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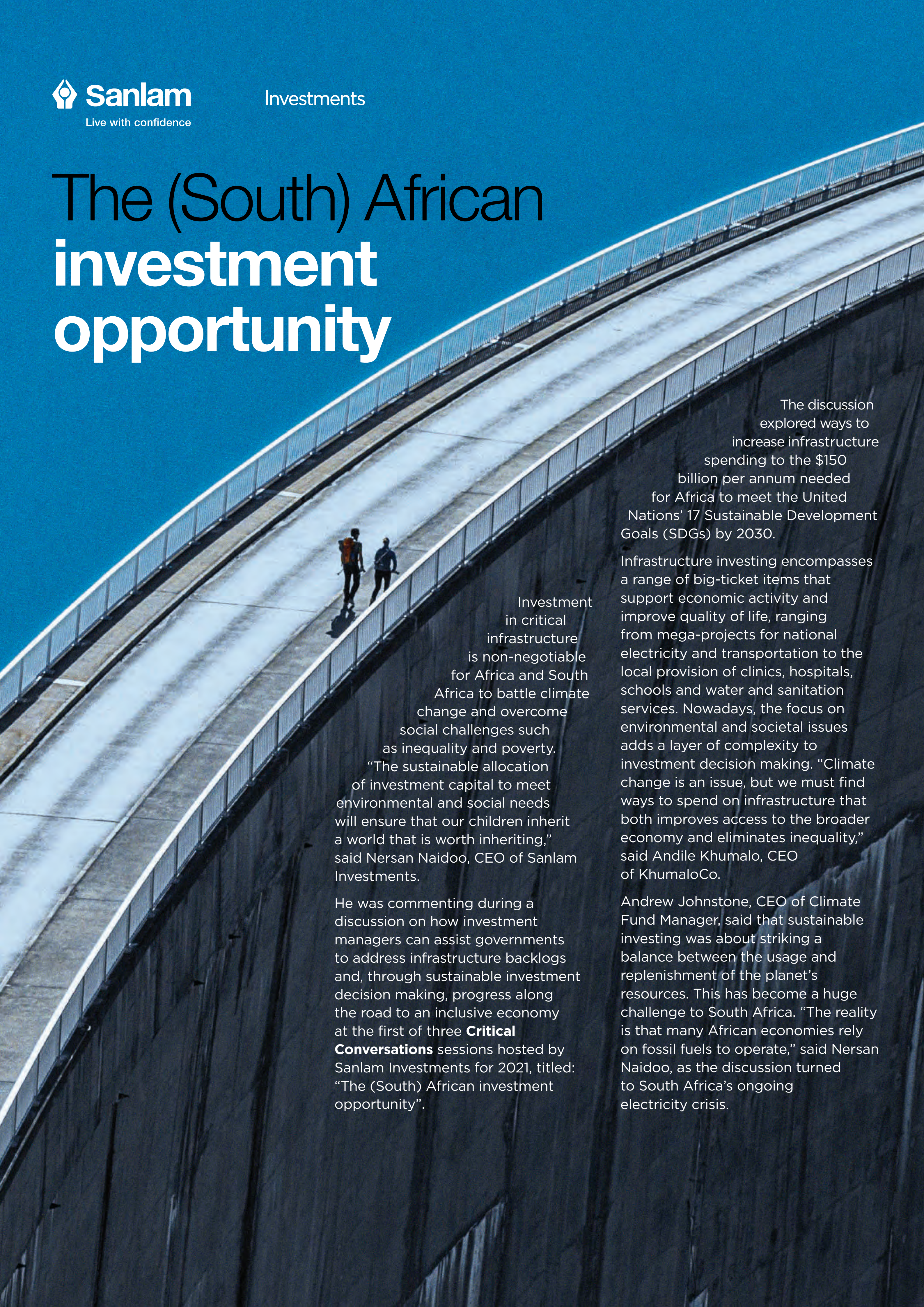
The (South) African **investment opportunity**



Investment in critical infrastructure is non-negotiable for Africa and South Africa to battle climate change and overcome social challenges such as inequality and poverty. "The sustainable allocation of investment capital to meet environmental and social needs will ensure that our children inherit a world that is worth inheriting," said Nersan Naidoo, CEO of Sanlam Investments.

