

July 12, 2023

36th Board Meeting of the Green Climate Fund (GCF)

GCF Observer Network of Civil Society, Indigenous Peoples, and Local Communities

INTERVENTION

Intervention on the Consideration for a Local Currency Pilot

Access the document: <https://www.greenclimate.fund/document/gcf-b36-16>

We strongly support the development of approaches to deploy local currency financing, as a means to ensure that the concessionality of the GCF finance provided to developing countries, mainly as loans, is fully passed on to national and sub-national entities, communities, and people, particularly those most vulnerable, who are also facing unsustainable debt. There is some early indication that this might be best reached by the GCF assuming the currency risk entirely, which it should consider in helping de-risk, especially longer-term climate investments by direct access entities.

We also agree that this deployment requires a gradual approach, allowing for the GCF to learn and build its internal capacities to fully implement local currency financing, as well as for the Board to take the necessary decisions to allow for full implementation. However, we are concerned about how this gradual approach is being framed in the guiding principles, which suggest focusing on low-risk currencies in regions with strong foreign exchange markets during the pilot phase, and thus failing to reach the countries most in need of this solution, like LDCs and SIDS. The proposal also suggests sticking to a single currency, which will slow down the pace of learning and will not give an accurate picture of challenges and barriers that need to be tackled. This approach leaves out those that already face the greatest challenges in accessing concessional finance denominated in hard currencies, including in particular domestic MSMEs.

The GCF should strive to build its capacity to also deploy local currency financing in countries with less mature foreign exchange markets as soon as possible, and focus strongly on providing solutions specifically for these countries. Instead of limiting the scope of the pilot, and the lessons learnt, an upper limit could be put on the scale of the pilot as a clearer means of limiting the risk.

At the same time, the challenges of providing local currency financing highlighted in the review confirm that grant finance is the best way to provide highly concessional climate finance to vulnerable countries, communities, and people, in a way that does not increase their debt burdens. Therefore, we reiterate that grant finance should remain the primary instrument to support all climate action.

We would also like to see the indicative timeline written more formally into the decision, to avoid unnecessary delays to the initial pilot and evaluation phases.

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