



# Blended finance for local currency solutions

How blended finance facilities enable local  
currency finance in emerging and frontier markets



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## About TCX

TCX is a global development finance initiative supported by a shareholder base that includes FMO, IFC, EBRD, EIB, KfW as well as the European Commission and Dutch, Swiss, British, French and German governments and other DFIs and Microfinance Vehicles. TCX protects borrowers in emerging and frontier markets from currency risk by facilitating currency hedges that transfer the risk to TCX's balance sheet. TCX offers derivative instruments — cross-currency swaps and FX forwards — in currencies not or insufficiently covered by commercial parties. TCX started operations in 2007 and has since then hedged a total volume of over USD 19 billion in development loans in 71 currencies and hedged the currency risk for over USD 3 billion in emerging market local-currency denominated bonds.

# Executive summary

**Blended finance strategically combines public or philanthropic capital with private investment to unlock finance in markets where risk or cost barriers would otherwise prevent capital flow.**

By using catalytic capital through guarantees, first/second-loss positions, or targeted subsidies to absorb risks that commercial investors cannot manage alone, blended finance enables transactions that deliver both financial returns and development impact. According to Convergence's State of Blended Finance 2025 report, the market has shown resilience and growth, with 123 deals totaling \$18 billion in 2024, and deal sizes trending upward from a median of \$38 million (2020–2023) to \$65 million (2024).

Currency risk represents one of the most persistent yet under-addressed barriers in development finance. The vast majority of debt financing to developing countries is denominated in hard currency, creating currency mismatches when borrowers' revenues are in local currency. In frontier markets where currency volatility is highest, access to affordable hedging unlocks otherwise unbankable projects. Without affordable hedging solutions, development finance institutions either absorb significant foreign exchange exposure or impose it on local partners who cannot manage it.

TCX addresses this affordability barrier through five pricing facilities that utilize donor subsidies to make currency hedging affordable where it's most needed but least accessible. With approximately €235 million in donor commitments across its blended facilities, TCX is expected to mobilize approximately \$2.5 billion in local currency-indexed financing. Building on operational experience from these facilities, TCX is identifying opportunities to consolidate proven mechanisms into more standardized, scalable approaches that increase internal efficiency while maintaining responsiveness to development priorities. Despite this track record, the current scale represents a fraction of demand, with TCX facilities significantly oversubscribed. These facilities directly address critical gaps identified in recent EFSD+ evaluations and provide an effective model for removing pricing constraints that prevent local currency lending in frontier markets.

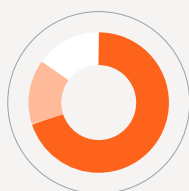
# The currency risk challenge in development finance

## The problem

According to UN Trade and Development (UNCTAD), 70–85% of low-income countries' debt is in hard currency, with OECD research showing that 80–90% of lending from development finance institutions (DFIs) and multilateral development banks (MDBs) remains in foreign currency.

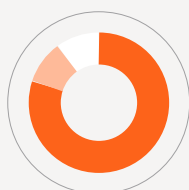
Currency mismatches occur when borrowers' assets and revenues are denominated in local currency while liabilities are in hard currency, exposing them to exchange rate volatility that makes debt service costs unpredictable and can threaten solvency regardless of operational performance.

The OECD identifies this as a critical constraint, noting that local currency financing has largely remained an under-prioritized objective of development finance.



**70–85%**

of low-income countries' debt is in hard currency



**80–90%**

of lending from development finance institutions (DFIs) and multilateral development banks (MDBs) remains in foreign currency

## Why it matters

Without affordable local currency solutions:

- borrowers in emerging and frontier markets are vulnerable to FX risk
- faced with the opportunity to hedge FX risk, borrowers choose not to mitigate currency risk due to market-reflective pricing being deemed unaffordable
- local currency lending remains economically difficult
- market development stalls as international lenders default to hard currency
- private capital mobilization is limited due to exposure to currency volatility and crisis risk

In 2021, the EU established the Global Gateway initiative to promote sustainable investments in partner countries. The European Fund for Sustainable Development Plus (EFSD+) serves as its main financial instrument, with €39.8 billion in guarantee capacity for 2021–2027 to mobilize public and private financing through blended finance. A recent evaluation of EFSD+ explicitly noted that without a suitable facility to mitigate foreign exchange risks, the EIB or other DFIs either absorb significant exposure themselves or impose it on local partners, potentially undermining both market stability and the socioeconomic objectives.<sup>1</sup> Blended finance facilities like TCX's create this "suitable facility," enabling local currency lending at affordable rates that help create a market price and benchmark for countries where one might not exist, helping to advance the depth of local markets and catalyzing the private sector.

