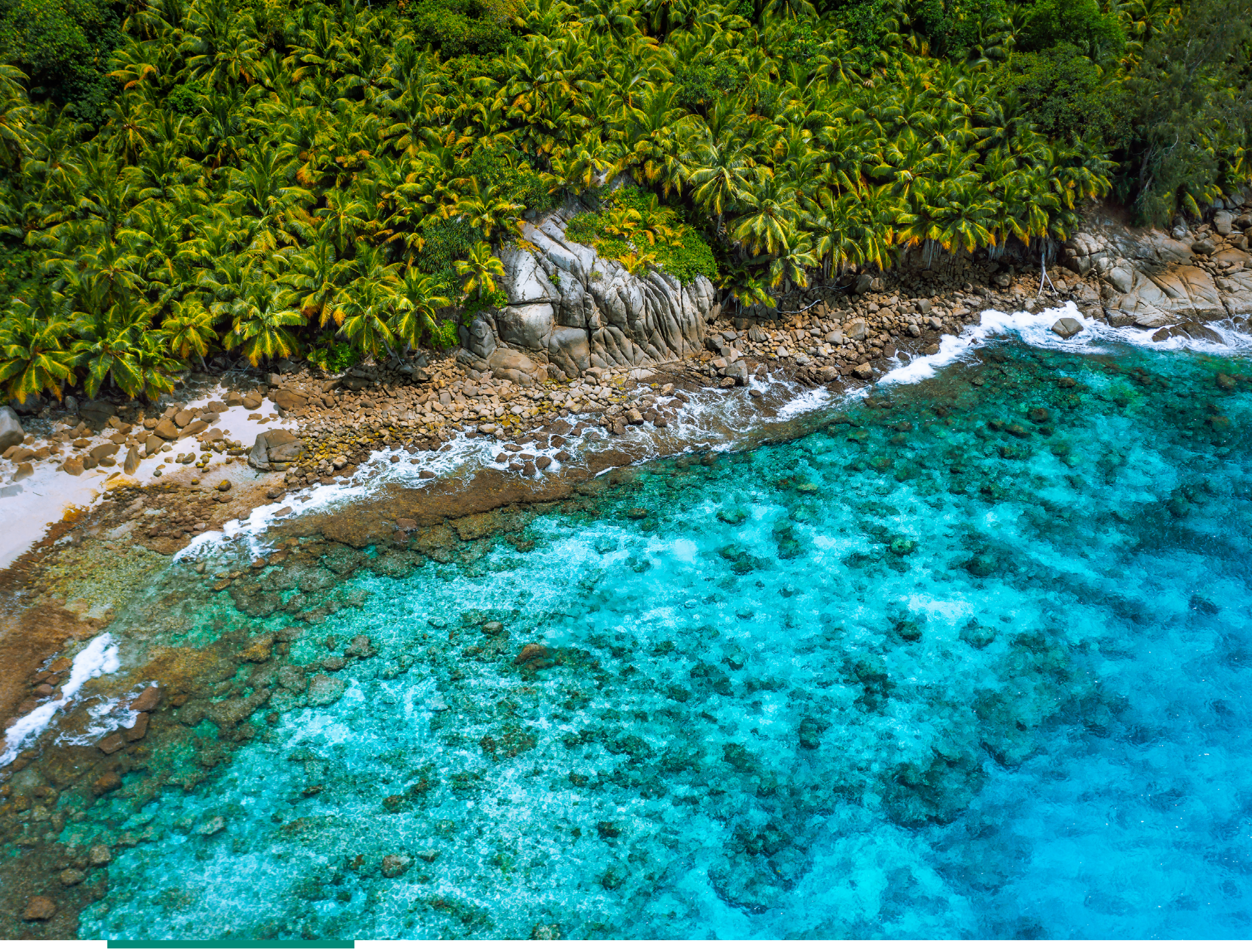

Scaling Up Green Guarantees: Recommendations by the Green Guarantee Group

July 2025

GREEN
GUARANTEE
GROUP

Supported by:

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ABOUT THE GREEN GUARANTEE GROUP

Announced at COP28 and launched in March 2024 by the German Federal Foreign Office and the German Federal Ministry for Economic Affairs and Climate Action, the Green Guarantee Group (GGG), seeks to produce actionable recommendations for policymakers and decisionmakers that will scale up the use and efficiency of guarantees for the green transition.

