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GUARANTEES: From Misdiagnosis to Strategic Deployment

Evidence from Expert Practitioner Interviews

Authors

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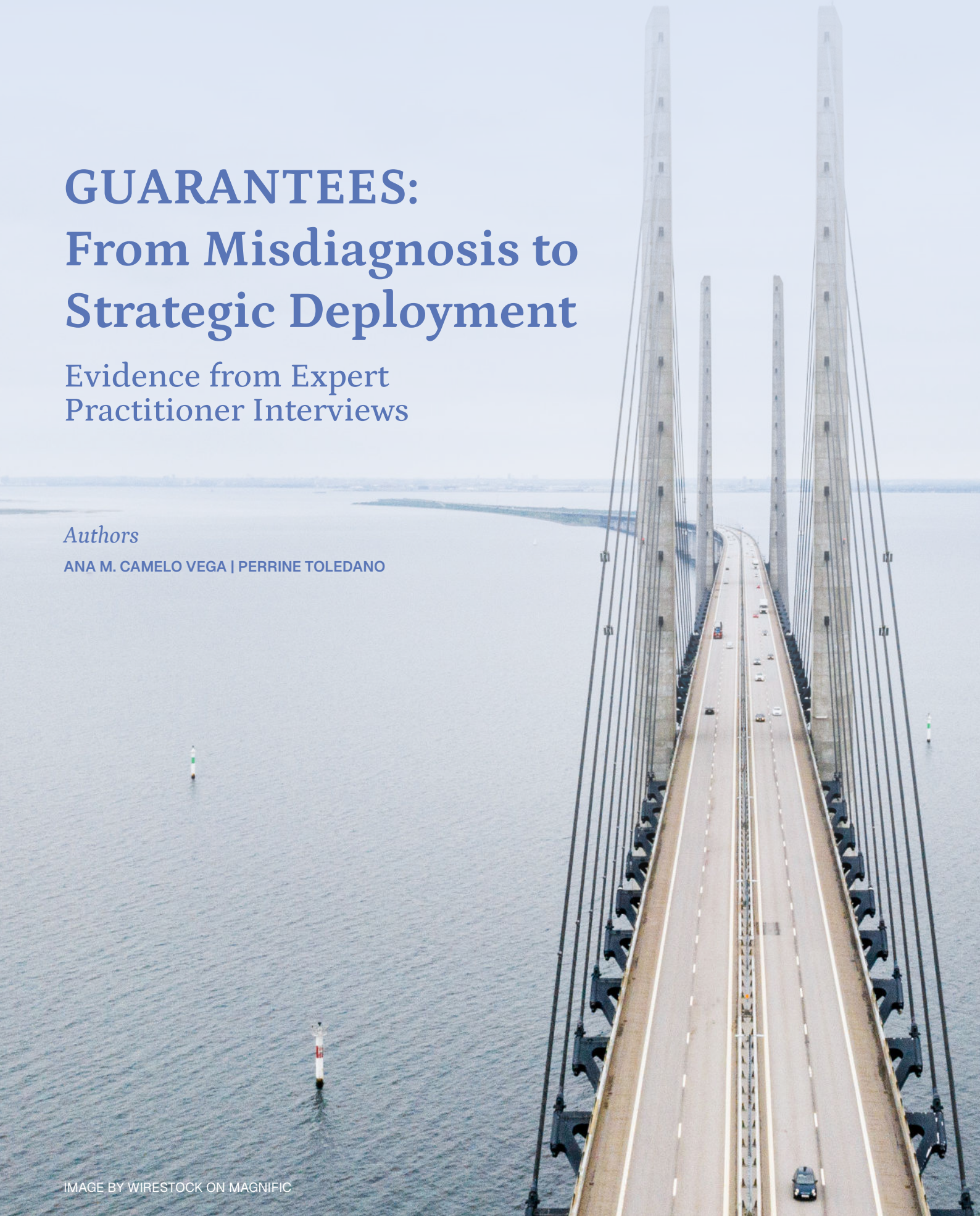

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We are equally indebted to the more than thirty senior practitioners and experts across multilateral development banks, development finance institutions, export credit agencies, institutional investors, guarantee providers, and development policy research. They generously shared their time, experience, and candid assessments through confidential interviews. Their insights form the empirical backbone of this briefing.

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This briefing paper examines the conditions under which guarantees are catalytic and meaningfully influence investment decisions, the institutional and market constraints that limit their effectiveness, and the emerging models that show potential for replication. The analysis is grounded in practitioners' experience with guarantees of various types and providers in the context of climate finance for EMDEs, and is intended to inform strategic deployment rather than to repeat existing arguments for more guarantees.

Interviews with practitioners, guarantors, investors, and deal arrangers reveal a consistent message. The so-called "guarantee gap"—the perceived shortage of guarantee instruments relative to the volume of private investment needed to achieve climate goals—is often misdiagnosed. It is not just a simple undersupply of guarantee instruments, as if there were not enough risk coverage. Instead, practitioners point to a central challenge: misalignment. Guarantees are often not deployed where they can have the most catalytic impact. Guarantee instruments scale most easily in low-uncertainty, hard-currency, and shorter-tenor environments. They remain constrained in long-tenor, local-currency, and policy-risk contexts, which most decisively shape investment decisions. This structural mismatch is driven by institutional accounting, capital treatment, approval processes, and metrics that favor deployment over additionality.

This briefing synthesizes insights from interviews with over 30 senior practitioners and experts across multilateral development banks (MDBs), development finance institutions (DFIs), export credit agencies (ECAs), institutional investors, guarantee providers, and development policy researchers conducted between October 2025 and March 2026. Drawing on the Green Guarantee Group's (GGG) Guarantee Directory, which lists 53 active climate-aligned guarantee instruments worldwide, the briefing suggests that supply is not the binding constraint: rather, existing instruments remain insufficiently aligned with the risk profiles and contexts where catalytic impact is greatest.

Accordingly, the objective of this paper is not to restate problems already well documented in the literature, but to clarify where guarantees lose traction, where they demonstrably work, and the systemic changes needed for them to scale.

Introduction: How Guarantees Work in Project and Infrastructure Finance

A guarantee is a contractual commitment by a third party to absorb defined losses if specified risks materialize.[1] In project and infrastructure finance, that simple definition covers considerable variation. Different instruments cover different risks, are issued by different types of institutions, and interact differently with the balance sheets of borrowers, lenders, and investors. The framing below clarifies the building blocks referenced throughout this briefing.

Two economic functions

Although they share a single label, guarantees serve two distinct economic functions. The first is credit enhancement. This improves the general risk profile of a borrower or project. As a result, the cost of capital falls, tenors lengthen, and more lenders are willing to participate. The second function is risk transfer. This shifts a defined risk, typically political or contractual, to a party better positioned to bear it. MDBs, DFIs, and institutions such as the European Bank for Reconstruction and Development commonly issue credit enhancement instruments. The Multilateral Investment Guarantee Agency, private political risk insurers, and ECAs typically offer risk transfer products. Many transactions combine both functions in a single structure. This is partly why these instruments are frequently discussed interchangeably, even when they operate differently.

Common instrument types

Several instrument types recur throughout this briefing. Partial Credit Guarantees (PCGs) cover a portion of debt service, irrespective of the cause of default, and are typically used to extend maturities or improve credit-worthiness.[2] Partial Risk Guarantees (PRGs) cover full debt service defaults arising from specified government-related risks, including offtaker payment performance or regulatory commitments, and are widely used in public-private partnerships and

1 World Bank Group, "Guarantees," *Public–Private Partnership Resource Center*, accessed April 30, 2026, https://ppp.worldbank.org/guarantees.