<sup>1</sup> Siegfried, Jasper, Bernat Camps Adrogué, Tay Drummond, Mikaela Gavvas, and Laura Granito. 2025. The European Fund for Sustainable Development Plus: Maximising the EU Guarantee for Leverage and Impact. Center for Global Development.

# Addressing currency risk through blended finance

Convergence defines blended finance as the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development. The OECD describes this as the strategic use of development finance to mobilize additional finance toward the SDGs. By absorbing or mitigating risks that private investors cannot manage, blended finance enables transactions that would otherwise be economically unviable.

## The affordability challenge

In frontier and emerging markets, the fundamental barrier to local currency lending is affordability rather than availability. Local interest rates drive hedging costs that, while market-reflective, often exceed borrowers' ability to pay. This creates a gap between what hedging costs in the market and what borrowers can afford. Blended finance bridges this affordability gap, enabling borrowers to access local currency financing at manageable rates.

## How pricing subsidies work

TCX's blended finance facilities use donor subsidies to reduce currency hedging levels for borrowers. Local currency lending protects borrowers from exchange rate volatility and supports local market development, but market-reflective hedging costs can exceed borrowers' capacity to pay. When this occurs, the donor funding allows the facility to absorb a portion of those costs, reducing interest rates to a level borrowers can sustain. The subsidy addresses the core constraint of market-reflective hedging costs that exceed borrowers' capacity to pay. By making hedging affordable, these facilities enable borrowers to match their debt obligations to their local currency revenues, supporting development outcomes while helping deepen local capital markets.

*“The effectiveness of development finance shouldn't be measured in deal volume — but rather whether capital reaches projects that deliver tangible, measurable impact. Market failures often block capital from flowing to viable investments with strong development outcomes. Blended finance that removes these barriers — whether affordability constraints or risk gaps — enables these investments to proceed.”*

**Kusi Hornberger**

Partner—Dalberg Advisors

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**A recent transaction in Malawi demonstrates how TCX's use of blended finance helps bridge the affordability gap, enabling local currency a viable alternative to hard currency lending.**

## Case Study

# Yellow Malawi

## How blended finance drives impact through affordability

Yellow, a solar energy company operating in rural Malawi, had proven its business model: over 1,000 agents across the country distribute affordable solar home systems and smartphones to communities lacking grid electricity. The company uses pay-as-you-go financing with extended tenors, making clean energy accessible to low-income households. By 2024, Yellow was ready to scale but faced a fundamental financing barrier.

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*“Without TCX and EC pricing facility, it would have been really hard to make this transaction possible. When considering additionality, without access to the local currency-indexed funding, there would have been many thousands of homes not electrified; quite simply, without this facility, that rollout would not have happened. Such tangible impact cannot be realized or sustained when operating in an uncertain exchange rate environment.”*



**William Thompson**  
Chief Financial Officer, Yellow Malawi

## The challenge

Acumen’s Hardest-to-Reach Initiative, which provides capital for off-grid energy access solutions in underserved communities across sub-Saharan Africa, committed USD 2 million to support Yellow’s expansion. Yellow’s revenues are in Malawian kwacha. After observing currency volatility impact similar companies in other African markets, Yellow determined that any new debt needed to be indexed to local currency. As Yellow’s CFO explained,

*“If something goes wrong by a little bit, it has such a massively outsized, and potentially destructive impact on our business and ultimately our customers.”*

But hedging costs in kwacha were prohibitively high, making the economics challenging.

## The intervention

By utilizing a blended finance facility through funding provided by the European Union, TCX was able to reduce hedging costs by 5%, bringing the all-in local currency interest rate to a level that made the transaction feasible. The subsidy did not change Yellow’s creditworthiness or business fundamentals. It removed the cost barrier that was blocking capital from reaching an otherwise viable investment.

