
PRACTICAL GUIDANCE | 2026

Managing Foreign Exchange Risk in African Infrastructure

A practical framework for funds, sponsors and project companies

Practical guidance for infrastructure investors, sponsors and project companies managing foreign-currency exposures across African markets.

Good FX risk management does not begin with the derivative. It begins with the investment decision.

Foreign exchange is often one of the largest drivers of returns in African infrastructure investment. Yet while most infrastructure funds have detailed investment frameworks, far fewer have equally comprehensive frameworks for managing FX risk.

That matters because FX risk does not begin when a hedge is executed. It starts when capital is committed.

From that point onwards, decisions around fundraising currency, investment location, financing structure, EPC procurement, revenue currency, dividend policy and eventual exit can all influence the currency exposure of an investment.

Too often, hedging is considered only once a transaction approaches financial close. By then, many of the most important risk decisions may already have been made.

An effective FX framework should therefore be embedded throughout the investment lifecycle - from origination and due diligence through construction, operations, refinancing and exit.

The objective is not to eliminate FX risk. It is to understand it, measure it and manage it consistently.

1. Start by identifying where the risk actually sits

You cannot manage FX risk until you know exactly where it arises.

Many infrastructure investors recognise that they have foreign-exchange exposure. The more difficult task is quantifying that exposure properly and identifying who ultimately bears it.

The largest risks are not always the most obvious. They can arise through:

- imported equipment and EPC expenditure during construction;

- foreign-currency debt and debt service;
- operations and maintenance contracts;
- shareholder loans and dividend repatriation;
- portfolio companies earning revenue in one currency while incurring financing costs in another; and
- cross-border investments creating multiple currency exposures within the same fund.

This is why the first question should rarely be:

“Which hedge should we use?”

A better question is: “Which risks should we actually be hedging?”

The starting point is a detailed mapping exercise. Where does the exposure arise? Over what period? How certain is the cash flow? Who bears the economic risk? Can it be reduced commercially before a derivative is considered? And is the exposure sufficiently material to warrant hedging?

Without that work, hedge decisions risk becoming little more than educated guesses.

2. Not every exposure should be hedged

Identifying an exposure does not automatically mean that it should be financially hedged.

Some exposures are short-term and transactional. Others are structural and may be better addressed through financing strategy, contractual risk allocation, procurement decisions or natural offsets.

Some may simply be uneconomic to hedge.

A practical framework should therefore distinguish between three broad categories:

Risks that should be eliminated. These may include committed construction expenditure where an adverse currency movement could threaten the funding plan or project completion.

Risks that can be managed commercially. Contractual arrangements, currency matching, procurement strategy, financing choices or natural hedges may reduce the need for derivatives.

Risks that should consciously be retained. There will be circumstances where the cost, liquidity constraints or complexity of hedging outweigh the benefit.

The objective is not to maximise the hedge ratio. It is to optimise risk.

That distinction is especially important in African markets, where the theoretical hedge and the economically executable hedge can be very different things.

3. The purpose of hedging changes through the project lifecycle

Infrastructure projects often contain very different types of FX risk at different stages.

During development, an exposure may still be uncertain. Procurement timing can change, financial close can move and a project may not yet be fully committed.

Once financial close is reached, the character of the risk changes considerably.

During construction, lenders will often require committed foreign-currency expenditure to be substantially or fully hedged. This is fundamentally a credit consideration. An adverse currency movement should not create a funding shortfall capable of jeopardising completion.

During operations, the objective may be quite different. The focus may shift towards protecting debt service, distributable cash flow, shareholder returns or eventual exit value.

The appropriate hedge ratio, instrument and duration can therefore change over time.

A good framework recognises this from the outset rather than treating FX hedging as a single transaction executed at financial close.

4. Choosing the right hedging instrument

Not all FX hedges are created equal.

One of the most common mistakes is selecting an instrument primarily because of its apparent initial cost. The cheapest solution on day one can become the most expensive over the life of an infrastructure asset.

The instrument needs to reflect the characteristics of the underlying exposure.

FX forwards can be straightforward and cost-effective for known cash flows over relatively short horizons.

Cross-currency swaps can be appropriate where long-term financing needs to be converted between currencies while managing both FX and interest-rate risk.

