LSF
THE LIQUIDITY & SUSTAINABILITY FACILITY

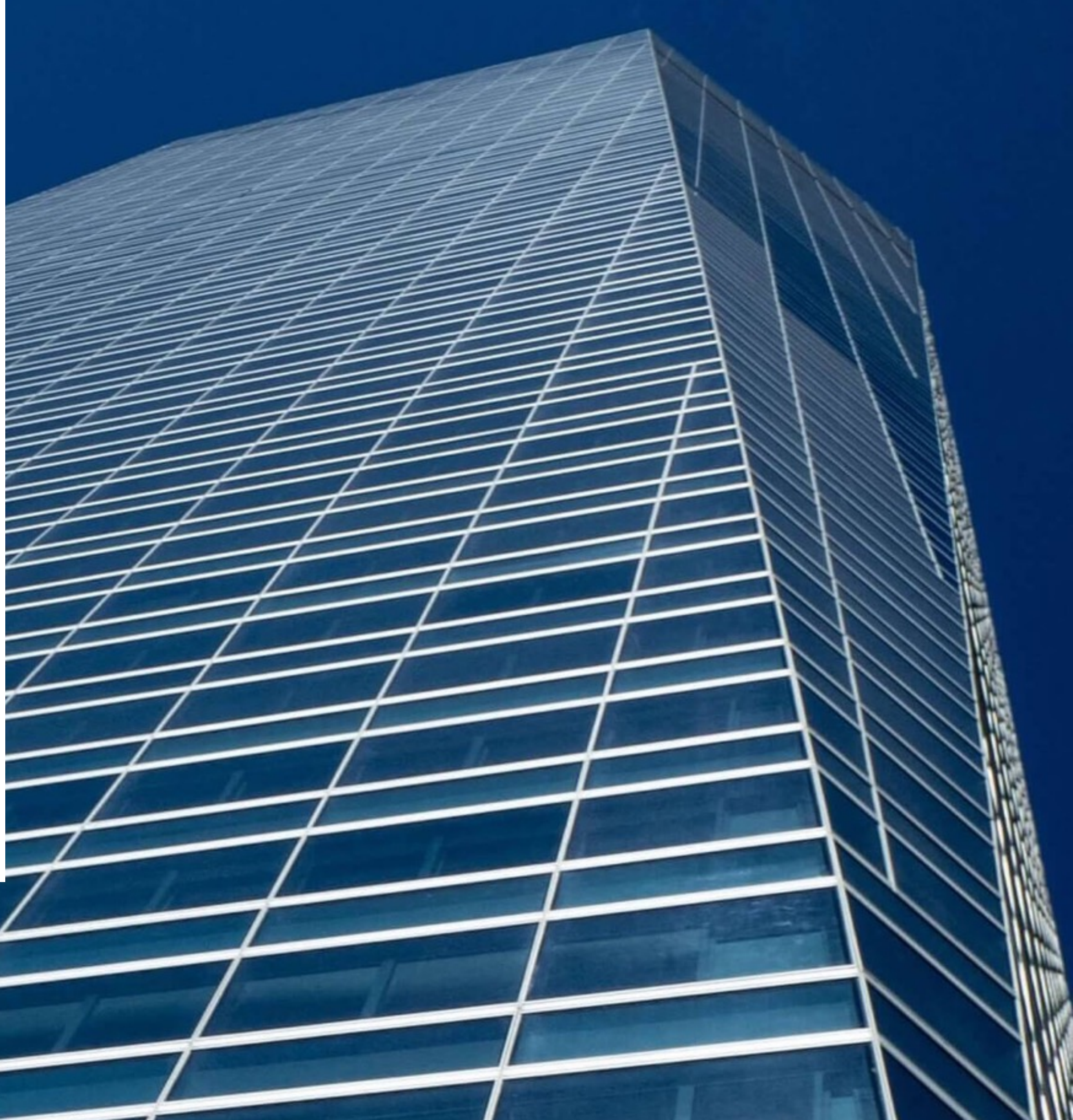
The Liquidity and Sustainability Facility

Supporting African Sovereigns and private investors by contributing to a liquidity strategy on par with international standards

11.10.2022

United Nations
Economic Commission for Africa

ideas for a prosperous Africa



The LSF was established by the UN ECA at COP 26 in 2021

The LSF was established by the UN ECA in **November 2021** at the COP 26

in response to several major challenges facing African countries, in particular:

- the ongoing coronavirus pandemic
- the historical high cost of borrowing for African Sovereigns
- the urgent necessity to address climate change and its consequences.

It was the culmination of a long **engagement process under the UN ECA leadership with the international community at large**:

- IMF MD, Board of the IMF, IMF teams, WBG
- G7. G20 & COP successive teams and sherpas
- Elysée Summit on the financing of African economies, COP 26, ECA Conferences
- US Treasury, Ministère du Trésor, Finance and Foreign Ministries of Germany, Italy, Spain, UK
- Finance Ministries of Mexico, Argentina, Brazil, Pakistan, Egypt, South-Africa, Indonesia, etc.

