The EDISON Alliance

WORLD ECONOMIC FORUM

Guidebook to Digital Inclusion Bond Financing

WHITE PAPER

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Images: Getty Images

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1 Introduction: setting the scene for digital inclusion

1.1 About The EDISON Alliance

The EDISON Alliance (the "Alliance") is an open ecosystem of change-makers, mobilizing joint efforts and aligning priorities to enhance the case for digital investment. The World Economic Forum launched the Alliance to mobilize a global movement prioritizing digital inclusion as foundational to the achievement of the United Nations (UN) Sustainable Development Goals (SDGs), and to create a cross-sector platform to accelerate collaborative action.

The Alliance's goal is to improve one billion lives globally by 2025, through affordable and accessible digital solutions across areas including health, finance, and education. To this end, the Alliance aims to facilitate and accelerate public commitments related to digital inclusion from companies, governments, and multilateral organizations and demonstrate that connectivity is not only a global necessity but an achievable goal. The Alliance also strives to unleash substantial financing to fund digital inclusion projects, and equip policy-makers with tools, datasets, and evidence-based recommendations to improve digital inclusion.

The Alliance's intended impacts include:

- Accelerating the delivery of digital services for unserved and under-served populations
- Supporting organizations in the achievement of their digital inclusion goals
- Inspiring more commitments to digital inclusion
- Demonstrating that universal digital inclusion is an achievable goal
- Developing relationships and sustainable, scalable models for further impact

As part of its mission to facilitate digital inclusion, the Alliance has created this Guidebook to assist organizations around the world in engaging in sustainable and social financing to advance digital inclusion.

1.2 What does digital inclusion mean and why does it matter?

> Digital inclusion is a movement to ensure that everyone can participate fully in the digital world.

Today, more than ever, everyone's lives are connected by the internet. Digital connectivity is oxygen for opportunity. Work, school, healthcare, financial services, as well as relationships with family and friends are dependent on having access to a high-speed internet connection. However, in 2021, at least 2 billion people have no access to essential healthcare, 1.7 billion adults remain unbanked, and over 260 million children have no access to education. To solve these issues, significant digital inclusion commitments are being undertaken by companies, governments, and international organizations.

Digital inclusion is a movement to ensure that everyone can participate fully in the digital world, and one of the Alliance's main goals is to ensure that every person can affordably participate in the digital economy. To ensure this, we must overcome existing barriers, including:

- Access to connectivity
- Affordability of services and devices
- Skills to take advantage of digital tools

1.3 How can sustainable and social financing advance digital inclusion and the achievement of the SDGs?

There is an increasing trend towards, and interest in, social finance innovations. Moody's has projected that green, social, and sustainability bond issuances will total $650 billion in 2021, a 32% increase compared to 2020, which saw $491 billion issued.[1] Global assets managed according to sustainable investment strategies doubled from $13.3 trillion in 2012 to $30.7 trillion in 2018.[2]

This shift towards sustainable and social finance innovation creates an opportunity to unleash investment and advance digital inclusion by:

- **Funding specific projects**. Proceeds from financings can be used to fund specific projects to promote digital inclusion, such as building infrastructure to expand broadband access, providing digital literacy programmes, and developing applications and relevant content. Issuers and borrowers can develop digital inclusion-related projects that align with their particular strengths and goals.
- **Encouraging goal setting and accountability**. Financings linked to digital inclusion targets encourage issuers and borrowers to set and execute goals that support their strategy, vision, and values by holding them accountable to measurable milestones.
- **Broadening funding sources for issuers and borrowers**. Investors are increasingly searching for sustainable and social investment opportunities. Financing focused on digital inclusion can help issuers and borrowers to diversify their funding sources by attracting investors with a focus on sustainability.
- **Accelerating investment**. Issuers and borrowers seeking financing tied to meaningful digital inclusion projects or goals could unlock billions of dollars of investment by creating opportunities for investors looking to align their asset allocation with sustainability and digital inclusion objectives.
- **Supporting the achievement of the UN SDGs**.[3] In 2015, the UN General Assembly established the SDGs – 17 interlinked global goals designed to achieve a better, more sustainable future for all. The interlinked SDGs recognize that action in one area affects outcomes in others, requiring development projects to balance social, economic, and environmental sustainability. It has become clear that digital inclusion is a vital, overarching goal, necessary for the achievement of all of the SDGs.

FIGURE 1 **The United Nations Sustainable Development Goals**

Source: UN

1.4 Why do investors invest in digital inclusion projects?

> Digital inclusion is not only an altruistic goal but a smart investment.

The rise of environmental, social and governance (ESG) investing is one of the biggest investment trends in recent years. Institutional investors' decisions to support green and social projects are driven partly by greater demand for these kinds of investments from the general public, and partly by their successful performance. Retail investors' investments in green and social projects are more directly driven by increased interest and a level of care about their impact on the world.

- **Demand from investors.** As new generations enter the investment community, they are demanding an increased focus on sustainability and social responsibility. The UN reports that 84% of asset owners say they are pursuing, or actively considering pursuing, sustainable investments. There appears to be a growing interest among individuals, especially millennials, in how their savings impact the world.[4] Young investors who have grown up in a more digitally connected world are particularly interested in digital inclusion efforts and are driving demand for issuers and borrowers to pursue digital inclusion financing.

- **Successful performance.** Despite initial concerns that positive social impact would come at the cost of financial return, ESG funds have performed successfully, with the majority of European-based ESG funds outperforming the wider market over one, three, five and 10 years.[5]

- **Greater resiliency.** The COVID-19 pandemic has shown that ESG investing is key to crisis-resilient, long-term value creation. The pandemic rapidly accelerated the growth of interest in ESG investing, and major ESG funds outperformed classic indices like the S&P 500 during the initial weeks of the crisis. High social standards and good company governance emerged as key indicators of resilience against the pandemic's impact at both a country and company level.[6]

- **Potentially favourable regulatory environment.** Given the rise of ESG investments, governments around the world are considering and may pass, regulations favourable to ESG and digital inclusion projects. In 2018, for example, the European Commission adopted an action plan on sustainable financing, which set out a comprehensive strategy to further connect finance with sustainability.[7] In the United States, the Biden administration is expected to expand attention and regulation in the ESG space regarding environmental, social, and governance issues within American businesses.[8]

Investors that have supported ESG projects are likely to want to invest in digital inclusion projects for similar reasons. Digital inclusion is not only an altruistic goal but also a smart investment. Investors have recognized that digital infrastructure itself can serve as an economic driver and are turning to digital inclusion investing for that reason.

2 What is a digital inclusion financing arrangement?

An innovative financing arrangement that provides incentives and funding to support digital inclusion.

