KEYNOTE INTERVIEW

Powering the future

Mikael Karlsson, head of energy at Actis, on how access to electricity is the bedrock of sustainable development

Q How would you describe the scale of demand for sustainable energy investment in emerging markets right now?

One out of nine people, or 840 million around the world, do not yet have access to electricity. Around 95 percent of those people live in emerging markets. Millions more do not have access to reliable sources of electricity. That scarcity of supply, coupled with robust demand and a growing acceptance of private investment in many markets, creates a huge opportunity. At Actis, we have already committed $5 billion to 34 energy investments, with more than 25GW pledged across our platforms, providing access to electricity to 110 million people.

That demand – that opportunity – will only continue to grow as economic development in emerging markets continues, creating the need for more and more power generation. Indeed, we expect $14 trillion to be deployed in non-OECD energy investments by 2040. That equates to $1.7 billion a day.

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Q Where do you see the biggest opportunities?

Of the $1.7 billion of anticipated daily investment, about half a billion of that will be in renewables. Renewables are already cost competitive, without subsidies, in our target markets and if anything, we expect demand to increase even further as the renewable energy revolution drives prices lower and lower.

Around 75 percent of our current investments are in renewables. The countries we invest in all have strong renewables resources, with net wind capacity factors of 45-55 percent, compared with 25 percent in Europe and 30 percent in the US. They have world-class solar resources too. There is also an opportunity, particularly in Africa, to offer low-cost baseload power that is not as intermittent as wind or solar. We expect gas, for example, to grow faster than other thermal technologies with 9.3 GW of new capacity in the region between 2016 and 2020.

In terms of geography, around half the capital we have invested so far has been in Latin America, a quarter in Africa and a quarter in Asia. As a region, Latin America is the most compelling because it is the most advanced in terms of privatisation. Africa, for example, is still dominated by state investment, although there is significant evidence that the private sector is more effective.

Q Sustainability is core to your investment philosophy. But what does that actually mean in practice when it comes to your energy investments?

Actis originated as a spin-out from the UK government's development finance institution, CDC, so sustainability has always been a part of who we are. We were set up to promote economic development and we have an A+ PRI rating. There is a very strong correlation between cost effective and sus-

Ostro: Sustainable investment in practice

Actis's head of energy explains how its Indian wind energy platform tackled some significant ESG issues

In August 2014, Actis committed $230 million to establish Ostro Energy; a wholly owned Indian wind energy platform. The firm backed two individuals to lead the business – now Ostro's CEO and COO – and assembled a promising pipeline of projects. Over the next three to four months, it created a fully functioning company with a team of 70 people and approximately 100MW under construction in projects at Tejuva and Rajgarh in Rajasthan.

Ostro faced a range of ESG challenges endemic in India, including a lack of established standards on workers' accommodation, labour conditions, access to safe drinking water and sanitation. To help management address these challenges, Actis created a Labour Accommodation Standards Policy, based on international best practice and ensured that this formed part of any agreement with contractors. Along similar lines, the firm also helped develop a Security/Human Rights Protocol in line with UN voluntary guidelines. Both of these policies mitigated risk whilst elevating standards at Ostro sites, helping to build a higher quality and more valuable company.

The evidence base for value creation was particularly compelling in relation to health and safety. From March 2015 to April 2016, for example, workers undertook 2,120 hours of safety training. During that period, 301 hazards were identified and corrected and not a single hour of lost time was recorded due to injury.

Ostro also directly contributed to the creation of over 1,500 jobs for Indian workers during the construction phase of its projects and addressed the local community's most significant challenge, access to safe drinking water. Rajasthan is India's largest state and also one of the driest. Access to drinking water is a major challenge for many rural villagers. This is compounded by the fact that the groundwater in Rajasthan has naturally occurring high fluoride content. This is causing wide-spread fluoride poisoning across the state, which manifests in dental and skeletal problems, joint immobility and can stunt children's growth.