Africa faces ever increasing challenges

- Debt burden and historical high cost of borrowing
- Difficult recovery post Covid
- Rising interest rates globally
- Climate change financial gap
- High inflation, energy & food shortages post-Ukraine invasion
- Large financial outflows

The LSF has two clear objectives

Supporting the liquidity of African Sovereigns Eurobonds

African governments have historically faced high cost of borrowing. Compression of liquidity premia and improved sovereign access to Eurobond markets has the potential to save African nations an estimated **USD 11 billion** on borrowing costs over the next five years. Improved liquidity can have the effect of compressing yields by strengthening the demand and consequently, the price of eligible sovereign bonds. By supporting these objectives, the LSF supports the debt sustainability of African nations.

An estimated
USD 11 billion
saved on borrowing costs

Incentivising green and SDG-related investments

The LSF aims to support the green and sustainable recovery of emerging and frontier markets sovereigns. Currently, the share of sustainability-linked bonds issued in Africa and the Middle East accounts for less than 1 per cent of the global total amount, indicating that there is a large potential for growth, and opportunities for SDG investors. The LSF will utilise its resources to engage with investors with a special focus on green and SDG linked investments, thus promoting sustainability-linked investments in Africa.

Share of Sustainability -linked Issuance by Region

1% Middle East & Africa

99% Global

The LSF is endorsed by 26 African States

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Africa demands global financing reform

On May 23, 2022

Source: extract from a UN ECA press release at the outset of the CoM 2022 conference

African Ministers of Finance and National Planning have said the international financial system was outdated and unfair to many developing countries.

The finance ministers stated this at the Conference of Ministers (CoM2022) — organised by the United Nations Economic Commission for Africa (ECA) and hosted by the government of Senegal

In a communique issued at the end of the conference, the 26 ministers urged G20 countries to extend the Debt Service Suspension Initiative (DSSI) by two more years to help "create fiscal space for urgent spending". They asked for the Common Framework to be modified to make debt restructuring effective and broad-based to include commercial creditors.

Another key demand was that developed countries support the recycling of $100 billion in Special Drawing Rights (SDRs), of which they said $60 billion should be allocated to the Poverty Reduction and Growth Trust (PRGT) and to the new Resilience and Sustainability Trust (RST).

In addition, they asked for new SDRs and drew attention to the ECA's Liquidity and Sustainability Fund (LSF), which they said should be established to allow African countries to use SDRs to improve liquidity, stabilise currencies and reduce the costs of credit.

The LSF brings benefits to both African governments and private investors

"Supporting African Sovereigns and private investors by contributing to a liquidity strategy on par with international standards"

For African governments

- A well-functioning repo market could improve the **liquidity** of sovereign bonds by providing a mechanism for bondholders to refinance their positions.
- And can contribute to **reducing interest rates** by compressing the liquidity premium, strengthening the demand and consequently, the price of eligible sovereign bonds.

For private investors

- The enhanced liquidity could **make African Sovereign Eurobonds more attractive to investors.**
- By fostering liquidity, the LSF is attracting a **wider range of international investors** to the African bond market

01.

Enhance African international sovereign debt sustainability

Repo markets matter

*"A well functioning repo market supports liquidity and price discovery in the cash market, thus helping **to improve the cost of funding for firms and governments** and the efficient allocation of capital."*

