



INTRODUCTION

Public-Private Partnerships (PPPs) in emerging markets are frequently financed with foreign currency (FX)-linked debt, while project revenues are generated in local currency. This mismatch exposes governments and private off-takers to exchange rate volatility, increases fiscal pressure, and can undermine long-term project viability. Local currency (LC) financing offers a critical solution by aligning cash flows and liabilities, but remains underutilized due to structural constraints, including high borrowing costs, limited availability of long-tenor instruments, and a lack of investor-friendly vehicles.

This policy brief draws on insights from the May 2025 WAPPP webinar and case studies from Egypt, the African Development Bank (AfDB), OECD, InfraCredit Nigeria and Rand Merchant Bank (RMB). It explores how blended finance, when paired with targeted risk-sharing mechanisms, institutional incentives, and regulatory reforms, can unlock local capital markets for infrastructure investment.

Highlighted solutions include credit guarantees to elevate credit ratings, concessional capital to absorb early-stage risk, CPI indexation to manage inflation exposure, and procurement incentives that encourage local currency participation. Beyond risk mitigation, local currency financing also contributes to broader policy goals, including domestic financial market deepening, infrastructure as a new asset class for local investors, enhanced roles for Ministries of Finance and central banks in PPP oversight, and capacity-building for national financial institutions to engage in long-term project finance.

Together, these instruments can reduce foreign exchange (FX) dependency, increase the participation of domestic banks and institutional investors, and enhance the long-term sustainability of PPP programs.

KEY CHALLENGES IN LOCAL CURRENCY PPP FINANCE

Currency Mismatch

Revenues and costs in local currency are misaligned with hard currency financing, creating FX volatility and fiscal exposure.

Misalignment Between Public Payment Capacity and Investor Needs

Governments may be unable to commit to long-term, inflation-linked payment streams, which are essential to de-risking LCY bonds or loans.

Local Currency Can Introduce New Risks

LC debt may not align with foreign-denominated construction costs, raising cost overrun risk. Without clear frameworks, assigning risk across the project life cycle, is more complex.

Hedging Is Largely Unavailable

FX hedging tools are often inaccessible or unaffordable in most emerging markets, leaving PPPs exposed to currency risk.

Lack of Scalable Local Currency Structures

There is a shortage of standardized, replicable financing models, such as local guarantee-backed bonds, or LC payment frameworks, that can attract institutional capital and be applied across PPP pipelines.

BLENDING FINANCE MODELS FOR LOCAL CURRENCY SOLUTIONS

Blended finance provides a toolkit to address local currency finance constraints by combining public, private, and concessional capital to de-risk projects. The following models have proven effective:

1. CPI-Indexed Revenues and Debt

Linking payments to the local Consumer Price Index (CPI) protects real returns and manages inflation risk. CPI-linked instruments were highlighted as practical, low-cost innovations that preserve real returns and increase domestic investor interest.

2. Payment Guarantee and Annuity-Based Models

Government-backed payment structures provide long-term, predictable revenue streams to support local currency debt.

3. Public-Private Local Currency Alignment

Panelists noted that when governments co-invest in local currency (e.g. in annuity payments or capital contributions), it demonstrates commitment and improves investor confidence.

→ Example: Egypt's PPP Unit aligns both public and private inputs in local currency.

4. Bid Incentives for Local Currency Financing

Procurement frameworks can favor bids using local currency financing.

→ Example: Egypt awards extra evaluation points for Local Currency based proposals.

5. Blended Capital Facilities

Combining concessional and commercial capital allows risk to be distributed across investor types.

→ Example: RMB uses blended capital with donor support to finance local infrastructure.

6. Credit Guarantees

Enhance creditworthiness by elevating bonds or loans to investment-grade status, unlocking domestic institutional capital.

→ Example: InfraCredit Nigeria issues AAA-guaranteed Local Currency bonds for infrastructure.

7. Partial Credit Guarantees (PCGs)

MDBs like AfDB absorb credit risk from local banks, enabling them to extend longer-term loans.

→ Reduces pricing and supports risk-sharing with private lenders.

8. Donor-Backed First-Loss Capital

Concessional capital in junior tranches cushions senior investors from early-stage risk.

→ Improves credit profiles and pricing for senior tranches in blended funds.

9. FX Hedging and Guarantee Facilities

Facilities like TCX and FrontClear offer FX protection, but require scaling through donor or MDB support.

The most effective blended strategies use multiple tools, guarantees, indexed revenues, first-loss protection, and policy incentives, to build investable, local currency PPPs.

CASE STUDIES IN PRACTICE

InfraCredit Nigeria – Guarantee-Backed Local Currency Bonds

InfraCredit enables long-term local currency infrastructure bonds by issuing guarantees that raise ratings to investment grade (AAA locally).

- Supported ₦301 billion in bonds (as of April 2025) with tenors up to 20 years.
- Backed by 21 institutional investors.
- Pipeline exceeds ₦940 billion across energy, logistics, digital, and healthcare sectors.
- Uses payment guarantee structures and re-guarantees with partners like GuarantCo.

Key Insight: Domestic guarantee institutions tied to local capital markets can scale infrastructure investment at long tenors.

