LKA PERSPECTIVE | 2026

Managing FX Risk in African Infrastructure Investment

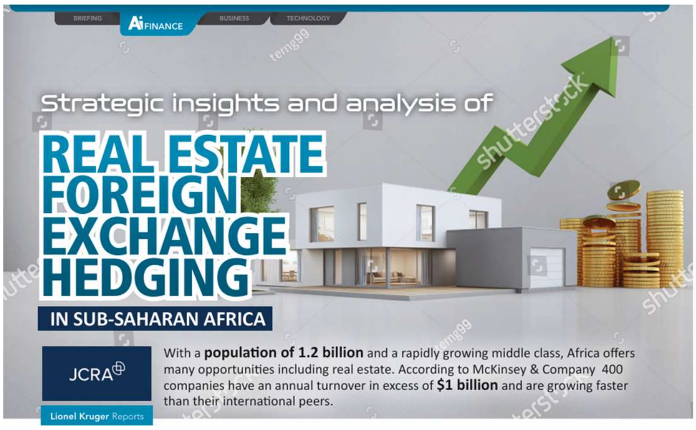
Revisiting the challenges of hedging illiquid African currencies

Lionel Kruger | LKA

An updated 2026 perspective on an article originally written for Ai Finance.

Eight years later, the investment landscape has evolved considerably. Renewable energy and infrastructure investment have expanded, financing structures have become more sophisticated and the range of risks faced by international investors has broadened.

Yet many of the fundamental FX challenges remain. Managing African FX risk is rarely just a question of selecting a derivative. The hedge strategy needs to be designed around the underlying transaction, its financing structure, cash flows, transaction certainty and the actual liquidity available in the relevant market.



ORIGINAL
Ai Finance
ARTICLE
2018

From real estate to infrastructure

The original article examined the practical limits of hedging illiquid African currencies, including forwards, NDFs, options, synthetic structures and proxy hedges. The 2026 update revisits those ideas through the lens of subsequent infrastructure and renewable-energy experience.

FX risk begins before financial close

One of the most important distinctions in infrastructure is between FX exposure before an investment becomes certain and exposure after financial close. A project may accumulate material USD, EUR or CNY exposure during development and between bid submission, preferred-bidder appointment and financial close.

The hedge therefore needs to reflect the probability and timing of the underlying transaction, rather than simply the size of the FX exposure.

Construction creates a different problem

Once a project reaches financial close, the nature of the exposure changes. Infrastructure lenders commonly require a very high - and frequently 100% - level of FX hedging during construction. There is good credit logic behind this: an adverse currency movement can increase the local-currency cost of imported equipment and create a funding shortfall precisely when additional equity or debt may be difficult to obtain.

The cost of carry remains fundamental

For many African currencies, the economics of conventional forward hedging remain challenging. Where local interest rates are materially higher than USD or EUR rates, the interest-rate differential is reflected in the forward FX curve. The investor therefore cannot generally expect to hedge an emerging-market currency at anything approaching today's spot rate.

LKA PERSPECTIVE

An apparently expensive hedge should not automatically be confused with a bad hedge. The relevant question is whether the hedge protects the economics the investment was designed to achieve.

Liquidity determines what is actually possible

South Africa remains unusual within the region because of the depth and sophistication of its financial markets. Elsewhere, the theoretical hedge and the executable hedge can be very different things. Deliverable forward markets may be shallow, currency controls can restrict offshore settlement, and some currencies are principally hedged through non-deliverable forwards.

Options can provide flexibility - where they exist

Options can be particularly useful where the objective is to protect against an adverse currency movement while retaining the benefit of a favourable one, or where the timing or certainty of the underlying exposure is less predictable. But developed-market assumptions cannot simply be imported into African markets. Long-dated option liquidity can be limited, premiums can be substantial and options are not always available in certain jurisdictions.

Long-term investment risk requires a different approach

An international infrastructure investor may have a EUR or USD reporting currency, invest equity into projects across multiple jurisdictions, receive local-currency distributions over many years and ultimately realise an investment through refinancing or disposal. Trying to hedge every projected cash flow using conventional forwards may be both uneconomic and impractical.

The derivative is therefore the end of the process, not the beginning.

From individual hedges to a risk-management framework

For an international infrastructure investor operating across multiple countries and currencies, FX risk should be considered at fund, portfolio and project level. That means defining the functional and reporting currency, identifying where FX risk arises through the investment lifecycle, deciding which exposures should be hedged or consciously retained, and establishing governance, counterparty and liquidity parameters.

The lesson remains remarkably similar

The FX markets available to African infrastructure investors have evolved considerably over the past eight years. The scale and sophistication of infrastructure investment have changed as well. Yet many of the fundamental challenges identified in 2018 remain remarkably familiar.

There is no universal African FX hedge.

The appropriate strategy depends on the project, currency, investment horizon, financing structure, transaction certainty, available liquidity and the investor's capacity to retain risk. Sometimes the answer will be a forward. Sometimes an NDF, option or deal-contingent structure. Sometimes it will be a combination of instruments.

ABOUT THE AUTHOR

Lionel Kruger

Independent adviser on treasury, hedging and capital markets, with more than 30 years' experience across infrastructure, energy and emerging markets.