

Currency Conversion Clauses

Currency risk management begins at origination

THE CHALLENGE

Borrowers in frontier markets face a Hobson's choice: take on hard-currency debt or forego financing altogether. Debt owed in dollars while revenue is earned at home is a mismatch — when local currencies depreciate, debt burdens spiral.

This crowds out spending on health, education, and infrastructure. MDBs and DFIs are the primary lenders in these markets, and Currency Conversion Clauses (CCC) give them a practical way to deliver on that responsibility.

WHAT IS A CURRENCY CONVERSION CLAUSE?

A Currency Conversion Clause is a standard provision embedded in a loan agreement that gives borrowers the right to switch debt service payments from a foreign currency to their local currency.

When activated, future payments are indexed to the local exchange rate, automatically reducing the foreign currency burden when the local currency depreciates. The borrower's debt service in local currency terms stays constant.

WHY IT MATTERS

80% of lending to low-income countries is still in hard currency.

Foreign-currency debt weakens a country's sovereign **credit rating**.

A major climate disaster drives public debt up **7 points** of GDP within 3 years.

Currency risk adds **5 to 6 points** to the cost of capital for African clean energy projects.

THE ASK

Building on the responsible-lending pledges of the Sevilla Commitment (July 2025), TCX calls on MDBs and DFIs to standardize Currency Conversion Clauses across all lending agreements. This requires no new capital allocation, only the institutional will to embed borrower protection into standard loan documentation.

WHY CCCS WORK

01

Borrowers gain the right to convert at any point during the loan's life — protecting against future shocks, not just at origination.

02

Debt service in local currency terms stays constant when the clause is activated, making fiscal planning predictable.

03

Lenders can pass the resulting currency risk to international markets — so their balance sheets are not exposed.

04

Pricing the clause increases risk awareness among borrowers and lenders alike, incentivizing proactive management.

HOW TCX CAN SUPPORT CCCS



TCX offers long-dated cross-currency swaps in frontier currencies, giving lenders the confidence to accept conversions at scale.



Blended finance facilities reduce the upfront hedging cost for borrowers, lowering the barrier to activation.



In partnership with FiCS, TCX has committed up to USD 500 million concessional hedging instruments to support PDBs in managing currency risk.



TCX's Local Currency Academy will build currency risk management capacity in borrower institutions and Debt Management Offices.

CASE STUDY



Paraguay Credit-rating upgrade

\$100M existing loans hedged with TCX via 13-year fixed-rate cross-currency swaps

\$500M first offshore guaraní bond (Feb 2024), 2x oversubscribed — \$600M followed in 2025

Baa3 Moody's upgrade to investment grade (Jul 2024), citing lower FX exposure

From 91.5% external debt, Paraguay put currency-risk reduction at the centre of its debt strategy — opening the offshore guaraní market and supporting its investment-grade upgrade.

CASE STUDY



Indonesia Sovereign loan conversion

\$3.3B across 27 sovereign loans converted from USD and JPY to rupiah (May 2025)

1st large-scale local-currency conversion by ADB

\$5B+ ADB local-currency portfolio, set to exceed 50% of private-sector loans

Working with ADB, Indonesia cut financing costs and FX uncertainty, creating *"greater fiscal space to address other pressing needs."*

DISCLAIMER

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