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Can Better ESG Reporting Unlock International Capital for African Energy Companies?

Introduction

African energy companies sit at the centre of one of the world's most important investment opportunities. The continent faces a substantial energy access gap, possesses vast renewable energy resources and requires hundreds of billions of dollars in infrastructure investment to support economic growth, industrialisation and climate resilience. Yet, many African energy companies continue to struggle to attract affordable international capital despite growing investor interest in emerging markets and sustainable development. According to the International Energy Agency (IEA), achieving Africa's energy and climate-related goals by 2030 will require annual investments of over USD 200 billion.

One factor increasingly shaping investment decisions is Environmental, Social and Governance (ESG) reporting. Global investors, development finance institutions, sovereign wealth funds, commercial banks and sustainability-focused funds are demanding greater transparency on climate risks, governance standards, environmental performance, community impacts and long-term sustainability strategies. The rapid adoption of the International Sustainability Standards Board (ISSB) framework reflects growing demand for consistent, comparable sustainability disclosures across global capital markets.

This raises a critical question: Can better ESG reporting help African energy companies unlock greater access to international capital?

Africa's Energy Financing Gap: The Scale of the Challenge; The Price of Capital and The ESG Imperative

Africa is home to nearly one-fifth of the world's population but attracts only around 3 per cent of global energy investment, and just 2 per cent of global clean energy investment. Energy projects across the continent also face capital costs that are two to three times higher than those in advanced economies and China, even where resource potential is world-class. The Organisation for Economic Co-operation and Development attributes part of this gap to information deficiencies that create "perception premiums", while the African Development Bank argues

that the risk premium applied to many African investments often exceed actual investor loss experience.

These information gaps have important financing implications. When investors cannot adequately assess a company's emissions profile, governance practices, community commitments, or exposure to transition-related risks, they tend to price in additional uncertainty. Weak disclosure is therefore not neutral; it can increase financing costs and limit access to capital. For African energy companies, this challenge is particularly acute because many international investors have limited familiarity with local markets and rely heavily on available data when making investment decisions.

In this context, ESG disclosure has become an increasingly important factor in capital allocation. Institutional investors increasingly use ESG information to assess risk, guide investment decisions, and meet their own regulatory and fiduciary obligations. Where disclosures are incomplete or inconsistent, investors often adopt more conservative assumptions, effectively pricing in risks that may be overstated or manageable through transparent reporting. This dynamic can create a self-reinforcing cycle. Higher perceived risk contributes to increased borrowing costs, which can reduce project viability and deter investment. Conversely, stronger ESG reporting can improve the quality of information available to investors, enabling more accurate risk assessments and potentially attracting capital on more favourable terms. Improved disclosure can therefore strengthen investor confidence, lower financing costs, and support long-term growth.

The strategic importance of ESG reporting is also increasing as sustainability disclosure requirements become more embedded in global capital markets. In many of the jurisdictions from which African companies seek investment, ESG reporting is no longer viewed as a voluntary exercise but as an important component of market access and investment evaluation. As a result, credible and consistent sustainability disclosures may represent one of the most effective tools available to African energy companies seeking to compete for international capital and narrow the continent's energy financing gap.

The Evolving Regulatory Landscape and Relevance for African Energy Companies

The establishment of the International Sustainability Standards Board (ISSB) under the IFRS Foundation represents a watershed moment for sustainability reporting globally. Its two flagship standards, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures), have emerged as the leading framework for sustainability and climate-related financial disclosures.

The ISSB standards do not read like regulatory checklists. They require a company to disclose information about sustainability-related risks and opportunities that

could reasonably be expected to affect the entity's prospects, and to connect that information to the financial statements. This means that a sustainability report prepared to the standards of IFRS S1 and S2 is not a communications exercise bolted on to the annual report. It must describe the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities. It must describe the entity's strategy for managing those risks, including transition plans where relevant, and it must provide quantitative and qualitative metrics.

The standards are explicit that disclosures should reflect the entity's own circumstances rather than generic industry language, and they require the reporting entity to apply judgment in determining what information is material. For climate specifically, IFRS S2 requires disclosure of absolute greenhouse gas emissions, measured in accordance with the Greenhouse Gas Protocol; the approach to climate-related targets; and the effect of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows.

For African energy companies, the relevance is not that these standards will be enforced by a domestic regulator tomorrow, but rather that they form the backbone of what international investors and lenders expect to see. The IFC Performance Standards, the Equator Principles, and the lending frameworks of bilateral development finance institutions such as the British International Investment, Proparco and the United States International Development Finance Corporation all converge on substantially similar requirements, and the ISSB standards provide the disclosure architecture that ties them together.

The regulatory direction is also becoming clearer across Africa. Nigeria's Financial Reporting Council has adopted the ISSB standards with effect from 1 January 2027, while South Africa, Kenya and Egypt have all taken steps to align their reporting frameworks with ISSB requirements. As sustainability disclosure becomes increasingly embedded in global capital markets, African energy companies that adopt robust reporting practices will be better positioned to meet investor expectations and improve access to international capital.