2.1 Options for digital inclusion financing arrangements and considerations

International interest in social finance innovations has led to the creation of various financial instruments which support the promotion of financial, social, and environmental goals. These include social impact bonds, impact investing, innovations funds, and sustainability-linked loans.[9]

"Digital inclusion financing arrangements" (as defined below) are a new, innovative subset of sustainable and social financing that provides issuers or borrowers with incentives and funding for activities that specifically support digital inclusion. Digital inclusion financing arrangements are designed to enable issuers and borrowers to use innovative debt financing to address digital inequality across the globe while meeting their own financial and business needs.

Corporations, NGOs, and governments may choose to pursue either digital inclusion bond financing or digital inclusion bank financing, or both (collectively, these are "digital inclusion financing arrangements"). For more information on the typical financing processes, see the appendices to this Guidebook.

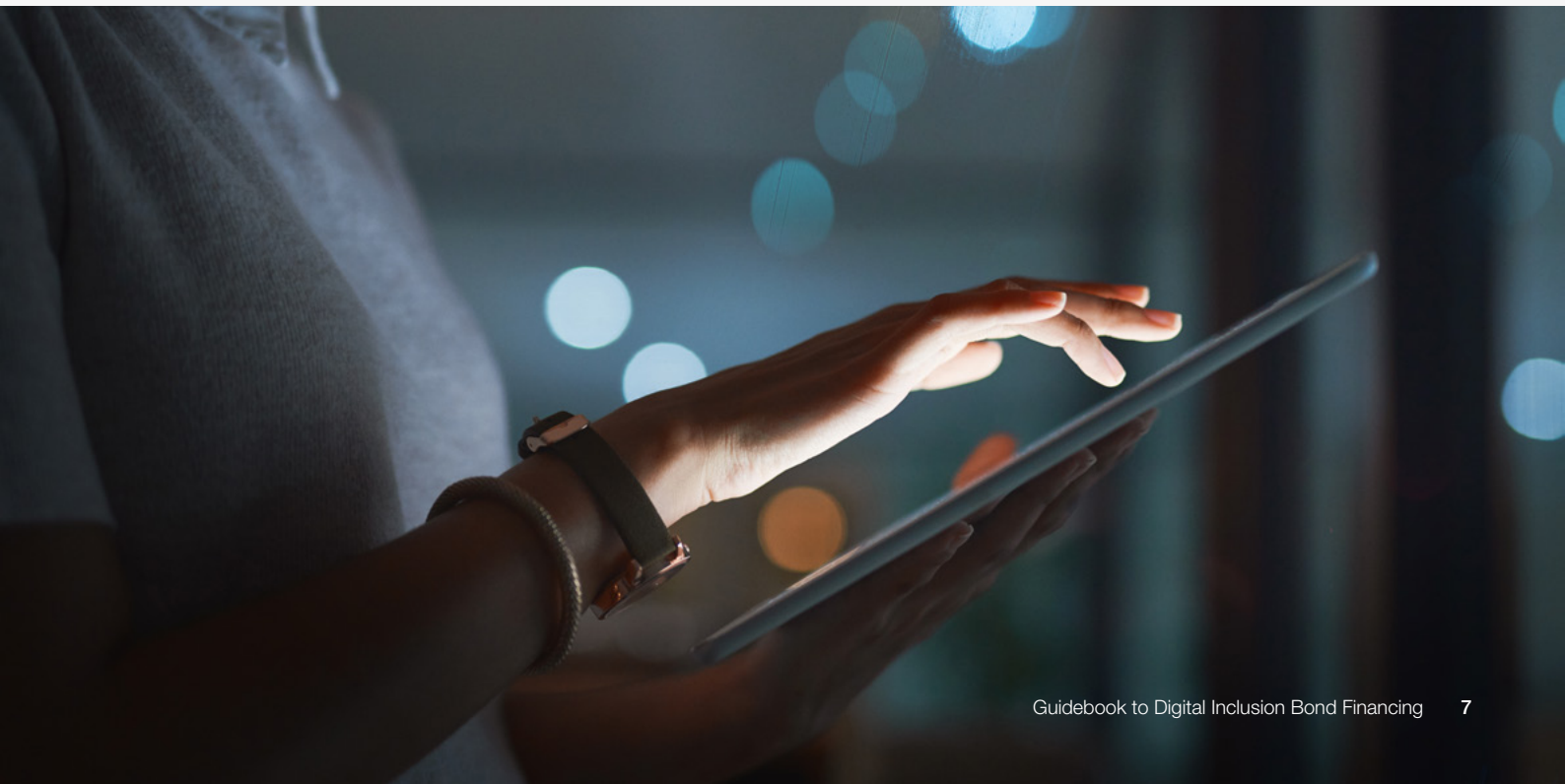
Through digital inclusion financing, an issuer raises funds while supporting digital inclusion efforts by designating the use of proceeds to specific digital inclusion projects, tying the coupon to the achievement of digital inclusion key performance indicators (KPIs), or structuring the financing to provide a rebate on the principal tied to the achievement of digital inclusion KPIs.

Entities seeking digital inclusion financing arrangements should develop digital inclusion projects (use of proceeds) and KPIs that support their strategy, vision, and values. Section 4 of this Guidebook provides examples of possible digital inclusion projects and KPIs focused on broadband access, healthcare, education, and financial inclusion. However, financing arrangements are flexible enough to accommodate a wide array of digital inclusion projects and measures across industries and use cases.

Potential issuers and borrowers should consider their own business needs, strengths, and limitations when determining whether to pursue either digital inclusion bond financing or digital inclusion bank financing. Several key considerations are outlined in Figure 2.

FIGURE 2 | **Digital inclusion financing arrangements**

Options for digital financing arrangements	Considerations[10,11,12]
Digital inclusion bond financing	– A bond issuance allows the issuer to raise capital by selling a debt instrument to investors on the open market. – Bond financings may facilitate project-specific or non-recourse debt structures. For example, social bonds can be organized as social revenue bonds, which are issued through a special purpose vehicle. This structure limits investor recourse to the issuer or parent entity. Instead, the credit exposure of the bond or collateral is covered by the revenue of the social project or cash flows associated with the social purpose of the bond, similar to a securitization. – Bond financings may be cheaper than bank loans, as bond yields are often lower than bank interest rates. – Bond financings are often issued on longer tenures (e.g. 10 to 20 years). – The issuer bears a risk as to whether there is a market for and interest from investors in their offering. – Bond financings may be more difficult for smaller entities to undertake, as they may not be able to easily access capital markets or meet the numerous listing requirements for exchanges when listing of the bonds is important for their marketing.[13,14]
Digital inclusion bank financing	– Bank financing allows the borrower to raise capital through a loan agreement with a banking entity or lender. Bank financing borrowers may be subject to additional restrictions and enhanced oversight, including covenants in the loan agreement (e.g. restrictions on incurring additional debt or pursuing acquisitions until the loan is paid). Bank financings may also have a shorter tenor. – Bank financings may be easier for smaller entities to undertake or be a better fit for smaller financings. Bank financings may also provide more flexibility with reporting and verification, and are generally easier to amend.



