Wilton Park

Report:
Local currency finance: what works, what scales, what's next?

September 2026

In association with
Foreign, Commonwealth & Development Office, The Currency Exchange Fund and Crown Agents Bank

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TCX

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Executive summary

Foreign Exchange (FX) risk remains a central but inefficiently allocated feature of the international development finance system. Across emerging markets and developing economies (EMDEs), investment is still often financed in hard currency (HCY) even where revenues are domestic, exposing borrowers to shocks they cannot control. This affects debt sustainability, project viability and the cost of capital and is detrimental to development outcomes.

The development system's financing choices shape who ultimately carries currency risk. For example, when gender-focused programmes are funded in HCY, that risk can pass through to women-led businesses and end borrowers. Climate finance faces a related tenor problem: long-lived investments in distributed energy, adaptation and municipal infrastructure often depend on local currency (LCY) revenues, but HCY liabilities expose them to exchange-rate movements over many years. Maximising development impact, therefore requires a development finance system that is better equipped to overcome foreign exchange risk and provide easier access to LCY solutions.

Against this backdrop, Wilton Park convened a multi-stakeholder dialogue, in partnership with FCDO, TCX and Crown Agents Bank. This brought together Multilateral Development Banks (MDBs), Development Financial Institutions (DFIs), governments, central banks, investors, market infrastructure providers, international organisations and academia. Country experience were an important part of the discussions. Case studies were provided as background material, and officials from central banks and ministries of finance set out how currency risk has affected borrowing decisions, budgets and service delivery in their own economies.

Discussions examined the barriers limiting LCY finance, the effectiveness of existing FX-risk management solutions, the role of domestic financial market development and how MDBs and other actors can build a more resilient financial ecosystem. A particular focus was on the need to understand interdependencies across money markets, capital markets and the wider yield curve, including how stronger short-term market infrastructure, liquidity and risk-transfer mechanisms can support longer-maturity LCY financing.

There was broad agreement that LCY finance must not be treated as a marginal development finance issue. Participants repeatedly linked currency mismatch to its real-world effects across EMDEs, including on jobs, livelihoods, investment and the delivery of essential services. While a growing range of tools and institutions already exists to support LCY finance, the discussion highlighted that the greater challenge lies in deploying these solutions at scale, strengthening domestic financial markets and aligning incentives across shareholders, MDBs, DFIs, governments, regulators and private investors. LCY was therefore consistently framed not as a product, but as part of a wider financial ecosystem requiring coordinated action across multiple actors.

The discussion focused primarily on private capital mobilisation (PCM): how MDBs, DFIs and partners can channel investment and mobilise private capital into firms, projects and financial institutions without transferring unmanageable currency risk to local borrowers. But the agenda also has a sovereign dimension. The same market foundations needed to scale LCY finance for private investment — liquid money markets, credible short-term reference rates, repo and collateral frameworks, yield curves and derivatives markets — are also central to how governments manage domestic debt, liquidity and macro-financial risk.

The international development finance system now needs to move from recognition to implementation. LCY finance should increasingly be treated as a core component in MDB reform, private capital mobilisation and financial resilience, rather than a specialist treasury product. Shareholders, MDBs, DFIs and partners will need to forge a path that will allow LCY finance to scale while preserving financial sustainability and balance-sheet strength.

Seven priorities for collective action emerged:

- **Use shareholder channels, including the G20, to raise ambition on LCY finance.** Shareholders should use MDB boards, replenishments and G20 processes to send a clear, unified signal that scaled FX-risk mitigation and LCY finance are central to MDB reform, private capital mobilisation and the wider financial architecture. That signal should translate into clearer expectations for MDBs on risk appetite, treasury reform, LCY origination, offshore hedging capacity, onshore market development and risk-sharing tools.

- **Move FX-risk assessment upstream in MDB/DFI transactions and explore how LCY can increasingly be made the default choice where borrower revenues are domestic.** MDBs and DFIs should treat LCY as the starting assumption where borrower revenues are domestic, so that HCY is justified rather than assumed. Both options should be assessed at origination, borrower FX exposure stress-tested, and hedging or risk-sharing built into financing design before term sheets are finalised.
- **Build LCY strategies around the market functions that enable intermediation, including money markets.** MDBs, DFIs, central banks and technical partners should give greater weight to the liquidity, collateral, benchmark and risk-transfer conditions that determine whether LCY finance can be originated, priced and managed locally. This should include developing and applying diagnostics, policy dialogue and institutional tools, supported by stronger central-bank peer learning on local market development, to address constraints in liquidity circulation, repo, collateral, benchmarks, supervisory treatment and derivatives markets.
- **Expand and differentiate risk-sharing and hedging solutions.** Donors and shareholders should address both the scale and design constraints in LCY risk management, increasing risk-bearing capacity where offshore hedging extends what local markets can provide, while supporting new onshore and deliverable models where local market depth, regulation and liquidity conditions allow.
- **Create a stronger LCY data and diagnostics architecture, integrated within wider efforts to improve EMDE and development finance data.** MDBs, DFIs, the IMF, OECD and GEMs should each fill distinct gaps: standardised money-market diagnostics, stronger Article IV/FSAP guidance, clearer reporting of the currency denomination of ODA lending and mobilisation, more granular LCY credit-risk/performance data, and better evidence on borrower outcomes.
- **Strengthen the MDB LCY Policy Forum as a key delivery and accountability mechanism.** Shareholders should keep the recommendations of the 2024 Heads of MDBs Viewpoint Note clearly in view and hold MDBs to account for progress. MDBs should re-emphasise and strengthen the policy-level MDB LCY Forum as a key senior mechanism for tracking delivery, surfacing constraints, testing new areas of collaboration and maintaining momentum beyond individual initiatives.

