Jackson, Etti & Edu

CHAPTER ONE

INTRODUCTION

The achievement of a robust digital infrastructure in Africa will require significant financing for the development of physical assets including data centres, macro towers, small cells, fibre optic networks and marine cables. Studies estimate that Africa's infrastructure finance needs a total of US$130-US$170 billion a year, with a mammoth financing gap between US$68 billion and US$108 billion[1]. However, to ensure long-term stability and development, African countries will need to factor in resilience in their bid to finance digital infrastructure, by exploring investments that can address the infrastructure deficit while mitigating climate change, addressing social issues and contributing to a more sustainable future. One might wonder why this content promotes sustainable financing as a viable solution in relation to digital infrastructure development in Africa.

The integration of sustainable measures into digital infrastructure projects (in accordance with the relevant sustainable financing instruments) helps to effectively minimize the carbon footprint of digital infrastructure businesses, thereby mitigating environmental impairment across Africa, preserving the African ecosystem and allowing digital infrastructure businesses in Africa to contribute to global efforts to alleviate the effects of climate change. Sustainability is increasingly becoming a priority in the strategies of top cloud service providers with hyperscalers like Amazon Web Services, Microsoft and Google investing in sustainability initiatives to achieve net zero emissions within the decade[2].

There might also be a nagging query as to how African countries can address its infrastructure deficit, while deploying sustainable financing solutions in the African digital infrastructure landscape. In the light of Jackson, Etti & Edu's forthcoming Africa Digital Dialogue & Reception themed "Investing in Africa's Digital Economy: Catalysing the Next Frontier of Growth", we thought it necessary to explore how stakeholders in Africa's digital infrastructure landscape can utilize sustainable financing instruments for digital infrastructure development while delivering positive outcomes for the African society through the integration of environmental, social and governance (ESG) considerations into financing strategies.

[1]. Africa Development Bank (2023) Public-private partnerships needed to bridge Africa's infrastructure development gap. Available at: https://www.afdb.org/en/news-and-events/public-private-partnerships-needed-bridge-africas-infrastructure-development-gap-65936

[2] Marcus Law (2024) Sustainability is Central to Hyperscalers' Strategies. Data Centre Magazine, April 03.

CHAPTER TWO

SUSTAINABLE DEBT INSTRUMENTS FOR FINANCING DIGITAL INFRASTRUCTURE

As succinctly stated by Fong and Aguirre (2023)[3], sustainable finance is much more than just numbers and profits but represents a commitment to the broader impact of investment decisions. We will proceed to consider sustainable financing instruments developed in accordance with the principles of the International Capital Market Association and the Loan Market Association that can be effectively deployed for African digital infrastructure projects under two broad categories:

a. utilisation-based financing - where the use of proceeds is ring-fenced exclusively for the financing or refinancing, in part or in full, new and/or existing eligible projects/assets/companies that have climate and/or environmental and/or social and/or sustainable benefits and are labelled green, social or sustainability bonds or loans (as the case may be); and

b. performance-based financing – wherein the financial instrument commits its issuer or borrower to achieving certain predefined and forward-looking sustainability targets

2.1 Utilisation-Based Financing

Green Bonds and Loans: The proceeds of these type of debt instruments are exclusively utilized for the financing or refinancing of green projects, including intangible assets or expenditures pertinent to climate mitigation and adaptation goals, or other objectives associated with clear environmental benefits. Green bonds and loans are required to be certified as green by their issuers and borrowers (as the case may be) and subject to screening processes, including external reviews. The drawing power of green financing instruments is that they appeal to the interest of investors who prioritize investments in environmentally responsible projects in Africa, while allowing for a reduction in financing costs, as the coupon/interest rate is adjusted at intervals to reflect the performance of issuer or borrower in relation to the applicable environmental objectives.

Social Bonds and Loans: These types of debt instrument are applied towards financing or re-financing eligible projects aimed at addressing or mitigating a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population. Instances of target populations can include unserved or underserved communities in Africa. Digital divide is considered a social justice issue[4], therefore bridging the divide in Africa and ensuring digital inclusion via financing the development of critical infrastructure can be considered a viable social outcome. A good example is the social bond program of the Internation Finance Corporation (IFC) which includes projects that expand access to telecommunications, such as broadband or mobile phones.

[3] Fong, Shirley and Aguirre, Ale Jimenez (2023). What Is Sustainable Finance and Why Is It Important? Rydoo. October 18.
[4] Sanders CK, Scanlon E. The Digital Divide Is a Human Rights Issue: Advancing Social Inclusion Through Social Work Advocacy. J Hum Rights Soc Work. 2021;6(2):130-143. doi: 10.1007/s41134-020-00147-9. Epub 2021 Mar 19.

Sustainability Bonds and Loans: The proceeds of these type of debt instruments are used to finance or refinance a combination of projects designed to achieve both positive environmental and social outcomes. This could traverse investments in projects that tackle climate issues to funding enterprises that work to support digital inclusion of underserved communities.