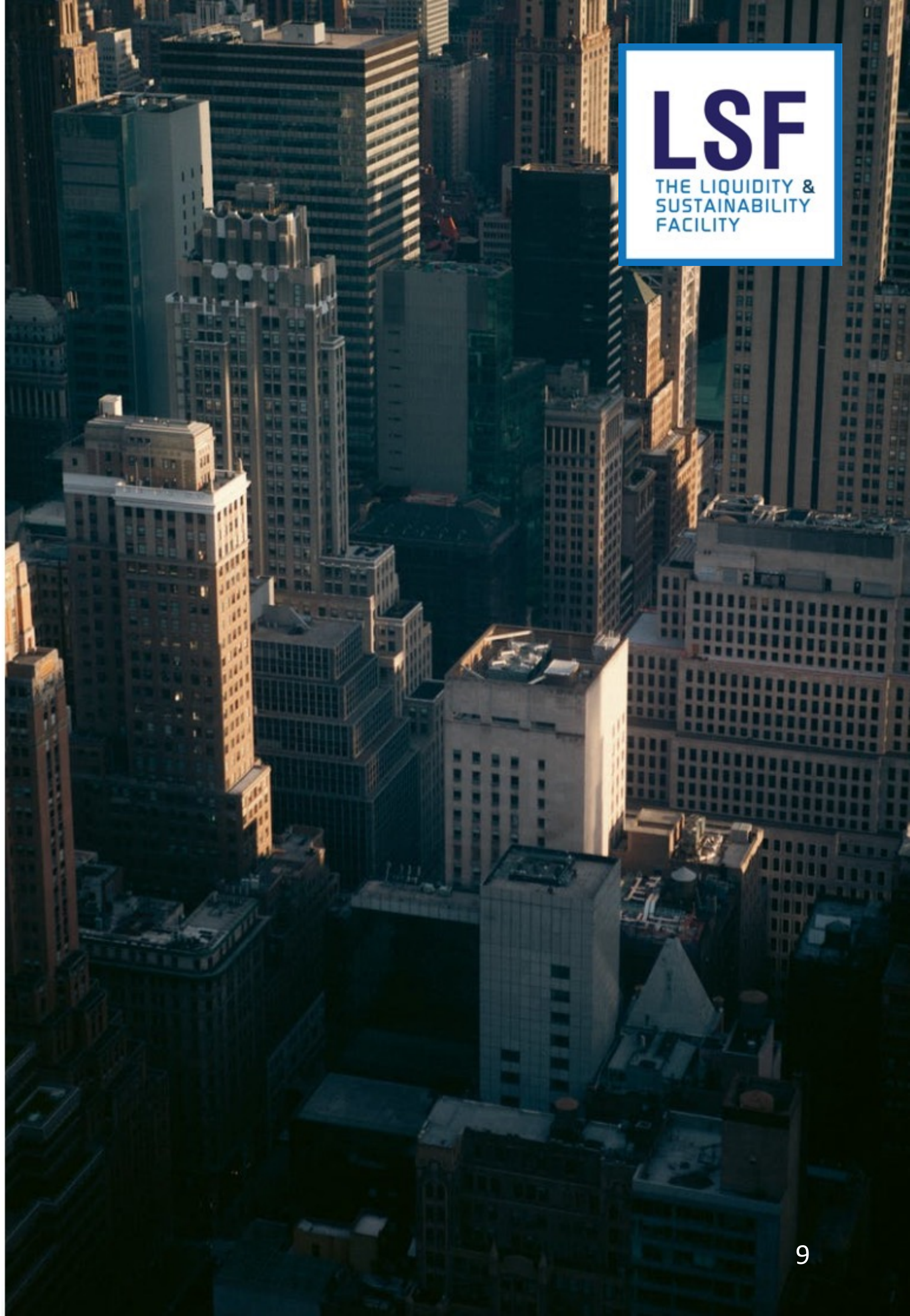
BIS, 2017

"As a global asset manager, Amundi is proud to support the LSF. This mechanism will foster the emergence and the structuring of the African sovereign debt market, on par with the best international standards. It represents an important milestone for investors, as the African continent offers promising opportunities in terms of sustainable fixed income investment, in particular green bonds."

Vincent Mortier, CIO, Amundi, 2022

*"Today **every developed market sovereign issuer benefit from extensive well-functioning repo markets** enhancing the liquidity and the attractiveness of their sovereign debt, hence **lowering their borrowing costs**"*

LSF, 2022



Large repo facilities exist across all developed economies

THE WALL STREET JOURNAL. July 28, 2021

ECONOMY | CENTRAL BANKS

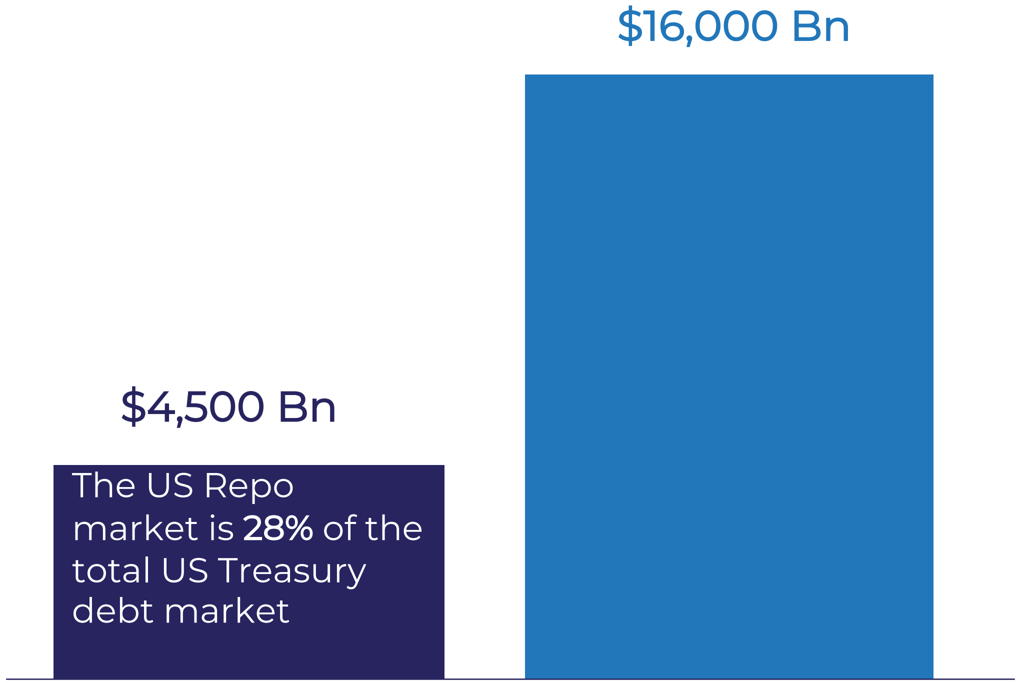
Fed Launches Standing Repo Facility to Boost Market Liquidity

Developed countries have long enjoyed the existence of large “repo” markets for their government bonds, facilitating the creation of **stable additional funding sources for their public finances.**

The LSF objective is to kickstart the same dynamic for African sovereign bonds by providing investors with competitive funding through repurchase agreements (“repo“).