2.2 Applicable market frameworks

Digital inclusion financing arrangements should conform to applicable market frameworks for sustainable and social financing. When applying each of these frameworks, a potential issuer or borrower will address how they intend to invest in digital inclusion, how such investments support their overall sustainability strategy, and how they will measure their progress related to digital inclusion – whether by tracking their use of proceeds or tracking their performance against KPIs. Generally, there is an expectation that the issuer will provide impact reporting. Commonly used market frameworks that might be applicable to digital inclusion financings are:

Bond financings – Social Bond Principles and Sustainability-Linked Bond Principles published by the International Capital Market Association, which are available at:

- https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

Bank financings – Social Loan Principles and Sustainability-Linked Loan Principles published by the Asia Pacific Loan Market Association, Loan Market Association and Loan Syndications and Trading Association, which are available at:

- https://www.lma.eu.com/application/files/1816/1829/9975/Social_Loan_Principles.pdf
- https://www.lma.eu.com/application/files/8416/2210/4806/Sustainability_Linked_Loan_Principles.pdf

2.3 The importance of doing it right

With increased interest in the markets and media, there may be increased regulatory attention around social finance innovations. As investor experience increases, expectations for market practices around social financings will continue to solidify. Therefore, issuers and borrowers of digital inclusion financing arrangements should pursue the development of these financing options thoughtfully and responsibly.

Entities that plan to pursue a digital inclusion financing arrangement should consider their current business structure, goals, and abilities to develop and oversee digital inclusion projects (use of proceeds) or KPIs. Entities that do not plan and execute digital inclusion financing arrangements properly may risk damaging their public reputation and having their actions labelled as "social washing".

Careful planning and execution are essential to avoid the reputational damage of 'social washing'

As investors and lenders rely on issuers and borrowers to follow the nonbinding market frameworks, there may be concerns related to issuer and borrower transparency and disclosure. Additionally, measures concerning social projects or KPIs can be harder to define than those in the environmental sustainability space. If the issuer or borrower of a digital inclusion financing arrangement fails to provide consistent measurements, reports and updates on their digital inclusion projects or KPIs, they could lose public trust. Issuers and borrowers should be careful not to provide misleading guidance as investors may, in the long term, inquire on process, oversight, and the engagement of those in leadership positions, including boards of directors.[15] Issuers and borrowers should also note that investors might prefer use-of-proceeds bonds instead of KPI-based bonds because the former are sometimes seen as more credible and robust in the sustainable investing space.[16]

Similarly, issuers and borrowers for digital inclusion financing arrangements should be careful to avoid "SDG-washing", or over-claiming digital inclusion projects' (use of proceeds) or KPIs' contributions to the SDGs by only focusing on positive impacts.[17] Issuers and borrowers can avoid this practice by quantifying both positive and negative impacts, implementing third-party verification and certifications, and implementing SDG analysis in internal decision-making. Organizations such as the United Nations Development Programme (UNDP) have developed standards[18] that can help issuers integrate impact management into their decision-making to optimize their contribution to sustainable development and the SDGs.

3 Key first step: adopt a digital inclusion financing framework

Describing a commitment to digital inclusion and goals, strategies and responsibilities to further it.

A digital inclusion financing framework ("Framework") is a document in which entities pursuing digital inclusion financing arrangements articulate their commitment to promoting digital inclusion and set out their goals, strategies, and responsibilities related to financing arrangements. The Framework can be stand-alone or included within an overarching sustainability financing framework. Generally, a Framework will include:

A. A description of the issuer/borrower's approach to digital inclusion

B. A description of the use of proceeds or KPIs to be used

C. An explanation of how the issuer/borrower plans to evaluate and select digital inclusion projects

D. An explanation of how the issuer/borrower will manage the proceeds

E. A summary of the issuer/borrower's reporting obligations

F. A description of the process for external review

Issuers and borrowers pursuing digital inclusion financing should consider making their Framework publicly available. Publishing an organization-specific Framework provides an organization with a platform to:

- Identify where they have valuable expertise, capabilities, relationships, and community connectivity that will allow them to have an impact on digital inclusion
- Commit to pursuing use of proceeds and/or KPIs that support their digital inclusion strategy, vision, and values
- Discuss how their digital inclusion strategy aligns with their vision, values, and the SDGs
- Describe their process for project evaluation and selection of KPIs
- Outline their ongoing plan for overseeing the management of proceeds and project and/or KPI targets
- Explain intended reporting (including indicative impact metrics) and outline the process for internal and external evaluation of the project and/or KPIs
- Commit to obtaining a third-party opinion confirming the alignment of their work with applicable market frameworks and SDGs

The rest of section 3 briefly describes the different topics that would generally be covered in a Framework. Each Framework should be tailored to match the issuer/borrower's capabilities and goals. For further considerations applicable to different types of issuers and industries, see section 4 of this Guidebook.

A An issuer/borrower's approach to digital inclusion

In this section of the Framework, issuers and borrowers can share their unique perspectives on digital inclusion and their strategy to address it.

For corporate issuers/borrowers, this section generally includes a description of their business, their priorities, their business strategies, and their long-term goals related to digital inclusion. They can also identify the communities that they wish to benefit or empower through digital inclusion initiatives. Businesses might also use this section to describe the connection between their business strategy and the SDGs or other initiatives and commitments they have.

For sovereign, quasi-governmental, non-governmental, and public issuers/borrowers, this section generally includes a description of their mission, their structure, their responsibilities, and their long-term goals. They can also describe how the new initiatives relate to previous initiatives and their duties or mission. Importantly, sovereigns can outline how their digital inclusion initiatives relate to the SDGs, or other international and national responsibilities they have.

B Use of proceeds and/or KPIs

In this section of the Framework, issuers and borrowers outline their intended use of proceeds or KPIs. Issuers/borrowers can outline multiple financing structures, use of proceeds and KPIs within the same document, to be used in a variety of future financings.

Issuers/borrowers should take the following considerations into account when choosing and outlining their use of proceeds and/or KPIs:

- Use of proceeds/KPIs should be consistent with the goals and capabilities of the issuer/borrower.
- Use of proceeds/KPIs should be ambitious and impactful.
- Use of proceeds/KPIs should be specific, measurable, achievable, relevant, and time-bound. They should be quantifiable and trackable, with sufficient specificity to permit verification and reporting. KPIs that can be measured using established industry methodologies are preferable to ensure objectivity and benchmarking.

  If applicable, the targeted beneficiaries of any projects/KPIs should be identified.
- Sovereign issuers should make sure that the projects are within their governmental responsibilities and powers.
- Corporate issuers should make sure that projects/KPIs align with their business strategy – projects that are perceived to be "charity for charity's sake" may not be deemed eligible for digital inclusion financing arrangements by lenders or second party opinion providers.
- The process of selecting use of proceeds and KPIs should involve all levels of an entity's management or government. For corporate issuers/borrowers, this may include the board of directors and upper management; for sovereign issuers/borrowers, this may include top officials and all entities responsible for the implementation of the projects.

