



## FMO and TCX realize the first-ever synthetic bond in Sierra Leonean leone

Currency risk transferred from solar energy investments to Western investors

**On February 9th, 2022, the Dutch development bank, FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.), issued the first-ever synthetic<sup>1</sup> bond in Sierra Leonean leone (SLL). TCX provided the Sierra Leone exposure.**

The bond, with an equivalent USD 7.5 million countervalue (around SLL 85 billion), has a term of 36 months. FMO issued the note with support of ING, who placed it with international investors seeking diversification benefits and an attractive yield. The investors bought FMO's triple-A rated note with a coupon that reflects the risk exposure of the Sierra Leonean market. This combination of AAA credit risk with frontier market risk and return represents an innovative asset class for which there is clear demand from global investors.

The original exposure emanated from renewable energy investments in Sierra Leone. Energy companies receive local currency income and by hedging the loan with TCX, the lender could offer local currency. This prevents the project from exposure to foreign exchange risk. By now 'selling' this risk through a local currency bond, TCX reduces its exposure to Sierra Leone risk, allowing the fund to support more loans in leones. Sierra Leone is amongst the world's poorest countries, ranking 180<sup>th</sup> out of 187 in the Human Development Index.

*"This is a crucial transaction, showing the way to financing the Sustainable Development Goals. Too often it is forgotten that the SDGs must be financed in (synthetic) local currency. If not, we will create debt crises that delay the transition to a green economy. Just look at Africa's debt fragility today", said Ruurd Brouwer, CEO of TCX. "With this issue, FMO shows that there is a way to transfer foreign exchange risk from borrowers that cannot and should not bear it, to investors that are looking for the risk and return of frontier currency debt. It also allows Sierra Leonean investors to invest in their future in a financially sustainable way."*

Huib-Jan de Ruijter, Chief Investment Officer of FMO: *"We are very happy to see investors' continued interest in frontier currency risk, especially in fragile markets such as Sierra Leone. Foreign exchange rate volatility is frequently one of the greatest risks to the viability of local projects in countries with very thin or non-existent currency markets. Mobilizing international investors into these markets is an important tool to reduce the reliance of local borrowers on the dollar."*

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<sup>1</sup> The term synthetic refers to the fact that the bond is denominated in Sierra Leonean leone, but the reconciliation of all cash flows is in USD.

**About FMO**

FMO is the Dutch entrepreneurial development bank. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a 50+ year proven track record in empowering people to employ their skills and improve their quality of life. FMO focuses on three sectors that have high development impact: financial institutions, energy, and agribusiness, food & water. With a committed portfolio of EUR 9.3 billion spanning over 85 countries, FMO is one of the larger bilateral private sector development banks globally. For more information: please visit [www.fmo.nl](http://www.fmo.nl).

**About TCX**

TCX is a global development finance initiative which offers long-term currency swaps and forwards in 100+ financial markets where such products are not available or poorly accessible. The Fund started operations in 2007 and has since then provided hedging instruments with a total volume of USD 8.5 billion, spread over 3500+ transactions. Today the fund has a total exposure of USD 5 billion in 60 frontier-market currencies. By selling parts of this exposure to private investors it creates markets and gives frontier countries access to the international capital market. For more information: [communications@tcxfund.com](mailto:communications@tcxfund.com) or [www.tcxfund.com](http://www.tcxfund.com).