→ Level the playing field for Africa

US Repo Market Total Size



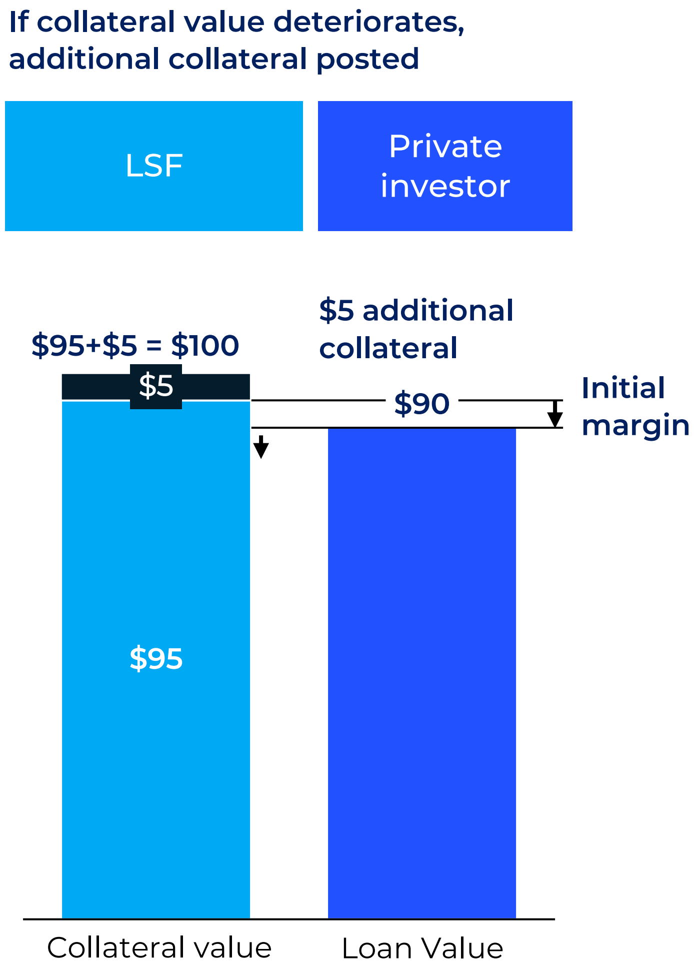
Source: SIFMA Research

around

$30 Bn

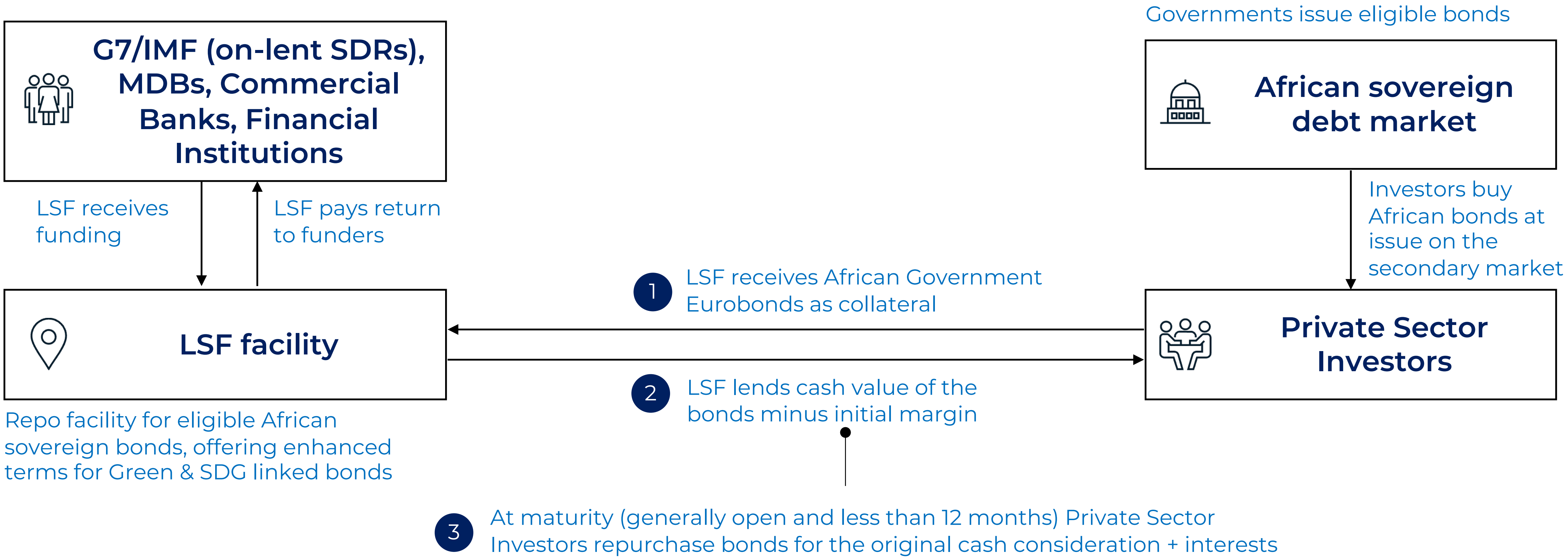
Target repo market size equivalent to 20% of African Eurobonds