The ESG sub-committee agreed to direct some of the community investment budget towards safe drinking water. In addition to constructing water tanks, an altogether more modern and innovative solution was formulated: a solar-powered water dispensing ATM. The ATMs run day and night and use reverse osmosis and UV to purify water. The ATM is cloud connected, enabling Ostro's head of ESG to remotely track the volume of water dispensed, the number of families using the machine and pay per use transactions. Families are given a top-up card to access clean water for a small amount of money.

Last year, Actis sold Ostro to Renew Power, one of India's biggest clean energy power producers, backed by blue-chip global institutions including investment banks, pension funds and sovereign wealth funds. At the point of exit, Ostro had a total capacity of more than 1,100 MW, of which 850MW was already commissioned. The transaction remains India's largest-ever renewables deal.

"Around half the capital we have invested so far has been in Latin America, a quarter in Africa and a quarter in Asia"

tainable electricity supply and economic development. Businesses need reliable power in order to operate. That then creates jobs, which creates economic growth.

We routinely recruit an ESG specialist within each energy company that we invest in. At our African clean energy project Lekela, for example, the head of ESG was the second appointment we made after the chief executive.

We also establish an ESG committee at each company, made up of senior management and at least one expert from Actis. We find this helps to set the tone by leading on initiatives including a community investment strategy for each platform.

Q What are the specific challenges associated with sustainable investment practice in the regions where you operate?

Some of the markets we operate in score horribly on the corruption index. But for us it is very straight forward. Because of who we are and where we came from, because our investors include blue chip institutions, we make it very clear that neither we nor any representatives of our investee companies engage in any form of bribery activity and we never have. We simply do not need to.

The other major challenge we come across is contractors who need our support in significantly improving global health and safety standards. Take construction in India, for example. We include non-negotiable terms and conditions around health and safety in the contract and provide internationally accredited training. And we are prepared to stop work at a site, if health and safety procedures are not being properly adhered to.

Q How do you approach monitoring and measuring sustainability?

When we make an investment, we calculate what we call its benchmark impact score. We do that continually over the course of the investment and then, when we exit, we report on what impact that investment actually had.

Take Indian renewables platform Ostro, for example. When we went into that investment in 2014 it had a score of 30. We exited at 160, so that's a multiple of 5.5x. That was driven by the generation of around 1GW of clean energy, equating to around a million Indian homes; around 1.4 million tonnes in CO^2 emissions reduction in an area dominated by coal power generation and the generation of 1.5 litres of clean drinking water for a local community where this was the number one concern. The project created over 1,500 jobs and we provided almost 5,000 hours of safety training, transformed the labour accommodation and created mobile health camps that benefited 5,000 people.

Q What challenges still remain around measuring sustainability?

The problem is that, when people talk about sustainability, or about impact, they are defining it and measuring it in different ways. There is no common standard, which is why our framework is open source. One investor might claim that investing in US health clubs is making the world a better place, for example, but how does that really compare with initiatives we are involved in around the world?

We provided Maasai tribes, living near one of our plants in Kenya, with internationally accredited training so that they can develop construction skills, get certified, and come and work on our power site, or construction sites across the country. At our wind farm in Honduras, meanwhile, we found local farmers only had usage rights, they didn't have land titles. We registered land titles for them so that they can now borrow money, or sell the land, and improve their economic situation. Which has the more meaningful impact? There is no standard to measure which is more important. There have been steps in the right direction but there is still a lot to do. We are pioneering a path here that we hope more people will adopt.

Q How does sustainable investment practice impact returns?

We firmly believe in what we call, value drives value. That means we have never seen a compromise between responsible investment and delivering competitive returns. In fact, in our experience, it is investing responsibly that creates businesses that are more resilient, more innovative and better able to deliver societal benefits. We end up with assets that have excellent health and safety records, zero corruption, great social and environmental practices and strong governance. That gets recognised and those assets are then more valuable on exit. People will pay more money for world class run business activities in emerging markets.

Q What does the future hold for sustainable energy investment in emerging markets?

We will continue to invest in renewables. We will continue to invest in distribution companies and gas. We also expect to see more and more storage opportunities and distributed power. We are exploring storage applications in two of our wind farm projects in Africa – one in Senegal and one in Kenya – and we expect those trends to continue. ■