AfDB Hospital PPP – Layered Blended Finance for Health Infrastructure

AfDB supported a hospital PPP using:

- Donor first-loss equity
 - Senior commercial debt
 - CPI-indexed annuity payments backed by government
- Partial Credit Guarantees allowed local banks to lend in local currency.

The model reduced risk, attracted private capital, and ensured financial sustainability.

Key Insight: Layered blended structures with indexed revenue terms create investable PPPs in health and social sectors.

Egypt's PPP Unit – Policy Incentives for Local Currency

Egypt has built incentives into its PPP framework:

- Bid scoring favors local currency financing
- Government contributes its share in local currency
- Projects co-financed by public and private sector in local currency
- Blended structures supported by DFIs

Key Insight: Proactive policy design can shift the market toward local currency solutions and improve fiscal predictability.

OECD Observations – FX Risk and Market Limits

OECD research confirms 80–90% of infrastructure finance by DFIs/MDBs is in hard currency.

While tools like TCX and FrontClear help hedge FX, they are donor-subsidized and too small to meet systemic demand.

OECD calls for expanded blended platforms, donor guarantees, and regulatory reforms.

Key Insight: FX mismatch is a structural market issue requiring coordinated public and private intervention.

RMB – Mobilizing Local Currency via Blended Bank Financing

RMB uses blended finance structures to enable local commercial banks to provide infrastructure loans in local currency. By layering concessional capital beneath senior debt, RMB de-risks transactions and extends loan tenors.

Structure:

- Combines MDB/DFI concessional funding with commercial bank participation.
- Uses CPI indexation in loan terms to preserve real value over time.
- Focuses on social and economic infrastructure sectors across emerging markets.

Outcomes:

- Improved pricing and tenor of local currency loans from local banks.
- Helped crowd in private capital that would otherwise be deterred by project or FX risks.

Key Insight: Blended structures using first-loss concessional capital and indexed repayment terms can unlock long-term local currency financing from domestic banks.

PANEL INSIGHTS FROM THE MAY 2025 WEBINAR

Paul Harrocks (OECD) emphasized that FX mismatch remains a structural barrier in infrastructure finance and called for scalable, system-wide local currency solutions.

Arun Kumar (AfDB) underscored the catalytic role of Partial Credit Guarantees in enabling local banks to provide long-term financing in local currency.

Daniel Mueller (InfraCredit) highlighted that credit enhancements designed to match domestic bond market benchmarks are key to unlocking institutional investment.

Siyanda Mflathelwa (RMB) stressed that blended finance structures, combining concessional and commercial capital, can effectively mobilize local bank participation.

Atter Hannoura (Egypt PPP Unit) noted that aligning public contributions, offering local currency co-financing, and incentivizing local currency bids are essential to attract domestic investors.

POLICY RECOMMENDATIONS

- 1 Scale Credit Guarantee Platforms**
Expand access to local currency guarantees to raise project ratings and investor confidence.
- 2 Use First-Loss Capital Strategically**
Deploy concessional funding to shield senior investors and crowd in private capital.
- 3 Institutionalize Inflation-Linked Structuring**
Standardize CPI indexation in PPP contracts and bond instruments to preserve real returns, manage inflation exposure, and align with investor requirements.
- 4 Develop Annuity Frameworks**
Provide predictable, government-backed revenue streams to enable local currency debt.
- 5 Reform Domestic Investment Regulation**
Align pension and insurance regulation with infrastructure investment needs.
- 6 Catalyze Innovation Through MDB Financing Mechanisms**
Encourage MDB-led innovation in local currency guarantees, backstops, and long-tenor financial instruments to build scalable solutions and reduce perceived risk.
- 7 Incentivize Local Currency Bidding and Co-Financing**
Reward project proposals that use local currency and demonstrate fiscal alignment.
- 8 Demonstrate Government Commitment via Co-Financing**
Promote co-financing in local currency by governments, either through capital contributions or payment mechanisms, to signal alignment and fiscal support.
- 9 Strengthen Risk Transparency and Allocation**
Support the quantification and clear allocation of risks across project partners to improve financial structuring and crowd in both public and private capital.

CONCLUSION

While local currency financing is not a universal solution, it is an essential component of resilient PPP systems. Scalable blended finance platforms, grounded in shared risk, government alignment, and investor trust, can unlock domestic capital and reduce emerging market vulnerability to external shocks.

SOURCES

1. **RMB**, *Local Currency Funding for PPPs*, presented at WAPPP Webinar, May 2025.
2. **OECD**, *Unlocking Local Currency Financing In Emerging Markets and Developing Economies*, presented at WAPPP Webinar, May 2025
3. **InfraCredit**, *Using Credit Enhancement to Unlock the Potential for Long-Term Local Currency Infrastructure Finance*, presented at WAPPP Webinar, May 2025
4. **AfDB**, *Specialized Hospital in Africa*, presented at WAPPP Webinar, May 2025

WAPPP
CONTACT

World Association of PPP Units
and Professionals

[http://wappp.net/
contact@wappp.net](http://wappp.net/contact@wappp.net)