## The impact

Acumen’s USD 2 million investment proceeded. Yellow expanded its operations to reach 182,000 people with energy access, 80% of whom gained electricity for the first time. The transaction enabled tangible community impact: shops staying open after dark, children doing homework with reliable light after sundown, and small businesses extending their operating hours. As Acumen noted,

*“Without access to the local currency indexed funding, there would have been many thousands of homes not electrified; quite simply, without this facility, that rollout would not have happened.”*

## The counterfactual

Without blended finance and the pricing discounts made possible thanks to the guarantee from the European Union, this transaction would not have been possible. Yellow’s expansion would have stalled despite strong fundamentals and clear development impact. The 182,000 Malawians, predominantly in underserved rural areas, would have continued without access to clean, reliable energy.

# From proof of concept to scale: an overview of TCX's blended finance facilities

TCX's five blended finance facilities demonstrate how blended finance for currency hedging unlocks transactions across different geographies, sectors, and structures that would otherwise be constrained by currency risk. From a single-country proof of concept in Myanmar to a global facility spanning 89 countries, these facilities have tested different structures and allocation mechanisms — while consistently demonstrating demand that exceeds supply.

## BLENDED FINANCE FACILITY 1

### EU Market Creation Facility Pilot (EUMCF)

COMPLETED

## BLENDED FINANCE FACILITY 2

### EU Market Creation Facility+ (EUMCF+)

ACTIVE

## BLENDED FINANCE FACILITY 3

### BMUKN SDG7 program

ACTIVE

## BLENDED FINANCE FACILITY 4

### Green Local Currency Intermediated Lending in Tunisia

ACTIVE

## BLENDED FINANCE FACILITY 5

### LIFT Myanmar

HISTORICAL

## Details on TCX's five blended finance facilities

This section provides detailed descriptions of each facility's structure, allocation mechanisms, eligibility criteria, and results to date. While each facility addresses the same fundamental challenge of making currency hedging affordable where it's most needed, they demonstrate different approaches tailored to specific contexts, geographies, and development priorities.

## EU Market Creation Facility Pilot (EUMCF)

### Proving the model for scalable currency hedging.

The EU Market Creation Facility Pilot (EUMCF), enabled through a €20 million conditional guarantee from the European Commission under the European Fund for Sustainable Development (EFSD), tested whether blended finance could make local currency hedging affordable in markets where risk-reflective pricing exceeded borrowers' capacity to pay. The pilot provided TCX with the mandate to offer subsidized hedges, enabling up to €120 million in local currency investments.

Over its three-year run (2021–2024), the facility executed 68 trades with 34 investors across 14 currencies and 17 countries, with an average pricing discount of up to 5% per annum. The facility targeted the most challenging markets: the average Difficulty-of-Hedge score was 9.3, compared to TCX's portfolio average of 7.6 — confirming that the subsidy reached markets where it was most needed.

Demand far outstripped capacity: the pilot received over €1 billion in pipeline requests from 50 investors, making it 8x oversubscribed. This demonstrated not only that the product worked, but that unmet demand for affordable local currency hedging was substantial and systemic. The pilot's success directly informed the European Commission's decision to commit €165 million for the EUMCF expansion under EFSD+.

## How it works



### MECHANISM

EU provided a conditional guarantee allowing TCX to offer hedges at below-market rates. The subsidy bridged the gap between risk-reflective pricing and what borrowers could afford.

### EXAMPLE

<b>Without EFSD subsidy</b>	Lender rate (4%) + FX hedging (6%) = 10%
<b>With EFSD subsidy</b>	Lender rate (4%) + FX hedging (6%) - EFSD discount (up to 5%) = 5–8%

### ELIGIBILITY

#### Country

Sub-Saharan Africa and European Neighbourhood East

#### Counterparties

TCX shareholders and assignees

#### Sector

Financial institutions and energy

#### Allocation

Auction-based

#### Investment period

3 years (2021–2024)

#### Tenor

2–7 years

#### Pricing reduction

Up to 5% in USD terms

### IMPACT

- €120M in investments across 68 trades, 34 investors, 14 currencies, 17 countries
- €1B+ in pipeline requests from 50 investors — 8x oversubscribed
- Up to 5% pricing discount per annum
- 9.3 average Difficulty-of-Hedge score (vs. 7.6 portfolio average)

### KEY LESSON

Large-scale, systemic demand exists for affordable local currency hedging. The pilot's results provided the evidence base for scaling to €165 million under EFSD+.