Well tested risk mitigation process



- Sovereign default risk remains with the **Private Sector Investor at all times**
- LSF exposed to credit risk of PSI, **mitigated through collateral and margin calls**
- The LSF's administrator vets counterparties based on **credit assessment**
- Underlying sovereign **is neither involved nor exposed to any additional risk**

A repo facility dedicated to African Eurobonds, specifically designed to operate at the highest standards of global markets

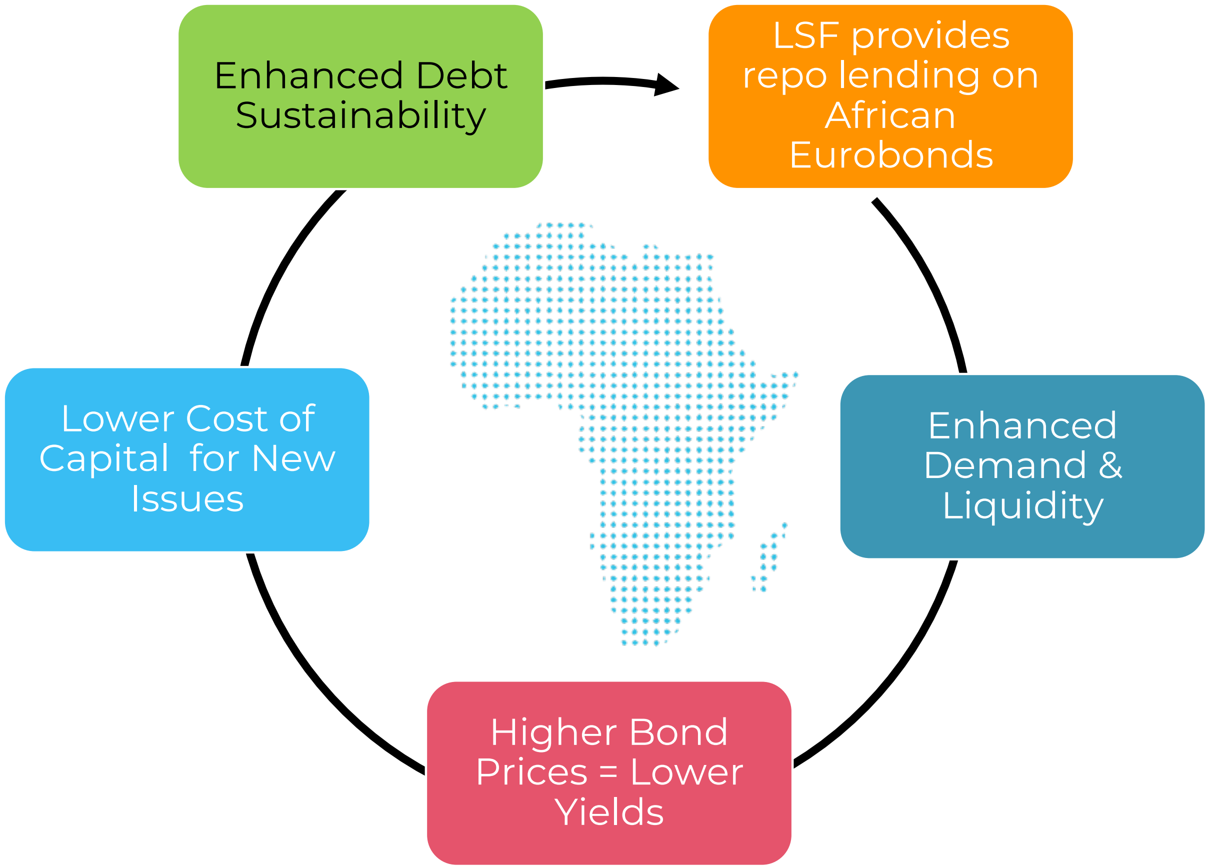


The universe of eligible bonds the LSF accepts as collateral is reviewed periodically by the Board. Priority is given to countries with a good track record of policy reform and strong governance as well as to Green and SDG linked issuances.

