

Hedging for water access in

Jamaica



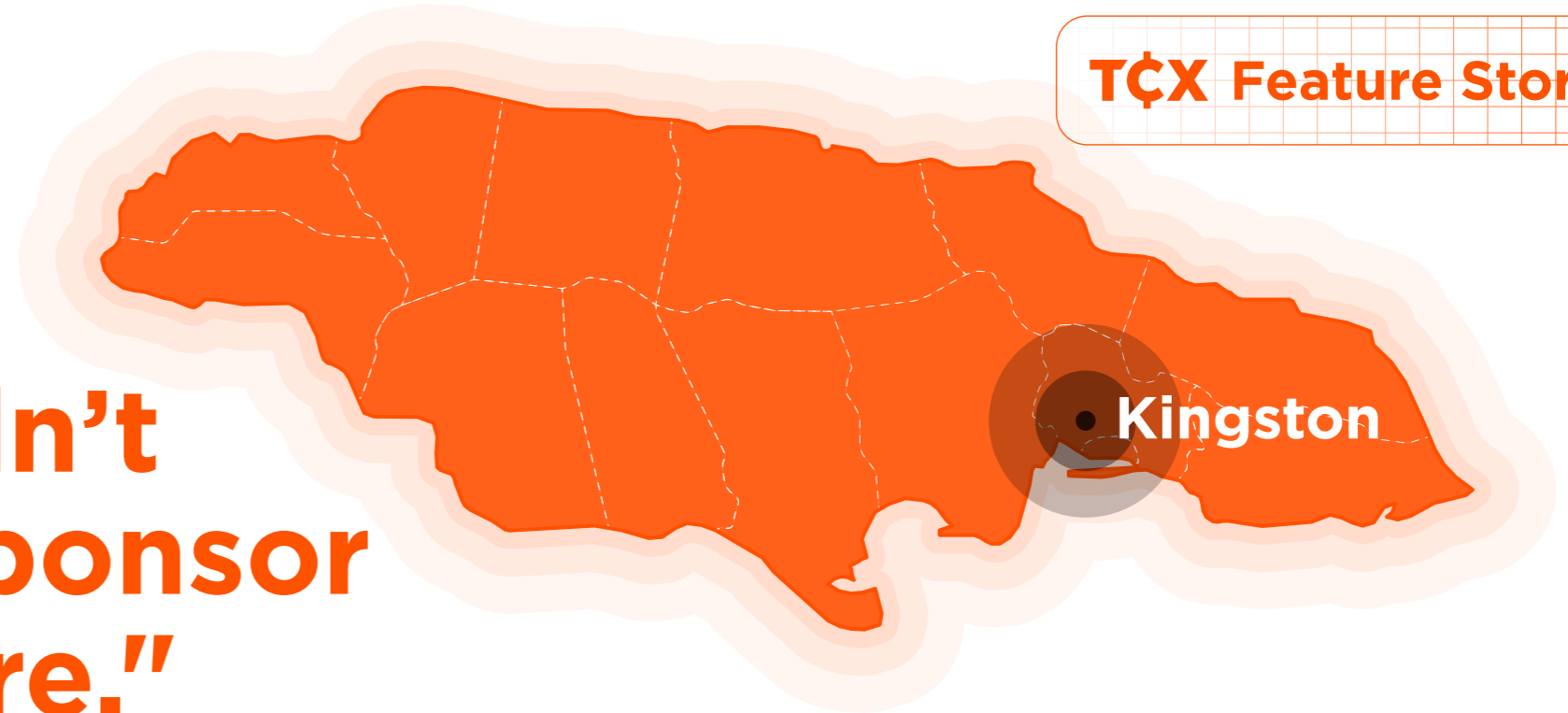
The Rio Cobre Plant: public-private cooperation for water access

Like many fast-growing cities in developing nations, Kingston faces chronic water shortages. During the dry season, supply cuts are common. To address this, the National Water Commission (NWC) — Jamaica’s public utility — partnered with a private developer to build a new surface water treatment plant¹.

