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Getting risk right is what separates bankable African energy projects from stalled ones

Anyone who has spent enough time around African energy project finance will recognise the pattern. The developer is credible, the technology works, and the off-taker is there. Everything lines up.

And then somewhere in the process the deal stops moving forward, lenders keep asking questions that get rerun rather than answered, the conversations thin out, and eventually the project quietly goes nowhere. Foreign exchange and interest rate risk were never dealt with from the start. Projects where those risks are addressed early tend to hold together far better under scrutiny.

Capital expenditure and debt in African energy projects are denominated overwhelmingly in hard currency, as are revenues in the form of power purchase agreements (PPAs) oftentimes (as opposed to local currency PPAs), with governments stepping in to set these tariffs to whatever the domestic tariff framework can bear to keep electricity affordable for consumers and appear credible to investors.

A key element that often gets overlooked is how frequently local currency is actually used and where it is not. In South Africa, local currency funding and tariffs are the norm. But in many utility-scale projects across the continent, tariffs have historically been denominated in United States dollars (USD).

At face value, this appears to resolve any currency mismatch. In reality, it often transfers the risk rather than removes it – shifting it onto the off-taker, typically a government or state utility. And that is where the problem resurfaces.

These utilities earn their revenues predominantly in local currency, meaning they carry the same foreign exchange (FX) mismatch themselves, alongside having often-limited access to USD liquidity. As pressure builds through depreciation, fiscal constraints, or broader macro stress this mismatch starts to show up in practice.

Across several African markets, this has already translated into payment delays or underpayments by off-takers, even where the contractual structure appeared robust.

There has been a growing push to move towards local-currency-denominated tariffs, which is directionally the right answer from a sustainability perspective. However, capital markets across many of these jurisdictions remain too shallow to fund long-dated infrastructure at scale in local currency, particularly at pricing levels that projects can sustain. The result is a structural tension that cannot be engineered away – it has to be explicitly managed and allocated.

Currency depreciation across most of these markets is a baseline trend rather than a shock. When it accelerates, debt service costs in local currency rise, cover ratios compress, equity returns deteriorate, and the government or utility that is supposed to underwrite the structure finds itself under fiscal strain as well. Shifting the risk onto already stretched counterparties doesn't remove it; it usually relocates it, and it tends to reappear later, in a weaker place, where it's harder to manage.

The pressure tends to show up first during construction, when

see money differently

the project is consuming hard currency in volume – importing equipment, running contractors, putting work in the ground – while generating nothing. When foreign exchange risk has been addressed in the structuring from the outset, the period is manageable. When it has not been, by the time operations begin, the project may already be carrying exposure that takes years to work through. Either way, the conditions at financial close will have moved considerably by then: FX rates shift, and local interest rates tend to move with them because the same macro pressures drive both. A model built on assumptions that felt reasonable 18 months earlier can look very different once the project has gone live, which is why experienced practitioners recognise that these exposures require continuous monitoring and fast reaction time, not a stress test produced at close and left to age.

Sponsors and developers understand this well enough. There is a straightforward commercial logic to wanting the numbers to look better than the stress scenarios suggest they should: lower required equity, higher projected returns, and assumptions that allow the deal to get done. Lenders who have worked through a few cycles tend to recognise the pattern. A lot of these models look workable while conditions remain stable. The pressure usually starts once currencies have weakened, tariffs have

frozen, global rates have risen, or government support has been delayed because that is when the underlying structure really gets tested. Cover ratios collapsing at the first serious shock means that the risk allocation was inadequate, regardless of how clean the documentation looked.

Long-dated FX hedging, which is often cited as the answer to all of this, is scarcer and more expensive across African markets than offshore assumptions tend to allow for. In many jurisdictions, instruments with tenors that match infrastructure project life are scarce, and where they do exist, their pricing materially changes the economics of the deal. The more durable approach is to get the underlying structure right: aligning funding currency with revenue profiles, where possible; protecting debt service during construction and the early operating period; using partial PPA indexation where full dollarisation is politically impossible; and combining targeted hedging with integrated stress testing across both FX and interest rate scenarios. These decisions shape whether a project attracts commercial bank appetite at all, and they belong at the term sheet stage, before the shape of the deal is essentially fixed.

Too many projects have been built on the assumption that governments will continue to make exceptions, that utilities will keep finding ways to support structures that carry more risk

than they can absorb, and that the next tariff renegotiation will go better than the last. What this produces is projects that never quite close, or that close and then require constant attention, each iteration slightly more strained than the previous one. Once a project has begun depending on continuous exceptions and goodwill to stay viable, the problems usually start well before anyone sits down to renegotiate. Getting this right requires people on the ground who understand how these markets actually behave, the liquidity constraints, the spread dynamics, and the political realities that shift faster than any offshore model can track.

The volatility is real, the instruments are limited, and a structure that looks workable in London or Johannesburg can perform very differently once local conditions have started moving in ways that generic frameworks did not anticipate.

The projects that close well and continue to perform are consistently those in which FX exposure, interest rate risk, affordability constraints, and political sustainability were treated as structuring problems from the outset, worked through methodically, stress-tested, and actively monitored throughout the project's life. That discipline is demanding. It is also, in these markets, what separates projects that perform from those that spend their operational years being restructured.