For examples of digital inclusion financing use of proceeds and KPIs, see section 4 of this Guidebook.

C Evaluating and selecting digital inclusion projects

In this section of the Framework, issuers and borrowers outline their internal processes for the identification, evaluation, and selection of digital inclusion projects. As part of this section, issuers/borrowers should highlight:

- The supervisory entity (if any) that has overall responsibility for the procedures outlined in the Framework. Sovereign and public entities should consider appointing a supervisory entity that can coordinate effectively with various governmental agencies and ministries. Corporate issuers/borrowers should consider appointing a supervisory committee that can coordinate effectively across departments.
- The specialist teams responsible for identifying and proposing eligible digital inclusion projects, screening proposals, evaluating whether they constitute eligible digital inclusion investments under the Framework, allocating funding to eligible projects, and maintaining a portfolio of active projects. Sovereigns and public entities may consider including relevant international organizations (such as the UNDP) in an observer capacity on such teams.
- Whether and how often digital inclusion projects will be reevaluated to ensure they remain eligible under the Framework
- The internal processes for final review and approval

D Management of proceeds

Setting expectations for how money will be used.

In this section of the Framework, issuers and borrowers outline their internal processes for how allocations of amounts equal to the net proceeds will be tracked for use-of-proceeds financings. Issuers/borrowers should take the following considerations into account when choosing and outlining their management of proceeds:

- The total sum of expenditures on eligible digital inclusion projects should be greater than or equal to the net proceeds under the bond or bank financing. If the total sum of expenditures on eligible projects is less than the net proceeds under the outstanding financings, the Framework should identify how the balance will be held until allocated to eligible projects. Corporate issuers/borrowers may choose to hold this balance in cash, cash equivalents or government securities. Sovereigns or public entities may choose to hold this balance in cash or cash equivalents or identify alternative qualifying expenditures.
- The Framework should outline the protocol to be followed for divestment and reallocation if a previously eligible digital inclusion project is found to no longer meet the eligibility criteria or is no longer able to be pursued.
- Payment of principal and interest on digital inclusion financings should be made from the issuer/borrower's general funds and should not be linked to the performance of any eligible project unless the financing is specifically tied to that project.

E Reporting obligations

In this section of the Framework, issuers and borrowers describe in detail their reporting obligations under the digital inclusion financing arrangement. Issuers/borrowers should consider the following when outlining their reporting obligations:

- Include how frequently reporting will occur (e.g. on an annual or bi-annual basis, and on a timely basis in the case of material developments).
- Mention where the disclosure will be made available (e.g. on the issuer/borrower's website).
- Include all relevant metrics to assess disclosure (e.g. compliance with use of proceeds and/or KPIs), and not cherry-pick metrics based on performance
- Identify the operations or projects being covered by the disclosure.
- Consider the adequacy of internal management systems and internal controls, ensuring that there are internal capabilities for timely reporting and disclosure.

Generally, issuers/borrowers include two types of reporting: allocation reporting and impact reporting. Allocation reporting focuses on the allocation of funds among different projects, whereas impact reporting focuses on the estimated impact of the digital inclusion projects on the target areas or communities.

F External review

In this section of the Framework, issuers and borrowers discuss the external reviews (if any) that are expected to be obtained. While an external review is optional, and issuers/borrowers are permitted to self-report and evaluate, they should consider gaining an independent external review to increase transparency, build trustworthiness in the Framework, and benefit from consistency with similarly situated companies. Moreover, lenders, underwriters, investors and ratings agencies may require an external review as a condition to any digital inclusion financing being contemplated.

In addition to other forms of external review, issuers/borrowers should consider incorporating the following into their Framework:

- Prior to the first issuance or borrowing, the issuer/borrower should seek a review of the Framework and its alignment with the applicable market frameworks and UN SDGs by a recognized, independent second-party opinion provider. Sovereigns and public entities may also ask a relevant international organization (such as the UNDP) to review the Framework for alignment with the UN SDGs.
- The issuer/borrower should regularly seek external reviews and verification of their eligible digital inclusion projects, internal tracking method and allocation of funds, and their reporting on any applicable KPIs from a recognized independent auditor with the necessary expertise.

4 Examples of digital inclusion projects and KPIs

Financings can support virtually any type of digital inclusion project or goal.

There are a myriad of potential projects and KPIs for digital inclusion financing arrangements. As previously discussed, issuers and borrowers should consider their particular digital inclusion strengths and strategies when choosing projects and/or KPIs to include in their Framework. Use of proceeds and KPIs should be ambitious and impactful. In addition, issuers/borrowers should keep in mind that the projects and/or KPIs should be specific, measurable, achievable, relevant and time-bound. They must also be quantifiable and trackable, with sufficient specificity to permit verification and reporting. KPIs that can be measured using established industry methodologies are preferable to ensure objectivity and benchmarking.

A non-exhaustive discussion of potential digital inclusion projects and KPIs related to broadband access, as well as to the Alliance's focus areas of health and healthcare, education, and financial inclusion, has been provided below.

A Broadband access

Digital inclusion financing arrangements can fund the development of broadband access around the world. Generally, broadband is the transmission of wide bandwidth data over a high-speed internet connection. Broadband provides high-speed internet access via multiple technologies including fibre optics, wireless, cable, DSL and satellite.[19]

According to the World Bank, broadband access is not a luxury, but a basic necessity for economic and human development in both developed and developing countries. It is recognized as a powerful tool for delivering essential services such as education and healthcare, increasing opportunities for women's empowerment, promoting environmental sustainability, and contributing to enhanced government transparency and accountability. Today, two main challenges the world faces are expanding broadband access to populations in developing countries and expanding broadband access to populations in rural areas.[20]

Various entities may consider digital inclusion projects and KPIs related to broadband access, but these metrics may be especially salient for issuers/borrowers in the telecommunications industry. KPIs for broadband access many take into account geographical targets (i.e. the number of individuals with access, or the size of a geographical area with accessible broadband services) and qualitative targets (i.e. the speed or affordability of broadband services). Similarly, digital inclusion projects can address various stages of development and access, such as building infrastructure that directly provides broadband access to rural communities or funding research that creates more equitable and accessible broadband infrastructure.

Examples of KPIs

- Within five years, make broadband services available to a specified number of individuals or a specified percentage of the population in a designated developing country or a designated rural area.
- Within five years, improve the speed of broadband services available to individuals in a designated developing country or a designated rural area.

Examples of projects (use of proceeds)

- Build or upgrade a specified number of telecommunications towers in a designated developing country or designated rural area.
- Develop a new telecommunications network specifically designed to reach previously under-served communities, such as rural communities.