This was Jamaica’s first Public Private Partnership (PPP) in the water sector, delivered through a 25 year concession between the government and a private consortium formed by Vinci Construction Grands Projets and Capital Infrastructure Group (“CIG”), an investment vehicle co-led by Pan Jamaica Group Limited and Eppley Limited.

The NWC remains the offtaker, paying for the water in Jamaican dollars (JMD) under a long-term supply agreement.

From the outset, the sponsors tried to raise financing through the local market. But local financial market participants were unable to meet the required tenor of over 20 years. As the syndication failed, the project faced a gap that couldn’t be filled by commercial local lenders alone.



"The economics simply didn't work if the utility or the sponsor had to take on FX exposure."

Why FX risk protection was non-negotiable

At that point, Proparco, IDB Invest, stepped in to build a blended finance structure together with local banks Sagicor Bank, and the Development Bank of Jamaica. Proparco offered to contribute USD 30 million to the package out of a total financing need of 79 million USD. But there was a fundamental constraint — the project's revenue stream was entirely in JMD — and the project company could not take on any FX risk.

This is exactly the type of challenge TCX was created to solve.

TCX worked alongside Proparco early in the structuring phase to assess how a hedge could be integrated into the loan. The goal was to create an indexed JMD loan — a loan disbursed in USD but structured so that the borrower repays in local currency at a fixed rate. The hedge provided by TCX absorbs the exchange rate risk, protecting both the borrower and the lender and, at the end of the line, protect Jamaican water consumers from FX fluctuations.

"From the beginning, it was clear that without a local currency hedge, the project could not proceed. The economics simply didn't work if the utility or the sponsor had to take on FX exposure."



Bastien Trombetti
Senior Investment Officer — Proparco





The development impact

The value of the project is clear. The Rio Cobre plant will deliver water security to a large share of Jamaica’s urban population. The intended results are fewer water outages, more resilience during droughts, and — most importantly — improved quality of life for households and businesses in the area.

The work TCX does is often behind the scenes, but it plays a pivotal role in allowing projects like Rio Cobre to move forward. Without our hedge, the financing package would have exposed the borrower to FX risk they could not carry. And without a viable financial structure, the project would likely not have been built under this Public Private Partnership.

“Supporting infrastructure projects is strategically important for TCX, given the significant development impact they generate. Yet, these transactions are particularly complex to structure, due to their long-term maturities and the conditional nature of funding disbursements across multiple stages of implementation. These challenges are magnified in markets like Jamaica, where even short-dated FX hedging is often unavailable. TCX’s ability to warehouse risk and create markets enables these high-impact projects to move forward by offering cash flow certainty on the liabilities. This is where TCX adds unique value.”



Julian Carvajal
SVP Trading — TCX

Outcomes



Fewer water outages
Reliable access to clean water for urban communities



Greater drought resilience
Infrastructure built to withstand climate-related stress



Improved quality of life
Better living conditions for households and businesses



TCX Feature Story

What's next?

The plant is under construction for two years, and discussions are underway about implementing lessons from this PPP structure for wastewater and other infrastructure investments in Jamaica.

The Rio Cobre plant is an excellent example of how public, private, national and international actors can join forces and address infrastructure gaps in a way that is efficacious and financially sense-making.

The consortium hopes that this first PPP will act as a catalyst and pave the way for further private sector participation in the water sector.

It also underscores a broader point. Namely, that the inaccessibility of long-term local currency financing continues to represent a major barrier to sustainable infrastructure development. However, one that can be overcome through innovation and collaboration. This case shows what is possible when hedging is viewed as a key tool development finance toolkit.

TCX did not build the plant, nor did it finance the plant. But by enabling the right kind of capital to flow into the right kind of structure, TCX helped make it possible. This characterizes the role of the fund as facilitator of the wider ecosystem.

“The Rio Cobre project has been driven and carried by VINCI and our shared sponsors Eppley and PanJam for a few years. TCX has enabled the project to close the financing gap. Their unique ability to provide long-term FX hedging on a market with a non-deliverable currency has been the key success factor.”

Vinci Construction Grands Projects representative