From liquidity to debt sustainability

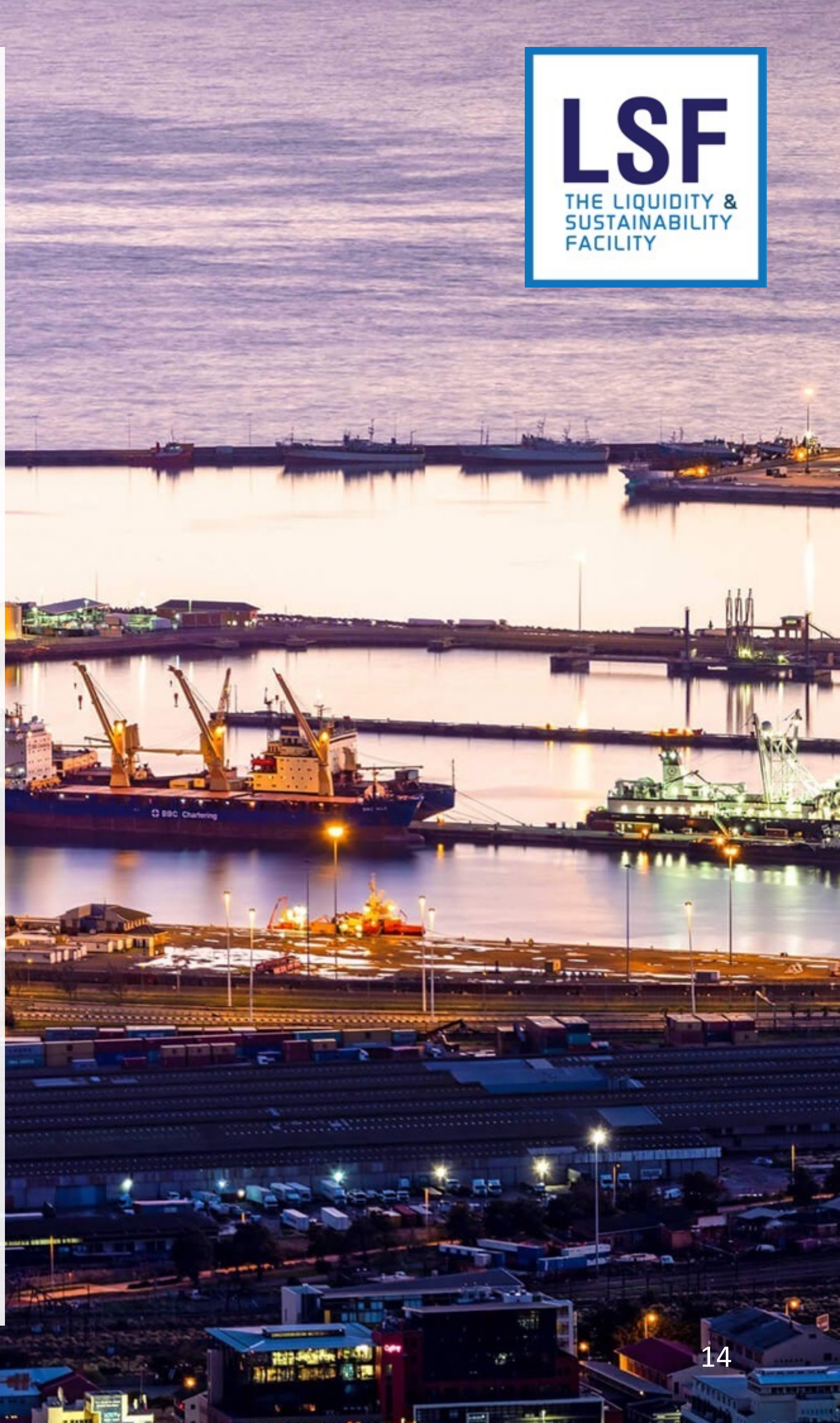
The LSF can help drive a virtuous cycle for Africa

The LSF could help save African issuers an estimated $11bn in interest costs over a five-year period



02.

Help finance a green and sustainable recovery

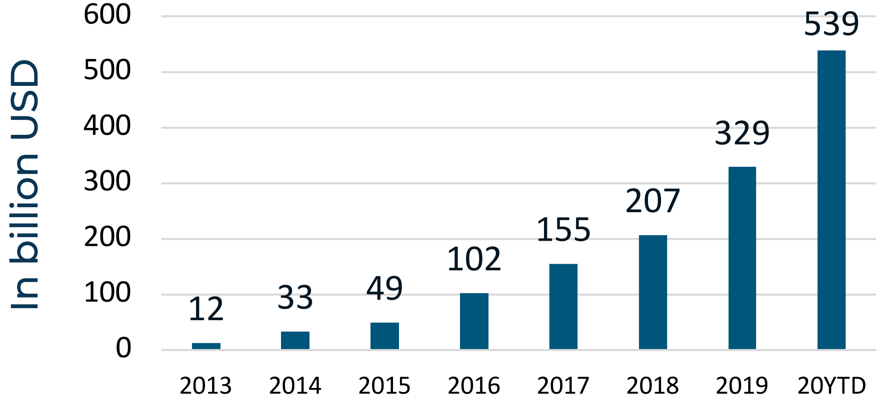


The LSF is an opportunity for Africa to catch up in the sustainability and Green Bond markets