- **Build LCY mobilisation pathways for institutional capital.** MDBs, DFIs, donors and shareholders should test how private-capital mobilisation approaches developed in hard-currency portfolios — including B-loans, securitisation and other aggregation and risk transfer structures — can be adapted to LCY exposures. By pooling diversified LCY assets and distributing risk through investable vehicles, these approaches could broaden investor participation, expand distribution channels and help establish LCY finance as a scalable asset class.

FCDO and other participants should explore how the report's conclusions can be taken forward through more targeted workstreams reflecting the paper's recommendations. Participants also saw value in reconvening the wider group within six months to review progress and further support momentum.

Why local currency finance needs to scale

Persistent FX exposure reflects structural, market and behavioural constraints rather than a single binding factor. International capital is predominantly raised in HCY and MDB/DFI balance sheets are largely configured to intermediate that capital. The market infrastructure needed to manage FX risk remains uneven: in many low-income countries, hedging markets are absent, while in middle-income markets they are often shallow, short-dated or costly. FX risk management is therefore frequently unavailable, difficult to access at scale, or prohibitively expensive.

The scale of this exposure is material. Unhedged FX risk across developing economies is estimated at over $2 trillion, with currency volatility accounting for a significant share of risk premia in international lending. In practical terms, this affects both sovereign balance sheets and private investment decisions, shaping where capital flows and on what terms.

Demand-side dynamics reinforce these constraints. Borrowers often select HCY financing where it appears cheaper ex ante, despite the risks this creates over time, reflecting incentives and information gaps around FX volatility. Observed demand for HCY finance should therefore not be read as evidence that the current allocation of FX risk is efficient; it may reflect the products, incentives and administrative pathways the system has made easiest to use. For borrowers with LCY revenues or smaller financing needs, the absence of LCY solutions can constrain investment directly. Expanding LCY finance is therefore a central part of the solution. Properly deployed, it improves resilience by aligning liabilities with revenue streams, reducing exposure to exchange-rate shocks and associated risk premia, and enabling investment that would otherwise not take place. This is critical for development. For example, expanded LCY solutions can help deliver stronger gender and climate outcomes, by removing the burden of FX risks on SMEs, women-owned businesses or long-dated infrastructure projects that are least able to absorb currency volatility. Two example country cases trace how this plays out.

Case study 1: Zambia

Zambia issued USD 3 billion in Eurobonds between 2012 and 2015 alongside other non-concessional borrowing. When drought, the pandemic and a reversal in portfolio flows arrived together in 2020, most of the debt stock was denominated in hard currency while revenues were domestic, so depreciation revalued the liability itself: external public debt rose from 62% to 96% of GDP in a single year, driven substantially by revaluation rather than by new borrowing. Zambia defaulted in November 2020. The adjustment fell first on capital spending, which more than halved as a share of GDP by 2022, compressing the budgets that fund clinics, classrooms and rural roads. Recovery has been led domestically, with a primary surplus of 3.1% of GDP in 2025 and nearly 40,000 teachers recruited between 2021 and 2024. Currency composition determined how much of the shock reached the budget, and therefore how much reached the services the budget pays for.

Source: TCX and OGResearch country case study developed for Wilton Park event, 2026.

Case study 2: Ghana

Ghana entered 2021 with persistent fiscal vulnerabilities, including a tax-to-GDP ratio of 12.4% and deficits averaging 6.7% of GDP. As external debt-service pressures intensified and access to international markets closed, foreign debt service was already absorbing close to 30% of budget revenues, and the government turned to central bank financing worth 7.2% of GDP in that year alone.. Inflation reached 54.1% by December 2022, the cedi lost 42% of its value across 2022 and 2023, and public debt reached 92.7% of GDP. Ghana defaulted in December 2022. Because revenue mobilisation did not improve, the correction fell almost entirely on spending: education budgets fell from around 4% of GDP to below 3.1%, teacher numbers dropped roughly 10% between 2019 and 2024, and net secondary enrolment fell from 33.7% to 25.4%. Public debt was near 49% by October 2025, but the currency mismatch in foreign borrowing remains unaddressed.

Source: TCX and OGResearch country case study developed for Wilton Park event, 2026.

Targeted interventions show that LCY finance can be scaled through different channels, depending on market depth and institutional capacity. TCX addresses the offshore risk-sharing gap by providing hedging where onshore markets are unavailable or too shallow. Integrated approaches such as Brazil's Eco Invest programme and IDB's FX EDGE combine financing, incentives and market-building to expand LCY investment in specific sectors and countries. BII's Growth Investment Partners demonstrates how local investment vehicles can mobilise domestic institutional capital and provide longer-tenor growth finance to firms in the currency in which they earn revenues. The wider lesson is that scaling LCY finance requires a portfolio of models: some that absorb FX risk where markets are missing, and others that strengthen the domestic institutions and incentives needed to intermediate LCY over time.

