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Why Europe's support for local currency lending is crucial to stronger partnerships with the Global South

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Summary

The annual global financing gap for achieving the Sustainable Development Goals has surged to an estimated $4.2 trillion, which poses a critical challenge for sustainable development, particularly in low- and middle-income countries. These countries have limited fiscal space and are facing heightened economic vulnerabilities due to a large portion of their sovereign debt being denominated in foreign currencies, exposing them to severe currency risks and debt instability.

Recognising this challenge, European financial institutions for development are undertaking several initiatives and exploring options to promote local currency financing and risk hedging. Yet, despite the growing interest in local currency financing and increased global advocacy for its use from coalitions such as the G77 and Bridgetown Initiative, it remains underutilised, accounting for less than 20% of the portfolios of European financial institutions for development.

In this brief, we analyse these institutions' efforts to enhance local currency lending and risk hedging, and call for a strategic approach that aligns with the EU's development, economic and geostrategic interests. The EU should view local currency financing as a

strategic opportunity to strengthen its relationship with countries in the Global South and foster mutually beneficial partnerships.

To promote a coherent and effective European approach to local currency lending and risk hedging, the EU and its member states should clearly define their strategic priorities and support European financial institutions for development in adopting a range of solutions that promote collaboration, scale up successful models and align efforts to achieve the EU's geostrategic goals.

Introduction

The annual sustainable development goals (SDGs)'s financing gap is growing and is currently estimated to be about $4.2 trillion. Several options to address this gap have been explored, and will be promoted at the international level, through the 2025 fourth financing for development (4FfD) conference, and at the European level with initial discussions on the future multiannual financial framework (MFF) including the European fund for sustainable development plus (EFSD+) and the ongoing development of the strategy on scaling up sustainable finance in low- and middle-income countries. These include a stronger coordination between European financial architecture for development actors, the mobilisation of private capital including from institutional investors, or innovative financial instruments and approaches that address both sovereign debt concerns and the need for investments (debt swaps, climate resilient debt clauses, concessional finance).

In this context, local currency (LCY) financing has gained particular traction. With over 50% of their sovereign debt denominated in foreign currency, low and middle income countries (LMICs) are particularly vulnerable to currency depreciation, which in turn can have a dramatic impact on debt servicing, and debt vulnerabilities more broadly. Ghana is a case in point: despite economic growth over the past decade, the Ghanaian government defaulted in 2022, partly because of its reliance on foreign currency borrowing.

LMICs' access to LCY financing (or currency risk hedging solutions) is limited because of their costs and availability, and despite increasing efforts, current solutions provided by financial institutions for development fall behind.

Importantly, an increasing number of countries in the so-called Global South demand more LCY financing (examples include calls from the G77, and the Bridgetown Initiative).

This brief provides an overview and high-level analysis of some of the key initiatives developed by European financial institutions for development. It highlights some of the key trends, gaps and considerations that should be addressed in forthcoming European initiatives aiming to boost LCY financing and risk hedging, including the context of the European strategy on scaling up sustainable finance in low- and middle-income countries and the next MFF.

Importantly, this brief argues that boosting LCY financing and risk hedging is not only a technical but also a geopolitical issue. Engaging in this issue more strongly can help improve the EU offer in partner countries, respond to one of their key concerns, and in doing so demonstrate what mutually beneficial partnership can look like in practice.

A European overview of local currency lending

Supporting LCY lending and risk hedging is a priority of the European Commission (EC). EC has been active in providing grants and guarantees (such as those of the EFSD+) to financial institutions for development, to incentivise and/or de-risk LCY lending and/or risk hedging. This endeavour is likely to grow in the coming years given the needs expressed by the Global South; the macro-economic context and the political traction that is building on this issue, which goes beyond the European level (e.g., the G20 working group on international financial architecture and the G20 Multilateral development banks (MDBs) Reforms agenda); and the recommendations expressed by the High-Level Expert Group on scaling up sustainable finance in low- and middle-income countries. The latter suggests the creation of a "local currency-denominated sustainable financial instruments and, to that end, consider establishing a sizeable local currency sustainable finance facility to be funded in local currency in a way that it reduces its FX exposure, relying on the presence and appetite of (notably local) institutional investors".