Table 1: What different capital providers require, and what they do with the answer

Capital provider	Primary disclosure expectation	Consequence of weak disclosure
Development finance	Compliance with the International Finance Corporation Performance Standards, applied through an environmental and social	Ineligibility rather than repricing. IFC assesses all its loans against the Sustainability

Capital provider	Primary disclosure expectation	Consequence of weak disclosure
institutions and their co-lenders	management system, together with the World Bank Group Environmental, Health and Safety Guidelines	Framework and Performance Standards
Commercial project lenders	The same standards, imported through the Equator Principles, adopted voluntarily by more than 90 banks and financial institutions	Syndication becomes difficult; conditions precedent, covenants and reporting undertakings tighten
International equity and bond investors	Sustainability-related financial disclosures aimed at existing and potential investors, lenders and other creditors, addressing effects on cash flows, access to finance and cost of capital	Uncertainty discount; exclusion from mandates with disclosure screens
Institutional and refinancing capital	Verifiable operating data on brownfield assets, often accessed through green or sustainable bond structures as seen in Egypt and Nigeria	Loss of access to the refinancing pool that releases capital for new development

Key Challenges for African Energy Companies

While the case for improved ESG reporting is compelling, it is essential to acknowledge the significant and legitimate challenges that African energy companies face in meeting global disclosure expectations. A balanced assessment of these obstacles is critical to formulating effective strategies for overcoming them.

Data Infrastructure and Capacity Gaps

Perhaps the most fundamental challenge is the absence of adequate data infrastructure. Robust ESG reporting, particularly climate-related disclosure under IFRS S2, requires granular data on greenhouse gas emissions, energy consumption, water usage, and a range of other environmental and social metrics. Many African energy companies, particularly smaller and mid-cap enterprises, lack the measurement systems, monitoring technologies, and internal processes

necessary to generate this data reliably. The continent faces limited access to ESG certifications, underinvestment in technical training, and weak academia-industry pipelines, all of which constrain the supply of qualified sustainability professionals.

Cost of Compliance

The financial burden of ESG reporting is not trivial. Implementing the data collection systems, internal controls, governance frameworks, and external assurance processes required to produce credible sustainability disclosures demands significant upfront investment. For companies already operating in capital-constrained environments, these costs can be prohibitive, particularly where the commercial return on improved disclosure is not immediately apparent. There is a real risk that compliance costs act as a barrier to market entry for smaller African energy companies, concentrating capital flows among the largest and most well-resourced issuers.

The "Western Imposition" Perception

Some African stakeholders view ESG as a framework shaped by developed economies and not always aligned with Africa's development priorities. In regions where expanding energy access, industrialisation, and climate resilience remain urgent, disclosure requirements designed for advanced markets can appear disconnected from local realities. Given Africa's relatively small contribution to global emissions, concerns about fairness and proportionality are understandable.

Nevertheless, international capital increasingly relies on transparent and comparable sustainability information. Whatever the broader debate around ESG, it has become a key factor in investment decision-making. For African energy companies, the opportunity lies in aligning local priorities with global disclosure expectations to improve investor confidence and attract the capital needed to support growth and energy development.

Fragmented Regulatory Frameworks

The regulatory landscape across Africa remains fragmented. While several jurisdictions are making meaningful progress toward ISSB alignment, the pace, scope, and approach vary considerably. This fragmentation creates compliance complexity for companies operating across multiple African jurisdictions and makes it difficult for international investors to compare disclosures across the continent. Dentons' research across nine African markets highlights this challenge, identifying significant variation in the legal status of sustainability reporting obligations, the specificity of disclosure requirements, and the availability of enforcement mechanisms.

Practical Recommendations for African Energy Companies

For African energy companies seeking to leverage ESG reporting as a tool for capital access, the following practical recommendations emerge from the analysis above. These are directed at corporate leadership, in-house legal teams, and external counsel advising on capital markets strategy.

Pursue early, voluntary alignment with ISSB standards

Companies should not wait for mandatory local adoption of IFRS S1 and S2. Voluntary early adoption, even on a partial or phased basis, sends a powerful signal to international investors and positions companies ahead of competitors.

Invest in ESG Data Infrastructure and Governance

Credible ESG reporting requires robust internal data collection, management, and assurance processes. Companies should invest in emissions measurement and monitoring systems, establish clear internal governance structures for sustainability data (including board-level oversight), and develop the human capital necessary to manage ESG reporting on an ongoing basis. Where internal capacity is limited, partnerships with specialist advisory firms, DFIs, or multilateral institutions can help bridge the gap.

Embed ESG in Corporate Governance at Board Level

ESG should not be treated as a communications or marketing function. Companies should establish board-level sustainability committees, integrate ESG risk assessments into enterprise risk management frameworks, and ensure that sustainability performance is linked to executive compensation and strategic planning. This governance infrastructure is what investors look for as evidence that ESG commitments are genuine and durable.

Leverage Blended Finance and DFI Partnerships Strategically

Development finance institutions and multilateral development banks can play a critical de-risking role, providing concessional capital, credit enhancements, and technical assistance that make African energy projects more attractive to private investors. Companies should proactively engage with these institutions and structure transactions that leverage blended finance to reduce the overall cost of capital. The IEA's projection that USD 28 billion of concessional capital will be necessary to mobilize USD 90 billion in private clean energy investment by 2030 underscores the scale of opportunity.

Advocate for Harmonized Pan-African ESG Standards

Individual company efforts will be more effective if supported by a coherent regional regulatory framework. African energy companies, industry associations, and legal advisors should actively engage with regional standard-setting processes, through the African Union and national regulators to advocate for harmonized standards that balance global comparability with African context and capacity. A common African voice in international standard-setting forums, including the ISSB's jurisdictional adoption process, is essential.

Conclusion: ESG Reporting as Competitive Infrastructure

While stronger ESG reporting will not eliminate the structural challenges facing energy investment in Africa, it can address a critical factor within a company's control: information transparency. As sustainability considerations become increasingly embedded in investment decisions, companies with credible, consistent, and decision-useful disclosures are better positioned to reduce perceived risk and compete for international financing. For directors of these companies, ESG reporting should therefore be treated not as a compliance exercise but as a strategic business capability, governed with the same rigour as financial reporting and viewed as an essential component of long-term competitiveness and access to capital.

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For further information or legal advice on exploring opportunities to access international capital for African energy companies, please contact us at info@parsons-legal.com.

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