2 *Description: Partial Credit Guarantees (2023)*, https://www.ifc.org/content/dam/ifc/doc/2023/ifc-product-description-partial-credit-gurantees.pdf.

regulated sectors.[3] Political Risk Insurance (PRI), of which MIGA's coverage is the most prominent example, addresses non-commercial risks faced by foreign investors: expropriation, transfer and convertibility restrictions, and breach of contract.[4] Non-Honoring of Financial Obligations (NHFO), a specific MIGA product targeting lenders referenced repeatedly in this briefing, covers payment defaults by sovereigns, sub-sovereigns, or state-owned enterprises and is one of the few largely standardized instruments in this category.[5] Portfolio guarantees and risk-sharing facilities operate at the system level rather than the transaction level, covering aggregated losses across loan pools and supporting programs such as SME or green lending facilities. Annex I presents a comparative typology of guarantee instruments in infrastructure and development finance.

IMAGE BY WASSIMAHMED ON PEXELS

3 International Institute for Sustainable Development, "World Bank (IBRD) – Credit Enhancement Instruments," accessed April 30, 2026, https://www.iisd.org/credit-enhancement-instruments/institution/world-bank-international-bank-for-reconstruction-and-development/.

4 Multilateral Investment Guarantee Agency, "Political Risk Insurance," accessed April 30, 2026, https://www.miga.org/political-risk-insurance.

5 Multilateral Investment Guarantee Agency, *Non-Honoring of Financial Obligations (NHFO)* (2021), https://www.miga.org/sites/default/files/2021-04/MIGA%20Brief%20-%20NHFO%20-%20Mar%202021.pdf.

1. The Framing

Across interviews, a consistent point came through: the "guarantee gap" is often discussed as if it were a generic shortage of risk mitigation. But guarantees are not generic products: They are built to cover specific risk types. The real question is whether the guarantee actually addresses the constraint that is preventing the investment, and whether it is considered meaningful within the decision-making processes of capital allocators, such as credit committees, regulatory frameworks, rating processes, and internal timelines. As one senior infrastructure finance practitioner noted: *"Guarantees are just one node in a very complex system"*. In practice, this means that some guarantees do change decisions, many are necessary but insufficient, and others take excessively long to secure, undermining their effectiveness.

A guarantee has an impact when it changes one of three things in ways that are clear to markets and decision-makers. First, it can influence whether an investment happens at all. Second, it can shift the terms of capital mobilized for the asset, including price, tenor, and risk allocation. Third, it can expand who can hold the risk by making an asset eligible for a wider range of balance sheets. If none of these dimensions shift, the guarantee may still look "useful" on paper, but it is not catalytic.

The first channel of change relates to the following blunt conclusion that multiple interviewees converged on: The underlying project economics remain decisive; guarantees can de-risk investment by transferring the target risk, but they cannot compensate for projects that lack commercial viability. As one guarantee provider stated, *"A guarantee doesn't make a bad project a good project."* In other words, guarantees do not substitute for project preparation, and a recurring concern among practitioners is that guarantors face pressure to deploy capital, leading to guarantees being extended to projects without adequate preparation.

To explore the second and third channels of change, it is important to distinguish among three structural contexts.

For one, guarantees for sovereign, sub-sovereign, and non-sovereign borrowers, moreover, present structurally different challenges that are often conflated or misunderstood. MDB guarantees to sovereigns introduce additional actors without consistently delivering demonstrable pricing advantages relative to direct MDB lending. They also create complications in debt restructuring, particularly where preferred creditor status[6] becomes ambiguous once commercial lenders are guaranteed by an MDB.[7] In addition, outside of MIGA's Non-Honoring of Financial Obligations (NHFO), they often involve indemnity

6 Preferred creditor status (PCS) refers to the convention whereby MDBs are repaid before commercial creditors in the event of debt restructuring or default. This status is not codified in law but is broadly respected by sovereign borrowers seeking continued access to MDB financing. The complication arises when an MDB guarantees a commercial lender: it is not settled whether the commercial lender inherits the MDB's PCS, potentially subordinating other creditors or distorting restructuring negotiations. For further discussion, see footnote 7.

7 Chris Humphrey, Jessica Pudussery, and Frederique Dahan, "Preferred Creditor Treatment and Multilateral Development Banks' Mobilisation Agenda," ODI Global Working Paper, February 2026, https://media.odi.org/documents/Preferred_creditor_treatment_and_multilateral_development_banks_mobilisation_agenda.pdf. See also "Ghana Restructuring Is a Huge Test for MDB Bond Guarantees," *GlobalCapital*, December 22, 2022, https://www.globalcapital.com/article/2b1ht69nek0jdhucnuigw/comment/gc-view/ghana-restructuring-is-a-huge-test-for-mdb-bond-guarantees.

agreements with the host state, which add contingent liabilities to public balance sheets. One MDB specialist said, *"The MDBs are going to charge the borrower the same as if they had made a loan… And so the borrower says, well, why don't I just get the loan instead?"*

Second, for non-sovereigns and project finance, the challenge is more related to whether the guarantees cover the right risk, whether they help pierce the sovereign ceiling—that is, whether they enable sub-sovereign or private borrowers to access financing that would otherwise be capped by the country's sovereign credit rating (which is often low or sub-investment grade in EMDEs), whether they trigger the claim on first demand, and whether they can be deployed in a timely manner. For sub-sovereigns such as cities, these challenges are compounded by the fact that existing guarantee facilities are mostly designed for the national level, and subnational governments receive a very small share of guarantees (5-10%).[8] As a former mayor aiming to fill the gap argues, *"the way we're thinking about our green city guarantee fund is to support urban projects that could be developed either directly by the city, when they can access finance directly, or through municipally owned utility companies… or even the private sector directly investing in urban projects."*

IMAGE BY BURST ON PEXELS

8 Eugenie L. Birch, L. Campo, and M. Rodas, "The Green Cities Guarantee Fund: Unlocking Access to Urban Climate Finance," Penn Institute for Urban Research for the SDSN Global Commission for Urban SDG Finance, November 1, 2024, https://penniur.upenn.edu/publications/the-green-cities-guarantee-fund-unlocking-access-to-urban-climate-finance. See also SDSN Urban SDG Finance Commission, https://urbansdgfinance.org.

2. Where Guarantees Lose Traction

2.1 Supply-Side Constraints

Balance-Sheet and Accounting Deadlock with MDBs

Guarantees continue to be treated as second-class products within many MDBs and DFIs relative to loans. Several interviewees pointed to a basic accounting and incentive problem: guarantees often consume scarce risk capital in ways that appear too similar to loans, largely because institutions must maintain high credit ratings and internal capital adequacy requirements, and because guarantees are harder to 'count' as developmental delivery than disbursed lending. Loans are therefore more visible and tangible, both for institutional reporting and for the (sub) sovereign clients receiving support. In practical terms, a USD 100 million guarantee is frequently treated as equivalent to USD 100 million of exposure on the balance sheet, effectively making a guarantee operationally comparable to a loan.

This treatment has direct pricing implications. If guarantees are not meaningfully cheaper than direct lending, borrowers tend to prefer loans that avoid the so-called "complexity premium." As one MDB specialist noted, *"guarantees use the same scarce risk capital as loans, so they are not cheaper."* The consequence is significant: instruments designed to leverage MDB balance sheets more efficiently are instead often treated one-for-one with loans, undermining the leverage advantage they are intended to provide. The preference for loans is compounded by the fact that loans generate a wider range of ancillary fee income—commitment fees, facility fees, syndication fees—that guarantees, even innovative ones, typically cannot replicate.