According to the World Bank, broadband access is not a luxury, but a basic necessity for economic and human development in both developed and developing countries.

BOX 1

Case study: Millicom International's Sustainability Bond Framework[21]

On 15 May 2019, Millicom International Cellular completed an offering of a SEK (Swedish kronor) 2 billion (approximately $210 million) floating-rate senior unsecured sustainability bond due 2024.[22] The bond was issued pursuant to Millicom International's Sustainability Bond Framework, which aims to use proceeds – at least partially – for the expansion of fixed and mobile networks.

Their description of eligible projects related to broadband includes:

- Investments to provide access to, and expand coverage of, mobile voice and data services
- Acquisitions of spectrum in different bands to support services

Target populations

- An unconnected population, including those that do not have mobile or fixed network coverage or have network coverage with limited or unaffordable services, and those who only have access to networks using inferior technology at very slow speeds.

BOX 2

Case study: African Development Bank's Social Bond Framework[23]

On 28 October 2019, the African Development Bank priced its aggregate NOK 500 million (Norwegian kroner) fixed-rate notes due 2022[24] with proceeds allocated to projects with strong social development outcomes, in accordance with the bank's Social Bond Framework. Among the eligible projects are those designed to "Light up and power Africa" and "Integrate Africa" through technology.

Their description of eligible projects related to broadband includes:

- Projects that fund last-mile connectivity for rural communities

Potential KPIs include:

- The number of rural dwellers with increased access to information and communications technology

B Health and healthcare

Digital inclusion financing arrangements can also fund projects aimed at improving access to healthcare in different parts of the world, particularly through telemedicine and telehealth services. According to the World Health Organization, information and communication technologies have great potential to address some of the challenges faced by developed and developing countries in providing accessible, cost-effective, high-quality healthcare services. Telemedicine is particularly beneficial for rural and under-served communities in developing countries – groups that traditionally suffer from a lack of access to healthcare.[25] It played a central role throughout the COVID-19 pandemic, when in-person medical care was not always feasible, showing how crucial access to digital health services is.

Various entities may consider digital inclusion projects and KPIs around telehealth and telemedicine, but these metrics may be especially salient for issuers/borrowers in the healthcare industry, as well as sovereign issuers. KPIs for telemedicine may consider metrics related to medical facilities, patients, or the length/quantity of medical appointments. Digital inclusion projects may address various stages of development and access, from building digital infrastructures for hospitals to helping patients access telehealth services remotely.

Examples of KPIs

- Within three years, provide direct telehealth services access to a specified number of individuals in under-served communities.
- Within three years, provide digital tools to a specified number of medical care facilities that serve individuals in under-served communities.

Examples of projects (use of proceeds)

- Provide digital tools for delivering telehealth services to under-served populations, such as rural communities or individuals in long-term care facilities.
- Train personnel at hospitals and nursing homes to provide telehealth services.

BOX 3 Case study: Philips' Green and Sustainability Innovation Bond Framework[26]

On 24 April 2019, Koninklijke Philips, a global leader in health technology, published their Green and Sustainability Innovation Bond Framework.

On 15 May 2019, the corporation issued €750 million Green Innovation Bonds due 2026, with net proceeds allocated to a portfolio of eligible green investments, including expenditures regarding green innovation in research and development.

Their description of eligible projects/use of proceeds related to improving healthcare access to under-served communities includes:

- Philips "Lumify with Reacts" connected platform (tele-ultrasound)
- Philips "Children's Respiration Monitor" (for diagnosing pneumonia in children under the age of five)
- A wind-up fetal heart rate monitor
- Philips "Community Life Centers" (centres that provide primary care and serve as community hubs where technology is bundled with additional service offerings)

These project descriptions can be adapted for incorporate digital healthcare resources and telemedicine.

C Education

> During the COVID-19 pandemic, inequalities in access to digital educational tools were immediately identified as a threat to development. UNESCO found that 50% of all students unable to attend in-person classes—nearly 830 million learners globally—did not have access to a computer and that 40% did not have internet access at home.

Digital inclusion financing arrangements can also fund projects that improve access to education and educational resources through technology. During the COVID-19 pandemic, inequalities in access to digital educational tools were immediately identified as a threat to development. UNESCO found that 50% of all students unable to attend in-person classes – nearly 830 million learners globally – did not have access to a computer and 40% did not have internet access at home.[27]

"Before COVID-19, access to quality education was already profoundly unequal. Financing gaps were immense. And learning was not equipping young people with the skills needed to excel in today's world." The pandemic exacerbated each of these conditions.[28]

Various entities may consider digital inclusion projects and KPIs concerning education, but these metrics may be especially salient for issuers/borrowers in the education and technology industries, as well as sovereign issuers. Educational KPIs may consider metrics related to schools and other education facilities, teachers and education professionals, or students and caretakers. Digital inclusion projects may address various aspects and stages of educational development, from directly helping students to access remote learning to training teachers and other professionals to become more effective at teaching remotely.

Related to education, issuers may also consider digital inclusion projects/KPIs that support digital literacy and skills training, and advance employment opportunities and business development within local communities. According to UNESCO, digital literacy is, "the ability to access, manage, understand, integrate, communicate, evaluate, and create information safely and appropriately through digital devices and networked technologies, for participation in economic and social life. It includes competencies that are variously referred to as computer literacy, ICT literacy, information literacy, and media literacy".[29] According to the World Bank, access to digital tools can help to create jobs in information and communication technology, engineering, and other sectors, as well as catalyse job skills development, an important avenue towards poverty reduction and shared prosperity.[30]

KPIs for digital literacy, post-secondary education, reskilling and training may include metrics related to the number of individuals trained, the number of individuals with a specific degree, the number of individuals newly employed at a job that requires digital skills, or the number of businesses supported by digital tools, among others. Digital inclusion projects may fund the development of digital tools for small businesses, empower minority and marginalized sections of the population, and reduce unemployment through training.

Examples of KPIs

- Within three years, provide digital learning tools to a specified number of students or teachers in under-resourced primary and secondary schools.
- Within three years, provide training programmes relevant for digital employment opportunities to a specified number of individuals in under-served communities.

Examples of projects (use of proceeds)

- Provide technological devices that facilitate learning, such as tablets, laptops or computers, to under-resourced schools or under-served students.
- Train teachers, professors and administrative staff at schools and universities to provide digital teaching and improve remote learning.

BOX 4 Case study: Mexico's SDG Sovereign Bond Framework[31]

On 14 September 2020, Mexico completed an offering of aggregate €750 million global notes due 2027,[32] with proceeds to fund projects aligned with the SDGs, pursuant to their SDG Sovereign Bond Framework. This Framework contemplates using bond proceeds to invest in projects that improve education infrastructure and ensure inclusive and quality education, in addition to other projects that align with the SDGs.

