An emerging opportunity

Barry Lynch, partner and head of operations, energy and infrastructure at Actis, discusses the future of clean energy investment across Africa, Latin America and Asia

Q From an energy transition perspective, which geographies are most attractive right now?

Barry Lynch: We invest across most of Africa, Latin America, India and South-East Asia, although we have done less in South-East Asia recently because it has been harder to find opportunities of the right scale.

There are markets where the auction processes have stalled, for example in Mexico and South Africa, and that can be frustrating. But then India is particularly strong at the moment, in terms of regular auctions, and we are seeing South Africa really getting moving again. That is the nature of these markets. There will always be change.

Q What size and stage of investment do you tend to get involved in?

BL: We primarily invest in large-scale wind and solar projects, as well as gas-fired power generation assets. We have over 10,000MW of projects in operation and under construction at the moment in those technologies and across those markets. We don't really get involved at the smaller end. The smallest projects we look at are around 100MW and preferably larger than that.

We tend not to get involved in the earliest stages of greenfield development. We would rather come in from two years prior to financial close, when a power-purchase agreement is close to being signed. Our preference is to come in before financial close so that we can drive the final procurement and financing processes and then take the project through construction and into operation.

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Q What are the particular challenges you face investing in these energy projects in emerging markets?

BL: There are challenges. It may well be that we are investing in a jurisdiction where the developer is working on the first large-scale wind farm that the country has ever seen. They will be doing the best job they can, but there may be issues that we can see, with our experience in other markets, that would otherwise get missed. For example, we always look very carefully at how land is sourced, what the lease arrangements are with landowners, and how the permits are sourced. These are things that may not be much of a concern in a European or US context, but which take on greater importance in a market where the first wave of projects is just coming through. If you are the first to be seeking environmental and planning approval for a large-scale wind farm, you certainly need to take an extra level of care to scrutinise how everything is being put together.

These may also be the first large-scale renewable projects going onto the grid. That takes a lot of extra technical work and interaction with the grid company to make sure everybody understands what's being built and how it is going to affect the grid in the region. Being first can certainly bring challenges.

Q What level of government support do you tend to receive, in terms of facilitating energy investment, in some of these emerging markets?

BL: Generally, governments are very supportive. We make sure we have strong engagement with them. The days when we needed subsidies are long gone, so it is more about governments creating a framework that is conducive to investment. That might mean a centralised procurement process with auctions, or it could be ensuring other government-related entities – be that the grid, or planning authorities – are putting the right amount of emphasis on getting these projects over the line.

Q How would you describe the competitive landscape for clean energy investments in emerging markets?

BL: We only see a handful of players operating across Latin America, Africa and Asia. What we do see is more and more niche players focusing on specific countries or regions. Some of those players are being very aggressive in terms of the power price they say they can deliver. We believe they can't possibly have considered all the factors, such as the ability to secure non-recourse long-term financing or some of the construction and operational challenges.

If you sign a PPA securing 90 percent of your energy sales, for example, that still leaves 10 percent coming onto the market on a merchant basis. Have they properly judged and priced how that is going to play out over the next 20 years? We believe that not everything has been adequately considered and they will learn from their mistakes.

Q How strong is underlying investor appetite for clean energy projects in emerging markets and what concerns do investors have?

BL: We try and break down the market and show investors that most electricity markets work in fundamentally the same way. When it comes to emerging markets, investors will be very concerned about ensuring the project has been put together correctly, through the development, financial and construction processes. You cannot argue that in less mature markets the standard should be lower.

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They also worry about foreign-exchange exposure if they are US-dollar investors. Then there are always the overriding geopolitical factors – a change in government, for example. That can create some nervousness.

Some projects can be remote and that can bring security issues. You have to put a real emphasis on community engagement. We have a strong social investment plan. We support local schools, local businesses and local employment, creating that licence to operate. International investors look at that relationship and see that we are a good neighbour to the local community. Above all, investors are reassured that we are acutely focused on the very things that worry them.

Q What is your approach to mitigating FX risk?

BL: You can mitigate FX risk through the financing and construction phase with hedging arrangements. But if you are being paid for your energy in local currency over a 20-year period, you can't take that kind of hedge. We have to build that into our overall assumptions as US-dollar investors. We have comprehensive internal FX models in Actis that are used across our energy, infrastructure, real estate, private equity and fintech divisions, so we have a strong in-house view. We then build in those assumptions for the 20-year offtake period. It is about experience. It is not something you can hedge.

Q How hands-on are you as owners?

BL: Very hands-on. We work with our 12 power generation businesses on a daily and weekly basis, discussing their issues through the financing, construction and operations phases. We have got a lot of megawatts so we try to share the learning. For example, if we are building concrete towers with a particular wind turbine manufacturer in Brazil and we have just started using the exact same manufacturer in India, we will ensure those experiences are shared across the teams. We are a very active and heavily involved investor.

Q What is next for energy transition in emerging markets?

BL: The leaps that have been made in the technology – for both wind turbines and solar – in terms of scale, efficiency and pricing over the past few years have been remarkable. That is allowing us to deliver energy prices that five years ago we could never have hoped to deliver.

Now, we are watching grid and battery storage in Africa very closely. That has yet to have a huge impact on our larger scale projects, but I don't think Africa will have the grid network that we see in North America or Europe. I think that is the next big challenge and it will be exciting to see how it plays out. ■