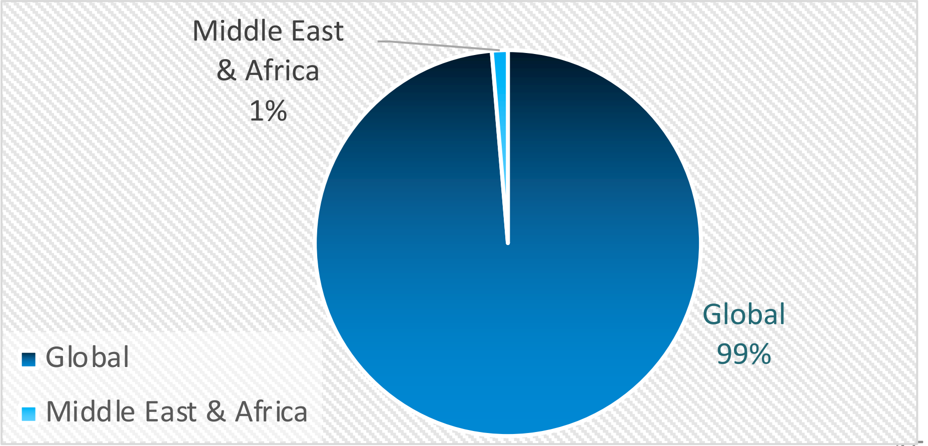
Country	Green Bonds	Amount (USD m)	First Issuance	Use of proceeds
Kenya	1	41	Sep. 2019	Buildings
Namibia	1	5	Dec. 2018	Energy, buildings, transport, water, waste, land use, adaptation & resilience
Seychelles	1	15	Oct. 2018	Land use & marine resources
Nigeria	4	136	Dec. 2017	Energy, transport, water, land use
Morocco	4	356	Nov. 2016	Energy and buildings
Egypt	1	750	Sep. 2020	Transport, energy, energy efficiency
South Africa	6	1,554	Apr. 2012	Energy, buildings, transport, water, waste
Total	18	2,857		

African Green Bonds Issuance as of October 2020 - Source Climate Bonds Initiative and UNECA, October 2020

Global issuance over 2013-2020



Sustainability-linked issuance by region



Source UN Global Compact Sustainable Finance, HSBC December 2020

To help finance its Green and Sustainable recovery

The LSF can be used to mobilise capital investment towards key sustainable efforts

Climate action and green economy initiatives aligned with the Paris Agreement:

- SDG-specific initiatives and instruments (e.g., SDG-bonds, UN ECA's "SDG 7" initiative on clean energy)
- The World Bank's initiative to address nature and biodiversity

And a wider range of sustainable development priorities including:

- Overall climate adaptation and resilience
- Digital technology investments
- Waste and waste management
- Sustainable forestry, and SME capacity building

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03.