## EU Market Creation Facility+ (EUMCF+)

### Mobilizing billions for local currency development finance.

The EU Market Creation Facility+ (EUMCF+) is TCX's largest blended finance facility, established under the European Fund for Sustainable Development Plus (EFSD+). Building on the success of the EUMCF Pilot — which demonstrated massive demand through 8x oversubscription and validated the model across 14 currencies and 17 countries — the EU has committed €165 million for the Pricing Component+ expansion, which launched on October 14, 2025, and is expected to run for approximately between 2–3 years.

This expansion is expected to mobilize up to €2 billion in loan volume, achieving maximum 13:1 leverage. The facility has no volume cap on total investment it can support, and TCX has flexibility to provide substantial discounts based on project needs. The geographic scope covers 89 countries across 77 currencies in the European Neighborhood (East and South), Asia, Pacific and Sub-Saharan Africa. This expansion also opens eligibility to all TCX clients, broadening access beyond the pilot's restriction to shareholders and assignees.

## How it works



### MECHANISM

EU provides limited return guarantees allowing TCX to reduce hedging levels. The subsidy bridges the gap between risk-reflective pricing and what borrowers can or are willing to afford.

### EXAMPLE

<b>Without EFSD+ subsidy</b>	Lender rate (4%) + FX hedging (6%) = 10%
<b>With EFSD+ subsidy</b>	Lender rate (4%) + FX hedging (6%) – EFSD+ discount (2%) = 8%

### ELIGIBILITY

#### Country

89 countries in Asia Pacific, European Neighborhood (East and South) and Sub-Saharan Africa

#### Counterparties

All TCX clients

#### Tenor

2–18 years

#### Max transaction size

USD 150 million

### IMPACT PRIORITIZATION

#### Country

Least Developed Countries (LDCs) and Fragile and Conflict-Affected Situations (FCAS) highest

#### Sector

All sectors, prioritizing clean energy, agriculture, infrastructure, health, education, public sector

#### Tenor

Longer-term prioritized

#### Initiatives

Global Gateway, Team Europe, 2X Challenge, NEAR EIP Flagship

## BMUKN SDG7 program

### Advancing clean energy access.

In 2025, the German Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety (BMUKN, formerly BMWK) provided €3.45 million through KfW to establish a blended finance facility that reduces the pricing of local currency hedging for clean energy projects in emerging and frontier markets. This facility builds on a long-standing partnership between TCX and BMUKN to support Sustainable Energy for All (SE4ALL)<sup>2</sup> objectives and advance Sustainable Development Goal 7, which aims to ensure access to affordable, reliable, sustainable, and modern energy for all by 2030.

The facility uses an auction-based allocation mechanism where projects compete for subsidies, with those requiring less subsidy prioritized first. This ensures efficient use of limited resources by directing funds where they create maximum development impact. The subsidy is integrated directly into the hedge pricing and ultimately into the financing interest rate, making local currency affordable for clean energy projects.

Geographic coverage follows TCX's countries of operations and respects the Fund's additionality principle. Eligible projects include on-grid and off-grid renewable energy, solar home systems, enterprises in the renewable energy sector, financial institutions financing renewable energy providers, and projects providing access to clean cooking solutions.

As of December 2025, TCX has executed eight trades under this facility, utilizing \$1.48 million of subsidy to mobilize \$17.92 million, resulting in a 12:1 leverage ratio. These projects support borrowers in Kyrgyzstan, Armenia, Uganda, Zambia, and Kenya across a range of sectors including microfinance, solar pay-as-you-go systems, agriculture, and green bond deployment. While early-stage, the facility demonstrates how auction-based mechanisms can efficiently allocate scarce concessional resources to maximize development impact in clean energy finance.

<sup>2</sup> Sustainable Energy for All (SE4ALL) is a global initiative launched by the UN Secretary-General to achieve universal energy access, double the rate of improvement in energy efficiency, and double the share of renewable energy in the global energy mix by 2030

## How it works



### MECHANISM

Subsidy applied on TCX's standard swap pricing.

*Subsidy = Net present value between market rate and subsidized rate.*

### EXAMPLE

Counterparties compete for subsidies for their projects in an auction format.