Deep domestic capital markets remain the long-term foundation, enabling financing to be originated and funded locally. However, in many EMDEs these markets are not yet sufficiently developed, and international capital cannot on its own provide local-currency financing. The policy objective is therefore to enable international capital to operate more effectively in LCY terms while supporting the gradual development of domestic markets over time.

MDB incentives, risk appetite and business models

Current MDB business models remain oriented towards HCY lending. Although LCY instruments and hedging solutions have developed significantly, their use still often sits outside core lending operations, reflecting how MDB balance sheets are structured and the expectations placed on them by shareholders.

MDBs are designed to prioritise capital preservation and maintain high credit ratings, reinforcing conservative approaches to market and currency risk. As a result, LCY lending is often treated as an add-on rather than a core component of development finance, even where borrower revenues are predominantly domestic.

Addressing this requires a shift in how MDBs define risk and measure impact. Current approaches tend to emphasise short-term financial risk, while underweighting the systemic risks associated with currency mismatch. A more balanced framework would recognise the development and financial stability benefits of aligning financing with domestic currency revenues. Foreign exchange risk does not disappear; it is held by borrowers, MDBs, investors, governments or taxpayers. The policy question is where that risk can be held most efficiently and at the lowest development cost.

This makes LCY finance a governance and risk-allocation issue, not only a product-development issue. MDBs cannot materially scale LCY finance unless shareholders provide clearer guidance on the risks MDBs are expected to take, the risks they should transfer, and the risks that should no longer be passed by default to borrowers with domestic-currency revenues.

The framework should also recognise a feedback mechanism. Domestic borrowing costs respond to domestic macroeconomic management and the credibility of domestic institutions, so sound policy and independent central banks are rewarded in lower rates and a longer curve. Hard currency borrowing mutes that signal, since pricing reflects global conditions more than domestic performance. Local currency markets and sound policy reinforce one another.

Several practical reforms emerge in this context. MDB and DFI treasuries should be encouraged to expand onshore operations and source LCY with local counterparts, including by exploring commercial bank lines alongside local issuance, swaps and other market-based funding or risk-transfer channels. This depends on host-government and regulatory consent and may require prior engagement through local partnerships and international forums such as the G20, particularly where governments are concerned about competition with sovereign issuance, scarce domestic liquidity or regulatory treatment.

Client-facing, risk, credit and treasury teams should also be equipped to offer borrowers comparable LCY and HCY options early in the lending process, supported by stress testing, transparent pricing and conversion clauses where appropriate.

MDB balance sheet approaches will need to be adapted. Separating LCY activities within MDB portfolios, with differentiated risk parameters and dedicated capital allocation, would provide greater flexibility to expand operations while maintaining overall financial soundness. This would recognise a dual mandate: maintaining institutional strength while supporting development impact through expanded LCY financing. Progress in this area will ultimately depend on clearer shareholder guidance on mandate, risk appetite, capital adequacy, targets and accountability.

Specific propositions that attracted support included:

- **Use shareholder channels to clarify expectations on LCY finance.** Shareholders should use board, replenishment and MDB reform channels to signal that FX risk and LCY finance should more systematically shape decisions on mobilisation, risk management, lending structures and domestic market development. MDBs and DFIs should identify the mandate, incentive, risk, capital and reporting changes needed to deliver this. Shareholders could also consider setting explicit targets for LCY origination and mobilisation, with reporting against them.
- **Integrate LCY options and FX risk mitigation earlier in project design.** MDBs and DFIs could ensure client-facing, credit, risk and treasury teams consider LCY and HCY options at origination, including basic FX stress-testing where borrowers have domestic-currency revenues. Hedging and risk-sharing should be built into term sheets and financing design from the outset, so currency risk is allocated deliberately rather than addressed late as a separate product.
- **Explore local funding and risk-transfer channels for LCY lending.** MDBs and DFIs should test when commercial bank lines, local issuance, swaps or, where appropriate, central-bank FX swap arrangements can support LCY lending without disrupting domestic liquidity or sovereign funding.

MDBs and DFIs should accelerate and preserve momentum in translating propositions such as these into institution-level implementation plans.

Scaling risk-sharing and hedging solutions

A range of instruments and platforms already exists to manage FX risk and expand access to LCY finance. Their value lies in addressing different constraints across the system. TCX helps fill the offshore hedging and risk-sharing gap where onshore markets are absent or too shallow. Delta, still at concept stage, points to a possible onshore model for pooling treasury capacity, funding and hedging operations across MDBs and DFIs. Frontclear addresses a different constraint: the money-market infrastructure that allows local institutions to manage liquidity, collateral and counterparty risk more effectively. The challenge is not to choose between these approaches, but to scale each where relevant and strengthen the links between them.