The Framework's description of eligible projects related to education includes:

- Construction and improvement of public schools, campuses, and student housing
- Purchase of hardware equipment for public education purposes
- Training for education professionals

Potential KPIs related to education include:

- Proportion of schools with access to electricity, internet, and computers; adapted infrastructure and materials for students with disabilities; basic drinking water; single-sex basic sanitation facilities and basic handwashing facilities
- Increase in the participation rate of youths and adults in formal and non-formal education and training in the last 12 months; social diversity improvement in class (share of bottom income distribution in class or share of students whose parents have no higher education diplomas); an increase in the number of young people from low-income backgrounds progressing to higher education

BOX 5 | **Case study: Pearson Funding's Social Bond Framework**[33]

On 1 June 2020, Pearson announced that it had successfully priced its inaugural £350 million, 10-year, education-linked social bond, with the net proceeds to be used exclusively for sustainability-focused initiatives which support the provision of online learning services, and further education and vocational qualifications. The primary recipients are under-served learners and communities, including those from low-income backgrounds, those with disabilities, and the unemployed.

The Framework's description of eligible projects related to education includes:

- Teaching, technology, student materials and curriculum development for the provision of free online education services
- Development of vocational certification services for learners in developing countries
- Curriculum and product development for education services in the areas of maths, education, and technology

D Financial inclusion

Digital inclusion financing arrangements can also fund projects that improve access to, and participation in, the digital economy. Financial access enables individuals and businesses to enhance their financial security and pursue economic opportunities. Through tools and education, financially-included individuals and businesses can make the critical progression from access to usage to security, contributing to a better quality of life.

Yet close to one-third of adults – 1.7 billion people – are still unbanked, without an account at a financial institution or through a mobile money provider. In 2014, that number was 2 billion; although significant progress has been made, the opportunity remains significant.

Various entities may consider digital inclusion projects and KPIs related to financial, but these metrics may be especially salient for issuers/borrowers in the financial technology industry. Digital inclusion projects can address various stages of access and participation, such as building the digital infrastructure that provides financial access to the digital economy or funding educational programmes that promote financial empowerment and equity among under-served communities.

Related to financial inclusion, issuers/borrowers may also consider digital inclusion projects/KPIs for digital literacy and skills training that advances financial security. Digital literacy (the competence in and knowledge of how to access and use digital products and services such as tablets, mobile phones, web browsers, SMS, and the internet), when combined with financial literacy (the competence and knowledge to carry out financial behaviours and services that support beneficial practices such as saving, borrowing, and repaying), creates digital financial literacy. Establishing KPIs that measure levels of literacy and understanding of financial inclusion products can lead to an increased usage of such products, long-term success, positive social impact, and beneficial changes in consumer behaviour.

Examples of KPIs

- Within five years, bring a specified number of individuals, previously unbanked or underbanked, into the digital economy.
- Within five years, support and empower a specified number of small businesses with access to e-commerce capabilities, online products, and digital educational resources.

Examples of projects (use of proceeds)

- Develop digital tools to enable access to financial services.
- Build and launch financial digital literacy education programmes.

BOX 6

Case study: Mastercard's Sustainability Financing Framework[34]

On 3 March 2021, Mastercard announced it had successfully priced a $600 million sustainability bond at a fixed rate of 1.9%. The net proceeds of this 10-year bond will support the significant progress already made towards maximizing carbon reduction, fostering inclusive growth, and driving commercially sustainable social impacts. The target populations for the eligible social projects include excluded and/or marginalized populations (including the unbanked), under-served populations (including the underbanked), unemployed populations, populations living below the poverty line, and other populations.

The Framework's description of eligible projects related to financial inclusion includes:

- Programmes using digital infrastructure and/or tools to enable access to financial services and non-financial services such as healthcare and education
- Research and development and associated operating expenses for financial inclusion via the Mastercard Lab for Financial Inclusion, the Mastercard Center for Inclusive Growth, and Mastercard and financial and digital literacy education programmes

Potential KPIs related to financial inclusion include:

- The number of businesses and/or individuals reached through discrete commercially sustainable social impact programmes

BOX 7

Case study: Bank of America Equality Progress Sustainability Bond[35]

On 25 September 2020, Bank of America announced the issuance of a $2 billion aggregate principal amount of Equality Progress Sustainability Bonds due 2025.

Bank of America's metrics (below) can be adapted to specifically reference projects using technology to provide better access to digital financial inclusion.

The Framework's description of eligible projects related to financial inclusion includes:

- Investments in Black and Hispanic Minority Depository Institutions, Black- and Hispanic-certified minority businesses, and venture capital funds and private equity funds that have a focus on investing in Black- and Hispanic-owned and operated businesses
- Supply chain finance (SCF) facilities offered directly to businesses identified by SCF buyers as minority-owned business enterprises
- Mortgage lending and other financings for the purchase, construction, maintenance, repair, and rehabilitation of single and multi-family housing in the United States. This is provided to borrowers self-identifying as Black or Hispanic, or to those living in housing located in U.S. census tracts where the proportion of Black and Hispanic populations (individual or combined) is greater than any other single racial demographic group.

5 Other considerations

The process that an issuer or borrower will go through to complete digital inclusion financing will vary depending on the type of financing and the jurisdiction under which the financing occurs. These decisions will determine the regulatory environments and market frameworks that affect the financing. Appendices A and B describe the typical financing processes for bond and bank financings.

Issuers and borrowers seeking digital inclusion financing arrangements will need to work with advisers who have social and sustainable financing expertise and can help the issuer/borrower navigate the processes described in the appendices.

Conclusion

Ensuring digital inclusion is one of the great challenges of our lifetimes. It is a vital step towards enabling the world to meet the SDGs and secure a better future for all. The COVID-19 pandemic has demonstrated the global importance of access to digital connectivity, services, and capabilities, while starkly highlighting the inequalities in digital inclusion, both between and within countries. As the speed of digitization increases, so too does the urgency to bridge the digital divide to prevent unconnected or under-connected individuals and communities from falling further behind.

In recent years, investors and other sources of capital have enthusiastically supported projects, companies and governments that have sought financing for a wide variety of sustainable activities and purposes. These financings have enhanced environmental sustainability, provided financing to meaningful social programmes and encouraged borrowers to achieve significant sustainable goals.

This Guidebook discusses how the sustainable financings frameworks that have been successfully used (to date) for other purposes can provide a valuable source of financing to meet the global challenge of digital inclusion. While this document reviews just a small number of representative financings – from those that can support significant infrastructure builds, to those meant to achieve important education, healthcare, social or financial goals – the structures discussed are flexible enough to be used by companies, governments, agencies, and non-profits to provide the capital for virtually any digital inclusion project or purpose that might be proposed.

The extent to which the world can achieve digital inclusion will be among the defining characteristics of the next decade, and it will help determine the course of human experience over the years that follow. We hope that this Guidebook helps to provide some of the tools to meet the challenge.

