the production of clean fuels, energy efficiency strategies as well as circular economy opportunities.

Q What other geographical differences are you seeing in terms of the projects being pursued?

Q How are you approaching renewables?

AIIM is one of the largest investors in renewable energy on the continent, successfully developing in-house more than 1.3GW of wind and solar assets, and investing in excess of \$1 billion in equity across more than 30 projects, representing over 2GW of operating capacity.

We continue to build out multiple platforms across the utility scale and commercial and industrial subsectors, including our recent \$180 million equity commitment to our NOA platform. The NOA platform develops, constructs and operates large-scale wind, solar and energy storage plants, and has developed a comprehensive and innovative range of fully financed, grid-wheeled solutions across South Africa, and is targeting a portfolio exceeding 2.5GW.



Morocco is currently going through a process where it is passing various laws aimed at liberalising that market. There are also discussions in Kenya around a similar type of liberalisation. We are watching these markets very keenly as there is a significant opportunity on the energy generation front.

We also see a big opportunity within the transmission space. The underlying problem is that many areas suitable for renewable electricity generation are situated far from major offtake centres and industrial energy consumers.

Consequently, the potential of these

vast renewable resources cannot be fully harnessed without the development of adequate long-distance transmission infrastructure. There is a pressing need for investment in transmission capacity to interconnect countries and stabilise grid networks across the continent.

Take the Democratic Republic of Congo, for example, a country with a high concentration of energy transition-related mining activities, such as cobalt and copper, but a material energy shortage for miners.

We have been looking at opportunities to take excess power from

neighbouring countries and funnel it to areas with significant deficits. These region-specific opportunities are exciting, as is the challenge of solving the transmission issue across the continent more broadly.

Q Which technologies are investors favouring?

Across the continent, we are seeing investor interest in a range of technologies. There is an abundance of resources: for example, Africa has 40 percent of the world's solar energy generation potential but contributes only 1 percent of global production.

Utility scale wind and solar continue to present the most mainstream opportunities, alongside renewable baseload technologies such as hydro and geothermal. Distributed applications to support energy-intensive assets, particularly in the digital infrastructure (data centres, telecommunications towers), temperature-controlled logistics and critical minerals mining space, are core strategies of ours.

Q What effect is digitalisation having on investor strategies in Africa?

Africa is one of the fastest-growing regions in the world in terms of data consumption. If you look at the underlying numbers, smartphone penetration is crossing the 50 percent threshold for the first time, which is creating a step-change in the use of data for individual customer applications.

For the digital revolution to maintain its momentum, there needs to be substantial investment in associated infrastructure, namely fibre optic broadband, telecommunication towers and data centres. Demand for data centres alone is expected to exceed supply by 300 percent in the coming years. High-capacity, power-efficient facilities will become increasingly important.

In 2023, we invested in N+ONE in Morocco, the leading data centre platform in North Africa, which has secured contracts to build dedicated

facilities for hyperscale providers such as Oracle, which we recently announced. We are continuing to witness very strong growth across key customer segments – Platforms (driven by hyperscaler demand and digital media providers), Connectivity (driven by growth in mobile and new subsea cables from Meta and Google landing on the continent) and Enterprise migration to the cloud.

The world is on the cusp of an artificial intelligence revolution, starting in more developed markets. However,

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with all markets constrained by land and power availability, and AI applications being less location dependent than cloud infrastructure deployment, the opportunity we see is in providing capacity in a distributed configuration in markets with significant comparative advantages in terms of excess clean energy generation capacity.

Q What about the increasing number of investment opportunities around e-mobility?

We are at an early stage regarding the electric vehicle revolution here. There are three markets where we expect this trend to accelerate from a passenger vehicle perspective: South Africa, Morocco and Egypt.

There are also opportunities to decarbonise three-wheelers and two-wheelers, of course, and we have seen that opportunity set start to emerge, but it still remains at a smaller scale. We also see opportunity in terms of the broader decarbonisation of delivery fleets and larger-scale transportation or logistics services. However, the immediate opportunity around e-mobility in Africa is still some way away.

Q How important are partnerships to any sustainable investment strategy?

To form the capital that Africa needs to fund its energy transition, partnerships will be crucial. Government balance sheets continue to be buffeted by macroeconomic tailwinds, and private capital will play a key role.

That private capital will need to come from a range of sources – both local and international, but new thinking around the application of innovative instruments (such as blended finance mechanisms) to help catalyse additional pockets of international capital for this market will be required. These partnerships will be crucial to achieve stated goals. ■