<b>Project A</b>	Needs 2% discount — Funded first
<b>Project B</b>	Needs 5% discount — Funded after lower-subsidy projects
<b>Result</b>	More projects supported with limited funds

### ELIGIBILITY

#### Country

OECD DAC ODA eligible countries

#### Counterparties

Financial institutions financing clean energy

#### Tenor

No restrictions

### IMPACT PRIORITIZATION

#### Country

All countries

#### Tenor

Where TCX is additional are eligible

#### Allocation

Less subsidy needed = higher priority

#### Focus

SDG 7 (affordable, reliable, sustainable energy for all)

## Green Local Currency Intermediated Lending in Tunisia

### Advancing Green Finance in Tunisia.

In July 2025, the European Union provided €20 million through EBRD to establish a blended finance facility targeting green SME financing via commercial banks in Tunisia. Historically, it has been extremely difficult for international institutions to provide local currency financing to local banks; the local interest environment is regulated and therefore local currency financing market-based pricing is unviable. The facility is based on a boundary-based guarantee structure that compensates TCX for currency losses within pre-calculated ranges for each transaction. This approach optimizes leverage by precisely calibrating risk-sharing, targeting 5x leverage to support €100 million in hedging with the €20 million guarantee. Eligible transactions are selected by direct allocation and must finance licensed Tunisian commercial banks lending to SMEs for green investments including renewable energy, energy efficiency, and sustainable land management.<sup>3</sup>

TCX provided its first hedge through the facility in December 2025 to support a EUR 10 million loan from the European Bank for Reconstruction and Development (EBRD) to AMEN Bank (a private sector bank in Tunisia) to support lending to MSMEs. This facility demonstrates how single-country concentration with sectoral mandates can be combined with innovative guarantee structures to address specific market failures.

<sup>3</sup> The facility reserves capacity for two established green finance programs ahead of the general auction: EBRD's Green Economy Financing Facility (GEFF) can access up to €40 million in loan notional, and AFD's Sustainable Use of Natural Resources and Energy Finance (SUNREF) program up to €20 million in loan notional.

## How it works



### MECHANISM

EU guarantee intermediated through EBRD to TCX compensates for FX losses within transaction-specific FX boundaries. Direct allocation of capacity: in case of multiple requests, transactions requiring less guarantee support prioritized first.

### EXAMPLE

<b>Transaction A</b>	Needs 3% discount — Funded first
<b>Transaction B</b>	Needs 6% discount — Funded after lower-subsidy transactions
<b>Result</b>	More projects supported with limited funds

### ELIGIBILITY

#### Country

Tunisia

#### Counterparties

TCX clients which are EU-pillar assessed

#### Tenor

2–4 years average

#### Beneficiaries

Licensed Tunisian commercial banks

#### Transaction size

€10—€20M

### IMPACT PRIORITIZATION

#### Use of proceeds

Renewable energy, energy efficiency, water efficiency, sustainable land management, materials/resources efficiency

#### Target

Green SME financing, projects

#### Allocation

Less guarantee needed = higher priority

#### Leverage target

min. 5x (€100M on €20M guarantee)

## LIFT Myanmar

### Demonstrating demand in fragile contexts.

In 2016, as Myanmar's economy opened, the Livelihoods and Food Security Trust Fund (LIFT), a multi-donor fund supporting vulnerable populations in Myanmar, provided \$25 million to enable local currency lending to microfinance institutions serving rural populations. The facility "investment phase" lasted until 2020, when it had to be suspended due to deterioration of Myanmar's political and macroeconomic situation; however, the facility's results provide critical evidence of massive unmet demand for subsidized hedging in fragile, strictly-regulated environments.

Myanmar's microfinance sector faced a challenging regulatory environment: a 13% interest rate ceiling (then increased to 16%) combined with macroeconomic fragility (resulting in the local currency, the kyat, weakening) made local currency lending economically unattractive to international investors. Foreign investors would only provide USD loans, but regulations prohibited MFIs from on-lending in hard currency to their borrowers — leaving MFIs to bear the full foreign exchange risk with no hedging options available. TCX provided hedging services enabling investors to lend in local currency, while LIFT subsidized interest rates down to the 13% regulatory cap, making kyat lending viable for both investors and MFIs.

