CLIMATE POLICY INITIATIVE

Energizing Private Capital: Innovations in Guarantee Offerings for Climate Finance

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This policy brief is directed at financial institutions, outlining how they can enhance the design and scale of green guarantees.

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ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has seven offices worldwide, in Brazil, India, Indonesia, South Africa, the United Kingdom, and the United States.

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1. IMPORTANCE OF GREEN GUARANTEES

Urgent action is needed to mobilize additional capital for the green transition, particularly in emerging markets and developing economies (EMDEs). Although global annual climate finance grew significantly between 2018 and 2022—rising from USD 674 billion to USD 1.46 trillion—it still requires a fivefold increase to reach the average of USD 7.4 trillion per year through 2030 to align with the 1.5°C climate target (CPI, 2024). With a limited pool of public capital and high levels of public debt across both advanced and emerging economies, closing this financing gap will require a dramatic increase in private capital mobilization.

A guarantee is a financial instrument where specific risks—such as political risk, credit default risk, or currency risk—are transferred from the primary or secondary parties in the transaction to an external third party, such as a multilateral development bank (MDB), government agency, or private institution. For example, an MDB might provide a guarantee for a private bank's investment in clean energy projects in an emerging market; if the investment fails, the MDB would compensate the bank according to the agreed-upon terms. Guarantees act as contingent liabilities, priced based on the expected loss of the risks they cover, increasing the affordability and/or availability of financing for underserved sectors and markets.

Guarantees are an important yet underutilized tool to mobilize private capital to support an inclusive climate transition in EMDEs. Guarantees can mobilize up to five times more capital than other financial instruments, such as loans, and are the preferred de-risking instrument of private financiers (IMF, 2022). Despite their potential to mobilize private investment, guarantees currently represent only 4% of commitments from MDBs (Blended Finance Task Force, 2023). Recognizing the untapped potential of these instruments, the G20 recently called on MDBs to increase their support for guarantee issuance and to enhance collaboration on innovative financing mechanisms such as hybrid and callable capital (G20, 2023).

Most guarantees come from a small number of providers, and limited climate-specific products are available (Blended Finance Task Force, 2023). The main issuers of guarantees for cross-border investments in EMDEs are MDBs, development finance institutions (DFIs), and export credit agencies, many of which are working to mainstream climate considerations and Paris alignment into their financial offerings. However, only a fraction of these guarantee offerings are explicitly targeted at climate-related investments (CPI, 2024a). For example, according to the Multilateral Investment Guarantee Agency (MIGA), 28% of the total guaranteed investment of projects the agency supported in the fiscal year 2023 contributed to climate finance (MIGA,2023). According to CPI's Landscape of Guarantees for Climate Finance in EMDEs report, MDBs had dedicated only one guarantee product exclusively focused on climate initiatives at the time of publication in February 2024. Thus, while there are a handful of specialized institutions specifically guaranteeing climate investments, there is a significant gap between the potential role of guarantees in climate finance and the limited products currently offered by the largest guarantor entities.

To effectively mobilize capital for the green transition, guarantees must be tailored to the most acute risks associated with climate projects, including high sensitivity to foreign exchange (FX) risks, long project lifespans, and large capital expenditure requirements. Guarantee products that address these specific risks and are aligned with the financial needs of climate projects can most effectively de-risk climate-related investments and mobilize private capital for the green transition.

This issue brief aims to identify key barriers to the adoption of green guarantees and highlight existing solutions to address these challenges. The research process included a series of expert discussions held by the Green Guarantee Group (GGG), and interviews held by CPI with each of the guarantee providers showcased in the case studies below to gain qualitative insights into their products. The report also draws key takeaways and recommendations and lists policy-related questions for further consideration.

This work aims to inform governments, MDBs, DFIs, guarantee providers, and policy advisers involved in the design, implementation, and scaling of green guarantees. MDBs and DFIs may use its insights to optimize their guarantee products, while providers of guarantee facilities can leverage the case studies to enhance the design, implementation, and scalability of their offerings.

