

# The case for local currency **Power Purchase Agreements** in Africa

Why shifting away from hard currency contracts is essential for debt sustainability, utility viability, and inclusive energy transitions



## Our position

Local currency-denominated power purchase agreements (PPAs) should become the standard for renewable energy procurement in Africa. The shift is already underway, but accelerating it requires governments and procurement authorities to treat currency denomination as a core policy choice in all PPAs. It equally requires MDBs and DFIs to scale local currency lending and hedging infrastructure. The tools exist and the political will is growing, but without a systematic effort to embed currency risk management into how power is procured, the cost of currency volatility will continue to fall on the governments, utilities, and consumers.

# The hidden cost of dollar-denominated power

Nigeria

NGN

Ghana

GHS

Ethiopia

ETB

Zambia

ZMW

↓ 483%

↓ 263%

↓ 280%

↓ 154%

Currency depreciation 2016–2024

Across Sub-Saharan Africa and other emerging and developing economies (EMDEs), renewable energy procurements—through competitive auctions and bilateral negotiations alike—have delivered impressive headline results. Programs in Zambia, Ethiopia, and Senegal have attracted international capital and produced competitively priced bids. But these results have come with a structural vulnerability that is increasingly difficult to ignore: the overwhelming majority of power purchase agreements are denominated in US dollars or euros.

Most large-scale renewable energy projects in Africa are developed by foreign sponsors and financed by international lenders. The reason for this is a reflection of two structural realities—local banks rarely have the balance sheet depth or appetite to provide the long-tenor debt that utility-scale projects require, and the majority of large-scale project developers operating in the region are foreign entities. As a result, international investors finance projects in hard currency and demand revenue streams in the same denomination to avoid foreign exchange exposure. The result is that currency risk is allocated almost entirely to host country governments and their utilities—entities that earn revenue in local currency and are least equipped to absorb exchange rate shocks.

Between 2016 and 2024, the Nigerian naira depreciated approximately 483% against the dollar, Ghana's cedi fell 263%, Zambia's kwacha 154%, and Ethiopia's birr 280%.<sup>1</sup> For any 20-year dollar-denominated PPA signed at the start of that period, the real cost to the off-taker in local currency terms has multiplied several times over. Twenty-four EMDE currencies depreciated by more than 20% against the dollar during this period, with thirteen others falling between 10% and 20%.

Zambia's Scaling Solar program offers a concrete illustration. The innovative program was praised for significantly driving down the cost of solar, with the utility (ZESCO) signing two 25-year dollar PPAs at 6 and 7.8¢/kWh respectively in 2016—some of the lowest solar prices ever recorded in Africa at the time. By 2024, with the kwacha depreciating from ZMW 10 to ZMW 27 per dollar, the local currency cost of ZESCO's obligations under those same contracts had nearly tripled. The contracted price in dollars did not change, but the cost to the utility did.

***“We cannot keep financing African power projects in hard currency when revenues are in unstable local currencies—it is simply unsustainable. If consumers pay in local currency, then our financing must be in local currency or hedged accordingly.”***

**Wale Shonibare**

Director for Energy Financial Solutions, Policy & Regulations  
African Development Bank



The numbers bear this out. According to a World Bank report from 2025, more than two-thirds of utilities across Sub-Saharan Africa are unable to cover their operational and debt service costs from revenues. Layering hard currency payment obligations on top of these fragile balance sheets is not just risky—it is a structural design failure.

<sup>1</sup> African Investment Forum, Rabat, December 2025.

# The case for local currency PPAs

The case for moving toward local currency PPAs extends well beyond managing exchange rate volatility.

Four structural arguments make the shift essential:

## 1 Debt sustainability

Every hard currency PPA adds contingent foreign currency liabilities to a government's balance sheet, typically through the sovereign guarantees required to make these contracts bankable in the first place. When currencies depreciate and utilities cannot pay, those guarantees get called, converting contingent liabilities into real ones. With external debt accounting for nearly 70% of public debt across African countries (UNCTAD, 2023), EMDEs cannot afford to keep absorbing FX liabilities through energy contracts.

## 2 Utility viability

Hard currency PPAs impose long-term foreign currency payment obligations on entities that earn revenues entirely in local currency. Across Sub-Saharan Africa, most utilities are already unable to cover their operating costs. The currency mismatch does not solely create that fragility, but it deepens it.

## 3 Consumer affordability

It is common for currency depreciation costs to ultimately be passed on to consumers through electricity tariffs. A price that looks affordable on the day a contract is signed becomes more expensive every year as the local currency weakens, and households that had no say in contract design bear the consequences.