Relatedly, MDBs account for less than a quarter of the documented guarantee facilities: 16 of the 53 listed in the GGG Directory. The remainder includes bilateral development finance institutions, export credit agencies, and dedicated guarantee facilities, funded by donor governments. Among MDBs, MIGA alone accounts for 7 distinct guarantee types (some of which are structured in partnership with IFC or IBRD). This is followed by the Asian Development Bank with 3 products, the African Development Bank with 2 products, and others with smaller offerings.

Beyond maximum coverage amounts, the more consequential constraint on MDB guarantee scale is how these instruments interact with balance sheets. MIGA, unlike many other MDB-backed guarantee providers, can reinsure standardized products and is therefore structurally more efficient in deploying guarantees.[9] At the same time, MIGA does not operate as a source of concessional finance, meaning pricing must clear private reinsurance markets, which in turn limits how inexpensive guarantees can ultimately become.

9 MIGA, "Non-Honoring of Public Debt," World Bank Group, accessed April 2026, https://www.miga.org/product/non-honoring-public-debt.

Another option in that regard is securitization: Through securitization, an originating bank can free up its balance sheet to offer more guarantees by converting individual loans into a diversified, credit-enhanced pool that is funded off its balance sheet. For instance, IDB Invest structured a pioneering synthetic securitization that reallocated risk from a USD 1 billion portfolio of non-sovereign-guaranteed loans to private market participants.[10] This option, however, is not available for sovereign portfolios, which make up most of development banks' portfolios.

An alternative approach has emerged from SIDA's partnership with ADB, dating to 2016 and now expanding under the recently developed I-CAP program.[11] Under this model, ADB uses guarantees from government partners—and potentially philanthropic organizations—to ringfence an existing sovereign loan portfolio, freeing up ordinary capital resources to make new investments in climate change projects. Each dollar of guarantees from government partners can, in this way, indirectly help mobilize up to five dollars in critical climate finance.

Finally, historically low claim rates remain insufficiently reflected in financial accounting and rating agency frameworks. As one former DFI practitioner noted regarding OPIC's historic guarantee-call data, *"claims are episodic and limited,"* suggesting guarantees could be safely leveraged five- to ten-fold for political and non-commercial risks, where historical claims data is sufficient to support actuarial pricing. Yet for these instrument types, MDBs continue to apply conservative booking practices driven by AAA rating preservation rather than by the underlying risk profile.

Innovation Trap

The field faces an innovation trap. There is no shortage of new facilities or new branding. Interviewees were explicit about the downside of this trend: boutique products do not scale. They generate legal friction, high transaction costs, and uneven access across countries and sectors. As one guarantee holder noted, *"over-engineering and over-innovation in blended finance produces structures investors do not recognize or want."*

As a result of the pursuit of bespoke approaches, guarantees lack coherence as a product category. For many guarantee types, there is no standard definition of coverage and no consistent trigger logic, even for instruments targeting the same risk categories.[12] Where triggers are well-defined (as with non-honoring of financial obligations), comparability is clearer, but such clarity remains the exception rather than the rule. This becomes a severe bottleneck in multi-guarantor transactions, where each institution covers a different risk slice under distinct legal conditions. The result is overlapping or non-additive coverage, prolonged negotiations, and limited incremental risk transfer, as further explained later in the brief.

10 "IDB Invest Launches Landmark $1 Billion Securitization in Latin America and the Caribbean," IDB Invest, October 23, 2024, https://idbinvest.org/en/news-media/idb-invest-launches-landmark-1-billion-securitization-latin-america-and-caribbean.

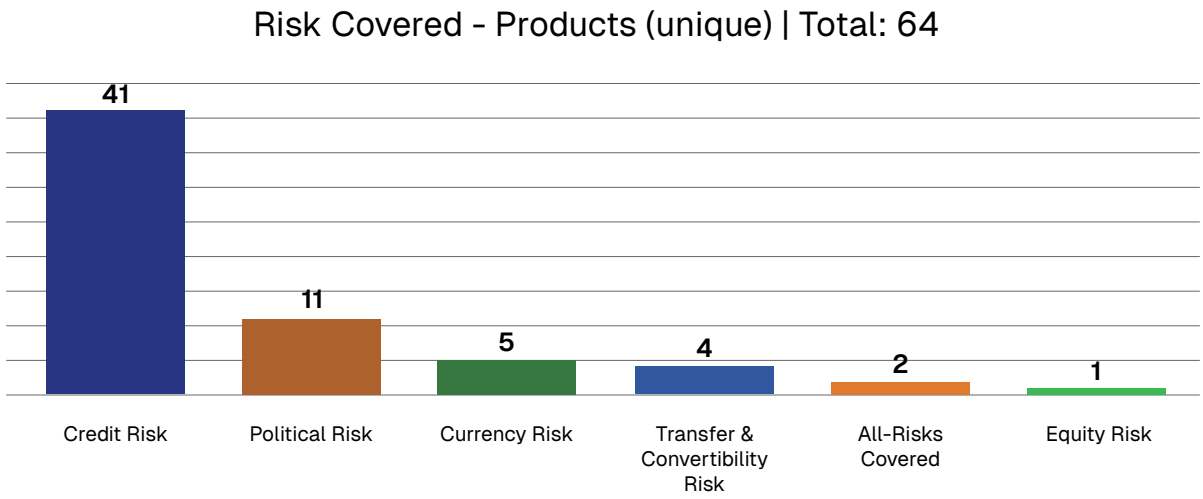
11 "ADB Insight Episode 15: Innovative Financing Solutions," Asian Development Bank, accessed April 2026, https://www.adb.org/news/events/webinar/adb-insight/episode-15.

12 OECD, "Guarantees and Other Risk Mitigation Instruments for Clean Energy," Organization for Economic Co-operation and Development, 2025, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/11/guarantees-and-other-risk-mitigation-instruments-for-clean-energy_2b73ee3d/93a6e05c-en.pdf.

Product Choice vs. Binding Constraints

Lastly, guarantee facility availability often reflects institutional supply rather than the real needs of underlying transactions. This divergence between product availability and transaction-level needs is where the structural mismatch in guarantee deployment becomes most visible.

Across risk categories, the instruments in the GGG Directory cover credit risk in 41 products, political risk in 11, currency risk in 5, and transfer or convertibility risk in 4.[13]



Source: Author's elaboration based on GGG Directory as of March 2025.

This means that guarantee products remain disproportionately oriented toward credit enhancement, reflecting the mandates, accounting treatment, and risk cultures of the institutions providing them rather than the real-world structural frictions faced by projects and borrowers. Indeed, true liquidity facilities — instruments designed to cover temporary revenue shortfalls and ensure uninterrupted debt service — are relatively rare and are mainly provided on a case-by-case basis, often by institutions such as the EBRD. These include support for—e.g., delayed payments, seasonality, and demand shocks; enabling debt service continuity during stress periods; and mitigating rollover risk when refinancing markets freeze or become prohibitively expensive. Most MDB instruments instead focus on transferring credit (NHFO) or government performance risk (PRG) rather than providing this kind of short-term liquidity support.

FX volatility[14] and refinancing risk also remain largely unmitigated across the broader EMDE financing ecosystem. Public finance institutions address these risks only indirectly, through lending, swaps, or credit enhancement, and no guarantee product currently covers these exposures directly. This is a market-wide gap that guarantee providers alone cannot close, but one that shapes the ceiling of what guarantees can achieve in practice.