2. BARRIERS TO THE UPTAKE OF GUARANTEES

The underutilization of guarantees for green projects stems from several barriers. These include the complexity of structuring deals and a lack of technical assistance (TA) to support project preparation. Additionally, high costs and fees associated with guarantee procurement, mismatched time horizons between creditors' return expectations and borrowers' repayment timelines, and limited collaboration among stakeholders within the guarantee ecosystem further hinder the effective deployment of guarantees. Such obstacles are especially salient for climate projects, for which long-term capital and technical expertise are crucial to driving impactful outcomes.

To scale the use of guarantees to the levels needed, guarantee providers must embrace innovative strategies and improve established approaches to address shared challenges. This section explores each of the identified hurdles, spotlighting a specific actor within the guarantee ecosystem that is tackling these challenges through innovative approaches. These case studies draw on real-world examples but may not yet represent best practices in a sector that continues to evolve.

2.1 COMPLEXITY

Procuring a guarantee typically involves navigating complex and time-consuming application processes that demand extensive documentation and strict compliance with due diligence standards. Borrowers, especially in EMDEs—such as public development banks, local project developers, and certain national or regional entities that seek support from larger institutions like MDBs—may lack the technical capacity and resources to meet these rigorous requirements. The need to fulfill varied financial, operational, and environmental assessments adds further complexity.

Additionally, limited information about the full range of guarantee options often leaves borrowers struggling to understand and utilize available instruments, especially when reporting requirements differ based on location, project size, or the provider's unique criteria.

2.1.1 CASE STUDY: THE WORLD BANK GROUP'S GUARANTEE PLATFORM

CASE STUDY OVERVIEW

The World Bank Group (WBG) has consolidated its guarantee products and expertise across its institutions on a single platform for guarantee support under the administration of MIGA. The WBG Guarantee Platform seeks to more effectively address the challenge of complexity that is often present in guarantee adoption by streamlining the process for both clients and WBG staff.

BACKGROUND

The Independent Evaluation Group and the Private Sector Investment Lab, set up by the WBG, have found that WBG guarantees have historically been underutilized due to their complexity, slow deployment, and the fragmented structure of offerings. In July 2024, the WBG launched its centralized guarantee platform, consolidating its 17 guarantee products and experts under the auspices of MIGA—including those from the International Finance Corporation (IFC) and International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The main objective of the platform is to simplify, scale, and speed up the implementation of guarantees.

The platform offers three types of guarantees to the public and private sectors, covering political risk, credit risk, and short-term trade finance. While the guarantee platform will continue to promote foreign direct investment, political risk insurance for public and private entities will be a key focus. The platform's six proposed reforms—some of which remain aspirational or in the initial stages of implementation—aim to streamline the process through the following (WBG, 2024a):

1. **A condensed structure:** Centralizing all guarantee solutions and experts in a single organizational unit to deliver an improved client experience.
2. **A simplified and comprehensive product menu:** Providing a single menu containing over 17 products.
3. **A streamlined process:** Eliminating redundant procedures and standardizing guarantee review processes, resulting in reduced timelines for clients.
4. **Greater accessibility:** Creating an accessible client experience through the training of WBG staff and origination teams globally.
5. **Scale:** Focusing resources on high-impact projects to maximize development results, minimizing duplicative efforts, and enhancing WBG capacity to mobilize private capital to address complex development challenges.
6. **Innovation:** Enabling the private sector to participate in development projects through new and tailored guarantee products.

ANALYSIS

The WBG Guarantee Platform aims to use its scale and strength to enhance risk coverage and reduce fragmentation in its guarantee products. This tailored approach might better address the unique risks of each client. In addition, the provision of TA facilities accompanying these guarantee offerings helps to support the public and private sectors in low-income and vulnerable middle-income countries in accessing guarantees. The platform also aims to expedite the process of obtaining guarantees for borrowers, bringing its approval timeframe to alignment with commercial project timelines.

It is important to consider that although the WBG platform offers a consolidated menu of guarantee products, these are funded via separate balance sheets of different WBG entities (e.g., of the MIGA, the IBRD, and the IFC)—each with its own performance standards, due diligence processes, and pricing. It remains to be seen whether this lack of standardization hinders the effective delivery of the platform's offerings in the future.

