

Harith: Our African Journey

By Tshepo Mahloele

It is only an arch afro-pessimist who will deny the incontrovertible narrative that boldly recognises that the Africa of today is better than the Africa of yesteryears. In fact, there is no longer a need to trumpet this narrative as investors are fast investing with their feet in the continent in their clamour to get a piece of the action in the continent hosting some of the fastest growing economies in the world.

Africa has:

- 52 cities of at least 1m people, with mobile phone penetration of about 50%
- Over 300m people now classified as “middle class”, up 27% from 2000
- 60% share of the world’s arable land yet to be cultivated
- 10% of world’s oil reserves, 40% of gold reserves, and 80-90% of chromium and platinum group metals
- Average inflation during 2000s was 8%, down from 22% in 1990s
- Average government debt as a percentage of GDP was 59% in 2000s, compared with 81.9% in 1990s

It is through the early vision of the Public Investment Corporation in 2006 that our organisation, Harith was formed as an infrastructure fund run by Africans for the benefit of Africans. Today, Harith General Partners has notched up an enviable track record in the eight years since the high-profile launch of the South Africa-based private equity firm's first Pan-African Infrastructure Development Fund (PAIDF-1) in 2007. This would not have happened without the solid backing of the PIC.

As we celebrate Africa Day, we may reflect and appreciate that Harith has for example, with the help of the PIC, raised US \$630 million for PAIDF-1 which has now been invested in 9 infrastructure development projects spanning the continent, creating much-needed jobs, skills development and increased economic growth, while close to \$600m has been raised for a second fund, PAIDF-2, which seeks to emulate the success of the first fund.

Harith has established itself as a leading private equity investor in the four core infrastructure sectors of energy, transport, telecommunications, and water, building partnerships with key economic players such as the African Development Bank (AfDB) and Nigeria's Asset & Resource Management along the way. The AUM figure will increase once the Comesa Infrastructure Fund (CIF), which is a joint venture between Harith and Kenya based PTA Bank, comes to fruition. CIF is in the market to raise \$1bn for infrastructure development in the Comesa region.

With its headquarters in Sandton, Johannesburg and representative offices in Cote d’Ivoire, Harith has developed a pipeline of infrastructure projects designed to make a material difference to Africa's gaping infrastructure deficit, which the World Bank estimates costs the continent 2% of GDP a year in lost growth.

Many African countries are too small to achieve the economies of scale that benefit larger economies, which greatly impairs their competitiveness; but by sharing the construction, management and operational costs of infrastructure through development corridors and hubs, Harith seeks to

overcome these disadvantages, while at the same time offering its investors access to the African growth story and potentially superior returns.

The private equity firm takes its name from a North African word which has a dual meaning, plough and protector, and the company projects itself as attempting to plough the African continent, plant the seeds of infrastructure, while protecting the interests of its investors. The private equity firm's team of more than 30 industry professionals have so far invested directly in seven countries, and indirectly in several more. It does not invest in venture capital, start-ups and companies operating in arms, liquor, gambling and child labour.

PAIDF-1 infrastructure projects have included the Henri Konan Bedie Toll Bridge in Abidjan, Côte d'Ivoire, bringing considerable relief to the congested Ivorian capital; TAV Airports, a concession company which operates the Monastir and Enfidha airports in Tunisia; and the 7,000 kilometre MainOne submarine telecommunications cable along Africa's western seaboard, bringing international bandwidth to West Africa.

Other flagship PAIDF-1 investments include the acquisition as part of a consortium of investors of Lanseria airport, north of Johannesburg, where it seeks to grow the business and tourist markets to rival South Africa's main OR Tambo Airport, and the Lake Turkana wind power project in Kenya, a 300MW wind farm to help ease the country's chronic power shortages by tapping green energy.

Harith is also part of President Barack Obama's Power Africa initiative, which is providing an initial \$7 billion in grants, loans and credit guarantees over five years for power projects in the six participating countries - Ghana, Tanzania, Kenya, Nigeria, Ethiopia and Liberia. Harith has committed \$70m to the Lake Turkana project and, through its London-based subsidiary, Aldwych International, which specialises in power projects, has provided some \$500m in funding across the under-resourced African power sector.

PAIDF-2 funds are expected to target more public-private partnerships (PPPs) across the African infrastructure space, in which the public sector takes on some or most of the project risk, leaving the private sector to provide the financial and operational skills required to make the project a commercial success. Power and transport developments are expected to gain increasing traction across the continent, and are now widely seen as a critical tool for scaling-up Africa's infrastructure provision.

Harith has also joined forces with Nigeria's Asset and Resource Management Company (ARM) to form ARM-Harith Infrastructure Fund, a \$250m fund established for investors with an appetite for investment that offers stable, long-term and relatively low-risk returns in infrastructure in West Africa, and especially in Nigeria by a management team based in Lagos. ARM was also the founding shareholder and sponsor of the Lekki Concession Company in Lagos, which was responsible for Nigeria's first PPP toll road concession.

The AfDB, Africa's premier development finance institution, has been an enthusiastic backer of Harith from the outset, investing \$50m in PAIDF-1, \$25m in PAIDF-2, and a further \$20m equity investment in ARM-Harith Infrastructure Fund, which will help the partnership deepen the pipeline of infrastructure projects in the West African region.

The private equity firm puts considerable weight on the strength and quality of its concession and legal agreements, which it sees as critical to the success of all of its infrastructure investments. These founding documents, which are all any investor has to fall back on if a project goes wrong, must be comparable with the best available anywhere in the world.

Despite Africa's post-millennium growth spurt, rapid recovery from the 2008 financial crisis, and the IMF's recent forecast of an average 6% growth for the sub-Saharan African region as a whole in 2014, efforts to attract long-term capital for infrastructure investment remain an uphill struggle.

Few African pension funds invest outside their home territories, although that picture is slowly beginning to change. As Basel III regulations force the banks to close down their equity books and retreat from large-scale project finance, the pension funds are beginning to take their place and private equity investors such as Harith are increasingly courting their attention as potential investment partners.

To invest in infrastructure, you need a longer-term view and who, outside Africa was going to lead that change except for African institutions or African capital? Pension funds are very keen to invest in infrastructure but regulations for the pension fund industry are tight but we have made very important strides with some.

It is however a painfully slow process. Ironically, credit ratings agency Moody's found that Africa has the lowest project default rate of any other world region. Yet the perception that Africa is a risky place to do business remains – despite the region's growth narrative.

Harith brought African capital into African infrastructure projects before it went fund raising outside the African continent. With African "skin in the game," overseas investors are taking the African continent more seriously. Now investors from Calpers, the California Public Employees Retirement Fund - the biggest US pension fund to Credit Suisse and London-based investment banks and hedge funds are looking to gain exposure to investment in the continent. With more emphasis and focus on infrastructure investment and the improving nature of capital and its interest in this asset class regional integration and sustained economic growth will happen on the continent and this will provide Africa with a competitive edge. This is our modest contribution to sustaining this new narrative of hope and competitive advantage for the continent through the development of World Class infrastructure.

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