He was commenting during a discussion on how investment managers can assist governments to address infrastructure backlogs and, through sustainable investment decision making, progress along the road to an inclusive economy at the first of three **Critical Conversations** sessions hosted by Sanlam Investments for 2021, titled: "The (South) African investment opportunity".

The discussion explored ways to increase infrastructure spending to the $150 billion per annum needed for Africa to meet the United Nations' 17 Sustainable Development Goals (SDGs) by 2030.

Infrastructure investing encompasses a range of big-ticket items that support economic activity and improve quality of life, ranging from mega-projects for national electricity and transportation to the local provision of clinics, hospitals, schools and water and sanitation services. Nowadays, the focus on environmental and societal issues adds a layer of complexity to investment decision making. "Climate change is an issue, but we must find ways to spend on infrastructure that both improves access to the broader economy and eliminates inequality," said Andile Khumalo, CEO of KhumaloCo.

Andrew Johnstone, CEO of Climate Fund Manager, said that sustainable investing was about striking a balance between the usage and replenishment of the planet's resources. This has become a huge challenge to South Africa. "The reality is that many African economies rely on fossil fuels to operate," said Nersan Naidoo, as the discussion turned to South Africa's ongoing electricity crisis.

There is massive potential in the area of electricity production and distribution across Africa, and it is hoped that the announcement allowing South African firms to invest in power infrastructure with up to 100MW capacity will result in a flood of new infrastructure investment opportunities. It was noted that South Africa would eventually have to replace 65 000MW of coal-fired power with sustainable alternatives, opening a potential project pipeline and the funds should be available if projects are sensibly motivated.

According to Johnstone, there are trillions of dollars invested globally in zero-interest accounts that could be better invested in impact infrastructure opportunities. He suggested that African infrastructure programmes use a blended finance model to achieve swifter uptake of projects - where the government provides funding for the infrastructure build phase and the private sector stepping in to manage projects through their life cycle. This de-risking of projects by the government is seen as a great motivator for private sector capital to flow to otherwise risky projects.

Going forward, assessing long-term investments will go beyond simple risk and return calculations, it will consider their impact on environment and society. "We have to start seeing the world through the dual lens of financial return and positive impact… sustainable investing is about delivering a financial return to people by investing their assets to deliver a positive impact," said Nersan Naidoo. The good news is that impact exists in infrastructure projects, from the small to the large, and across state-funded, private sector funded and private-public partnership (PPP) initiatives.

"Sustainable investing is about the consistent delivery of services that are accessible, affordable and reliable," said Euvin Naidoo, a member of faculty at Harvard Business School, who spoke in his personal capacity. He added that investment decisions had to be taken for the long-term with proper attention to de-risking each project from the get-go. A great way to achieve this is by putting the decision-making power associated with infrastructure in the hands of the end-user.

"Programmes work better than projects, said Johnstone. "Government should be responsible for programmes and let the public sector handle projects; then empower the users by letting them fund the project". Khumalo agreed that the pressure to invest sustainably should come from asset owners, the members of pension funds, rather than asset managers. "As a pension fund member, I want to know what the fund managers are doing about the environment, what they are doing to address poverty and build infrastructure," he said.

The panel reflected on the many 'shining lights' in African infrastructure development, referring to the decision by mobile phone companies to build a global system for mobile (GSM) network across the continent. The wide penetration of mobile phones across the continent has been hailed as a major underpin for economic growth. From a South African context, one need only step into the international arrivals terminal at OR Tambo International, or take a trip on the Gautrain, to appreciate the potential in infrastructure investment.

If the government comes on board with the correct policy framework and allocators of capital heed the sentiment of their investors, then there is no telling the future we can build. Khumalo took things a step further, urging businesses to make all investment decisions that benefit society. "Private sector companies are influencers and decision-makers in the allocation of capital; what is the point of business if the money we allocate and decisions we make do not serve society," he concluded.

"We must approach our infrastructure challenges with awareness and introspection," concluded Naidoo. "If we want our youth to enjoy a sustainable future, then we cannot afford to defer action on investing with impact, to address climate change, inequality and other structural issues."

CRITICAL CONVERSATIONS