The WBG aims to triple annual guarantee issuance to USD 20 billion by 2030 to boost private renewable energy investment in EMDEs (World Bank Group, 2024b). By unifying WBG guarantee products under one platform, this initiative has the potential to increase efficiency and reduce negotiation times. Standardizing language and eligibility requirements across international and domestic guarantee providers would significantly enhance borrowers' ability to engage effectively with a wider range of guarantors. This alignment would streamline borrower interactions, reduce administrative complexity, and improve understanding of terms and processes. By making criteria and application processes more uniform, lenders and borrowers could better navigate multiple guarantee options, maximizing the support available for financing projects in emerging markets.

2.2 LACK OF TECHNICAL ASSISTANCE

While also applicable to other forms of climate finance, another challenge to the uptake of green guarantees is the lack of TA available to support the preparation of bankable green projects, particularly in emerging markets. The gap in technical capacity prevents local actors such as public development banks and project developers from successfully structuring project pipelines that meet the standards required for guarantee eligibility. Underdeveloped national climate policies and regulatory frameworks contribute to this challenge, raising concerns about the "green" credentials of potential projects. Without adequate technical support, there is a shortage of viable projects ready for guarantee backing, leading to higher costs and longer timelines in high-risk markets. These barriers deter investors and limit guarantees' ability to mobilize private finance for climate initiatives.

Capacity-building support and project preparation facilities can enhance the ability of local actors to develop and structure bankable projects. This, in turn, improves the investment readiness of green projects and helps to attract private capital by reducing perceived risks and bridging knowledge gaps.

2.2.1 CASE STUDY: GREEN GUARANTEE COMPANY

CASE STUDY OVERVIEW

The Green Guarantee Company (GGC) provides an innovative model to address the challenge of building a green project pipeline through TA and credit enhancement in EMDEs. The GGC supports climate adaptation and mitigation projects in EMDEs where limited creditworthiness and technical expertise hinder access to global capital markets. The GGC collaborates with public and private stakeholders to facilitate climate finance for projects that may otherwise lack the financial structure needed to attract private investments. The GGC focuses on mobilizing capital from global institutional investors by offering hard currency guarantees and evaluating projects against climate impact criteria.

BACKGROUND

The GGC—whose shareholders include the Green Climate Fund, the UK Foreign Commonwealth & Development Office, the US Agency for International Development, Norfund, and the Nigerian Sovereign Wealth Fund—issues guarantees for medium-to-long-term institutional debt (5-20 years) in hard currency, allowing investors to finance climate projects without the risks typically associated with EMDEs, such as political, currency, macroeconomic, and regulatory instability. The GGC aims to leverage an initial USD 100 million from these investors and additional institutional investors for climate mitigation and adaptation investments across the Global South, including in major emerging markets such as India, South Africa, and Brazil. The institution's goal is to make green financing more accessible to climate project developers by helping them overcome technical barriers and perceived credit risks.

ANALYSIS

By covering a project's entire risk exposure, guarantees provided by the GGC enhance the creditworthiness of climate project developers, enabling them to attract private capital despite high offtake risks. This makes these guarantees more attractive than the partial guarantees offered by MDBs and strengthens emerging sectors in either nascent or challenging markets. Furthermore, the GGC requires projects to have credible climate impacts, given that all covered projects must pass a rigorous selection process built on the Green Climate Fund's Results Management Framework and compliance with the Climate Bonds Initiative certification criteria.

The GGC's Technical Assistance Facility addresses the technical barriers to the uptake of guarantees by raising market awareness and supporting capacity building and pipeline preparation. With a projected USD 10 million in size, this facility will be implemented over 20 years. This facility has three key components. First, its Project Preparation Facility aims to support borrowers in the structuring of green projects, conducting technical due diligence, and supporting certification processes that align with international standards. The second component, capacity building, aims to enhance local knowledge and expertise through workshops and training on climate debt instruments, enabling market participants to design and implement quality green projects that contribute to Nationally Determined Contributions. The third component, market engagement, facilitates the establishment of working groups in target countries to identify priority climate transactions and knowledge-sharing and support institutional development through access to international best practices in global capital markets. These efforts create a pipeline of viable, investment-ready projects, thereby expanding the uptake of guarantees. These activities make the GGC a key player in developing bankable green projects and enabling greater access to climate finance.