The facility supported \$224 million in investments to 20 microfinance institutions from 37 international investors throughout multiple program phases. Demand significantly exceeded supply — the facility received \$565 million in requests from investors. This substantial gap demonstrates that demand for affordable hedging in fragile contexts vastly exceeds current supply, and that protective hedging can maintain financial access for vulnerable populations even in highly challenging environments.

## How it works



### MECHANISM

TCX provided FX hedging enabling international investors to lend in Myanmar kyat. LIFT funds subsidized the interest rate spread to bring total borrowing costs down to the 13% regulatory ceiling.

### EXAMPLE

International investor lends in kyat at the regulatory interest rate (13%, then 16%), TCX hedges the kyat to US dollar resulting in sub-market rates in USD terms, LIFT subsidy makes it possible to achieve a market-rate return in USD.

#### Without facility

Funding from international investors would have been impossible

#### With facility

MFI receives kyat funding with an interest rate compliant with the local regulation

### ELIGIBILITY

#### Country

Myanmar

#### Counterparties

International investors and DFIs lending to Myanmar MFIs

#### Period

2016–2020

#### Beneficiaries

20 microfinance institutions serving rural populations

### IMPACT

**\$224M in investments** facilitated across 20 MFIs and 37 international investors

#### \$565M in requests

Demand significantly exceeded capacity

#### Key lesson

Massive unmet demand exists in fragile markets where hedging enables financial inclusion

# Critical insights based on TCX's blended finance facilities

Despite growing recognition of currency risk as a barrier to development finance, solutions remain under-scaled. Convergence, the global network for blended finance, has long advocated for addressing FX risk. In 2017, Convergence partnered with the European Commission, OECD, EDFI, and TCX to host a workshop dedicated to identifying FX risk solutions, concluding that 'blended finance solutions have the potential to reduce the FX risk for developing countries' and that risk must shift 'from the most vulnerable borrowers to well-capitalized organizations that can best bear and manage the risk.' Yet currency hedging remains largely absent from mainstream blended finance discussions. TCX's five facilities demonstrate that the solution exists, is proven, and can scale.

## 1. The model is proven in challenging contexts

Blended finance enables local currency hedging where commercial markets won't operate — such as Myanmar's fragility, Sub-Saharan Africa's frontier currencies, clean energy in underserved regions. These facilities target difficult environments where currency risk actively blocks development finance.

## 2. Demand exceeds supply

Myanmar facilitated \$224 million against \$565 million in requests. EUMCF's pilot fully utilized the capacity by deploying €120 million against €1 billion in pipeline requests. Both facilities show consistent patterns of unmet demand for hedging capacity.

## 3. Scale is possible (and urgently needed)

The successful scale-up of EUMCF demonstrates that currency hedging can rapidly expand when policy priorities align with budget allocation. Yet even at this scale, current capacity addresses only a fraction of the \$4+ trillion annual SDG financing gap.

## 4. Blended finance can be catalytic and efficient

The use of public and philanthropic funding can be the missing ingredient in structuring an efficient solution that unlocks private capital. The TCX facilities are highly leveraged, with EFSD+ aiming to mobilizing \$13 of private capital for every \$1 in EU funding. Guarantee structures have been utilized to create efficiency where the donor funding isn't needed unless there are losses, meaning the funding can be used to advance more projects.

### **5. Blended finance makes hedging affordable, which enables impact**

In frontier markets where currency volatility is highest, risk-reflective hedging costs can be unaffordable for borrowers and often render otherwise viable projects unbankable. Blended finance facilities use donor subsidies to bridge this gap, transforming economically sound projects from impossible to feasible. This is the core value proposition — removing cost barriers that prevent efficient capital allocation to creditworthy borrowers with strong development outcomes.

### **6. These facilities align with and enable major development finance initiatives**

The EU's EFSD+ evaluation noted that without affordable currency hedging, DFIs either absorb dangerous FX exposure themselves or transfer it to borrowers who can't manage it. TCX's blended finance facilities address this constraint, enabling local currency lending at scale. This directly supports broader goals — from the OECD's emphasis on context-appropriate blended finance to the “billions to trillions” agenda that requires removing systematic barriers to efficient capital allocation.