Transparent market mechanisms on par with international standards

A solid legal framework leveraging internationally recognized market standards

The Liquidity and Sustainability Facility (LSF) DAC

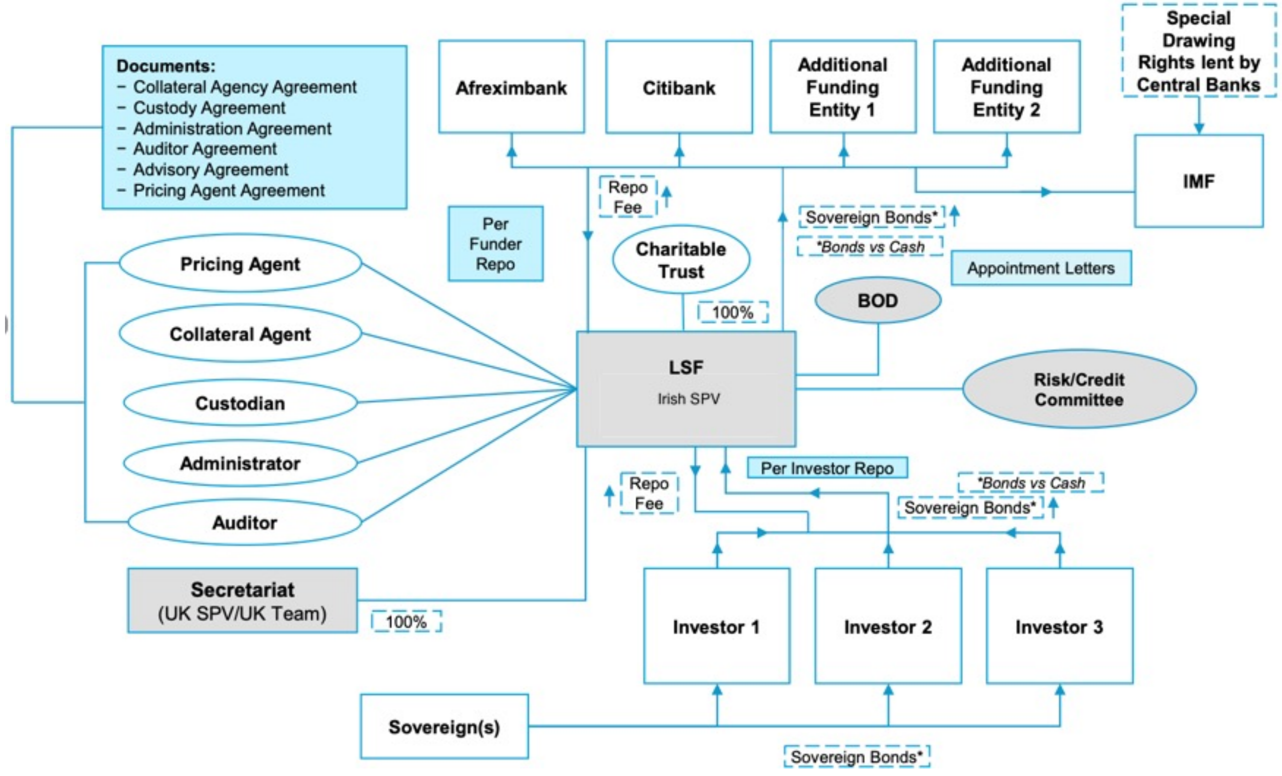
Legal Structure

- Designated Activity Company (DAC) with **limited liability**
- incorporated under the **laws of Ireland**
- Issued share capital held on trust for **charitable purposes**

Constitution

"*The principal object for which LSF has been **established is to foster a functioning repo market** to compress yields by strengthening the demand and consequently, the price of eligible **African sovereign bonds**, pursuant to which demand will be enhanced by **improving liquidity**, through the creation of a repo market, involving LSF, and by acquiring, directly or indirectly, such sovereign bonds as collateral for **development financing**, in a **sustainable** manner, at competitive rates.*"

LSF structure chart



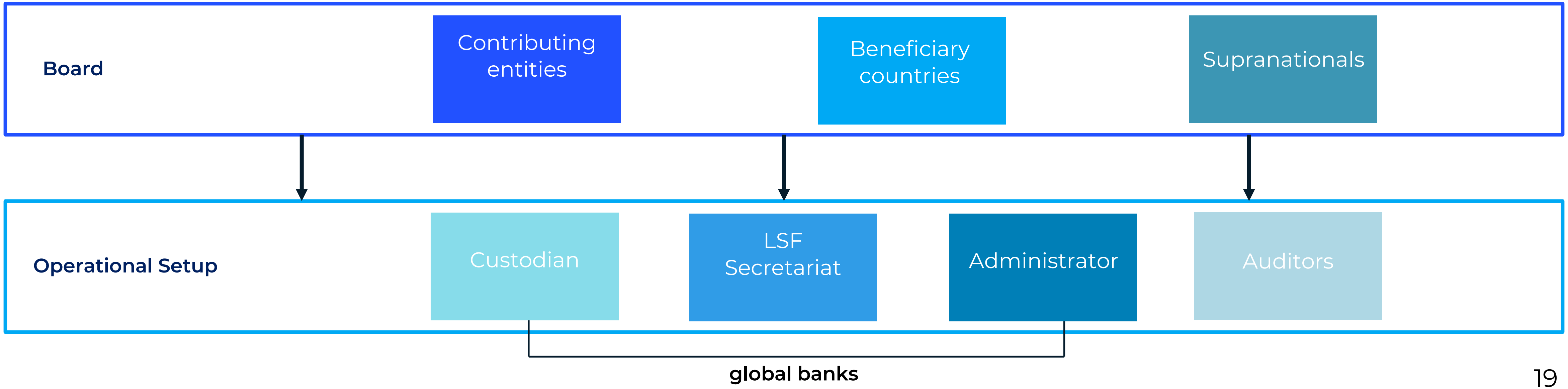
The LSF is <u>not</u> regulated by a financial professional body.

Highest standards of governance



The Board ensures the LSF adheres to its public good mission and to the highest standards of transparency. It is composed of Directors representing the LSF multiple stakeholders. It will also include a Risk and Audit committee,

High level view: LSF governance



Diversified funding and low counterparty risk

Funding

The LSF operates an Asset and Liability Management policy with a funding plan for credit and repo lines of various terms matching its transactions, established with a diversified pool of financial institutions representative of the multiple LSF stakeholders, globally as well as in Africa.

It includes central banks, MDBs and IFI, private and commercial banks

Funding of the LSF is not subsidised

Optimal funding capacity

Optimal funding capacity is estimated at USD 30 Bn over the medium term. To that effect, the LSF is actively engaging with the IMF and G20 on the on-lending of their unused-SDRs.

Quality Counterparties

The LSF transacts with counterparties established in recognized jurisdictions and of the highest quality and reputation such as insurance companies, banks, pension funds, asset management firms, and public and private investment funds.

Thank you

Possible topics for follow up:

- Funding
- Grant

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