While there are some differences between European financial institutions for development, most are active in providing LCY lending, though the volume remains limited. However, LCY lending volume never exceeds 20% of their total portfolio, which may appear relatively low in view of the scale of the challenge. Looking at some of the European financial institutions for development, the European Bank for Reconstruction and Development (EBRD) was the one with the largest share of LCY lending in its portfolio with an average of 16% over 2016-2023, followed by European Development Finance Institutions (EDFIs) with an average of 11% in 2023, and the European Investment Bank Global (EIB GLO) with an average of about 5% in 2023. Yet, this is in line with other international financial institutions' practices such as International Finance Corporation (IFC) (18%), or the African Development Bank (AfDB) (10%) in 2019.

Several reasons help explain the limited volume of financial institutions for development's LCY lending. As recent studies show, financial institutions for development are not willing to take LCY risks because of i) path dependency; ii) the costs or (lack of) availability of LCY lending and risk hedging solutions; iii) the complexity (financial and time resources) of LCY lending; iv) risk management framework that comes with strict eligibility requirements and excludes LMICs entities; and v) the application of general rules of prudent banking.

Most of the LCY lending targets private sector clients in the Micro, Small and Medium Enterprises (MSMEs) sector (through financial intermediaries), often in countries with fairly developed/liquid currency markets in upper Middle-Income Countries (MICs). This trend is explained by the fact that this segment, MSMEs intermediated financing, requires rather shorter-term products - below five years - which makes the financial institutions for development's investment less subject to currency fluctuations and less risky. In contrast, sovereign operations are often large in terms of volume and long-term oriented (+15 years) making LCY financing more costly and/or riskier.

The modalities used often consist of non-deliverable contracts, using synthetic instruments and back-to-back hedging. These instruments are valuable, especially in countries where no alternative is feasible, yet they do not contribute to addressing deeper and more systemic issues such as deepening and improving the liquidity of local currency markets. EBRD is the main financial institution for development engaging in policy reforms and providing technical

assistance in combination with investments, to address these long-term barriers, in a way that contributes to the development of the local currency market.

Onshore solutions are not necessarily the preferred solutions, with most financial institutions for development using offshore solutions or setting up facilities with the support of donors. Most European financial institutions for development rely at least partly on TCX to mitigate LCY risks, showing the added value of TCX especially when it comes to market coverage, and its efficiency in terms of process (once you have used TCX, using another time does not require much time/resources). Yet, several of them developed their own initiatives to address some of the gaps that TCX cannot alone fulfil. These initiatives are rarely coordinated at the European level, which is partly driven by political and technical challenges. In turn, these initiatives are of limited scale. The section below provides a high-level overview of some of the key initiatives on LCY financing at the European level.

1. European financial institutions for development's key initiatives

Approaches between European financial institutions for development differ. This report provides a high-level overview of some of their initiatives on LCY lending, with a view to contrast their characteristics and objectives and highlight their distinctive and sometimes innovative features.

EBRD - a comprehensive approach

While EBRD initially relied on TCX to provide its first LCY loans, it completed this modality by developing additional onshore solutions (by procuring local currency funding or hedging), to address some of TCX shortcomings at the time: "TCX's internal guidelines limited its country concentration, margins were high, and swaps were not provided in some Country of Operations". With about €250 million of capital, EBRD is able to finance about €5 billion of LCY loans in 23 countries and support a liquidity portfolio of €1 billion.

What is distinctive about EBRD's approach is its comprehensive approach to LCY lending, which focuses on policy dialogue and technical cooperation, local currency funding and Small and medium-sized enterprises (SMEs) local currency lending facility. The SME Local Currency Programme, amounting to $500 million is a good illustration of this approach in that it: i) helps participating nations develop local capital markets and implement reforms; ii) makes it easier for SMEs to obtain affordable local currency funding; and iii) expands the availability of local currency funding sources. Participating countries commit to engage and work together with EBRD on a money market diagnostic framework, which serves as a basis to support policy dialogue and technical cooperation in the area of domestic currency markets development. EBRD works with all relevant domestic actors, including central banks, thus supporting monetary policy autonomy. The facility is revolving thus ensuring a certain degree of financial sustainability. To reduce interest rates on local currency loans, the EBRD benefits from donors' risk sharing mechanisms, which allows for affordable EBRD LCY lending interest rates.