This has implications for how concessional and first-loss capital should be used. Rather than providing permanent subsidy, it should address specific market failures that limit LCY finance at different points in the ecosystem. In offshore hedging markets, the EU Market Creation Facility (EUMCF), leverages concessional capital to enable TCX to offer hedging at discounted rates in high risk markets, addressing the problem that borrowers who need protection are often those least able to afford it. In onshore markets, concessional support can help build the treasury capacity and market infrastructure needed to intermediate LCY finance more sustainably over time.

Seen in this context, Delta illustrates the promise of a more integrated onshore model. By centralising treasury capacity, liquidity pooling and market operations across participating MDBs and DFIs, it seeks to reduce fragmentation in LCY lending while strengthening local market functioning. Its value would lie not only in supporting hedging and funding operations, but also in accelerating broader reforms to MDB treasury practices and onshore market engagement. Delivering this will depend on careful partnership with governments, regulators and local market participants, particularly where domestic liquidity is scarce and MDB or DFI issuance could affect sovereign funding conditions.

The interaction between offshore and onshore approaches is therefore central. TCX can operate in frontier markets where domestic market depth is insufficient, while Delta-type models aim to deepen local markets and intermediate risk onshore. These approaches are complementary rather than competing, and in some cases may operate within the same transaction structure. Improvements in local market liquidity, participation and pricing reduce the cost of managing FX risk across the system and create better conditions for both offshore hedging and onshore intermediation.

Deliverable FX spot markets are also part of this transition, particularly where local currency can be accessed and settled through regulated banking channels. Providers such as Crown Agents Bank can help connect international capital with local FX liquidity and payments infrastructure, complementing hedging platforms and onshore market-development efforts.

Frontclear and similar models help address the market-infrastructure constraint that underpins this transition. By reducing counterparty, settlement and credit risks, they make repo, swaps and other collateralised transactions more feasible where weak netting frameworks and bilateral limits prevent liquidity from circulating through the banking system. This matters because local banks cannot fund, refinance or manage LCY risk effectively without functioning money markets.

Indexed structures can also play a useful intermediate role where full LCY lending is not yet available. Inflation-indexed and synthetic LCY instruments can reduce currency mismatch while preserving access to international funding, particularly in markets where domestic-currency funding and hedging remain limited.

Alongside product innovation, co-financing structures will be important for mobilising international investors that may have appetite for LCY assets but lack an efficient route to access them at scale. A proposed ILX Local Currency B-Loan strategy is one such example, exploring whether MDB and DFI-originated LCY loan participations could be aggregated into a diversified fund for institutional investors, potentially alongside LCY bonds and medium-term notes. The proposal responds to emerging interest among European institutional investors in gaining exposure to LCY returns, while leveraging MDB and DFI origination platforms to create a more investable and diversified LCY asset class. Donor backing for the feasibility and design phase could help establish whether the model can offer an investable risk-return profile and, if successful, support its launch and subsequent scale-up.

The appropriate balance between these tools will vary by country context. In frontier markets, offshore hedging and donor-backed risk absorption may remain essential. In more developed markets, the priority may be to deepen onshore issuance, repo markets, swaps and domestic institutional investor participation. No single model will work across all markets, but scaling proven mechanisms and connecting them more deliberately offers a practical route to managing FX risk while building deeper LCY finance over time.

Two agreements concluded during the dialogue illustrate that connection directly. Under a branded Unlocking Local Currency Initiative, TCX signed Letters of Intent with Crown Agents Bank and with Frontclear to develop deliverable local currency transaction structures, combining TCX's market-making and risk absorption in illiquid currencies with Crown Agents Bank's capacity to source and move liquidity in and out of frontier markets, and Frontclear's ability to unlock domestic interbank liquidity through credit enhancement. Both are preliminary, with pilots envisaged rather than committed. Their relevance is structural rather than transactional: offshore and onshore capability are not sequential stages of a single development path, but functions that can be combined within a single transaction.

Specific propositions that attracted support included:

- **Scale TCX while preserving additionality.** Additional capital for TCX should preserve its additionality across currencies, tenors and sectors, while ensuring it can continue to hedge in frontier and low-income markets where commercial or onshore solutions are least available, and develop its ability to distribute currency risk to private investors and recycle capacity for new transactions.
- **Advance the EBRD/AIIB Delta proposal towards piloting.** The international community should support Delta's development as a system-building model for more integrated MDB and DFI treasury collaboration on onshore LCY finance and domestic market development; supporting ongoing efforts to define potential pilot markets, participating institutions, governance arrangements and the relationship with existing treasury operations.
- **Target guarantees at liquidity blockages.** Donors and shareholders should support guarantees and related risk-sharing tools, such as those provided by Frontclear, where counterparty, collateral or legal risks prevent interbank liquidity from circulating. These interventions should be linked to specific market-development objectives, including stronger repo activity, better collateral use, improved short-term benchmarks and deeper conditions for LCY swaps and lending.
- **Build local currency pathways for institutional capital.** Donors and shareholders should support the development of platforms that connect MDB and DFI origination capabilities with long-term institutional investors. The long-term challenge is not simply originating more LCY loans, but creating investable structures capable of attracting mainstream institutional capital. By aggregating diversified LCY exposures into investable vehicles, these models could help establish LCY lending as a scalable asset class and unlock a far larger pool of capital than MDBs and DFIs can provide on their own.