13 In the relevant chart, 'Products (unique)' counts unique products tagged with each Risk (products may have multiple risks). 'Entries w/ max value' counts products where a Max Transaction Size value is available for that risk. 'Max value' refers to the maximum single transaction size per product, as reported in the dataset methodology. 'Sum of max values' is computed only over those available max values.

14 Climate Policy Initiative, "An FX Guarantee Mechanism for the Green Transformation in Developing Countries," June 2023, https://www.climatepolicyinitiative.org/wp-content/uploads/2023/06/An-FX-Guarantee-Mechanism-for-the-Green-Transformation-in-Developing-Countries.pdf.

A MIGA expert mentioned that *"Where MIGA comes in is around the consequences of currency stress: when there's a lack of dollars, and investors can't convert or transfer funds, our transfer-and-convertibility cover and, in some cases, our non-honoring guarantees step in to make sure money can get out and payments are honored. So, we support currency risk indirectly, by backstopping non-payment and transfer blockages, but we don't take the underlying FX rate risk."*

Local Financing Offering

The most sustainable guarantee offering is one aimed at deepening the local capital market and ensuring local-currency financing, as it can mobilize private balance sheets while avoiding direct foreign-exchange exposure. However, their effectiveness remains conditioned by the local market structure. Even where institutions such as the World Bank Group have the mandate to provide local currency solutions, their ability to do so depends on the availability and depth of hedging markets, particularly for longer tenors. This creates a structural circularity: local currency guarantees are most needed precisely where local markets are too shallow to support them. As a non-MDB guarantee holder said, *"A lot of players have been saying for years that they wanted to do local currency guarantees, but very few people do it. ADB, AfDB, IFC talk about doing it, but then they hedge everything…."*

Specialized platforms such as the PIDG operate differently under these constraints. They combine concessional capital, greater risk-taking, and a focus on improving credit quality rather than managing currency risk, enabling them to operate in markets where hedging is unavailable or too expensive. Instead of relying on deep markets, they help create the markets by supporting early transactions and attracting domestic investors who already operate in local currency.

PT SMI[15] plays a role similar to PIDG in enabling infrastructure finance, but as a domestically anchored, state-backed institution, it operates within the local financial system rather than as a donor-funded, concessional platform. As a result, it combines market development with policy implementation, and typically shares rather than fully absorbs risk.

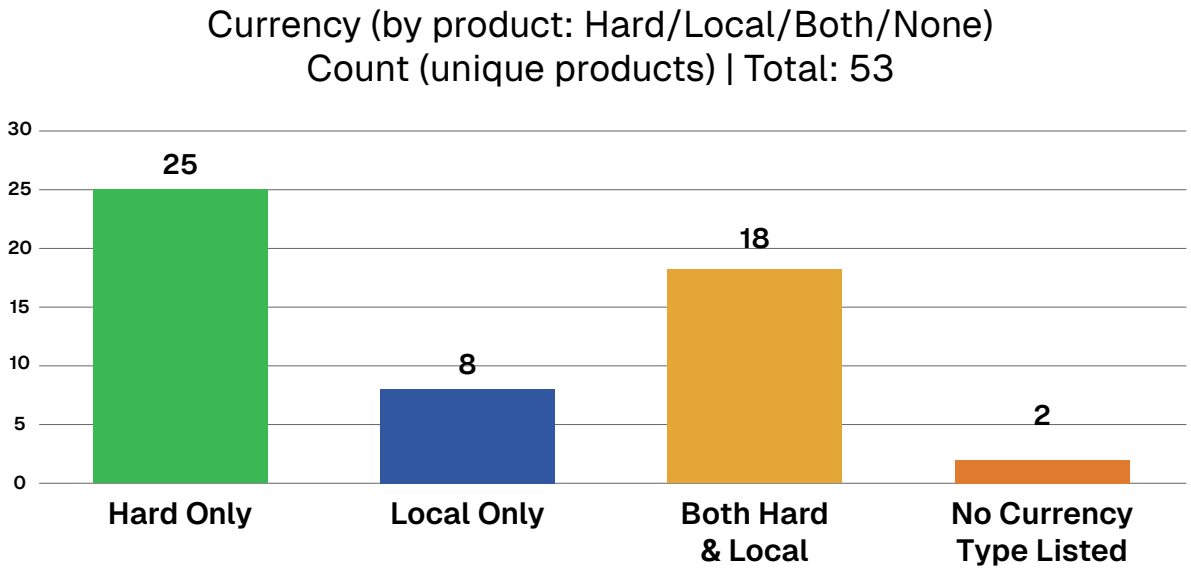
A different approach is illustrated by Eco Invest Brasil,[16] which supports local currency financing indirectly by addressing FX risk and strengthening the underlying market infrastructure, rather than primarily through guarantees or direct credit enhancement.

Of the 53 products in the GGG Directory, 43 offer hard-currency coverage (USD, EUR, GBP, JPY), 26 offer local-currency guarantees, and just 18 offer both hard and local currency options. This asymmetry reflects the structural challenge identified in interviews: hard-currency guarantees dominate supply, but local-currency revenue projects (electricity, telecoms, municipal services) face persistent financing gaps.[17]

15 "PT SMI Strengthens Indonesia's Sustainable Infrastructure Financing," *Antara News*, accessed April 2026, https://en.antaranews.com/news/398422/pt-smi-strengthens-indonesias-sustainable-infrastructure-financing.

16 Brazilian National Treasury, "Eco Invest Brasil," Government of Brazil, accessed April 2026, https://www.gov.br/tesouronacional/en/sustainable-finance/eco-invest-brasil.

17 In the following charts, 'Hard' and 'Local' counts are tag-based (a product tagged Both is counted in both). The 'Hard vs Local (by product)' section uses mutually exclusive buckets (Hard only / Local only / Both / None), so each product is counted once.



Source: Author's elaboration based on GGG Directory as of March 2025.

2.2 Demand-Side Constraints

Three Categories of Impact

On the demand side, stakeholders reinforced a useful typology that could serve as an operational metric for assessing guarantee effectiveness.

1. Decision-changing. These are guarantees that materially alter investors' or lenders' willingness to participate, enabling transactions that would not otherwise occur. Examples include MIGA's NHFO at 95% coverage combined with first-loss structures from IBRD, EIB, combining with ECA and insurers, as well as layered combinations of MIGA political risk insurance and EBRD liquidity facilities capable of piercing sovereign ceilings, such as in hospital financing structures in Turkey and Egypt:

In Turkey's Elazig hospital PPP, for example, a joint credit-enhancement scheme comprising MIGA's political risk insurance and an EBRD liquidity facility raised the bond to a Baa2 rating, two notches above the sovereign, and unlocked institutional capital that would otherwise not have materialized.[18]

The 2022 refinancing of Egypt's Benban Solar Park used MIGA guarantees ($98.3 M) and an EBRD liquidity facility to cover political and commercial risks, making a $334.5 M bond for six PV plants bankable. The layered support attracted institutional investors to a project that might otherwise have been too risky for long-term capital.[19]

2. Necessary but insufficient. Guarantees target specific constraints, and investors should still bear the risks they can manage. However, in many cases, guarantees fall short of covering the most binding risks, limiting their effectiveness in enabling deal closure.

Currency risk illustrates this dynamic clearly. Long-tenor hedging is structurally scarce because it is more exposed to systemic currency risk, which is hard to diversify and tends to spike in crises, exactly when hedging providers pull back or face their own balance-sheet stress.