GGC is able to leverage USD 1 of capital to provide USD 10 of guarantees, which means its model is highly scalable and replicable; for example, the manager of GGC, the Development Guarantee Group, is also developing guarantors to focus on the blue economy and financial inclusion in EMDEs. A wider benefit of GGC lies in its ability to demonstrate to global investors that the actual risk of climate investments in EMDEs is lower than the perceived risk, which should, in time, build the confidence of these global investors to a point where they no longer require guarantees as they build and improve their own capacity to assess risk in EMDEs more accurately.

2.3 COSTS & FEES

Investors and borrowers often perceive the costs associated with obtaining guarantees as high, which can make these instruments less effective. These costs arise from several sources, including risk management and capital charges, administration, and due diligence. In particular, the long-term commitments required by many green projects can lead to high charges to compensate for risk.

While additional to the fees for a guarantee instrument, the cost of currency hedges has particularly impacted EMDE investments. When a green project in an EMDE must seek funding in a foreign currency, the full risk-reflective price of a long-term hedge for currency risk may completely offset the lower interest rate available in foreign currency relative to local currency (where long-term local currency loans are even available).

Although hedging instruments can expand access to long-term financing, their pricing may inhibit their usefulness in situations where the cost of capital is a binding constraint. Some necessary climate-related projects in EMDEs may not generate enough internal returns to meet all-in financing costs, even where they benefit from the hedging protection. Reducing the cost of risk premia through guarantees in a way that complements the development of local capital markets is crucial to supporting the effectiveness and uptake of cross-border guarantees for scaling climate finance in EMDEs.

2.3.1 CASE STUDY: TCX PARTIAL DONOR-FUNDED GUARANTEE FACILITY

CASE STUDY OVERVIEW

The Currency Exchange Fund (TCX) is expanding its partial donor-funded guarantee facility under the European Fund for Sustainable Development Plus (EFSD+) to improve the affordability of its hedging products. The facility provides guarantees as subsidized currency risk hedges, partly backed by donor funds (TCX, 2023).

BACKGROUND

TCX is a not-for-profit hedging facility that provides currency hedging derivatives in frontier markets where commercial providers are unwilling or unable to operate. It has USD 1.5 billion in capital provided by a range of bilateral DFIs, MDBs, and donor countries.

In recent years, TCX launched a donor-funded guarantee facility aimed at improving the affordability of hedging products. This facility functioned as a pilot blended finance platform and was financially supported by the EFSD+. It primarily aimed to facilitate more impact lending for African borrowers, who often operate in uncertain and volatile FX environments. The success of the pilot spurred TCX and the European Commission to gear up a significantly enlarged facility using funds committed under the EFSD+. The goal of this new facility, which is expected to launch in early 2025, is to support hedging for up to USD 10 billion for projects related to the Sustainable Development Goals.

ANALYSIS

TCX targets a modest annual return of about 1.6% to ensure its own financial stability and its ability to continue offering FX risk hedging products to lenders over time. The facility guarantees this return in case of adverse currency fluctuations, which allows it to significantly reduce its uncertainty premium for supported hedges. This results in an overall cost to clients that is well below TCX's standard risk-reflective rates. The subsidy is provided upfront to lenders but is only called in the case that TCX—due to local currency depreciation—is unable to achieve this return on the portfolio of supported hedges.

In line with TCX's mission and core objectives, guarantees are focused on projects that contribute to the Sustainable Development Goals, including climate projects. While these guarantees do not provide direct protection against currency risk, they do increase the applicability of hedging for lenders by allowing local currency hedges to be available at below-market rates. Importantly, the subsidy is strictly applied in such a way that it does not distort emerging currency risk markets.

The financial stability afforded by the guarantee facility enables TCX to make currency hedging products more affordable, improve the creditworthiness of currency-sensitive investments, and mobilize private finance for climate-related projects in markets with currency volatility. This enables lenders to offer more sustainable financing and protect more borrowers from currency risk. In addition to improving affordability, TCX works with market participants to increase liquidity in local markets and with local authorities to build debt management capacity. This comprehensive approach intends to support the development of local capital markets in EMDEs.

The TCX pilot demonstrated the potential for expansion, especially with the addition of extra donor capital. Given the proven effectiveness of the solution, TCX is in talks with other donors to add further contingent subsidy programs and unlock more local currency-indexed lending to low-income countries. Finally, TCX's portfolio, experience in managing currency risk transactions, and commitment to green projects position it well to identify and expand a pipeline of investable climate projects.