Developing domestic financial and money markets

Deepening domestic financial markets is a precondition for sustaining LCY finance. External capital and hedging solutions can help manage risk, but cannot substitute for onshore markets capable of originating, pricing and intermediating LCY at scale. Weak money markets, narrow investor bases and fragmented financial systems continue to constrain this process.

Money markets play a foundational role. Without liquid interbank markets, reliable repo activity and credible short-term benchmarks, it is difficult to build yield curves, extend maturities or develop derivatives markets. In many contexts, weak liquidity circulation between banks remains the primary binding constraint on the availability and pricing of local currency finance. This suggests a need to rebalance market-development efforts. The development system has often focused on extending the maturity and volume of LCY lending or developing sovereign bond markets, but sustainable progress depends equally on the money markets, reference rates and derivatives markets that underpin liquidity management, risk transfer and domestic debt markets.

The challenge is therefore as much about instruments as it is about market infrastructure. Domestic liquidity is frequently concentrated in sovereign debt, while regulatory frameworks can reinforce these patterns by incentivising commercial bank balance sheets towards government securities rather than private sector lending. Supporting local banks to manage liquidity, collateral, duration and FX exposure more effectively could help mobilise domestic resources for productive investment rather than leaving LCY finance dependent on external intermediation alone.

Several practical actions emerged. A standard diagnostic framework for local money markets would help identify constraints around liquidity, participation and pricing, while enabling comparison across countries. This could be complemented by a common framework for local market development linking money markets, capital markets, regulatory structures and institutional actors. Technical assistance should focus on the operational foundations of markets, including reference rates, collateral and netting arrangements, repo infrastructure, regulatory enforcement and the systems required for swaps and other LCY transactions. Central banks can play an important role as market developers alongside their traditional monetary and supervisory functions.

Market development also needs to be understood from the asset side. Trade finance, receivables, factoring, inventory finance and supply-chain finance can create short-tenor LCY assets that banks and non-bank financial institutions can originate, refinance and distribute. This was also reflected in the Trade Finance Conference of Parties (TF COP), which has helped frame the SME trade-finance gap as a market-architecture challenge involving risk, capital, data, distribution, legal certainty and FX market infrastructure. Strengthening these channels could redirect domestic liquidity towards SMEs while building the transaction base required for deeper LCY markets over time. Institutional solutions, including onshore vehicles, public development banks with stronger treasury capacity and pooled funding structures, could help connect domestic liquidity with investable assets and extend markets further out the yield curve.

One proposal focused on distributing LCY to SMEs through domestic financial institutions rather than creating local currency itself. Most SMEs do not borrow directly from MDBs or access capital markets; they depend on local banks and non-bank financial institutions that already undertake credit assessment, collateral management and customer due diligence. Wholesale funds could channel capital from institutional investors to domestic financial institutions, which then on-lend to SMEs, with FX management handled through bank treasury operations. By aggregating portfolios and relying on existing banking infrastructure, this approach could connect local and international capital to fragmented SME demand while highlighting the importance of distribution mechanisms and financial intermediation in reaching the real economy.

There is a clear sequencing logic: improve liquidity circulation and interbank functioning; build the infrastructure and regulatory basis for repo, benchmarking and market participation; then use this foundation to support swaps, yield curve development and greater mobilisation of domestic and foreign capital. This sequencing should guide programme design: interventions should first identify the weakest market function, then select the appropriate instrument, institution and technical partner to address it.

Specific propositions that attracted support included:

- **Strengthen the money-market foundations of LCY finance.** MDBs, DFIs and technical assistance providers should give greater weight to interventions that improve interbank liquidity, repo, credible short-term reference rates, collateral use and netting. Targeted guarantees and risk-sharing tools, including Frontclear-type models, should be deployed where counterparty, collateral or legal risks prevent liquidity from circulating.
- **Build short-tenor LCY asset markets that can be originated, aggregated and refinanced.** MDBs, DFIs and specialist platforms should work with local banks, non-bank originators and trade-finance providers to develop receivables, factoring, inventory finance and SME trade assets, so domestic liquidity can move towards productive investment and create the transaction base for deeper LCY markets.

- **Build the curve, not just individual LCY products.** MDBs, DFIs and central banks should assess LCY initiatives by whether they improve liquidity circulation, collateral use, pricing and risk transfer - the market functions that allow finance to move from short-tenor assets towards longer-term sovereign, corporate and project finance.

Data, diagnostics and decision-making

Scaling LCY finance requires a stronger information architecture. Data on market depth, currency exposure, risk and performance remains fragmented across institutions, making it harder to target support, coordinate action and track whether market conditions are improving over time.

A central priority is to establish standardised diagnostics for local markets, especially money markets. Shared tools covering liquidity conditions, interbank activity, participation, repo, benchmarks and pricing would provide a more consistent basis for country prioritisation and coordination across MDBs, DFIs and partners.

The IMF could strengthen this agenda through Article IV surveillance, FSAPs and technical assistance by giving more systematic guidance on the market conditions needed for safer LCY borrowing and FX-risk management. This should build on existing IMF and World Bank debt sustainability and local-currency market diagnostics, with greater attention to currency composition, money-market liquidity, repo and collateral frameworks, FX market functioning and when LCY borrowing reduces rather than redistributes risk.