18 "Unique Financing Model as EBRD Backs Elazig Hospital PPP Project in Turkey," European Bank for Reconstruction and Development, 2016, https://www.ebrd.com/home/news-and-events/news/2016/unique-financing-model-as-ebrd-backs-elazig-hospital-ppp-project-in-turkey.html.

19 MIGA, "Scatec Bond 1," World Bank Group, accessed April 2026, https://www.miga.org/project/scatec-bond-1.

3. Effectively irrelevant. In these cases, the guarantee is present but does not meaningfully change the investment decision, pricing, or universe of potential buyers. They can be too slow to secure and incur significant transaction costs (administration, due diligence, capital treatment), which might offset all benefits. By the time a guarantee arrives, risks have already been priced, mandates have already screened the deal, and sponsors may already have walked away. This is why the same instrument can be described as "high impact" in concept and "low impact" in deployment. One investor said, *"There is a big… willingness from the very top… But then, when it gets to the details, things usually get lost in translation."*

Moreover, some credit-enhancement guarantees have not consistently reached lower-rated countries. In MIGA's non-honoring products, internal guidance initially used a BB- minimum sovereign rating, limiting its use to middle-income markets, but under the recent World Bank Guarantee platform reform (fully operational in July 2024), these products can now reach countries rated B.[20,21]

Last, there is a missing middle. There is a dire lack of guarantees in the market of ticket sizes (USD 20–50m) that are too small for MDBs but too early-stage for commercial investors. For climate finance in EMDEs, this market particularly encompasses corporate-level energy access solutions such as distributed solar and PAYGO securitization.[22] This is where the Development Guarantee Group (a dedicated facility focused on guaranteeing smaller-ticket transactions that fall below MDB thresholds but remain too early-stage for commercial providers) intervenes.

Based on our conversations with practitioners, there is broad recognition that investors should bear some of the risk (as discussed below). Nonetheless, there is a widespread perception that in EMDE settings—characterized by currency risk, long tenors, or elevated policy risk—guarantees often fall into the latter two categories: "necessary but insufficient" or "effectively irrelevant."

Partiality Argument

Guarantees should be partial to address perception risk rather than full wraps: the goal is to reduce perceived risk to the threshold needed to unlock participation, not to absorb it entirely. This preserves investor due diligence incentives while making the instrument less capital-intensive for the guarantor. Full wraps providing 100% coverage send the wrong market signal by removing all investor due diligence incentives. In many cases, BBB-rated credit enhancement is sufficient to unlock institutional investor capital at scale, and AAA ratings are not always necessary. As one guarantee provider stated, *"You don't have to be AAA to unlock capital. BBB can be enough."* Green Guarantee Company's BBB positioning is intentional: asset managers are comfortable at BBB, insurers operating under matching-adjustment frameworks (which allow them to hold assets against long-term liabilities without mark-to-market volatility) are less constrained by ratings than by asset eligibility criteria, and some banks can still participate.

20 World Bank, Independent Evaluation Group, *The Multilateral Investment Guarantee Agency's Experience with Non-Honoring of Sovereign, Sub-Sovereign, and State-Owned Enterprise Financial Obligation Guarantees: Meso-Evaluation*, Washington, DC: World Bank, 2022, https://documents1.worldbank.org/curated/en/099520405192237959/pdf/IDU0691f02b70733a04ac90967e060232ead5fa1.pdf.

21 Karen Mathiasen and Rakan Aboneaaj, "MIGA: The Little Engine That Should," CGD Policy Paper 309, Center for Global Development, October 2023, https://www.cgdev.org/sites/default/files/miga-little-engine-should.pdf.

22 Corporate-level energy access refers to business-led approaches that expand electricity availability, often in off-grid or underserved areas. Examples include distributed solar systems—small-scale solar installations deployed at the household or community level—and PAYGO (pay-as-you-go) models, where customers pay incrementally for energy access. PAYGO securitization converts the resulting receivables into tradable financial instruments, allowing companies to raise capital and scale operations.

Similarly, MIGA's NHFO retains 5% uncovered exposure requirement for the lender, ensuring that even guaranteed transactions preserve some investor due diligence incentive rather than transferring risk entirely.

Risk Aggregation Challenge

Risks such as FX, political, liquidity, and solvency are often combined or aggregated into a single "country risk" lens.[23] This bundling manifests at multiple levels: in sovereign ceilings and investment-grade rules, as well as in how investors and institutions apply ratings through mandates and internal risk limits. When everything is bundled, it becomes harder to identify the real binding constraint and to use targeted instruments that actually fit the problem.

A currency-risk specialist emphasized that even the currency risk premium must be disaggregated to understand what must be guaranteed. Inflation-driven depreciation, for example, is distinct from exchange-rate volatility and from transfer or convertibility risk. These distinctions materially affect how risks can be addressed and how expensive the mitigation strategy should be.

The goal is to identify which risk is actually binding and then analyze whether it can be matched to an existing tool, or whether gaps remain that the catalytic capital community should collectively address.

The Guarantee Toolkit Is Particularly Inadequate in Infrastructure Finance

Three gaps in the guarantee spectrum for infrastructure finance recur. One is construction-stage liquidity. Deals still fall apart because there is no practical way to bridge delays and cash-flow timing during build-out. As mentioned above, while liquidity facilities can be just as decisive as credit guarantees, they remain far harder to access, in part because construction-stage liquidity risk is difficult to price, and neither guarantors nor lenders are willing to absorb it at a reasonable cost, leaving a structural gap that current instruments do not address.