EDFI Transferability and Convertibility Facility (T&C) - a collective endeavour

The EDFI T&C aimed to mitigate risks related to transferability and convertibility. These are often present in the energy infrastructure sector, because infrastructure projects such as power plants are often financed in hard currency, while the electricity is sold in local currency. In turn, currency risks affect the perceived and/or real bankability of the project, which can prevent the development of, for example, renewable energy access in developing countries facing high transferability/convertibility risks, and limit potential investment from private sector actors. To address this risk, EDFI T&C, which benefits from an EU-funded guarantee, provides protection against losses arising from an investor's inability to legally convert local currency into hard currency and/or to transfer hard currency outside the host country where such a situation results from a government action or failure to act, for up to 12 months of principal and interest over a covered maximum 7-year period. The facility amounts to €26.2 million and can be used in 48 African countries.

Though this initiative did not deliver (the guarantee was not used), one of the added-value of such an approach is that it set up a Facility that benefited several European DFIs, and focused on energy infrastructure projects, which are

often riskier given the duration of the project implementation (and the need for longer-term LCY loans tenure). However, its scale is relatively small, and it relies on funded (vs. not-funded) guarantees, which is a modality less and less used by the European Commission.

EIB Global - an innovative approach to (unhedged) LCY financing

Before 2021, the EIB lent to African, Caribbean and Pacific (ACP) Group of States countries via the ACP Investment Facility, which is a revolving fund (with reflows invested in new projects), set up under the Cotonou Agreement. This facility was funded by EU Member States through the European Development Fund (EDF) and allowed the EIB to take more risks, including providing unhedged LCY debt. By 2021, LCY lending (mostly through financial intermediaries) accounted for 20% (close to €1 billion) of the total volume of operations, spread across 15 currencies (though the top 5 currencies accounted for most of the LCY lending). While it suffered from some losses, the facility generated a marginal net surplus - demonstrating the viability of the model.

The model itself is interesting in several aspects: i) the lending rates include administrative costs, a credit margin and an FX premium. The FX premium is calculated by the EIB economist team against expected loss and not unexpected loss as in the case of other MDBs or TCX, which has implications for the economic and risk capital to be set aside; ii) the LCY lending is unhedged, which was possible because the funds came from donors, and not subject to EIB risk management decision; and iii) LCY loans could cover a fairly long tenure (up to seven years), and were not limited by the borrower's credit rating, which is critical when investing in, for example, fragile countries (as done by the EIB in Mozambique), where even offshore solutions like TCX have more limited means (due to, for example, exposure limitations). As of 2021, EIB GLO is solely relying on TCX to provide LCY lending. EIB GLO is currently exploring different ways forward to do more on this issue - in line with its Strategic Roadmap.

KfW - combining LCY solutions and approaches

KfW uses both onshore and offshore LCY financing solutions. Onshore solutions consist of using swap markets to hedge the currency risk with deliverable swaps. They are used in specific cases: i) where currency markets are relatively

developed such as in South Africa; and ii) where KfW can benefit from a government guarantee covering at least 80% of the LCY risks (which requires a special permission from the government).

Given the LCY lending needs and limitations from onshore solutions, KfW also works with the main offshore solution TCX. In particular, KfW, with FMO and the EDFI management company (MC), worked together with TCX to benefit from an EFSD+ guarantee on EU Market Creation Facility. The objective is to increase TCX's ability to take on more risks and reach new markets while making it more accessible and affordable for various market participants (this can help achieve discounts from 10-15% interest rates to 5% on some products). The objective in doing so, is also to help the European Commission achieve its objectives under Global Gateway by facilitating currency risk hedging solutions for overlooked sectors such as infrastructures.

Last but not least, the African Local Currency Bond Fund (ALCB Fund), launched by KfW in 2012, should also be highlighted as a means to support Africa's local capital markets. KfW acts as an anchor investor in local currency bonds issuance, which helps mitigate currency risks for borrowers and encourages local investors to participate in bonds, building trust and mobilising capital from domestic actors including institutional investors. The fund's leverage has proven substantial (1:10). The ALCB recently benefited from further support from the German government (guarantee of €100 million) and the EU, with a counter-guarantee of €100 million from the EFSD+.

TCX - an international LCY initiative with European support

TCX was set up in 2007 by a group of financial institutions for development and donors to provide currency hedging derivatives in frontier markets where commercial solutions are absent and/or not willing to engage. TCX provides essentially forward contracts and cross-currency swaps and only in specific cases deliverable contracts, where all cash flows are in local currency, mostly for private sector operations (it is currently developing approaches to cover public-sector financing). For 70 out of the 90 currencies TCX covers, the tenure can extend to 15 years. The coverage of TCX which includes some LDCs and fragile countries, and its streamlined processes make it a relevant hedging solution for DFIs. In 2023, it helped derisk about $2.2 billion worth of transactions and has generated profits over time, showing the sustainability of the model. Another

added-value of TCX resides in its capacity to sell LCY risks to investors, freeing (and maximising the use of) capital.