Appendices

Appendix A: Typical digital inclusion bond offering process

A bond is a debt security in which the issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay interest and/or to repay the principal at a later date. Bonds can be issued in a variety of jurisdictions and by a variety of entities, such as public authorities, credit institutions, companies, and supranational institutions. Bonds are generally issued in primary markets and can later be traded in secondary markets. A digital inclusion bond differs from a traditional bond in that when an issuer offers one, they commit to either use the proceeds from the bond to fund projects that promote digital inclusion (the "use of proceeds" method) or to meet certain targets related to digital inclusion while repaying it (the "KPI" method).

Issuers considering pursuing digital inclusion financing through the issuance of bonds should take the following considerations into account. Please note that these points offer a general roadmap that illustrates what a typical digital inclusion bond offering process would encompass and are not meant to provide a comprehensive, step-by-step guide to issuing a digital inclusion bond.

Considering the regulatory framework

Bond issuance processes will vary depending on where the securities are being offered, the status of the issuer and, in certain jurisdictions, whether the offering is registered. Issuers of digital inclusion bonds should seek information and consider the laws and regulations applicable to their particular situation in the early stages of planning a digital inclusion bond issuance.

In the United States, offerings of debt securities such as bonds must be either registered with the US Securities and Exchange Commission (SEC) or qualify for an applicable exemption from registration. Each exemption from registration has its own requirements concerning, among others, the number and type of eligible investors, offering size, issuer eligibility, advertising, and communication restrictions. If a bond offering is registered with the SEC, the issuer is required to file certain documents with the SEC. For those issuers who do not have a shelf registration statement on file, a registration statement – including a prospectus – must be filed with and reviewed by the SEC. In addition, if the bonds are being listed on an exchange (such as the New York Stock Exchange (NYSE) or the Nasdaq Stock Market (NASDAQ)), the offering must meet the applicable requirements of the relevant exchange.[36]

In the United Kingdom, an issuer will be required to publish a prospectus for offerings of securities (including debt securities) that will be listed on a regulated market (such as the Main Market of the London Stock Exchange (LSE)), unless there is an applicable exemption. For example, exemptions that apply to the public offer trigger may include:

- Where the offer is addressed solely to qualified investors in the UK (i.e. broadly, non-retail investors)
- Where the offer is addressed to fewer than 150 natural or legal persons in the UK, other than qualified investors, and the minimum denomination per unit is at least €100,000.

The Financial Conduct Authority, as the competent authority, can approve the prospectus of any UK company, or the prospectus of any company that wishes to list its securities on the Main Market or offer them to the UK public, provided the securities have a minimum denomination of at least €1,000

Similar requirements and exemptions exist with respect to offerings of securities in the European Economic Area (EEA). It should be noted that, following the expiry of the Brexit implementation period on 31 December 2020, several European Union (EU) regulations relating to securities offerings have been retained as domestic law in the UK and consequently, the two regimes continue to mirror each other in many respects. The European Securities and Markets Authority is the independent EU regulatory agency that oversees European securities trading. If the debt securities are being listed on an exchange in the UK or the EEA, the offering must also meet the applicable requirements of the relevant exchange.

Other jurisdictions typically have analogous, but different, regulatory regimes that must be complied with for offerings in those jurisdictions. Legal and financial advisers can guide issuers through the considerations and applicable regulatory requirements for the different types of offerings in each jurisdiction.

Selecting underwriters

Most commonly, bonds are issued through underwriting, a process by which one or more securities firms and/or banks form a syndicate, buy a portion – or all – of the bonds being issued, and resell the bonds to investors. The main responsibility of an underwriter is to market the bond issuance to the investing public. Through underwriting, and for a fee, financing institutions take the financial risk of buying the bonds and finding investors. For issuers, underwriting helps to set fair borrowing rates, establish appropriate premiums, and create a market for the bonds by accurately pricing investment risk.

When selecting underwriters, issuers of digital inclusion bonds should choose financial institutions with experience in (or have expressed interest in) the issue of digital inclusion, or the target area(s) chosen for the specific project (as explained in section 3, i.e. telecommunications, healthcare or education).

Onboarding external reviewers

Use of proceeds and KPIs must also be externally verifiable. External reviewers assess the relevance, robustness, and reliability of the selected use of proceeds and/or KPIs; the relevance and reliability of selected benchmarks and baselines; and the credibility of the strategy outlined to achieve them. Digital inclusion bond issuers should consider onboarding external reviewers early in the issuance process to provide consistent guidance and transparency throughout. The inclusion of external reviewers also signals to investors the quality of the issuer's business and their commitment to digital inclusion.

Issuers have a variety of external reviewers to choose from. For instance, institutions with digital inclusion, telecommunications, education, or healthcare expertise can provide a second-party opinion or consultant review. Issuers can also seek independent verification for individual bonds against a designated set of criteria related to digital inclusion. Alternatively, reliable third parties can evaluate the issuer according to a scoring or rating methodology linked to certain criteria, such as excellence in digital inclusion in a target area.

Drafting offering and legal documentation

Generally, after the underwriters are chosen, the issuer, the underwriters, and their respective legal counsel will put together the offering document. The type of offering document needed for a particular transaction will depend on several factors, such as the status of the issuer, the jurisdiction chosen, and the type of transaction being pursued. For instance, a registered entity in the US will need to draft a prospectus that contains verified information about the issuer, as well as the bond's interest rate, credit rating, calls provisions, and protections.

For digital inclusion bonds, the offering document should also include a use-of-proceeds section that outlines which digital inclusion projects the issuer is planning to invest in and/or a KPI section that outlines which KPIs the issuer is planning to meet. Issuers can also refer to their digital inclusion framework, which should contain information about the use of proceeds and/or KPIs in the offering document. When drafting the use-of-proceeds and/or KPI sections, issuers should strive to develop specific metrics. It is also recommended that issuers publicly communicate their rationale for the selection of their use of proceeds and/or KPIs, the potential changes of the bonds' financial and/or structural characteristics (and the trigger events leading to such changes), intended post-issuance reporting, and independent verification.

In addition to the offering document, issuers, underwriters and their respective legal counsel will need to draft other legal documentation such as the contracts that establish the conditions for the issuer and the banks participating in the deal. Other parties, such as external reviewers and auditors, are also likely to be involved in drafting necessary documentation.

Issuing and selling the bonds

After the documentation has been drafted, the issuer and underwriters may conduct a "roadshow" for potential investors in the relevant jurisdictions, during which presentations are given and questions are addressed. The roadshow will provide information about the state of the market and how much appetite there is for potential bonds. Issuers of digital inclusion bonds should expect potential investors to look into the issuer's digital inclusion framework and have questions about their use of proceeds and/or KPIs, external reviewers, and ongoing reporting obligations. Depending on the results of the roadshow, the issuer and underwriters might decide to launch the deal, postpone it until

market conditions change, or revisit the deal structure and revise documentation to change certain terms and increase marketability.