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**These six lessons establish that blended finance for currency risk works across challenging contexts, faces massive unmet demand, can operate at scale, delivers measurable impact through affordability, and aligns with strategic development priorities.**

## Path forward: building on proven models

With operational facilities demonstrating viability across different contexts and scales, the focus shifts to building the evidence base that will enable expansion and replication. Strengthening measurement, documenting results systematically, and demonstrating clear leverage and development impact will be essential for mobilizing the donor and public commitments needed to address currency risk barriers at the scale frontier markets require.

*“We need to move away from bespoke mobilization activities and instead identify what has worked to date to mobilize private capital at scale and with impact, aligned to better debt sustainability, and double down on the most effective and efficient solutions.”*

**Christopher Clubb**

Managing Director—Convergence

### Building the case for expansion

Making the case for additional facilities and increased scale requires demonstrating that blended finance for currency hedging delivers measurable results efficiently. Several areas of focus would strengthen this case:

#### 1. From experimentation to standardization

Myanmar’s single-currency focus, BMUKN’s auction-based allocation, Tunisia’s guarantee structure, and EUMCF’s broad coverage represent different design approaches tested across contexts. This operational diversity has generated valuable lessons about which mechanisms deliver efficiency and transparency at scale. Moving forward involves consolidating these proven mechanisms into standardized frameworks by identifying core components (allocation mechanisms, legal structures, eligibility criteria) that can be replicated while maintaining flexibility for donors to define geographic and sectoral priorities. This evolution from bespoke facilities to standardized platforms would reduce transaction costs, accelerate donor onboarding, and enable replication by other institutions addressing currency risk in their operating contexts.

## 2. Demonstrating capital efficiency

The Pricing Component targets a leverage ratio of up to 13:1. Tracking and measuring performance as these facilities deploy would quantify capital efficiency for prospective funders considering similar interventions. Systematic documentation of additionality and impact enabled by hedging builds the evidence needed to justify facility expansion and replication.

## 3. Understanding what enables market maturation

Monitoring commercial hedging availability and pricing across operating currencies over time would reveal which markets develop toward commercial sustainability versus which require longer-term support. This informs optimal facility design for future interventions, helping donors understand when temporary support can catalyze markets versus when ongoing commitment is needed, and how to sequence interventions for maximum market development impact.

## 4. Connecting financial flows to development outcomes through case studies

The Yellow Malawi example demonstrates how removing currency cost barriers translates to impact. Developing similar case studies across different sectors and geographies would provide the narrative evidence that complements quantitative metrics when making the case for expanded commitment. Donors need to see not just hedging volume but the development outcomes that hedging enables.

## 5. Establishing currency hedging as essential development finance infrastructure

As the new TCX facilities build track records, sharing emerging lessons (performance data, allocation approaches, operational experience) positions currency risk mitigation not as optional technical service but as fundamental enabler of local currency development finance. The facilities address recognized gaps, documenting how they perform strengthens the case for similar interventions by other bilateral donors, regional development banks, and philanthropic sources. Building relationships with prospective donors, contributing to sector dialogues on blended finance effectiveness, and demonstrating that currency hedging delivers results at reasonable cost creates foundation for the additional facilities and scale needed to meaningfully address currency risk barriers across frontier markets.

# Conclusion

## **Blended finance facilities for currency hedging have moved from niche interventions to proven instruments operating at meaningful scale.**

€170 million in EUMCF commitments are expected to mobilize up to €2 billion in local currency development finance, while BMUKN SDG7 and Green Local Currency Intermediated Lending in Tunisia expands clean energy access in underserved regions. The track record from Myanmar through current operations demonstrates consistent demand and measurable impact.

Moving forward involves strengthening evidence, refining approaches based on operational experience, and engaging clearly with partners about how currency hedging enables local currency development finance. The development finance community needs effective solutions for FX risk in frontier markets. These facilities provide them, and continued evolution based on experience and evidence will strengthen their contribution to sustainable development goals.

As these facilities deploy and demonstrate impact, TCX is committed to sharing operational insights and collaborating with the development finance community on evolving approaches. The sector's movement toward standardization, efficiency, and scale aligns with lessons TCX has extracted from operating diverse facilities across challenging contexts. Moving from experimentation to consolidated, replicable frameworks represents the next phase of maturation for blended finance solutions to currency risk.



Building a **global** solution  
for **currency risk**

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