FX options can protect against adverse currency movements while retaining participation in favourable moves. But the premium needs to be justified by the uncertainty being managed. In Africa, option-market depth varies considerably. Long-dated options may be illiquid, prohibitively expensive or unavailable entirely in some jurisdictions.

Structured solutions can sometimes address specific risks, but complexity should never substitute for sound risk management.

The choice of instrument should therefore be driven by the exposure rather than by product availability or headline pricing.

Useful questions include:

- Does the hedge match the timing of the underlying cash flows?
- How flexible is it if project milestones move?
- What happens if the project refinances?
- Could break costs become material?
- How will the hedge behave under different market scenarios?
- Is the structure actually liquid and executable in the relevant jurisdiction?

The objective is not simply to hedge today's risk.

A well-designed hedge should provide resilience, not just protection.

5. African market conditions matter

Africa cannot be treated as a single FX market.

Currency liquidity, forward-market depth, availability of options, exchange controls and local bank capacity differ substantially between countries.

A solution that is straightforward in South Africa may be impossible or prohibitively expensive elsewhere.

This has important practical consequences.

A technically elegant hedge is of little value if counterparties cannot provide the required tenor, credit capacity is insufficient, settlement restrictions make the structure difficult to implement, or market liquidity disappears when the trade needs to be executed.

The risk-management framework therefore needs to incorporate country and currency-market assessment alongside project analysis.

That is also why financial structuring, natural hedging and contractual allocation can be as important as derivatives in many African transactions.

The strategy should be designed around the project and the market in which it operates - not around whichever product happens to be available.

6. Governance matters more than market timing

One of the biggest misconceptions in FX risk management is that success depends on accurately forecasting currencies.

In practice, the quality of the governance framework is usually more important than the quality of the market forecast.

Infrastructure projects span years. They involve multiple stakeholders, changing construction schedules, evolving financing structures and significant procurement commitments. During that period, market conditions can change materially.

Without a clear governance framework, hedge decisions can become reactive, inconsistent and increasingly influenced by short-term market sentiment.

A robust framework should define:

- which exposures should be hedged;
- the objectives of the hedge programme;
- who has authority to approve decisions;
- which instruments are permitted;
- execution parameters and delegated authorities;
- reporting and monitoring requirements; and
- the circumstances in which the strategy should be reviewed.

Good governance also reduces one of the most common behavioural risks in hedging: postponing action because management hopes the exchange rate will move to a more attractive level.

Waiting for a “better level” may be a market view rather than a risk-management decision.

The purpose of hedging is not to outperform the currency market. It is to reduce uncertainty, improve cash-flow visibility and protect project economics.

The strongest frameworks are therefore established before volatility tests management’s resolve.

7. Do not judge a hedge with hindsight

A successful hedge is not necessarily one that makes money.

A hedge that protects the economics of a project may ultimately show a financial loss because the currency moved favourably after execution.

That does not make it a bad hedge.

Equally, an unhedged position that benefits from a favourable currency movement does not retrospectively become good risk management.

The relevant test is whether the decision was consistent with the project’s risk appetite, financial structure and governance framework at the time it was made.

This distinction is essential.

Hindsight can easily turn risk management into a debate about trading performance. Infrastructure investors should resist that.

The objective is not to beat the market. It is to prevent currency movements from undermining an otherwise viable investment.

8. Bringing the framework together

Effective FX risk management in African infrastructure begins well before execution and continues long after financial close.

It requires investors and project companies to:

- understand the exposure;
- decide which risks genuinely need to be hedged;
- consider whether commercial or natural mitigation is preferable;
- select instruments suited to both the exposure and the market;
- establish clear governance;
- execute with discipline; and
- monitor the strategy as the project evolves.

There is no universal African infrastructure hedge.

A project with committed USD equipment expenditure during construction may require a very different approach from a fund managing long-term local-currency distributions across several jurisdictions.

Sometimes the answer will be a forward. Sometimes an option, cross-currency swap or more tailored structure. Sometimes the appropriate decision will be to retain part of the risk.

What matters is that the decision follows a coherent framework rather than market sentiment or product availability.

Good FX risk management does not begin with the derivative. It begins with the investment decision.