SARONA INVESTMENT PARTNERSHIP

Piloting a Foreign Currency Risk Mitigation Tool to Catalyze Investment

Institutional investment (e.g. pension funds, insurance companies) represents an important source of patient capital for key development priorities, such as improved infrastructure. Yet, institutional investment is severely constrained by foreign currency risk – the possibility that an investment's value will decrease due to fluctuations in the local currency. Currency risk prevents billions of dollars of institutional investment from flowing to developing countries, severely inhibiting private sector development.

Through an investment partnership with Sarona Asset Management, USAID is working to develop and pilot a currency risk mitigation tool that can hedge or insure against currency fluctuations, thereby attracting more institutional investment to development priorities. The partnership will engage institutional investors to improve understanding of foreign exchange (FX) challenges in emerging markets. Sarona will leverage its industry affiliations and existing investor base to develop the tool and test it in a USAID country catalyze investment that supports development objectives. Sarona, a private equity firm that invests in frontier and emerging markets, has nearly $200 million in assets under management.

Typically, currency hedging instruments use complicated "forward contracts" for a single investment that "lock-in" exchange rates for specified currencies at a future point in time. In emerging markets, these forward contracts are often prohibitively costly or administratively burdensome. The Sarona Investment Partnership seeks to work on a broader portfolio or fund-basis to circumvent just enough of the currency exposure to attract substantial institutional capital. Those funds, that cannot be risked in volatile local currencies, can be invested in priority development sectors.

The currency risk mitigation tool will target USAID missions, institutional investors, funds, and intermediaries that invest in volatile markets and are interested in accelerating additional investment by lowering currency risk. Mitigating the potential downside risk of currency fluctuations will entice large pools of capital into developmentally beneficial investment in frontier and emerging markets.

Investors interested in developing similar risk mitigation tools and USAID missions and offices that are interested in piloting similar products, should contact PCM at pcminfo@usaid.gov.

PCM Support to Investors and Financiers:

- Develops risk mitigation tools
- Provides structuring support for blended finance models
- Supports intermediaries linking capital supply and demand

PCM Support to USAID Missions and Offices:

- Offers strategic planning and programming assistance to catalyze investment into priority sectors
- Identifies and screens new investment partners

MOBILIZING PRIVATE CAPITAL TO MAXIMIZE DEVELOPMENT RESULTS

The Office of Private Capital and Microenterprise (PCM) is a new office within the Bureau for Economic Growth, Education and Environment (E3). PCM mobilizes private sector capital and expertise in support of development priorities. PCM engages investors and reduces business risks through: 1) direct transaction support, and 2) facilitation of investment partnerships. This approach complements traditional development programming by drawing in private investment that is capable of addressing development needs sustainably and at greater scale.

Agnes Dasewicz
Acting Director

David Cohen
Deputy Director

Office of Private Capital and Microenterprise (PCM)
U.S. Agency for International Development (USAID)

Contact Us:
pcminfo@usaid.gov
www.usaid.gov/pcm