Local Currency Financing for Climate and Debt Justice

Firstsource Money and Positive Money

This briefing builds on the outcome of the T20 Communiqué, which recognised the need for a more balanced, multi-currency international financial architecture (IFA). It highlights measures to expand the use of local currencies, from regional payment systems, swap lines, and Multilateral Development Banks (MDBs) lending to strengthening state-led and local banking systems. These steps are vital for Global South countries facing intertwined debt and climate crises, as they reduce reliance on dominant currencies, lower exposure to currency risks and external shocks, and create space for investment. Together, they facilitate a shift towards monetary pluralism, where no single currency dominates, enabling countries to reclaim economic policy space and focus on tackling their domestic development and climate goals.

Introduction

The international financial architecture is profoundly shaped by an unequal global currency hierarchy rooted in colonial monetary systems. Global South countries remain dependent on a handful of 'hard currencies' for trade, debt, and reserves. This entrenches inequality, fuels repeated cycles of crisis, and exposes countries to exchange rate volatility and capital flight, while narrowing their ability to respond to economic and climate crises (e.g. Kaltenbrunner and Painceira, 2017; Fritz et al., 2018; Carneiro and De Conti, 2022). It also locks many economies into extractive, carbon-intensive sectors to earn scarce foreign currency, diverting investment away from climate action and just energy transitions. Today's tariff wars, shrinking aid, and intensifying climate impacts make reform more urgent than ever.

Expanding the use of local currencies is a vital step towards reducing dependency on dominant external currencies and building a fairer IFA, as recognised by the T20 Communiqué (T20, 2025). But this must start from the bottom up: strengthening domestic banking and monetary systems, mobilising finance through state and public banks (Marois, 2021), and reinforcing these efforts through regional MDBs (Ocampo, 2017). At the same time, deeper systemic reforms are needed to align monetary systems with climate and development goals. This briefing highlights how bottom-up measures can open up the policy space for such reforms, and how they might be advanced under South Africa's G20 presidency.

Why Local Currency Finance Matters

Local currency finance matters at different levels. Through regional Global South–led actors, it can reduce dependency on a handful of foreign currencies in trade, debt, and reserves, for example through new payment systems, regional swap lines, or MDB lending in local currencies. As Keynes reminded us, ‘let finance be primarily national’, as such without embedding local currencies into domestic banking and monetary systems, they cannot gain wider acceptance internationally. A key entry point is building robust state and public banks that expand the use of local currencies for investment in domestic priorities. This domestic capacity is essential for Global South economies to reclaim policy space from the bottom up and push for a wider acceptance of local currencies. Taken together, these measures can reduce exchange rate risks, lessen the instability of the financial systems, shield economies from external shocks driven by US Federal Reserve interest rate decisions, and equip governments to face the constraints of dollar-denominated borrowing that lock economies into fossil fuel dependence. This creates space to direct capital into productive sectors and just energy transitions.

Debt Justice

Most Global South debt is denominated in foreign currencies, leaving governments exposed to swings in the US dollar and to benchmark interest rates set in the Global North, particularly by the US Federal Reserve. In 2023, developing countries collectively spent US $1.4 trillion servicing their foreign debt (World Bank, 2024), more than many spent on health, education, or climate solutions. Debt servicing costs for low-income countries have risen by 150% since 2020 (Stiglitz, 2025), with over 50 countries now spending more on debt than on climate adaptation or public services. Expanding mechanisms for lending in local currency would reduce these risks, give predictability for borrowing costs, and create fiscal space for development and climate priorities.

Climate Justice

Global South countries will need at least US $2.4 trillion annually by 2030 to meet climate and development goals (IHLEG, 2024). Yet most renewable energy and resilience projects are financed in US dollars or euros, even though revenues are earned in local currencies. This mismatch exposes borrowers to exchange rate volatility, which in some cases adds an extra 20–30% cost burden through hedging costs, devaluation risks, and investor risk premia (CIF, 2023; OECD, 2024). As a result, clean energy is often significantly more expensive to finance in the Global South than in the Global North, widening the climate finance gap.

This is compounded by Global North governments repeatedly missing their climate finance pledges, from the unmet US $100 billion annual commitment under the UNFCCC to persistent shortfalls in loss and damage funding. Expanding local currency finance can reduce the currency risk premium and lower borrowing costs for green projects, giving governments greater freedom to prioritise climate resilience and just energy transitions on their own terms (OECD, 2024).

