



Finance in Common Financial Innovation Lab

Currency Risk Working Group

Currency, or foreign exchange (FX), risk remains a critical barrier to scaling climate finance in emerging and developing economies, where projects typically generate revenues in local currency but rely on financing in hard currency. This mismatch creates exposure to volatility and depreciation risk, threatening the affordability, bankability, and resilience of climate-aligned investments.

Objective: In 2025, the FiCS Lab Currency Risk Working Group will continue to convene national development banks (NDBs) and other public financial institutions to explore and assess practical FX risk solutions that can be deployed at the country, regional, and international levels. The working group aims to improve collective understanding of available instruments, highlight innovations, and identify actionable strategies to expand access to local currency finance and affordable hedging tools. The working group will place a strong emphasis on identifying opportunities for greater coordination and creating space for peer learning among financial institutions. Insights from the working group discussions will be shared with the FiCS membership and other stakeholders through a policy brief, produced by the CPI team with input and review from working group members.

Structure: The working group will meet monthly for hour-long sessions, bringing together a diverse group of stakeholders. Each session will prioritize practical, case-driven discussions, beginning with presentations from external experts and peer institutions, followed by a Q&A and structured policy dialogues. Sessions will be organized around three key modules, outlined below.

Theme 1: Local FX Risk Solutions (May – August 2025)

This theme focuses on FX risk solutions implemented at the country level or within local financial systems. It covers FX hedging mechanisms in domestic markets, local currency lending, and relevant local financing strategies. Session topics will include:

- **Blended finance structures to manage FX risk at the country level** – exploring how concessional and commercial financing can be combined to support local currency lending and improve the affordability of hedging tools.
- **National development bank-led innovations** – highlighting instruments and mechanisms currently being implemented by NDBs to manage FX exposure.



- **Securitization of development finance assets in local currency** – examining how structured finance can deepen local capital markets and reduce reliance on hard currency.
- **Pros and cons of onshore FX approaches** – incorporating perspectives from NDBs on the effectiveness of onshore instruments in managing risk at a reasonable cost and identifying key barriers and enablers to their scalability.

Theme 2: Regional & International FX Risk Solutions (September – December 2025)

This theme focuses on regional and international instruments and initiatives to manage FX risk in partnership with national development banks. Session topics will include:

- **Offshore instruments for FX risk management** – discussing the use of guarantees, currency swaps, and blended finance instruments structured offshore to reduce the cost of hedging, including how these tools can be coordinated with or accessed by NDBs.
- **Offshore FX facilities** – exploring how onshore FX facilities (particularly those backed by multilateral institutions) can improve access to hedging solutions, and the potential role of NDBs in mobilizing or linking to such platforms.
- **Global or regional platforms** – exploring approaches to aggregate FX hedging demand by bringing together the needs of multiple actors—such as development banks, investors, or governments—into a single pool, and examining the role NDBs can play in accessing or shaping these mechanisms.
- **Pros and cons of offshore FX approaches** – perspectives of NDBs on the effectiveness of offshore instruments, key barriers and enablers to scalability, and coordination challenges with external actors.

Theme 3: Stakeholder Engagement and Implementation (January – February 2026)

Focuses on recommendations for coordination with MDBs, DFIs, and private sector partners to advance FX risk management for NDBs. Session topics will include:

- **Partnerships with public financial institutions:** how different public financial actors (including MDBs, DFIs, NDBs, and sub-national development banks) can work together to support FX risk solutions and strengthen local capital markets.
- **Partnerships with private financial institutions:** how different public financial actors (including MDBs, DFIs, NDBs, and sub-national development banks) can work with private sector actors (such as commercial banks and institutional investors) to support FX risk solutions and strengthen local capital markets.