

State of the Nigeria Data Center sector

Since the Nigerian telecoms market liberalization in 1999, the country's connectivity and IT markets have grown in leaps and bounds. Now penetration is about 111% and there continues to be increased investment in the latest Mobile to fixed broadband infrastructure. Nigeria is one of the few African nations with commercial 5G deployment. This growth in the connectivity ecosystem has consequently driven demand for IT services as the demand side's appetite for digital services has grown, moreover, supply-side capabilities to deliver such services have also increased driven mainly by market competition.

A key IT infrastructure gaining investment traction because of its import in delivering cutting-edge digital solutions is the Data center. Traditionally, businesses across verticals have opted for internal Data center investments to ensure control over operations, downtime, and security.

However, with the spiralling costs associated with building and managing Data centers, businesses are changing strategic direction and partnering with 3rd party Data center providers who largely focus on delivering Data center and cloud services. Therefore, businesses can focus on their customers to deliver promised experiences.

In recent years Nigeria has significantly witnessed growth in local and foreign investments to support local Data center infrastructure developments i.e four telcos (MTN, Airtel, Globacom and 9mobile) in the country have Data center investments to support internal workload and support their enterprise divisions in delivering business solutions.

Furthermore, Equinix recently acquired MainOne including all its Data center businesses across West Africa for about \$320 million. Africa Data Centers, a business of Cassava Technologies also recently launched its own \$100 million Data center facility in Lagos. Open Access Data Centers (OADC Lagos) is soon expected to go operational with its US\$100 million Data center. Rack Center, through Actis; (an investor in sustainable infrastructure) also recently acquired a \$250 million investment to grow its Data center portfolio in Nigeria.

Apart from these investments and others from players like Kasi cloud, 21st Century, Cloud exchange etc, there has also been significant interest in Nigeria's IT market by global hyper-scalers such as Google, Microsoft and AWS, all establishing footprint in Nigeria to maximize IT revenue opportunities in the country.

Apart from increased appetite from demand-side, increased investments from OEMs and Data center service providers, another key component of Nigeria's Data center jigsaw has been the regulators.

Collaborative efforts in policymaking by the Nigerian Communications Commission (NCC) and the Nigerian Information Technology Development Agency (NITDA) to ensure precise foundation is laid to build a digital Nigeria have been critical to assuring growth in the IT services market. Furthermore, the federal government's positioning to ensure diversification from crude oil commodity-based economy to a knowledge-driven digital economy, ensuring a digital Nigeria through policy objectives in the Nigerian National Broadband Plan (NNBP) 2020-2025 and the National Digital Economy Policy and Strategy (NDEPS) 2020-2030 are also strategic to ensure growth and maturity in Nigeria IT Solid infrastructure space.

We expect increased growth in Data center investments across the country and these investments will be driven by the trends below.

Growth in digital transformation

One of the legacies of the COVID-19 pandemic is a swift adaptation to new customer experience expectations when delivering services. A secondary legacy of the pandemic is the increased requirement for automation and agility in business processes to do more with less. Another key legacy of the pandemic is an increased focus on security especially as business resources i.e files, applications etc are expected to be consumed over wireless networks across several geographies. These legacies have driven the strong requirement for transformation. The availability of affordable Data center services will be critical for sustainable digital transformation initiatives, especially for SMEs with a limited budget.

Increase cost of IT infrastructure

Nigeria is in its infrastructure build phase and the country is significantly dependent on IT imports to meet local requirements. Unfortunately, the Naira has been an unstable currency that is constantly losing value against the US Dollar; consequently, the cost of building internal Data center infrastructure is expected to keep rising.

Moreover, Nigeria also has a national power challenge; hence public grid power is unreliable. IT hardware is mostly powered by diesel generators. In Nigeria, diesel fuel has been deregulated; therefore, the increased cost of crude oil in the international market has a direct impact on local diesel prices in the country since a significant portion of diesel consumed in Nigeria is imported. In fact, in the last year, diesel cost has grown by almost 300%, making it increasingly unsustainable for businesses to maintain internal Data center infrastructure.

We expect increased outsourcing of Data center services to 3rd party providers with economies of scale to deliver these services at affordable prices.

Growth in xTech start-up community

Innovation through Nigerian start-ups cannot be overemphasized, in recent years there has been growth in the xTech start-up community i.e Fintechs, AgricTech, EduTech, PropTech etc. These start-ups have limited financial capability however they require the leverage of technology to grow, scale and eventually compete with established incumbents. These businesses are unable to invest in IT robust infrastructure hence cloud subscription models are perfect for them. Growth in xTech start-up community in Nigeria is expected to keep driving growth in Data center infrastructure investments in the country.

Indeed, several trends in Nigeria are expected to drive growth in Data center investments and there are also inhibitors,

- **High cost of foreign exchange**

The high cost of foreign exchange is a significant challenge, especially affecting local investments. With the constant Naira devaluation, financial capability for local investments in IT hardware and software infrastructure is expected to be limited. There we expect heavy dependence on foreign investments or investments driven by foreign companies to the detriment of local establishments.

- **Limited skilled labour**

Access to skilled IT labour is limited in Nigeria and mostly concentrated in Lagos, Abuja, and Port Harcourt. This challenge has been further compounded by the recent brain drain of IT talent due to their relocation abroad for better opportunities.

Consequently, there is expected to be reliance on expatriates, especially in strategic portfolios to ensure smoother operations of IT systems in the country. IT experts will cost a premium to hire and maintain, moreover limited local IT resource is expected to negatively impact innovation, especially in the developer community.

At DIAA, we have the following recommendations for Data center providers in Nigeria,

1. Invest in talent development

Human capital development in digital technologies is imperative to sustain the rate of growth and development in the Data center and cloud ecosystem. There is a significant requirement for local IT talent to ensure adequate delivery of digital infrastructure projects in the country. Beyond talent development, programs need to be created to ensure top talents are motivated and retained within the country

2. Invest in partnerships

Service providers in the Data center ecosystem need to partner with industry associations and the government to drive needed infrastructural growth in the country. These partnerships can ensure adherence to standards, alignment with government strategic direction for policy formation and implementation

3. Invest in next-generation infrastructure

As Nigeria is in its infrastructure build phase, at this stage availability of services is a unique value proposition, however as the market matures, differentiation in service delivery will be a key criterion for competitiveness. As the Nigeria IT market matures, investing in next-generation infrastructure will be imperative for long-term competitiveness.