Once it has been decided that the bond will be issued, the issuer and underwriters will establish a tentative date for putting it on the market. After issuance, the bonds will be priced – and perhaps even repriced – depending on market conditions. After pricing, distributions will be allocated. Eventually, for certain bond issuances, the bonds may be listed and sold in secondary markets.

Post-issuance reporting obligations

Issuers of digital inclusion bonds will be expected to report on their practice and/or performance with respect to use of proceeds and/or KPIs while the bonds are outstanding. Generally, investors will expect publicly available up-to-date information renewed at least annually and on a timely basis in the event of material developments. Investors may also expect these reports to be verified by independent reviewers or based on objective methodologies.

To facilitate the post-issuance reporting process, issuers should consider designing monitoring and evaluation processes in advance, implementing KPI and data collection systems to monitor outcomes of projects over time, and seeking third-party assurance to reduce data quality risks – all of which may increase investor and stakeholder confidence in disclosures. When preparing the disclosure, issuers should include sufficient information for investors to evaluate their compliance with the metrics in the offering document and framework, such as adequately using the bond proceeds and/or successfully meeting the KPIs. Issuers are also encouraged to include other information that would help investors and stakeholders appreciate the issuer's efforts to promote digital inclusion.

Appendix B: Typical digital inclusion loan financing process

Increasingly, institutional lenders are eager to invest in areas and projects that have a social impact; in today's technology-reliant era, digital inclusion is gaining interest. Lenders may include impact funds, private foundations, development finance organizations, and financial institutions, among others. The typical loan financing process for a digital inclusion loan first requires an alignment of interests between the lender and the borrower and may facilitate broader opportunities for collaboration between them. Once the lender and the borrower establish the lending relationship, they can negotiate the use-of-proceeds clause and other loan terms to focus on promoting digital inclusion.

Issuers considering pursuing digital inclusion financing through loans should take the considerations below into account. Please note that these points are meant to serve as a general roadmap that illustrates what a typical digital inclusion loan financing process would encompass and is not meant to be a comprehensive step-by-step guide to digital inclusion loan financing. Please also note that this is not legal advice, and entities planning to enter into digital inclusion financings should secure legal counsel.

As discussed in section 2 (A), digital inclusion financing through loans may offer issuers flexibility regarding the documentation required and the terms of the loan. However, depending on the jurisdiction, some lenders (such as development agencies) may impose specific requirements in terms of documentation, due diligence, and reporting, and this may limit the amount of flexibility a borrower has.

Selecting lenders

Generally, loans will be arranged with a single lender (referred to as a "bilateral loan"), or with a group of lenders, (which, depending on the size, may be referred to as a "club loan" or a "syndicated loan"). Borrowers of digital inclusion loans should choose lenders who have experience or interest in digital inclusion, or the target area(s) chosen for a specific project.

Digital inclusion projects that involve large developments might require more financing than one lender can provide or might be outside the risk exposure levels of a single lender. Syndicated loans, which involve a group of lenders working together, may be a better option for many borrowers. The syndicate members share the risk of the loan, and each is only exposed to their portion of the loan. In a syndicated loan, one bank typically works as the

lead arranger, organizing the loan, its terms, and other relevant information. When selecting the lead arranger, the borrower should solicit proposals from several banks and choose one with experience in arranging syndicated loans and lending in the borrower's industry. Once chosen, the lead arranger negotiates the term sheet outlining the structure of the deal, including fees and expenses. Together with the borrower, the lead arranger prepares the marketing materials that will help investors arrive at a credit decision. The lead arranger generally remains responsible for the initial transaction, fees, compliance reports, repayments, loan monitoring, and overall reporting for all lending parties.

Drafting financing and legal documentation

Key documents in a digital inclusion loan financing deal may include:

- A credit agreement or a facilities agreement
- A term sheet
- A financial model
- A lender presentation
- A confidential information memorandum

Depending on the structure of the loan, assignment agreements, joinder agreements and compliance certificates might also be needed. In addition, due to certain jurisdictions' anti-money laundering and terrorism financing regulations, lenders generally require know-your-customer (KYC) information, such as credentials to prove the borrower's identity, address, and ownership structure.

In the financing documents, borrowers should lay out their digital inclusion-related use-of-proceeds strategy or KPI strategy. For the former, the borrower can tie the use of proceeds to fund certain eligible projects, assets or expenditures that relate to digital inclusion. For the latter, the terms of the loan can incentivize the borrower to improve against certain predetermined criteria connected to digital inclusion. Digital inclusion targets should align with the borrower's objectives, strategy, processes, and policies. In a syndicated loan, the borrower may appoint coordinators to assist with negotiating the KPIs. Generally, borrowers will include between one and three KPIs in a single agreement, and the KPIs can be either dynamic (requiring continuous improvements year-on-year) or static (set at a single target level).

In digital inclusion financing, loan terms are generally linked to the borrower's performance against their use of proceeds, their KPIs or the maintenance of a required overall rating. The use of margins is likely to be common. Adjustments to the interest rate will depend on the collateral that borrowers deposit with their lender(s) to cover some or all of the credit risk that they pose. A two-way margin ratchet may also be common, wherein there is a discount if targets are met and a premium if they are not. A discount may also depend on there being no default. Alternatively, loan agreements can be structured so that there is a one-off fee if targets are not met, rather than an interest rate adjustment.

Given the novelty of digital inclusion financing, no formal targeted statutory or regulatory regime exists for it. Similarly, there is no market standard for the drafting of loans linked to digital inclusion, although various analogous guides and principles have been published by trade organizations. Please see section 2 (B) for more information.

Post-borrowing reporting obligations

The loan documentation will likely include post-borrowing reporting obligations, whereby borrowers will need to provide lenders with regular, up-to-date information proving their compliance with the use-of-proceeds and/or KPI provisions. Although trade bodies encourage borrowers to share the information publicly in the form of annual reports, borrowers may choose to disclose the information to their lenders privately. Failure to report may result in a margin premium being applied to the loan. Digital inclusion borrowers are also encouraged to disclose up-to-date information related to their digital inclusion goals to promote greater transparency and signal commitment to their targets.

Including external reviewers

For post-borrowing reporting obligations, lenders are likely to prefer an external reviewer. The borrower could enlist an auditor or independent agency, such as a reputable accounting firm or an ESG-specific auditor. If there is an external verification report, it should be communicated to all lenders and is recommended to be made public when appropriate. Reports can sometimes be attached to pricing certificates. Alternatively, borrowers can seek advice from consultants or institutions with recognized expertise in digital inclusion or in the relevant area(s) of focus (such as telecommunications, healthcare, or education), or have their loan or framework certified against an external assessment standard. Alignment with standard criteria can also be tested by qualified third parties.

Contributors

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