

LIQUIDITY AND SUSTAINABILITY FACILITY

3RD NOVEMBER 2021
FROM 3:00PM TO 4:30PM
AT COP26 AFRICA PAVILION IN GLASGOW, UK

The Liquidity Sustainability Facility (LSF) is an Africa-led innovative solution with ambitious use of Special Drawing Rights (SDRs), as a more sustainable solution to Africa's finance needs and a vehicle to reinforce post-pandemic green recovery across the continent.

The African countries' debt issues are not only about the accumulated amount, but also rooted in the high costs of borrowing. While African countries should ensure the effective and transparent use of financial resources for increasing regional productive capacity, investing in climate adaptation and mitigation actions, and facilitating a green recovery from the pandemic; there is also the necessity to work on the provision of accessible and affordable finance through innovative mechanisms.

One lasting issue for African bonds is the high premium caused by lack of liquidity. That's why the ECA has worked on the creation of the Liquidity Sustainability Facility, which aims to lower the borrowing costs for African sovereigns by turning African sovereign bonds into liquid assets through the creation of a "repo" market. Thanks to the LSF, Africa can save up to an estimated USD 11 billion over the next five years on its borrowing costs. By providing a repo lending facility on African Eurobonds, the LSF can increase the liquidity and demand of these bonds; increase bond prices and decrease yields; lower cost of capital for new bond issues; and enhance debt sustainability.

In this regard, the LSF intends to incentivize sustainability-linked investments, including green bonds and SDG bonds, on top of attracting more investors for African sovereign bonds and reducing cost of borrowing. Private sector will be mobilized to complete public finance and help bridge the funding gaps. Besides, the LSF can support countries to graduate from the Poverty Reduction and Growth Trust thus freeing up capital for the Trust-eligible low-income countries.

Furthermore, the LSF can help Africa catch up in the sustainability and green bonds markets and harness the positive impacts generated by green bonds across various sectors. As of October 2020, there have been 18 issued African green bonds in seven countries, with a total amount of USD 2,875 million. The share of sustainability-linked bonds issued in Africa and Middle East accounts only for 1 percent of global total amount. There are huge untapped potentials in these markets in Africa, which can be harvested through the LSF.

Lastly, the successful launch of the LSF requires an initial seed funding. The additional SDRs allocations are one of the viable means for the LSF to access low-cost finance. In this regard, the ECA is seeking an initial USD 3 billion (up to USD 30 billion) worth of SDRs on-lending from developed countries to provide the initial funding to the LSF.