## 4 Local value creation

When revenue is in local currency, developers have a direct financial incentive to source goods, services, and finance domestically. Hard currency contracts offer no such incentive, effectively decoupling energy investment from the broader domestic economy. The development case for the energy transition depends on that link existing.

# Examples from Sub-Saharan Africa

The shift toward local currency power procurement is not just theoretical. Several countries have moved away from full dollar denomination, and each offers lessons for others.

## South Africa



South Africa is the clearest example of successfully utilizing local currency PPAs. South Africa's relatively deep capital markets have enabled local banks and funders to provide over 90% of renewable energy project debt in rand, and the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) allowed bidders to adjust final prices based on currency movements between bid award and financial close. This model demonstrates that local currency procurement can deliver world-class results—though it depends on domestic financial market depth that most African countries do not yet have. It therefore acts as a destination, not a template.

## Kenya



Kenya lifted a nearly three-year freeze on new PPAs in November 2025, introducing a framework that allows future contracts to be denominated in shillings, foreign currency, or a hybrid of both. In January 2026, the Energy and Petroleum Regulatory Authority followed with new regulatory changes that gave formal effect to this framework. The hybrid structure covers local operating costs and taxes in shillings while retaining a hard currency component for international debt service—matching the currency of each obligation to the currency in which it is naturally incurred. Kenya is now looking to procure over 1,100 MW from IPPs under this new framework, with a parallel shift from bilateral negotiations to competitive auctions for wind and solar.

## Mauritius



Mauritius has adopted a hybrid PPA model in which tariffs are split into local and hard currency components, with an escalation rate applied to the local currency portion. This approach caps foreign exchange exposure for the utility while preserving bankability for developers.

## Namibia



In Namibia, the Hardap solar project signed a 25-year local currency PPA fully indexed to domestic inflation. This was done without a sovereign guarantee and was financed through a partnership between Standard Bank and Proparco (IRENA, 2026). This matters because sovereign guarantees are one of the most politically and fiscally costly features of conventional energy procurement. That said, the model benefited from a structural advantage most African markets lack: the Namibian dollar is pegged to the South African rand, giving South African lenders the currency comfort to participate.

These cases reflect a broader trend that IRENA has described as growing experimentation with mixed currency structures aimed at balancing bankability and macroeconomic stability. They also underscore a gap: for countries without South Africa's capital market depth, the conditions that make full local currency financing possible simply do not yet exist. The transition requires active institutional support to work.

CLOSING THE GAP

# What the transition requires

The direction is clear. The question is how to make local currency PPAs bankable in countries where domestic financial markets cannot yet support the full weight of project finance. The answer is not a single instrument but a set of complementary interventions.

## Hybrid contract design as the entry point

For many African markets, a phased approach is more viable than an abrupt shift to 100% local currency. A well-structured hybrid PPA covers local operating costs, taxes and (to a certain extent) full or a portion of debt denominated in local currency while retaining a hard currency component to remunerate sponsors' equity, therefore creating an optimal currency match without requiring domestic markets to absorb the full financing burden.

## Currency hedging infrastructure

Where projects are financed in hard currency but earn revenue in local currency, hedging instruments can bridge the mismatch. TCX has now hedged over \$19 billion globally, with \$4.7 billion in Africa, providing long-tenor coverage in frontier currencies that commercial markets will not touch. The partnership with the European Commission is expected to unlock up to €2 billion in additional local currency financing capacity where hedging costs have historically been prohibitive.

## Auction design that embeds currency considerations

Currency denomination should not be an afterthought in procurement design. Frameworks should build in hybrid tariff structures matched to underlying cost currency, and scoring criteria that reward local currency content, creating competitive incentives for this structure to become the norm.

## MDB and DFI engagement

Local currency financing remains a significantly small share of most MDB and DFI portfolios, reflecting how much room remains to scale<sup>2</sup>. DFIs can move the needle by systematically offering local currency options alongside hard currency lending, deploying guarantees that enable domestic banks to extend longer-tenor financing, and pre-packaging hedging solutions so that local currency bids are competitive from the outset.

<sup>2</sup> "Among European DFIs, local currency financing represents less than 20% of portfolios" (Karaki, 2024).



GROUPE DE LA BANQUE AFRICAINE  
DE DÉVELOPPEMENT  
AFRICAN DEVELOPMENT BANK GROUP

The African Development Bank (AfDB) provides tenor extension through a Partial Credit Guarantee (PCG) to support local banks who are unable to provide long-term project finance (beyond 7 years) due to Basel 3 constraints.