Stronger diagnostics also depend on better institutional data. More consistent collection and sharing of LCY lending data, including currency composition, risk metrics and performance outcomes, would support MDB and DFI decision-making, improve transparency, reduce information asymmetries and strengthen risk pricing.

The OECD could complement this by strengthening reporting on local-currency ODA loans and private finance mobilisation. Clearer reporting on currency denomination, hedging treatment and the currency of mobilised finance would help shareholders assess whether official finance is reducing FX mismatch, rather than simply increasing volumes or shifting currency risk to borrowers.

GEMs could provide a stronger empirical foundation for the LCY agenda. Its MDB and DFI default and recovery data, including LCY-relevant credit-risk information, could be made more decision-useful through greater disaggregation by currency, tenor, instrument, borrower type, sector, geography, recovery experience and, where feasible, pricing or hedging characteristics. Case studies on borrower outcomes, avoided currency losses, risk-adjusted performance and real-economy impact would complement this evidence base.

Credit rating agencies also have a role in improving the investibility of LCY assets. Limited ratings coverage for LCY borrowers, MSMEs and pooled short-tenor assets constrains investor participation, even where domestic liquidity exists. Local and international rating agencies, working with MDBs, DFIs and data platforms such as GEMs, could help develop rating approaches for pooled receivables, factoring portfolios and other MSME-linked LCY assets, supported by stronger performance data and appropriate credit enhancement.

Specific propositions that attracted support included:

- **Standardise money-market diagnostics.** MDBs, DFIs and technical partners should develop shared diagnostic tools covering liquidity, interbank activity, benchmark credibility, repo, collateral frameworks and market participation.
- **Improve MDB and DFI LCY reporting.** Reporting should capture LCY lending by currency, tenor, product and instrument, rather than treating local-currency activity as an aggregate category. This reporting should be used for accountability as well as transparency. Shareholders should be able to track MDB and DFI progress in increasing LCY lending, reducing borrower currency mismatch, expanding the range of currencies and tenors available, and improving the evidence base for risk-adjusted decision-making.
- **Build evidence on outcomes.** MDBs, DFIs and shareholders should commission case studies and datasets that capture borrower outcomes, avoided currency losses, risk-adjusted performance and real-economy impact.
- **Use LCY data to strengthen shareholder oversight.** Shareholders should track MDB and DFI progress using data on the currency, tenor, instrument and performance of LCY lending, while investors should be given clearer evidence on risk-adjusted returns, borrower outcomes and avoided currency losses.

Capacity building and institutional capability

Many constraints to LCY finance stem from missing institutional capabilities rather than a lack of instruments. In several markets, the challenge is not the availability of hedging or lending solutions, but the ability of domestic institutions to operate them. Sharing expertise on financial supervision and macroprudential policy can therefore have large effects in the short and medium term.

A recurring theme was the need to move beyond conventional technical assistance (TA) towards the development of specific market functions. This includes the capacity to support repo markets, liquidity management, collateral frameworks, benchmark construction and local derivatives activity. In many markets these functions remain underdeveloped, limiting the ability of financial institutions to intermediate local currency or manage risk effectively.

Capacity building should therefore be tied to live reform agendas and transaction pathways. It should help institutions implement specific market functions, rather than only increasing general awareness of LCY finance.

Central banks and regulators were identified as particularly important counterparts. Alongside their monetary and financial-stability responsibilities, they help shape the legal, regulatory and operational foundations of local markets. Actions discussed included support for supervisory capacity, market infrastructure, collateral and netting arrangements, and domestic money-market frameworks. Technical assistance (TA) should be linked directly to implementation and market operations, rather than delivered as a standalone activity.

Regulatory barriers also need to be addressed in concrete terms. These may include the capital treatment of LCY and hedged exposures, restrictions on derivatives use, collateral eligibility rules, netting and insolvency frameworks, FX prudential limits, withholding tax on local issuance, and investment regulations affecting pension funds and insurers. Addressing these constraints requires regulators and market participants to work through practical obstacles together rather than treating regulation as a generic enabling condition.

There was also support for strengthening institutional capability within MDBs, DFIs and local financial institutions. This includes improving treasury, risk and credit functions, building expertise in balance-sheet management and local market operations, and developing the capacity to originate and manage LCY assets. Shared capability platforms can help reduce duplication, consolidate expertise and accelerate the diffusion of good practice across markets.

Capacity constraints extend beyond regulators to market participants themselves, particularly local banks. Expanding LCY finance will require stronger capabilities in liquidity management, origination, risk transfer and the use of swaps and other structured products, reducing reliance on a small number of specialised intermediaries.

A further gap sits on the borrowing side. Ministries of finance, debt management offices, state-owned enterprises and firms make currency decisions, the consequences of which persist for the life of an instrument. Yet these decisions must often be made without the analytical tools to compare options on a like-for-like basis. Facilities dedicated to this function are beginning to emerge.

The TCX Local Currency Academy, funded through the EU's EFSD+ framework and KfW, provides practical frameworks, analytical tools and direct technical support on foreign exchange risk management to public and private sector borrowers across at least twenty low-income and lower-middle-income countries.