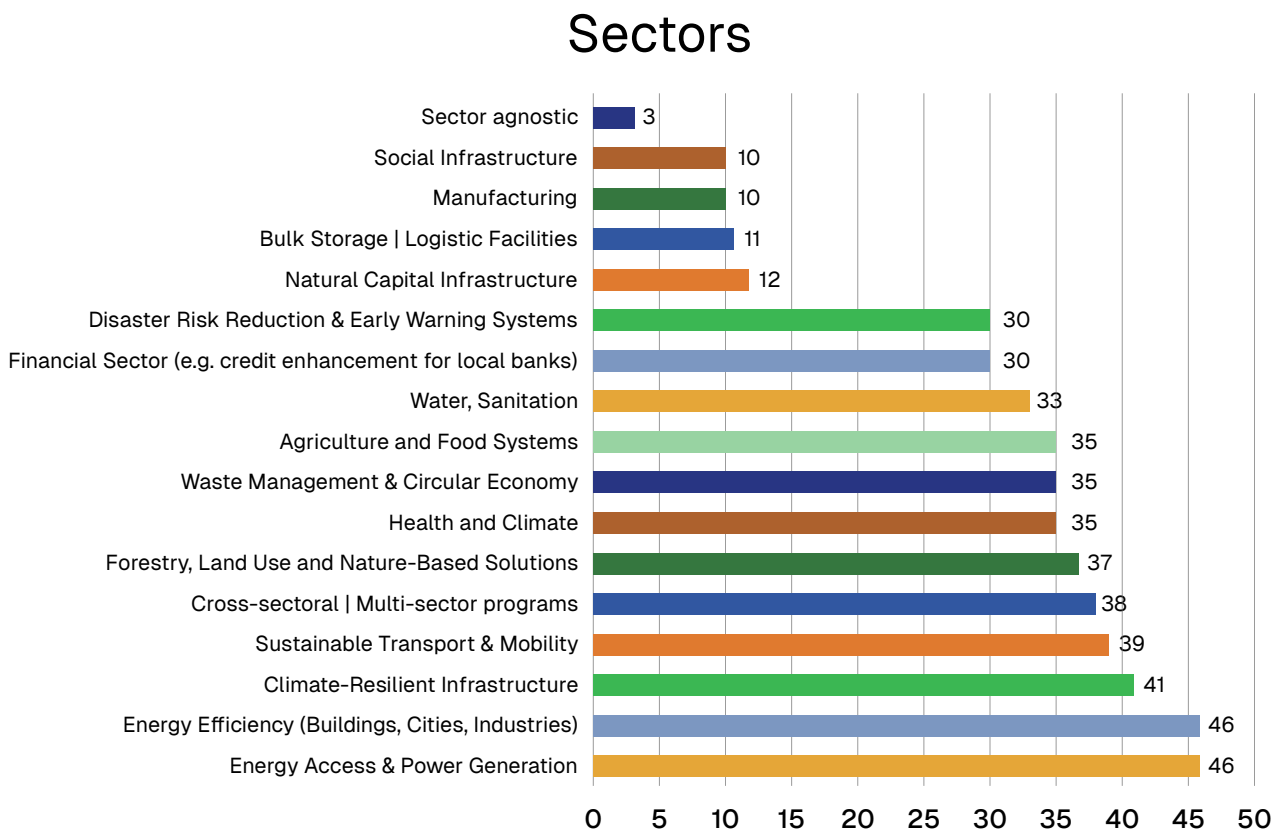
A second point is that infrastructure finance is a long-term investment. Banks have short-term liquidity needs and are reluctant to invest in long-term assets. Prudential regulations further discourage these investments by requiring banks to hold capital against long-term illiquid assets at levels that make extended-tenor infrastructure lending commercially unattractive relative to shorter-term alternatives.[24] Yet, liquidity extensions are scarce. As one of the few guarantee holders targeting liquidity extension said: *"Take a Togolese bank, it can only do five-year lending based on domestic regulations, and we come in and we provide a liquidity extension guarantee from years five to 10, which means, if the Togolese bank for whatever reason want to pull out, then we take on the risk, but otherwise they've got a full-blown guarantee for 10 years, which allows them to enter an asset class which they would otherwise not be able to, the infrastructure asset class."*

23 Igor Zelezetskii et al., *Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation* (Columbia Center on Sustainable Investment, 2026), Forthcoming.

24 Amar Bhattacharya, Jeremy Oppenheim, and Nicholas Stern, "Driving Sustainable Development Through Better Infrastructure: Key Elements of a Transformation Program," G24, July 2015, https://g24.org/wp-content/uploads/2024/07/Driving-Sustainable-Development-Through-Better-Infrastructure-Key-Elements-of-a-Transformation-Program-Bhattacharya-Oppenheim-Stern-July-2015-1.pdf.

The third is counterparty risk, especially payment and offtaker performance, which is often the core constraint for lenders and domestic investors in infrastructure, and is still thinly covered in most markets. When the offtaker is a state-owned entity, partial risk guarantees (PRGs) play this role but are often expensive and slow to deploy. As an investor said: *"A PRG crushed one of the deals we worked on for a number of years, because it couldn't come on time. So… PRG is a nice-to-have. But, you know, the premium, even with the DFI, is pretty high, so you want to make sure that you actually need it."*

Another aspect of the question comes from sector coverage. A vast majority of the guarantee products covered by the GGG covers energy access and power generation (46 out of 53), leaving other critical sectors insufficiently covered.[25]



Source: Author's elaboration based on GGG Directory as of March 2025.

Capital Treatment and Ratings

Investor demand is strongly shaped by capital treatment and rating outcomes. In practice, only guarantees that fully absorb credit risk reliably translate into capital relief for lenders. For the broader range of guarantee types, including political risk, partial coverage, and convertibility instruments, recognition in prudential frameworks does not reliably translate into capital relief, as operational requirements, maturity constraints, documentation standards, and counterparty rules exclude many guarantee-supported transactions.[26]

26 Adam Smith International, Columbia Center on Sustainable Investment, and The Carbon Trust, *Climate Transition and Global Financial Stability: Literature Review* (London: Department for Energy Security and Net Zero, 2026), https://assets.publishing.service.gov.uk/media/6964ac2a8d599f4c09e1ff2e/climate-transition-and-global-financial-stability-literature-review.pdf.

25 In the relevant chart, bars show the number of unique guarantee products tagged with each Sector Tag. Products can have multiple Sector Tags, so category counts can sum to more than the total number of products.

As for existing credit rating frameworks, they offer little recognition of preferred creditor status, liquidity backstops, partial risk transfer, staged guarantee structures, or coverage during arbitration periods.

While some financial institutions have reduced their reliance on CRAs, credit ratings remain embedded in how prudential regulations determine capital requirements, which in turn shape internal models and investment mandates at many institutions.[27] As a result, conservative CRA treatment of guarantees remains embedded in financial decision-making in practice.

Because prudential regulations provide capital relief only for guarantees that fully absorb credit risk, banks typically seek near full coverage and remain reluctant to engage with partial or highly granular guarantee structures.[28] As one MDB guarantee holder noted, *"Banks are black or white, 0 or 100."*

IMAGE BY SUKI LEE ON PEXELS

27 Perrine Toledano et al., *From Promise to Performance: Reforming Blended Finance to Scale* (Columbia Center on Sustainable Investment, 2025), https://ccsi.columbia.edu/content/promise-performance-reforming-blended-finance-scale. Basel Committee on Banking Supervision, "Calculation of RWA for Credit Risk: CRE20," Bank for International Settlements, December 2024, https://www.bis.org/basel_framework/chapter/CRE/20.htm.

28 Emre Tiftik and Katie Rismanchi, "Lifting Prudential Barriers to Mobilizing Private Capital for Development Finance," Institute of International Finance, March 26, 2025, https://www.iif.com/portals/0/Files/content/Research/IIF%20Policy%20Paper_Prudential%20barriers%20to%20development%20finance_Final-417777792.pdf.

3. Where Guarantees Work

Through our research, we have found that successful cases tend to share a few conditions.

3.1 Local Markets Development

In these cases, guarantees are embedded within broader processes of local market development rather than deployed as standalone credit enhancements. They support early-stage market formation by mitigating first-mover risk and enabling initial transactions that establish pricing benchmarks, performance history, and investor familiarity. Once a guarantee is integrated into the mechanisms for allocating domestic savings to infrastructure or climate-aligned assets, replication becomes easier and less dependent on external investor appetite.

GuarantCo[29] support for the Nigerian Infrastructure Credit Enhancement Facility (InfraCredit) in Nigeria illustrates this dynamic.[30] By providing contingent capital and technical assistance, GuarantCo helped establish InfraCredit, a local-currency infrastructure credit guarantor, enabling the issuance of AAA-rated green infrastructure bonds. These credit enhancements made long-term local-currency bonds attractive to domestic pension funds, which previously had limited exposure to infrastructure, thereby deepening Nigeria's debt capital market and extending tenors. Over time, GuarantCo exited, and InfraCredit has now been acquired by Nigerian pension funds, completing the transition to fully domestic ownership and demonstrating the catalytic impact of early guarantees.[31]

Similarly, the Development Guarantee Group explicitly frames guarantees as market-building instruments with an embedded graduation logic: support the first set of transactions, build a credible track record, and then step back as investors gain confidence to finance directly.