2.4 TIME HORIZON MISALIGNMENTS

Climate projects often require long-term financing to align with their extended lifespans, especially in sectors like renewable energy, sustainable infrastructure, and nature-based solutions, where projects can last between 25 and 30 years (US Department of Energy, 2022). However, CPI institutional knowledge indicates that current guarantee durations are generally capped at 10 years, which limits the coverage period relative to the full life cycle of projects. This translates into a coverage gap that exposes investors to repayment risks beyond the guarantee period, especially for risks related to project performance and off-taker payment obligations.

These shorter-tenor guarantees primarily cover credit risk during projects' early stages, such as construction and initial operations, but fail to fully de-risk the longer-term repayments critical to securing patient capital. Extending the tenor of guarantees to fully cover a project's lifecycle could create a more robust risk-sharing arrangement. This approach would make these projects more appealing to investors typically drawn to quicker payoffs and higher liquidity, thereby increasing the attractiveness of climate investments in EMDEs.

2.4.1 CASE STUDY: GUARANTCO

CASE STUDY OVERVIEW

GuarantCo, the guarantee facility of the Private Infrastructure Development Group (PIDG), offers full or partial credit guarantees, liquidity extensions, and currency risk coverage to support infrastructure and climate projects in Africa, South Asia, and Southeast Asia, as well as guarantees on portfolios and securitizations. GuarantCo's portfolio amounts to USD 1.4 billion. Crucially, its guarantees are denominated in local currencies. These guarantees support USD 6.8 billion of total investments and USD 5.7 billion of private sector investment in projects that address pressing developmental and environmental needs in some of the world's most vulnerable regions (GuarantCo, 2024).

The facility helps overcome time horizon misalignment challenges by providing long-term guarantees to local private and public banks, enabling them to finance projects that would otherwise struggle to secure funds. By offering local currency contingent credit solutions for up to 20 years, GuarantCo aligns loan tenors with the extended return profiles of climate projects. By managing its wide portfolio risk effectively, GuarantCo can also support climate projects in some of the world's most challenging investment environments, including least-developed countries and fragile states—facilitating the finance they need to address climate change impacts.

BACKGROUND

GuarantCo's credit enhancements on both loans and domestic bond issuances bolster the capacity of domestic financial institutions to lend to local projects and develop local capital markets. PIDG also offers approximately USD 30 million to USD 40 million annually in TA to its supported projects, enhancing project bankability and sustainability.

ANALYSIS

GuarantCo currently operates with a 3:1 leverage ratio, constrained by the need to maintain its investment-grade credit rating from Moody's. To expand its portfolio while preserving its impact-focused mission and financial stability, GuarantCo is seeking additional funding from its existing donors. This would enable the organization to increase its leverage ratio to 5:1, enhancing its capacity to attract private capital into climate projects and demonstrate that high-impact, climate-focused investments can maintain a robust credit rating.

While GuarantCo supports a maximum guarantee tenor of 20 years, many borrowers complete their projects before this timeline. The facility's ongoing support assures borrowers that any potential losses or impairments will not disrupt project outcomes. Default rates on GuarantCo guarantees remain low across their portfolio, strengthening the investment case for climate projects in challenging market environments.

The breadth of GuarantCo's portfolio allows it to support projects with varied impact and return rates. For example, GuarantCo provided a 20-year VND 1,000 billion (approx. USD 40 million equivalent) guarantee for green bonds issued by the International Development and Investment Corporation, a subsidiary of Vietnamese conglomerate Sao Mai Group and a leading sustainable fish export commodity export company in the country. This is the first green bond transaction in Asia's growing aquaculture sector. It is also the first local currency (VND) green bond issued by a non-financial institution corporate. As part of the bond's structure, capital raised will support eligible green projects to promote sustainable and environmentally friendly pangasius farming and production in the region (GuarantCo, 2024a).