Recognizing the acute challenge posed by currency risk, the AfDB is actively designing supply-side initiatives that facilitate domestic capital mobilization and allow for on-lending in local currencies. For example, through the Leveraging Energy Access Finance Framework (LEAF) Risk-Sharing Facility, the AfDB along with other partners combines concessional finance, credit enhancements, and technical assistance to mobilize private sector investment, with the African Guarantee Fund (AGF) guaranteeing up to USD 200 million of loans. This framework facilitates the participation of local banks in off-grid energy access projects.

Similarly, in Côte d'Ivoire, the AfDB, deploying its Sustainable Energy Fund for Africa (SEFA), anchored a XOF 60 billion social bond for the Programme Électricité Pour Tous (PEPT). By using SEFA's concessional resources to blend down the cost of TCX cross-currency swaps, the transaction successfully securitizes connection receivables in local currency, enabling the financing of 423,000 new connections for low-income households.

***“Hybrid financing structures can enable local currency PPAs without undermining sponsors’ expected equity returns. By denominating most of the tariff in local currency while indexing a limited share (around 20–30%) to USD or EUR, projects can reduce foreign exchange risks. On the debt side, while domestic capital markets continue to develop, interim solutions are available. Local currency financing can be mobilized through MDBs and DFIs, while blended finance instruments can help offset higher local currency borrowing costs and limit impacts on end-user tariffs.”***

**Demba Tandia**

Regional Vice President—SSA  
TCX



## Developing domestic capital markets

The long-term goal is financial systems deep enough to support local currency project finance. South Africa shows what that end state looks like. For most African markets, that destination is years away, and the interim solution is not to wait but to use the instruments and structures available now to build the track record, deal flow, and institutional capacity that make deeper markets possible over time. This is why the AfDB's investment in the Nigeria Infrastructure Debt Fund (NIDF) was crucial, crowding-in local pension funds into the first listed local currency infrastructure debt fund in Nigeria. This fund provided further liquidity in an asset class that has been generally illiquid, strengthened the domestic capital market through local currency investments, and crowded-in a wider range of investors in infrastructure.



## Conclusion

The prevailing approach to renewable energy procurement in Africa, guaranteeing highly protected returns to private actors in hard currency while shifting the cost onto governments and consumers in local currency, has delivered capacity but at growing cost to the countries it is supposed to serve. As IRENA's latest analysis makes clear, this model heightens fiscal pressures and, in some cases, contributes to debt distress. The tools to correct it exist: hedging instruments, concessional finance, hybrid contract structures, and growing political will. What has been missing is a systematic effort to embed currency risk management into the architecture of energy procurement from the outset.

The shift to local currency PPAs is not about rejecting international capital. It is about structuring the terms on which that capital enters so that risk is shared more sustainably between investors and the governments that host them. Kenya's January 2026 reforms, South Africa's track record, Mauritius's hybrid experimentation, and Namibia's proof-of-concept without sovereign guarantees show that the momentum is real. What is needed now is for governments to embed currency considerations into procurement design, and for the development finance community to scale the instruments that make local currency financing viable.



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### ABOUT TCX

TCX is a development finance initiative backed by a shareholder base that includes FMO, IFC, EBRD, EIB, and KfW, as well as the European Commission and Dutch, Swiss, British, French, and German governments and other DFIs and microfinance vehicles. TCX protects borrowers in emerging and frontier markets from currency risk by facilitating currency hedges that transfer the risk to TCX's balance sheet. TCX offers derivative instruments—cross-currency swaps and FX forwards—in currencies not or insufficiently covered by commercial parties. Since starting operations in 2007, TCX has hedged a total volume of over USD 19 billion in development loans across 71 currencies.

### ABOUT AFDB

The African Development Bank (AfDB) is a multilateral development finance institution established in 1964 to promote economic and social progress across Africa. With 82 member countries—including 54 African nations and 28 non-regional partners—the Bank mobilizes resources from capital subscriptions, loan repayments, and international markets to support development initiatives. In addition to its core operations, the AfDB manages special financing mechanisms such as the African Development Fund (ADF) and the Nigeria Trust Fund (NTF), enabling it to deliver concessional financing and targeted support to its regional member countries.

### ABOUT THE TCX-AFDB PARTNERSHIP

The African Development Bank (AfDB) and The Currency Exchange Fund (TCX) share a long-standing commitment to deepening local currency solutions across Africa. TCX provides the derivative instruments in illiquid and underserved African currencies where conventional solutions remain unavailable or prohibitively costly. The AfDB, as both a shareholder and strategic partner of TCX, brings unparalleled on-the-ground reach, sovereign relationships, and project origination capacity across its 54 regional member countries. Together, the two institutions are working to eliminate currency mismatch, mobilize domestic capital markets, and accelerate Africa's just energy transition on terms that are sustainable for the communities it serves.

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