Specific propositions that attracted support included:

- **Link technical assistance to live market functions.** Donors, MDBs and technical partners should direct support towards repo, collateral, benchmarks, swaps documentation, supervisory treatment and treasury operations, rather than generic training.
- **Enable local institutions to reach SMEs in LCY.** MDBs and DFIs should use guarantees, capital relief and risk-sharing structures to work through banks, NBFIs and other originators that can reach SMEs, while regulators clarify treatment of those assets so liquidity is not simply recycled into sovereign securities.

- **Support central banks and regulators as market enablers, including through a Governor-led EMDE central-bank forum on local market development.** Such a forum should focus on peer-to-peer implementation of the practical reforms that underpin LCY market functioning, including repo, collateral, netting, benchmarks, swaps and supervisory treatment. It would sit alongside BIS governor-level discussions as a practical market-development track, focused less on macro-financial surveillance and more on the institutional plumbing needed for LCY markets to function.
- **Strengthen borrower capacity to compare and choose currency options.** Ministries of finance, debt management offices and state-owned enterprises determine the currency composition of their liabilities, often without the means to compare offers on a like-for-like basis: a hard currency headline rate set against a local currency alternative whose higher nominal cost largely reflects the interest rate differential rather than a risk premium. MDBs, DFIs and technical partners should support the analytical capacity to evaluate that trade-off over the life of an instrument and to reflect currency exposure explicitly in debt management strategies. Lenders should present both options at origination wherever a local currency alternative exists.

Global coordination and G20 leadership

Scaling LCY finance is ultimately a coordination problem. Many constraints are interconnected and cannot be addressed by individual institutions acting alone. Progress depends on stronger coordination across actors and clearer signals from shareholders and policymakers.

Participants emphasised the need to clarify which institutions are responsible for which parts of the LCY ecosystem, where shareholder decisions are required, where specialist platforms can scale existing solutions, and where country-level pilots can test implementation.

Discussions amongst participants highlighted that the G20 is well placed to provide this direction. The Heads of MDBs Viewpoint Note was framed as a contribution to the G20 Brazilian Presidency’s MDB reform discussions, and fourteen of its deliverables were later incorporated into the G20 Roadmap. The G20 can reinforce the shareholder signal, while the Heads of MDBs group remains responsible for delivering and evolving the LCY agenda as implementation exposes practical constraints and market needs.

Greater alignment across institutions is also required. A recurring theme was the need for a common framework linking MDB activities, risk-sharing platforms, TA and market-development initiatives. This is particularly relevant where multiple actors are pursuing similar objectives through different approaches, including onshore treasury platforms, offshore hedging providers and market infrastructure programmes. Some of that linking is already underway between existing institutions, so there is opportunity to test and scale these arrangements further.

Several proposals focused on sustaining coordination beyond individual initiatives, including strengthening existing LCY finance forums, monitoring implementation over time and developing a practical implementation map that clarifies responsibilities across MDB treasury reform, offshore hedging capacity, onshore market development, concessional risk absorption, diagnostics and regulatory engagement.

A further priority is to integrate LCY finance more systematically into related policy agendas. This includes debt sustainability, PCM, financial sector development and reform of the international financial architecture. Embedding LCY considerations within these discussions would help ensure that FX risk is treated as a core development finance issue rather than a specialist market topic.

Specific propositions that attracted support included:

- **Re-emphasise and strengthen the Heads of MDB LCY Working Group.** Shareholders should make clear that they view it as a critical convening mechanism for MDB treasury reform, LCY reporting and system coordination.
- **Broaden the forum beyond MDBs alone.** As a complement to a strengthened MDB-focused channel, participants saw the need to attach a wider LCY convening space that brings DFIs, regulators, the private sector, borrowers and specialist platforms into the same market-development conversation, without diluting the specific shareholder ask to MDBs or creating unnecessary fragmentation.
- **Use the G20 to send a clearer shareholder signal.** The G20 can reinforce LCY finance and FX risk mitigation as core to MDB reform, private capital mobilisation and financial architecture discussions.

- **Create a practical implementation map with owners and timelines.** The LCY ecosystem should be mapped across MDB treasury reforms, the IFC/IDA Private Sector Window Local Currency Facility, specialist platforms, local market-development tools, data and diagnostics, and risk-sharing mechanisms. The map would show how different approaches fit together, where each is best suited, what gaps remain, who is responsible for addressing them, and which actions can be advanced within the next six to twelve months.

Conclusion

The central message from the dialogue was that local currency finance is no longer a niche technical concern, but a test of whether the development finance system can adapt to the realities of the economies it seeks to support.

The opportunity is transformative because it is not only about changing the currency of individual loans; it is about changing the terms on which risk, resilience and investment are shared between international institutions, domestic markets and end borrowers.

The next phase should therefore be defined by implementation. The building blocks exist, but they remain fragmented across institutions, instruments and markets. The task now is to align shareholder mandates, MDB treasury reform, specialist risk-sharing platforms, domestic market development and data into a coherent delivery agenda.

Realising that opportunity will not just require better instruments. It will require sustained political will, institutional leadership and coordination across the full range of actors whose decisions shape how currency risk is created, priced and allocated.