3.2 Guarantees as Ecosystem Platforms

Interviews with practitioners reveal the need to adopt an ecosystem approach to guarantee instruments. Guarantees are one node in the chain of development finance, alongside other risk-sharing instruments, early equity facilities, knowledge-exchange mechanisms upstream of guarantees, and project preparation facilities. They should fit within a long-term strategy to build a market, sector, or industry.

As one guarantee holder said, 'a one-off is a waste of precious resources. So for every transaction… the approach is to think big and long term: It means looking beyond the guarantee and taking a strategic view over the next 10–15, 20 years.'

29 The guarantee arm of the Private Infrastructure Development Group, which is owned by the governments of the UK, Netherlands, Canada, Australia, Switzerland and Sweden.

30 PIDG, "Enabling Infrastructure Projects in Nigeria to Be More Bankable," Private Infrastructure Development Group, accessed April 2026, https://pidg.org/impact-story/enabling-infrastructure-projects-in-nigeria-to-be-more-bankable/.

31 "Nigerian Pension Funds Deepen Domestic Ownership in InfraCredit," *Infratt, accessed April 2026,* https://infratt.com/nigerian-pension-funds-deepen-domestic-ownership-in-infracredit.

In that context, project preparation and borrower capacity building are particularly important: Multiple practitioners stressed that guarantees do not substitute for project preparation, credible offtake structures, governance, and delivery capacity.

For instance, project preparation and implementation technical assistance (TA) often makes the difference between a structure that *looks* "guarantee-ready" on paper and one that is actually bankable. One expert in development finance explained, *"The structures that actually work… are all accompanied by a technical assistance facility… If you don't have that… this is a recipe for failure."*

Moreover, accessing international capital markets and meeting their reporting requirements are challenging. There, TA facilities are also critical. As one guarantee holder said, *"What is stopping us from getting deals done is the ability of developing country borrowers to step up to meet the demands of global capital markets. And what I mean by that is that we are working with borrowers who are very sophisticated in their local capital markets. But to be able to step up to meet the reporting requirements needed, they need capacity support to do that right."*

3.3 Effective Risk Mitigation Through Pooling and Layering

Layered risk-sharing structures, including first-loss positions paired with political risk coverage and liquidity instruments that bridge specific payment risks, emerged repeatedly in practitioner discussions because they align with how different institutions naturally underwrite risk. Similarly, re-guarantees (where a second guarantor backstops the primary guarantor's exposure), or counter-guarantees (where a sovereign or public entity indemnifies the guarantor against losses on a specific transaction) between national platforms and regional/global guarantors expand balance-sheet capacity. They also create a pathway toward mainstream adoption by offering a repeatable structure with clearly defined institutional roles.

For example, under the new World Bank Guarantee Platform, an MDB first-loss position combined with a MIGA NHFO second loss can reduce blended financing costs and enable entry into B environments. Another interesting example comes from layering ECAs with MDB first-loss positions. The European Investment Bank (EIB) provided first-loss backstops to ECAs to support SME exports into Ukraine;[32] in the context of the Africa Energy Guarantee Fund, a regional political risk insurer (the African Trade Insurance Agency), private insurers (Munich RE), and EIB combined political risk cover and first-loss protection for African energy projects.[33]

Although risk is distributed across institutions, borrowers experience a single unified application and approval process, which simplifies access and can support competitive pricing outcomes when risks are carefully layered and coordination is centralized.

32 "First Deal Under EU-Ukraine Export Credit Guarantee Facility: EUR 20 Million for EU Exports to Ukraine Through Denmark-EIFO," European Investment Fund, accessed April 2026, https://www.eif.org/press/all/first-deal-under-eu-ukraine-export-credit-guarantee-facility-eur20-million-for-eu-exports-to-ukraine-through-denmark-eifo.

33 "Africa Energy Guarantee Facility," International Institute for Sustainable Development, accessed April 2026, https://www.iisd.org/credit-enhancement-instruments/institution/africa-energy-guarantee-facility.

Strong examples, however, are scarce. Scaling encounters a recurring structural constraint related to layering: each layer can still sit on a different institution's balance sheet, under different product caps and approval rules. An MDB practitioner told us, *"With guarantees, one plus one equals one and a quarter at best."*

In practice, the maximum scalable transaction size is often set by the tightest limit in the stack, not by the project's underlying needs.[34] Across the guarantee landscape, maximum transaction sizes vary widely, ranging from smaller credit risk guarantees capped in the tens of millions to political risk coverage designed for significantly larger infrastructure exposures. Many products do not disclose ceilings or define them flexibly on a case-by-case basis. This usually reflects a soft constraint shaped by board approval processes, co-financing arrangements, and the way risk is ultimately distributed. Practitioners noted that nominal limits can sometimes be exceeded through structured pooling, syndication, re-guarantees, or counter-guarantees.

Each additional layer, however, introduces time, coordination requirements, and cost. A portfolio manager put it bluntly, *"We have so many different players that are involved in one single transaction… everybody has to play a specific role… but it's not a smooth process, it's still very cumbersome."*

Last, layering involves a central tradeoff. Layering enables guarantees to function in complex risk environments, yet scaling is constrained by the most conservative institution in the stack, limiting deployment where guarantees are most needed.

3.4 Portfolio/Aggregation Approaches

Portfolio and aggregation approaches remain underused relative to their potential. At the transaction level, guarantees can rarely address systemic risks such as FX volatility, as the exposure is too concentrated. At the portfolio level, diversification across currencies, geographies, or asset classes can reduce aggregate risk to manageable levels without requiring explicit coverage of each component. Several interviewees emphasized that evaluating guarantees solely at the transaction level misses this potential.

While individual guarantee instruments rarely cover FX rate volatility directly, portfolio-level approaches offer a different pathway: by diversifying exposure across multiple currencies, facilities can reduce aggregate volatility to levels that make the residual risk manageable, without requiring an explicit guarantee against rate movements.

For instance, according to a currency expert, diversifying FX exposure across 15–20 emerging-market currencies can substantially reduce volatility compared with holding a single currency like BRL (with a historical volatility of ~18%). Depending on correlations, a well-constructed basket could lower volatility to roughly 7%, though benefits shrink during crises when currencies move together. Even so, portfolio-based risk management remains an effective way to mitigate FX risk.

The IDB Group's ReInvest+ initiative illustrates the portfolio logic. The program purchases performing commercial loans from local banks in Latin America to assemble a diversified

34 Sachs, Lisa, Laura García Cancino, and Rhian-Mari Thomas. "A Specialised Guarantee Facility for Industrial Decarbonisation." *Illuminem,* https://illuminem.com/illuminemvoices/a-specialised-guarantee-facility-for-industrial-decarbonisation.

portfolio. The structure hedges primarily against inflation risk, so that roughly 90% of foreign exchange exposure is mitigated through inflation-linked or floating-rate instruments, leaving only a smaller residual component requiring explicit hedging. The resulting portfolio is structured with a target rating in the BBB range and offered as a marketable security, for example, in euro denomination, to global institutional investors such as Allianz or Amundi. This approach enables local banks to recycle capital into new, potentially riskier lending aligned with national development priorities, while allowing international investors to access emerging-market debt with reduced risk exposure through portfolio diversification and structured hedging.

3.5 Transparency and Data Platforms

Finally, transparency and data platforms are vital and necessary inputs for pricing. Each drawdown or near-drawdown indicates whether a product is appropriately calibrated. When this learning is captured, standardized, and embedded into templates and underwriting rules, guarantee programs can improve and scale. When it remains anecdotal or proprietary, cumulative learning does not occur, and system-level progress is limited. An ECA practitioner, for instance, said in an interview that they use a common, back-tested model (financial, economic, policy, institutional, vulnerability [incl. climate], and payment experience) that is updated through ECA consensus three times per year.

