

## SPOTLIGHT

Stimulating  
sustainable  
investment  
in Africa

How the LSF could be a game-changer for the African continent



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## Stimulating sustainable investment in Africa

**A**frican sovereign nations may gain cheaper access to international markets and essential funding for sustainability projects, thanks to a ground-breaking new platform delivered with the help of cutting-edge legal advice from White & Case.

The Firm provided pro bono advice to the newly established Liquidity and Sustainability Facility (LSF), which is the brainchild of the United Nations Economic Commission for Africa (UNECA).

The objective of the LSF is to support liquidity in African Sovereign Eurobonds and incentivise UN Sustainable Development Goal (SDG) related investments such as SDG and green bonds on the African continent.

The LSF aims to achieve this goal by acting as a repo counterparty to investors holding African Sovereign Eurobonds, including asset management firms, pension funds, banks, and public and private investment funds.

Repurchase transactions (repos) are widely used in the lending market. They work like a short-term secured loan, with the seller of bonds agreeing at the time of the initial sale to buy equivalent bonds back from the purchaser on a date in the future.

For African Sovereign nations, a well-functioning repo market in their Eurobonds may improve the liquidity of these bonds by providing a mechanism for bondholders to refinance their positions.

It may also contribute to reduced interest rates by seeking to compress the liquidity premium, and seeking to strengthen the demand and consequently, the price of eligible Sovereign bonds.

For private investors in African Sovereign Eurobonds, the enhanced liquidity may make African Sovereign Eurobonds more attractive to investors. By fostering liquidity, the LSF seeks to attract a wider range of international investors to the African bond market. Read the [article by BNY Mellon](#) for more context.



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## The LSF explained

The Liquidity and Sustainability Facility was designed by the United Nations Economic Commission for Africa (UNECA) in collaboration with Afreximbank, with the dual objective of supporting the liquidity of African Sovereigns Eurobonds and incentivizing SDG-related investments such as SDG and green bonds on the African continent.



Partner Ingrid York explains: "We were asked to help the UNECA with this project back in 2021. They came to us because they appreciated our unrivalled strength in Africa combined with our regular involvement with these kinds of transactions.

"We know Africa better than anyone, have extensive experience in repo financing structures in our Structured Finance practice, and previous experience working with the United Nations and similar entities. That made the project a perfect fit for the Firm."

White & Case provided the UNECA with pro bono advice, both in setting up the LSF and on its first transaction in 2022.

Ingrid says: "More than 40 lawyers from nine offices worked on the project from 2021 to 2022.

"We started by discussing the exact type of entity the UNECA wanted and where would be the most suitable place to establish it.

"We drew on our experience with this product and the depth of our Structured Finance, Capital Markets and African practices, but the project covered a broad range of areas of expertise, including also financial services regulatory, tax, corporate, employment, technology, intellectual property and data law."

The creation of the LSF was officially announced by the UNECA at COP26 in Glasgow, Scotland, in 2021. Then, last November at COP27 in Sharm el-Sheikh, Egypt, the **LSF's inaugural transaction** was confirmed.

The transaction saw the LSF enter into a US\$100 million repo transaction with Citi with funding support from African export-import bank Afreximbank. It relies on an innovative triparty platform designed for the LSF by BNY Mellon. The securities subject to the repo included a diversified basket of African Sovereign Eurobonds including The Arab Republic of Egypt, Kenya and Angola as issuers.



## What is a repo agreement?

A repurchase agreement (repo) is a short-term secured loan: one party sells securities to another and agrees to repurchase those securities later at a higher price. The securities serve as collateral. The difference between the securities' initial price and their repurchase price is the interest paid on the loan, known as the repo rate.



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Ingrid says: “The fact that the UNECA chose to announce the creation of the LSF at COP26 shows what a significant development this was.

“It was the first public declaration by the UNECA that they were supporting the establishment of a well-developed repo market for African Sovereign Eurobonds, while the announcement of the inaugural transaction at COP27 marked the full operationalization of the LSF’s business model.”

Ingrid is immensely proud of the way the team at White & Case pulled together to deliver a result that has the potential to deliver meaningful change to Africa.

She says: “So many people have been generous with their time, despite being extremely busy. This project is a great example of what the Firm does best.

“When it comes to pro bono and global citizenship, we walk the walk. We knew it was a critical development for Africa, and we are delighted to have delivered a highly complex project in a way that very few firms would be capable of doing. It’s further proof of our commitment to the Continent.

“The project was extremely challenging at times, but our relationships with Afreximbank, Citi and BNY Mellon (important clients of the Firm also) and our deep understanding of the expectations of the UNECA were crucial to our success.

“What’s particularly impressive is that we started with a blank piece of paper, but everyone was extremely creative and innovative in helping the UNECA bring the LSF concept to life.”

The Firm is continuing to work with the LSF as it looks to secure future investors and funders, potentially including two of the largest American and European fixed income private investors.

Ingrid says: “This is just the beginning and, now we’re established as the LSF’s counsel, we can only see the relationship and our commitment to the LSF growing.

“If the LSF’s ambitions are realized and it scales, it has the potential to be highly significant.

“I had the privilege of attending COP27 at Sharm el-Sheikh, Egypt, on behalf of the Firm and hearing first hand from the institutions who will hopefully benefit from LSF’s activities is something that will stay with me for a long time.

“It’s palpable what this means to Africa and the fact the Firm is playing a part in it is humbling and extremely gratifying.”

**For more information, visit the [LSF website](#).**



## LSF and the green agenda

The LSF aims to support the green and sustainable development of African countries. Currently, the share of sustainability-linked bonds issued in Africa and the Middle East accounts for less than 1 percent of the global total amount, indicating that there is a large potential for growth, and opportunities for SDG investors. The LSF utilises its resources to engage with investors with a special focus on green and SDG linked investments, thus seeking to promote sustainability-linked investments in Africa.



## Cheaper lending, better liquidity

The LSF's aim is to improve African Sovereign debt sustainability and enhance the liquidity in the market on par with international standards. An improvement in the terms of new issuances of SDG- or climate-linked bonds of African nations could see a dramatic increase in the volume of green and blue bond financing, and at more competitive rates. By supporting these objectives, the LSF seeks to support the debt sustainability of African nations. African governments have historically faced high costs of borrowing and the LSF estimates that improved sovereign access to Eurobond markets has the potential to save African nations an estimated US\$11 billion on borrowing costs over the next five years.