With that collective effort and by building on the connections already made, local currency finance can move from a set of important but standalone solutions to a core pillar of a more resilient and equitable development finance architecture.

List of Acronyms

- Multilateral Development Bank (MDB)
- Foreign Exchange (FX)
- Hard currency (HCY)
- Emerging markets and developing economies (EMDE)
- Development Finance Institutions (DFI)
- Local currency (LCY)
- International Monetary Fund (IMF)
- Inter-American Development Bank (IDB)
- Official Development Assistance (ODA)
- Private Sector Window (PSW)
- Small-Medium sized enterprise (SME)
- Non-Bank Financial Institution (NDFI)
- Financial Sector Assessment Programme (FSAP)

Table of Referenced LCY Models

Model / initiative	What it does	Why it matters for LCY finance
TCX	Provides offshore hedging and risk-sharing in currencies, tenors or markets where commercial hedging is unavailable, limited or too costly.	Allows MDBs, DFIs and investors to offer or support LCY lending without passing unmanageable FX risk to borrowers, particularly in frontier and low-income markets where onshore markets are shallow.
Delta	A proposed shared treasury platform for development banks, intended to pool	Could reduce fragmented transaction-by-transaction LCY funding and support

	treasury capacity, funding and hedging operations across participating MDBs and DFIs.	more systematic onshore market engagement, while strengthening local liquidity, pricing and risk-transfer capacity over time.
BII Growth Investment Partners (GIP)	A locally incorporated evergreen investment vehicle providing flexible, patient growth capital, primarily in local currency, to Ghanaian SMEs and growth companies, alongside business support.	Demonstrates how LCY finance can be intermediated through a domestic investment platform, reducing currency mismatch for firms while building local investment capability and creating a potential demonstration effect for domestic capital mobilisation.
Frontclear	Provides guarantees and related support to reduce counterparty, collateral, settlement and legal risks in local money-market transactions.	Helps unlock interbank liquidity, repo and collateralised transactions, strengthening the short-end market infrastructure needed for LCY lending, swaps and deeper domestic yield curves.
IDB FX EDGE	An IDB platform, supported by FCDO, that offers a package of policy tools including blended finance and project preparation, contingent FX liquidity and longer-term FX derivatives to help countries	Shows how LCY finance can be embedded into a wider country and sector package rather than treated as a standalone hedging product, linking FX-risk management with policy incentives,

	reduce currency-risk barriers to private investment.	project preparation and market-building.
Brazil Eco Invest	Brazil's FCDO-supported foreign-capital mobilisation and currency-hedging programme, housed in Fundo Clima, using blended-finance auctions, FX liquidity support, derivatives access and project-preparation tools to attract long-term sustainable investment.	Illustrates the value of integrated, country-specific approaches that combine public finance, currency-risk tools and project preparation to attract international capital while supporting domestic sustainable-investment priorities.
IFC/IDA PSW Local Currency Facility	A facility under the IDA Private Sector Window that provides long-term local-currency solutions for IFC investments in IDA and fragile or conflict-affected markets where capital markets are underdeveloped and local-currency funding or hedging options are absent, limited or not sufficiently available.	Allows IFC to offer LCY loans to clients with local-currency revenues by using IDA resources to backstop specific risks that arise when sourcing or hedging local currency. It fills gaps only where existing market solutions, including domestic banks, TCX or IFC liquidity operations, are insufficient.
Wholesale LCY intermediation through domestic financial institutions	A proposed distribution approach in which capital is channelled through local banks, NBFIs or other originators that on-lend to SMEs in local currency.	Recognises that most SMEs are reached through domestic financial institutions, so scaling LCY finance depends on strengthening local intermediation, treasury capacity and asset origination rather than only

		increasing direct MDB lending.
TCX Local Currency Academy	A facility funded through the EU's EFSD+ framework and KfW, providing practical frameworks, analytical tools and direct technical support on foreign exchange risk management to public and private sector borrowers across at least twenty low-income and lower-middle-income countries.	Could address the borrower-side capability constraint, enabling ministries of finance, debt management offices and firms to assess currency exposure and compare financing options on a comparable basis rather than relying on lender-side judgement alone.
Unlocking Local Currency Initiative (ULCI)	Two agreements under a shared initiative: Crown Agents Bank and TCX on sourcing and moving local and hard currency liquidity in and out of frontier and emerging markets, and Frontclear and TCX on unlocking domestic interbank liquidity through credit-enhanced interbank transactions. Both aim at deliverable local currency transaction structures in frontier and developing economies, with initial emphasis on Sub-Saharan Africa.	Could demonstrate that offshore risk absorption and onshore delivery are combinable within a single structure rather than sequential, allowing lenders to lend and borrowers to repay in the currency of their revenues where hedging is not readily available.

Proposed ILX Local Currency B-Loan Strategy	A proposed investment vehicle that would aggregate MDB and DFI-originated local currency loan participation into a diversified fund for institutional investors, potentially alongside LCY bonds and medium-term notes.	Demonstrates how MDB and DFI origination platforms can be combined with institutional capital to create a scalable LCY asset class. The model could broaden investor participation and provide a replicable model for LCY mobilisation targeting international investors.

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