The lack of data on pricing, coverage, trigger design, call experience, recovery rates, and time to close constrains both internal scaling and external market recognition. Without reliable data, prudential regulators are less likely to become comfortable with guarantee structures, rating methodologies evolve more slowly, and investor confidence remains limited.

The recently launched GGG's Guarantee Directory represents a tangible step forward in addressing fragmentation. As the first public, global platform designed to map, organize, and compare climate-aligned guarantee instruments, it provides structured, comparable data on the risk types covered, eligible borrowers and lenders, and sectoral scope. Each entry is contributed directly or verified by guarantee providers, ensuring accuracy and transparency. This has the potential to improve market transparency, accelerate deal flow, and strengthen collaboration across the guarantee ecosystem.

4. Pending Questions and Conclusion

Several critical questions remain unresolved in practitioner discourse:

Do standardization efforts change investment outcomes or primarily improve internal public-sector coordination?

Standardization of guarantee products is widely advocated, yet evidence of investor uptake remains thin. The *Better Guarantees Better Finance* report and Green Guarantee Group diagnostic both call for streamlined products, reduced transaction costs, and templates.[35,36] However, several interviewees noted that standardization may be more valuable for MDB internal efficiency than for investor decision-making. One investor stated, *"So you could think about document standardization, sure. You know, the biggest issue that I face on a day-to-day basis is much more, you know, the ability for the governance to be able to take a timely and clear decision…."* The binding constraint may not be guaranteeing supply or product design, but rather borrower readiness, pipeline quality, and deeper systemic and governance constraints.

Should the focus shift to DFI and government agencies?

As rated institutions, governed by their charters and major shareholders, MDBs and DFIs alike remain subject to internal capital management frameworks, risk limits, and conservative accounting treatments that consume scarce balance-sheet headroom. While recent balance-sheet innovations — including IF-CAP and the World Bank's expanded guarantee platform — have increased MDB risk-taking capacity, they do not resolve the structural constraints that limit scale. At the same time, demand for guarantees is increasingly concentrated outside sovereign borrowing, particularly in project finance, PPPs, and blended-finance structures, where MDB or DFI-backed instruments are better suited than sovereign guarantees, which are often fiscally constrained, politically sensitive, or operationally slow to deploy.

In this context, DFIs and government-backed agencies such as SIDA (and US DFC, until recently) may offer a more effective channel for deployment: DFIs operate under lower rating constraints and can use securitization to expand their risk budget, while government agencies can deploy earmarked public capital to catalyze private investment. This raises a

35 Convergence Blended Finance, *Better Guarantees, Better Finance*, accessed April 2026, https://www.blendedfinance.earth/better-guarantees-better-finance.

36 Karla D. Gonzalez Esquinca, Liam Maguire, and Chris Grant. Scaling Up Green Guarantees: Recommendations by the Green Guarantee Group. Climate Policy Initiative, June 30, 2025. https://www.climatepolicyinitiative.org/publication/scaling-up-green-guarantees-recommendations-by-the-green-guarantee-group/.

more basic strategic question about whether the focus should shift away from guarantees tied to sovereign exposure and toward DFI- and government agency-anchored instruments in project finance, PPPs, and blended finance structures, rather than assuming MDBs' structural constraints will meaningfully loosen.

What role should credit rating agencies play in guarantee effectiveness?

Interviews revealed divergent views on the extent of CRA influence in shaping guarantee effectiveness. Some investors and guarantee holders see CRAs as responsive to evidence when engaged early and shown credible, backward-looking data. One noted: *"To change CRAs, you need to build trust and give them evidence, not yell at them."* Others emphasized that CRA constraints are institutional and behavioral, geared toward excessive conservatism to fend off reputational risk, and that they show limited interest in analyzing EMDEs without proxies, given the small markets they represent.

In this context, CRAs should play a role in translating guarantee structures into differentiated rating outcomes that genuinely mitigate risk, rather than defaulting to sovereign-imposed constraints. CRAs can rate projects above the sovereign when liquidity facilities and political risk insurance are properly structured (see Section 2.2), but this is rare and requires early CRA involvement. Several interviewees argued for rating frameworks that retain a single headline rating for comparative purposes while separately disclosing granular intrinsic creditworthiness with explicit disclosure of the key sovereign risk components and their transmission channels to project-level performance — making visible what is currently bundled into a single opaque grade.[37] Such an approach would allow guarantees to more transparently demonstrate their risk-reducing effect and thus improve their effectiveness in mobilizing capital. However, achieving this may require alternative platforms rather than reform of existing CRA processes, given the incentive structures of incumbent agencies.

Conclusion

The evidence from expert interviews shows that guarantees are particularly needed in the following context: long-tenor infrastructure exposure, local-currency revenues, policy and regulatory risk, and short-term liquidity stress during construction or early operations.

Their effectiveness is most visible when each instrument is not a standalone: it happens when guarantees are combined effectively with additive coverage, pooled into diversified portfolios that reduce volatility and enable participation from institutional investors — particularly local ones — and embedded within a broader toolkit oriented toward long-term market transformation.

37 Igor Zelezetskii, ed., *Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation* (New York: Columbia Center on Sustainable Investment, forthcoming).

They are far less effective when they become complex in ways that add transaction costs without improving risk coverage, do not target the risks that are actually preventing investment, or introduce delays that transactions cannot absorb. They also struggle when positioned as substitutes for direct MDB lending in sovereign settings, where loans are often cheaper, and restructuring frameworks are more predictable. Moreover, designs that appear conservative on paper but rely on narrow triggers or heavy legal conditions further reduce real-world usability.

Most importantly, progress depends on clarity about what guarantees can and cannot be achieved. Guarantees do not solve systemic constraints on their own. Their effectiveness depends on parallel improvements in deepening local currency financing, project preparation, institutional governance and coordination, and structural reforms of the international financial architecture to reduce the cost of capital. Without attention to these broader conditions, guarantees risk remains underused within an already fragmented development finance system.

IMAGE BY FAZLY SHAH ON UNSPLASH

Annex I

	Partial Credit Guarantees	Partial Risk Guarantees	Political Risk Insurance	Non-Honoring of Financial Obligations	Portfolio Guarantees / Risk-Sharing Facilities
Primary function	Credit enhancement	Risk transfer and indirectly credit enhancement	Risk transfer	Credit enhancement	System-level credit enhancement
Risk covered	General debt service risk	Government / counterparty performance risk (leading to default)	Political / non-commercial risk	Sovereign / SOE payment risk	Portfolio credit losses
Application level	Single transaction	Single transaction	Investment / project	Single transaction	Portfolio / program level
Trigger event	Debt service shortfall	Failure of defined public obligation	Political event (e.g., expropriation, breach)	Non-payment by sovereign/SOE	Losses above first-loss tranche or agreed tranche
Typical issuers	MDBs, DFIs	MDBs, DFIs	MIGA, ECAs, private insurers	MIGA (primary), MDBs	MDBs, DFIs, donors, blended finance platforms
Typical users	Commercial banks, bond investors	PPP financiers, infrastructure lenders	Foreign equity & debt investors	Commercial lenders, bond investors	Local banks, financial intermediaries
Main use cases	Capital markets, infrastructure debt	PPPs, regulated sectors	Cross-border investment	Sovereign-linked infrastructure	SME finance, green credit expansion
Scale logic	Deal-by-deal	Deal-by-deal	Deal-by-deal	Deal-by-deal	Portfolio aggregation (scalable)

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