The T20 Proposal in Focus

The G20 should initiate a Task Force to examine how to expand the use of local currencies at both domestic and international levels. Internationally, this includes mechanisms such as regional payment systems, swap lines, MDB lending in local currencies, and regional settlement arrangements. But these efforts can only succeed if grounded in strong domestic capacity, including the creation and empowerment of national development banks and other local banking institutions. The Task Force should explore how these layers reinforce each other, ensuring they advance climate and development goals and avoid replicating the imbalances of the current monetary hierarchy. Key areas for exploration include:

Domestic, Regional, and Digital Pathways for Expanding Local Currency Finance

- **Strengthen domestic banking ecosystems:** Study how state-led and public banks can be empowered to expand local currency financing and investment in domestic priorities, and how these institutions can link to regional efforts to reduce dependency on foreign currencies.
- **Scale up regional platforms:** Examine potential for scaling up initiatives such as the Pan-African Payment and Settlement System (PAPSS) and South America's Local Currency Payment System (SML), assessing both their potential and their limitations in expanding local currency use.
- **Advance digital cooperation:** Explore standards for multi-CBDC systems and strengthen public digital infrastructure to reduce reliance on dominant currencies and provide credible alternatives to private fintech and cryptocurrencies. Ensure Global South–led frameworks align regulatory standards and develop interoperability.
- **Integrate into development strategies:** Ensure these domestic, regional, and digital pathways are embedded in national development strategies, with a focus on uptake by SMEs and local businesses.

Financial Safety Mechanisms

- **Expand South–South swap lines and reserve pooling:** Encourage central banks in the Global South to broaden swap arrangements and pooling mechanisms that provide liquidity buffers beyond G7 networks (Muehlich et al., 2022).
- **Develop inclusive frameworks:** Create mechanisms that go beyond traditional 'currency clubs', including regional liquidity facilities, bridge loans, and strengthened clearing houses to enable trade and investment to be settled directly in local currencies.
- **Study and adapt regional models:** Assess lessons and limitations from existing initiatives such as the Chiang Mai Initiative and BRICS Contingent Reserve Arrangement, and explore how adapted versions could be developed in Africa and Latin America (Ocampo, 2017; Gallagher and Kozul-Wright, 2021).

MDB Lending and Local Capital Markets

- **Scale up MDB local currency lending:** Expand the capacity of Global South–led MDBs through guarantees, hedging tools, and local bond issuance to finance climate and development priorities in domestic currencies (Bonizzi et al., 2024).

Digital and Public Financial Infrastructure

- **Explore global cooperation on Multi-CBDCs:** Develop agreed standards for multi-CBDC systems that ensure interoperability and support the uptake of new payment systems and local currency use in both domestic and cross-border transactions.

- **Strengthen public digital infrastructure:** Explore the role of new payments systems and forms of public digital money to reduce reliance on dominant currencies and provide credible alternatives to private fintech and cryptocurrencies.

Global South Credit Rating Agencies and Debt Justice Mechanisms

- Following the example from Africa, the Global South should create new Credit Rating Agencies to counter the oligopoly of US credit agencies, making it clear that the current models used for the assessment of public bonds in the Global South are biased and inaccurate.
- Support debtor collectives ('debtors' clubs') that enable Global South countries to coordinate defaults or restructuring when necessary, strengthen their negotiating power, and pursue the collective abolition of odious debts. Work towards rebalancing unequal global creditor–borrower relations and reducing dependency on foreign-denominated debt and finance (Samba Sylla and Hickle, 2024).

Local currency finance at domestic and regional level can reduce currency mismatch risks, provide more predictable long-term borrowing costs, expand fiscal space for climate and development priorities, and strengthen South–South cooperation. For these opportunities to be realised, more needs to be done to build alternatives that overcome existing limitations such as liquidity constraints, credibility challenges, and infrastructure gaps that limit the wider acceptance and use of local currencies.

Building Monetary Pluralism: Domestic, Regional, and Global Pathways

Monetary pluralism refers to building an international financial architecture where no single currency dominates, enabling Global South countries to reclaim economic policy space to refocus on domestic development and climate priorities. This requires interventions at multiple levels and entry points:

Domestic: Build robust state-led and public banking systems to expand local currency financing for development and climate priorities. This is the foundation for reclaiming policy space and strengthening the role and wider acceptance of local currencies.

Regional: Scale up payment systems, swap lines, and multi-CBDC platforms to reduce reliance on external currencies and protect economies from exchange rate risks and external shocks.

Global: Reform international rules and institutions, from expanding the use of Special Drawing Rights to democratising multilateral governance, and explore proposals such as an International Clearing Union to rebalance reserves and trade (Samba Sylla, 2025).

Next Steps Ahead of the G20

- South Africa's 2025 Presidency, the first G20 summit on the African continent, offers a historic opportunity to carry forward the T20 recommendation for building a multi-currency international financial architecture and expanding the use of local currencies in trade, debt, and finance.
- Civil society and policy networks can play a pivotal role in this moment: convening dialogues with governments, publishing joint proposals, and raising public awareness of how local currency finance can provide fairer, more resilient pathways for tackling debt, climate, and just energy transition challenges.
- To sustain momentum beyond the South African presidency, civil society organisations should establish a working group on local currency and domestic banking system as well as financial reform. This platform could track G20 outcomes, coordinate advocacy across successive presidencies, and amplify Global South perspectives to keep systemic reform high on the agenda.

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