Yet, despite its positive impact and improvements over time (scope, products etc.), TCX cannot address alone all DFIs needs for LCY risks hedging and LCY lending. Some interviewees for instance point out that i) competition on LCY lending and risk hedging as in any market is key to push innovations and more affordable products; ii) whilst providing comprehensive solutions, TCX is perceived by some as too expensive in some markets, or for some products (those with longer-term tenure which are key for long-term projects like infrastructure); iii) TCX cannot take more exposure in some markets, limiting the amount of volume that DFIs could hedge through TCX, and iii) there is a risk of putting all the eggs in the same basket: i.e. if TCX faces losses that may threaten its very existence, DFIs would find themselves without any solutions to provide LCY lending.

That said, the question should not be to support TCX or other solutions, but rather about supporting different solutions, having in mind clear policy objectives. As highlighted in recent studies, offshore solutions like TCX and onshore solutions are complementary, and both needed. This is why a few innovative onshore initiatives are rising, complementing the TCX offer (Box 1). Onshore solutions work best in environments where there is a market, where it can take local credit and some market and liquidity risk, and is conducive to deepening domestic markets. In contrast, offshore solutions like TCX are best fit to enter challenging contexts where there are no markets.

Box 1: MDBs initiatives to foster LCY lending: the Delta initiative and the Inter American Development Bank (IDB) EcoInvest Brazil.

Delta initiative

Given the importance of LCY lending in the G20 MDB Reforms Agenda, EBRD is also working with IDB and Asian Infrastructure Investment Bank (AIIB) on the Delta initiative, which would "create an on-shore vehicle for shared liquidity pools for multiple MDBs. Delta would be replicating globally the EBRD approach to local currency financing combining liquidity pools with policy work to develop local markets". Delta would act as a local currency treasury, sourcing and managing liquidity pools and managing the related risks for the benefit of all its shareholder MDBs and DFIs, thus enabling them to offer genuine local currency finance with flexibility. An important added feature of

the vehicle is the combination of policy dialogue and onshore market activity. Delta would be replicating globally the EBRD approach to local currency financing combining liquidity pools with policy work to develop local markets.

Inter-American Development Bank (IDB) EcoInvest Brazil
IDB is supporting the ECO-Invest Program, a Brazilian Government initiative designed to attract external private investments for green infrastructures. To do so, it combines four different pillars: i) blended finance mechanisms to reduce the cost of capital; ii) a long-term FX liquidity facility, that helped tackle T&C risks, whilst fostering credit enhancement; iii) an innovative foreign exchange derivatives to reduce the cost of FX hedging, building on IDB AAA rating, making the LCY investment more attractive for international investors; and iv) a project structuring component to help develop a pipeline of bankable projects for Brazil green infrastructures. In doing so, IDB offers a comprehensive solution that has the potential to work well in relatively mature and large markets as in Brazil. The architecture could be tailored to, and replicated in, similar contexts in Latin America and beyond, and its innovations could inspire other MDBs who benefit from AAA rating to engage in a more sophisticated and impactful manner in LCY risk hedging.

2. Key insights and considerations

This overview shows that several principles and considerations should be factored in when developing impactful LCY solutions:

1. **There is no one solution to LCY lending.** To date, there is not one single solution that can address all of developing economies LCY financing needs. In contrast, most experts point out the need to combine different types of solutions such as onshore and offshore mechanisms; LCY lending and risk hedging, and domestic actors' capacity building etc. Each type of solution can address specific currency markets (nascent vs. mature markets, small vs. large markets), countries (LMICs, fragile countries and emerging markets) and sectoral (green infrastructure, SMEs, others) needs, and can be complementary. This means that in practice, donors could/should continue supporting the ambitions of the likes of TCX, whilst helping financial institutions for development develop other onshore solutions in specific markets that can strategically respond to their own policy objectives.
2. **Given the mismatch between supply and demand for LCY lending and risk hedging solutions, their scale does matter**. In this context, financial

institutions for development should better coordinate and facilitate the development of joint endeavours. To date, financial institutions for development initiatives provide context/sector-specific LCY lending /risk hedging solutions, but not in coordination with others. As a result, synergies between endeavours are missing, and the potential to build complementary solutions is not fully realised. This approach is not efficient as it misses the potential to replicate and upscale existing promising mechanisms, and build LCY lending/risk hedging knowledge and capacity.