In Togo, GuarantCo issued a USD 23.8 million-equivalent liquidity extension guarantee, which provided a 14-year loan to a 65MW power plant project and other port infrastructure in Lomé. Originally, this project only qualified for a seven-year loan from commercial banks. With an extended loan tenor and a guarantee in local currency made possible by GuarantCo's support, the government of Togo was able to provide more competitive electricity tariffs, supporting 20% of the country's population and addressing its power deficit (GuarantCo, 2019).

Entities like GuarantCo can have an outsized influence in the green guarantee landscape by de-risking investments in frontier markets. By partnering with other institutions, GuarantCo has been able to expand its reach. For example, it has partnered with the Swedish International Development Agency to put in place a risk-sharing facility that enables GuarantCo to expand its guarantee capacity on single transactions up to USD 100 million. GuarantCo also collaborates with local banks on a framework basis to cultivate their capacity to offer loans to specific sectors (e.g., electric mobility), amplifying the availability of global climate finance.

2.5 COLLABORATION

Guarantors often avoid deals in high-risk sectors or with first-time borrowers, limiting the financing options available to those who most need their support. When guarantees are available, borrowers often face a choice between mutually exclusive products—for example, some may cover political risk but not offer

TA for project development, and vice versa. This lack of flexibility can force borrowers to either pay more or miss important benefits. A lack of coordination among guarantee providers can thus result in suboptimal terms for borrowers.

Greater collaboration between different actors could address these issues by leveraging their relative advantages. MDBs could take the lead on front-end risk, allowing private insurers to share the burden downstream. Additionally, increased cooperation with regional development banks could better meet specific local needs, while early involvement of the private sector in projects would allow for more innovative solutions combining public and private resources. Enhanced cooperation on issues like offtake agreements and long-term commitments is crucial for reducing risks, decreasing duplication of due diligence efforts, and increasing the accessibility and comprehensiveness of guarantee support.

2.5.1 CASE STUDY: USAID-DFC PARTNERSHIP

CASE STUDY OVERVIEW

The US International Development Finance Corporation (DFC) and the US Agency for International Development (USAID) collaborate on a variety of financial products—including guarantees—that reduce borrower risks, enhance technical support, and share costs between agencies. The partnership allows the DFC to support larger, higher-impact projects in underserved markets. By combining resources and expertise, the DFC and USAID co-develop tailored transactions, including guarantees to address specific development challenges while better meeting borrower needs.

BACKGROUND

The DFC's guarantees are *pari passu* guarantees and cover, on average, up to 50% of realized losses for borrowers; meanwhile, USAID often offers TA throughout the lifetime of the guarantee. In some cases, USAID also shares in the cost of providing those guarantees with the DFC. This arrangement reduces borrower expenses and expands access to financing for higher-risk projects, particularly in hard-to-reach sectors and markets.

ANALYSIS

The combination of the DFC's financial products and USAID's in-country development capacity strengthens the partnership, guiding projects from inception to implementation. The DFC has deep financing expertise, including knowledge of guarantee structures and navigation of complex regulatory environments. USAID has a robust network of local partners, strong contextual knowledge, and extensive field staff and human capital capacity that enhances its TA to borrowers and aligns projects with local needs. A critical component of this partnership is effective communication and information sharing between the two institutions.

The DFC-USAID partnership has facilitated over 120 financial transactions—the majority of which were guarantees—mobilizing more than USD 4 billion for sustainable development projects. A typical agreement takes nine months from screening to commitment. This collaboration has been particularly effective in advancing green initiatives and supporting financial inclusion.

One notable example is a USD 41 million solar project in India. During the business development phase, USAID helped the DFC identify local banks to facilitate the transaction, and both organizations identified development impact cases. In the due diligence phase, the DFC focused on underwriting and legal support, while USAID prepared its TA to align with local partners' capacity gaps. During this period, USAID also transferred funds to support the transaction costs. Upon implementation, the DFC managed partner relationships, risk assessments, contract amendments, and compliance, while USAID maintained on-the-ground project support and quarterly stakeholder engagement.

This partnership model demonstrates how bilateral aid agencies can strategically collaborate with guarantors to improve borrower terms and enhance the availability and affordability of guarantees for projects in emerging markets. Scaling and replicating this approach to include more DFIs and donor organizations can particularly bolster sectors critical to sustainable development, such as clean energy and infrastructure.