2.2 Performance-Based Financing

Sustainability Linked-Loans and Bonds: Unlike utilisation-based instruments which ring-fence the use of proceeds for specific purposes, Sustainability-Linked Bonds (SLBs) and Sustainability-Linked Loans (SLLs) have coupon/interest payments that are linked to the sustainability performance of the issuer/lender, allowing the borrower or issuer to use the capital for general purposes, provided that specified sustainability performance targets (SPTs) are achieved by the issuer or borrower. Under these instruments, the issuer or borrower (as the case may be) receives a lower interest rate if it improves its performance in relation to the SPTs, thereby rewarding the positive performance of the borrower or issuer.

Sustainability-linked instruments provide a significant advantage of allowing borrowers and issuers to highlight nature-based commitments to their existing investor bases while attracting an expanded pool of investors interested in sustainable investing at a lower cost of capital. Furthermore, the achievement of SPTs tied to climate or nature improvements helps to enhance shareholder value, both in the short and long term, by increasing community resilience and mitigating climate risks.

Sometime in June 2024, it was reported that International Finance Corporation (IFC) and Proparco provided a financing package including loans of US$10 million and ZAR 200 million from IFC, US$20 million from Proparco and an additional US$10 million loan from Rand Merchant Bank to the West Indian Ocean Cable Company (WIOCC) Group for the purpose of funding WIOCC's expansion strategy in Nigeria, Democratic Republic of Congo and South Africa to meet growing demand for collocation and other data centre services, thereby enhancing the continent's digital infrastructure and connectivity and supporting economic growth[5]. The financing is structured as a sustainability-linked debt, with pricing linked to WIOCC's commitment to improve the energy efficiency of its data centres.

[5] https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=28238

CHAPTER THREE

RECOMMENDATIONS FOR VIABLE SUSTAINABLE FINANCING OF AFRICAN DIGITAL INFRASTRUCTURE

According to a recent study conducted by the African Development Bank Group, domestic resources alone will be insufficient in many African countries to fill their financing gap for structural transformation by 2030[6]. Many African countries have limited fiscal space and low tax capacity, and the private sector remains very risk averse with relatively low participation, especially toward investment in critical sectors for structural transformation. In view of this, how can African countries effectively position themselves to access sustainable financing for digital infrastructure development in Africa? To stimulate private investment and attract foreign capital for the development of sustainable digital infrastructure in Africa, the following recommendations are provided below:

3.1 Enabling Policy and Regulatory Reforms

African countries need to institute endogenic reforms and policies adapted to areas of relative advantage as priorities and give consistent effect to them, while ensuring that anti-progressive policy reversals are avoided, as such disruptions corrode investor confidence. These reforms and policies should be aimed at promoting sustainable development and environmentally friendly investments through the encouragement of financial institutions to provide more financing through sustainable financing instruments; the adoption of environmental, social, and governance standards; the development of sustainable finance markets to support companies in the digital infrastructure space with eligible projects; the promotion of green and sustainable insurance products to mitigate environmental risks, and the enhancement of financial regulation in view of relevant environmental risks.

According to the African Development Bank Group, continuous and systematic implementation of public policies will create certainty and stability to attract domestic and foreign capital inflows into areas supportive of the structural transformation agenda[7]. It is therefore important to ensure that the regulatory frameworks and business climates in the locations of these projects are conducive to private investment[8].

3.2 Conducive Business Climates

African countries should strategically provide targeted and streamlined incentives to catalyse private capital flows to support their endogenic development plans for structural transformation. To stimulate increased domestic and foreign capital investment in the African digital infrastructure landscape, it is imperative for African countries to create conducive business environments and providing targeted fiscal incentives, such as investment tax credits and other fiscal reliefs.

[6] African Economic Outlook 2024. Driving Africa's Transformation: The Reform of the Global Financial Architecture. African Development Bank Group
[7] Ibid
[8] Gouett, M. (2023) 'Innovative Financial Instruments and Their Potential to Finance Climate Change Adaptation in Developing Countries'. International Institute for Sustainable Development

3.3 Availability of Viable Project Pipelines

For digital infrastructure projects that are unlikely to be financially attractive to private sector investors on their own, it is recommended that project developers and sponsors should consider packaging such projects alongside revenue-generating projects to enhance the appeal of the packaged projects to prospective investors[9]. The lack of investment-ready project pipelines is often cited as a cardinal impediment not only to unlocking private finance but also leveraging existing sustainable finance instruments. Large digital infrastructure projects have extensive development and gestation periods and often involve complex feasibility studies and expert transaction advice. Many African governments and local private sector players lack the capabilities, as well as the resources, to undertake such infrastructure projects with commercial potential. Therefore, capacity building in respect of project preparation and implementation is essential.

CONCLUSION

In view of the foregoing, we appreciate that sustainable financing is crucial for bridging Africa's digital divide and driving resilient economic growth on the continent. Stakeholders – industry leaders and policy makers – are encouraged to collaborate on the adoption of these models and support the development and deployment of sustainable finance instruments in the digital infrastructure space. With an appropriate approach towards sustainable financing, Africa can unlock its digital potential and drive economic growth while enjoying the positive outcomes derived from the implementation of sustainable finance principles.

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[9] African Economic Outlook 2024. Driving Africa's Transformation: The Reform of the Global Financial Architecture. African Development Bank Group

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