3. **More attention should be paid to the more difficult segments, including infrastructure and sovereign operations, to complement the current focus of financial institutions for development's LCY lending and risk hedging**. LCY solutions to date focus more on the less risky markets and operations such as the private sector, including MSMEs intermediated lending, while other segments such as sovereign operations and infrastructures are overlooked. This is particularly important for the European Union Global Gateway Strategy, which focuses on infrastructure development. Likewise, fragile countries and low income countries are among the ones suffering most from the absence of LCY solutions, and they are amongst the least targeted countries.
4. **Targeting different markets and segments is sometimes possible only if new and/ or innovative modalities emerge**. While the current approaches such as back-to-back hedging and synthetic instruments are needed given the current LCY lending gap, financial institutions for development also need to innovate especially when it comes to boosting the use of contract deliverables where all the transaction is in LCY (i.e. not synthetic) to foster liquidity. The IDB ECO-Invest initiative is a case in point, even more so as it focuses on public green infrastructure.
5. **LCY lending should be addressed following a comprehensive approach aiming for both short- and long-term change**. Very often, LCY financing solutions focus on a given transaction while more sustainable and long-term solutions that help build local currency markets are needed. In this regard, the EBRD model combining LCY lending with technical assistance to support the capacities of Central banks and other actors to manage LCY risks and deepen LCY markets is of prime importance.
6. **Donors' support in the form of grants and guarantees plays an important role in developing, testing and deploying LCY lending and risk-hedging solutions.** Without initial donors' support, there would not be TCX, nor would

financial institutions for development develop approaches addressing LCY risks. In some cases like TCX, donors' support also changes over time (from grants to, for example, guarantees) and viable financial models are being developed that do not rely on donors' support.

3. Going beyond the technical merit of LCY lending

The EU and its member states should not only consider boosting LCY lending efforts from a technical but also a geopolitical perspective. Providing the type of financial support that responds to partner countries' concerns on debt vulnerability and fiscal space for SDGs' investments serves developing mutually beneficial partnerships, and more broadly helps strengthen the relationship between the EU and the Global South.

Positioning the EU on LCY lending would help further differentiate the EU offer from other competing powers. To do so, the EU can rely on major assets - its European financial architecture for development - and the combined capacity to invest and mobilise capital from its financial institutions for development, and the accumulated expertise in supporting the development of capital and currency markets through the EU macro-financial assistance and the work of implementing agencies and financial institutions for development like EBRD.

At the same time, the EU should be humble yet strategic in terms of targeting specific markets where the use of LCY lending and risk hedging solutions would be most impactful, from a development, economic and geostrategic perspective. The EU, even with its assets, has limited resources that should be used wisely. For instance, LCY lending and risk hedging efforts could be directed towards infrastructure investments, in line with the Global Gateway strategy, and focus in part on the MICs, where, for instance, hedging solutions could help mobilise private investments at scale. The EU could also choose to focus its efforts on some strategic fragile countries, where actors like TCX (in collaboration with European financial institutions for development) could help enter and create markets. These two objectives should not be seen as mutually exclusive but rather complementary.

Doing business as usual on LCY lending is also becoming less of an option for the EU. During a BRICS meeting in June 2024, BRICS countries discussed the importance of local currencies, and committed to do more on this issue. The traction at BRICS level is reflected in the New Development Bank's ambition to provide 30% of its total volume in the local currencies of borrowing members. The recent Forum on China-Africa Cooperation Beijing Action Plan (2025-2027) also mentions the issue of local currency, whilst not specifying any commitments or specific ambitions/approaches. If the EU does not act in a strategic manner, the risk is to see an EU offer that will become less appealing and relevant for partner countries.

In this context, the EU should consider providing further support in the form of grants and de-risking mechanisms to boost LCY lending. These efforts should be guided by a clear strategy that should build on the interests and constraints of strategic partner countries and European financial architecture for development actors.

Conclusion

There is an urgent need to address LCY lending and risk hedging. This is a key issue discussed in various international fora (from the International Monetary Fund (IMF) and World Bank (WB) Annual Meetings, to the 4FfD and G20), and European (successor of the EFSD+ and the next MFF more broadly). This concluding section puts forward a few non-mutually exclusive recommendations to help position the EU in this area.