To address collaboration and information-sharing challenges, guarantee stakeholders must focus on aligning processes and establishing a new standard for cross-institutional partnerships. In 2024, MDB leaders had begun to synchronize their system-level coordination, committing to enhanced collaboration on climate action, deepened country-level partnerships, scaling MDB financing capacity, and mobilizing private capital for improved development effectiveness and impact (IDB, 2024).

3. KEY TAKEAWAYS

The research highlights the substantial role that green guarantees can play in mobilizing private capital for the climate transition, particularly in EMDEs. Despite their potential to leverage significantly more investment than other financial instruments, guarantees remain underutilized due to structural barriers such as complex application processes, limited TA, high costs, misaligned timelines, and insufficient stakeholder collaboration. Several key recommendations emerge to enhance the effectiveness and uptake of green guarantees, as detailed below.

1. **Streamline guarantee processes:** Simplify application and reporting requirements across similarly-structured guarantee products to make them more accessible, especially for borrowers with limited internal capacity. Institutions that offer guarantees can also standardize their procedures and consolidate information, as intended by the World Bank Group Guarantee Platform, which aims to reduce administrative burdens for borrowers. Collaboration and coordination will be critical in achieving this goal, as addressed in Recommendation 5 below.
2. **Enhance TA for pipeline development:** Establish and/or expand TA facilities to support local actors in developing bankable green projects that are ready for both guarantees and financing more broadly. TA can improve projects' investment readiness by building local capacity, improving project structuring, and offering support for certification processes, as exemplified by the Green Guarantee Company.
3. **Address high costs and fees:** Reduce the costs of obtaining and implementing guarantees to increase their attractiveness. In the short term, this could include cost-sharing, fee subsidies, or donor-funded facilities to make hedging and transaction costs more affordable in EMDEs. Efforts like the TCX Fund's partial donor-funded guarantee facility showcase the benefits of such models. In the long-term, more attention and transparency on data sharing can lead to better risk assessment, with the goal of ultimately reducing instrument cost by providing more accurate risk assessments.
4. **Expand guarantee timelines:** Structure green guarantees to align with extended project lifespans, given that climate projects often require long-term financing. Increasing loan tenors, such as with GuarantCo's 20-year guarantees, can attract private capital for infrastructure and renewable energy projects providing patient capital that aligns with the long-term nature of climate investments. Increasing the affordability of these longer tenors will require simultaneous efforts to reduce costs and fees for the guarantee instrument, as addressed in Recommendation 3 above.
5. **Foster collaboration among stakeholders:** Increase coordination between private and public sector actors, including MDBs, DFIs, and regional banks to leverage their unique strengths. Collaborative models, such as the USAID-DFC partnership, demonstrate how pooling resources and sharing expertise can reduce risks, lower costs, and expand financing options for climate projects in underserved markets.

4. POLICY CONSIDERATIONS

CPI has identified several policy-related questions that warrant further consideration. While not directly derived from the preceding analysis, these questions were identified as important areas for future discussion in order to enhance the uptake and effectiveness of green guarantees. Addressing them will provide a basis for identifying lighthouse projects and for refining the approaches to tailor to the unique challenges of climate finance in emerging markets.

1. **Policy and regulatory implications**

- How do MDBs' accounting rules for including guarantees on their balance sheets impact their lending capacity? What institutional or policy changes within MDBs could help enhance the attractiveness and accessibility of guarantees for climate investments?
- Will the updated Development Assistance Committee's regulations for counting guarantee support as Official Development Assistance encourage aid agencies to collaborate more closely with DFIs and other guarantee providers?
- How can policymakers account for potential moral hazards and market distortions associated with guarantees?

2. **Risk assessment and structuring**

- What are the implications of the misalignment between perceived risk and actual low default rates in guarantee instruments? Are current risk frameworks for guarantees too conservative, limiting their uptake? What adjustments could improve the accuracy of risk evaluations during the structuring process to better align with real outcomes?
- Do challenges faced by cross-border guarantees apply similarly to domestic guarantees? How can the uptake of guarantees be increased at the subnational level?

3. **Geopolitical and strategic considerations**

- To what extent does the geopolitical landscape influence the availability of guarantees in certain high-need countries, particularly given that such financing is linked to the provision of equipment and services from host countries to beneficiary nations?

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