The EU with its member states need to clarify what strategic policy objectives they would like to achieve by boosting LCY lending and risk hedging. This could in turn help define where the EU should put most efforts on the way forward, and what instruments it should develop. Doing so would help ensure that the High-Level Expert Group on sustainable finance (HLEG) recommendation on setting up a local currency financing facility contributes to the key objectives set by the EU and its member states. Given the objectives of the new EC, as reflected in the missions letters shared with the Commissioners, to scale up Global Gateway whilst fostering mutually beneficial partnerships, LCY lending and risk hedging efforts could focus in part on infrastructures, including in MICs where the

potential to mobilise private capital is more likely than in low income countries (LICs).

Given the scale and scope of the challenge, the EU, EU member states, with their financial institutions for development should:

1. **Support more than one type of option**. A short-term focus could be on supporting TCX, as the EU has done through the EFSD and EFSD+, to help scale and expand TCX operations including in the more challenging contexts (including, for example, LICs and fragile countries) where markets are limited but which needs are important. In doing so, particular efforts should be placed on ensuring greater accessibility and affordability of TCX solutions, which is an ongoing effort (particularly through the EFSD+ guarantee market creation facility). However, not all EU efforts should be directed towards TCX. The EU should support existing and/or stimulate the development of targeted onshore solutions. To the relevant extent, the EU's actions should be coordinated so as to build synergies between the respective initiatives.
2. **Develop comprehensive approaches with long-term impacts**. Though the focus and the impact are often associated with LCY lending volume, more efforts should be dedicated to support long-term development of local markets, through capacity building and technical assistance components. These efforts should not be seen in isolation of the LCY lending component, but are rather part of an integrated package to LCY lending and risk hedging.
3. **Stimulate collaborative endeavours**. Some MDBs are working together to develop common LCY lending and risk hedging solutions (for instance the Delta initiative). Given the scale of the challenge, there would be a merit to stimulate collective approaches, not least because most European investments from financial institutions for development are done jointly. This does not mean that all European financial institutions for development should work systematically together, but rather build smaller coalitions targeting specific markets and issues. Given the work of the G20 in this field, the EU could also facilitate the European-G20 connection to the relevant extent to facilitate collaborations and/or potential synergies between initiatives.
4. **Better connect existing initiatives**. The EU, EU member states and their financial institutions for development have put in place and/or supported the development of several initiatives. Yet, some of them may overlap, or

may not be connected while doing so could strengthen the European position in the field. For instance, the EU provides an EFSD+ counter guarantee to KfW for the ALCB Fund, and at the same time, the Global Green Bond Initiative (GGBI), which includes an LCY component, will soon be rolled out. Yet it is not clear how these initiatives are connected and can build on one another to achieve great impact.

5. **Capitalise on existing initiatives**. It is not necessary to reinvent the wheel - some initiatives on LCY lending and risk hedging should be replicated and/or scaled up. For instance, the EIB investment facility was successful and could serve as a model for a 2.0 version. This version could i) build on EU member states grants, as done in the past, but could combine this with an EFSD+ guarantee to spread the risk and attract additional donors and other investors; ii) be open not only to the EIB but to Joint European Financiers for International Cooperation (JEFIC) and EDFI members, even though it would be anchored within the EIB - as the EU Bank. This seems even more relevant now as inflation is reducing and currency fluctuations are less likely to have the same depth than in the previous years. In addition, recent analysis also shows that unhedged LCY lending across LMICs can yield positive excess returns, particularly over one- and five-year horizons. In the longer term, supporting common liquidity pools should also be considered in LMICs where there is a currency market.

In addition, financial institutions for development should:

6. **Work better together with**. European financial institutions for development – EDFI-EIB-EBRD-JEFIC – should work better together, also with the European Commission, following a Team Europe spirit on LCY lending/risk hedging. This could take the format of a platform or a task force that would allow sharing knowledge and experience; building synergies between different initiatives; developing new (joint) initiatives in line with the EU's development, economic and geostrategic objectives.
7. **Work with their shareholders to review their risk management framework**: LCY lending is a complex issue that requires proper incentives for financial institutions for development to engage. They also need the support of their shareholders, who need to equip them with the mandate to take on LCY risks, and encourage them to adopt more innovative approaches than what has been seen until today.

Responding to the LCY financing and risk hedging challenge will be of prime importance to make the EU development and climate finance offer relevant from a partner countries' perspective. This is not only a technical issue but a geopolitical one where the EU could boost its offer and strengthen its relationship with the Global South, including by advancing the issue of MCY financing and risk hedging in the European and international fora such as the 4FfD.

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