By establishing the GGG, Germany and Nigeria have initiated the dialogue to address persistent challenges in the use of guarantees for climate finance – in particular, to unlock their full potential in mobilizing private capital for emerging markets and developing economies (EMDEs): The GGG is chaired by Mr. Lars-Hendrik Röller, Chairman, GGG and Chief Economic Advisor to former Chancellor Angela Merkel, and since March 2025 co-chaired by Nigeria, represented by Mr. Faruk Yabo, Permanent Secretary in the Federal Ministry of Solid Minerals Development. Nigeria strongly believes in the transformative role of green guarantees in unlocking private capital and, in its capacity as a GGG co-chair, is committed to providing a national and regional platform to demonstrate the untapped potential of guarantees in mobilizing investment for EMDEs.

The European Climate Foundation (ECF) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) serve as the GGG's Secretariat. Morgan Després of the ECF is head of this Secretariat, with advisory and technical support from Climate Policy Initiative (CPI).

This report is an independent publication that benefited from the inputs and orientations provided by the GGG's high-level Wise Persons Group[1], whose members are listed below. It was coordinated by the GGG Secretariat, with technical support and drafting led by CPI. The report reflects the outcomes of a broad-based, participatory process and incorporates insights and strategic guidance from the Wise Persons Group, alongside contributions from numerous experts and institutional stakeholders, acknowledged in Annex 4. It further builds upon the inputs provided and substantive discussions held during the GGG's biweekly Technical Expert Meetings since COP28, with more than 150 institutions engaged. Hence, the views and recommendations expressed in this report are the results of the GGG Technical Expert Meetings and events held so far. As a culmination of the above inputs, the insights and recommendations included in this report solely reflect the position of experts convened by the group.

1 The Green Guarantee Group's "Wise Persons Group" comprises high-level experts and senior representatives from donor governments, development finance institutions, and the private sector. Its role is to validate the GGG's recommendations, assess their feasibility, effectiveness, and relevance for EMDEs, and promote their implementation within member institutions and through key international fora. A full list of Wise Persons Group participants can be found in Annex 4.

WISE PERSONS GROUP

- Lars-Hendrik Röller, Chairman, Green Guarantee Group (GGG); and Chief Economic Advisor to former German Chancellor Angela Merkel
- Faruk Yusuf Yabo, Permanent Secretary, Nigerian Ministry of Solid Minerals Development; Co-Chair of the GGG
- Barbara Buchner, Global Managing Director, Climate Policy Initiative (CPI)
- Anne-Laure de Chammard, Executive Board Member, Siemens Energy
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- Ingrid-Gabriela Hoven,Vice-Chairperson of the Management Board, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
- Christian Krämer, Member of Management Committee, KfW Development Bank
- Trudi Makhaya, Partner, Boston Consulting Group; former economic advisor to South African President Cyril Ramaphosa, former G20 Sherpa
- Luiz Awazu Pereira da Silva, former Deputy General Manager, Bank for International Settlements; former Deputy Governor, Central Bank of Brazil
- Avinash Persaud, Special Advisor on Climate Change to the President of the Inter-American Development Bank
- Dhruba Purkayastha, former Director at the at the Council on Energy, Environment and Water (CEEW)
- Vera Songwe, Chair and Founder, Liquidity and Sustainability Facility; Co-Chair, UN Independent High-Level Expert Group (IHLEG) on Climate Finance
- Robert Tichio, Chief Executive Officer, Fortescue Capital
- Laurence Tubiana, CEO, European Climate Foundation (ECF); COP30 Special Envoy for Europe
- Kandeh Yumkella, Chairman, Sierra Leone's Presidential Initiative on Climate Change, Renewable Energy and Food Security

EXECUTIVE SUMMARY

In an era of shrinking development aid budgets and escalating climate risks, scaling private investment for climate action in emerging markets and developing economies (EMDEs) is both an economic and political imperative. Guarantees—financial instruments that transfer specific risks from investors to a guarantor—are among the most powerful levers to achieve this. They unlock private capital, reduce costs for borrowers, and build local financial capacity over time.

However, guarantees remain underutilized and fragmented, mobilizing just a small share of the USD 2.4 trillion needed annually for climate finance in EMDEs, as well as the USD 1.3 trillion in annual climate finance for developing countries committed at COP29 (IHLEG, 2024; UNFCCC, 2024). Regulatory barriers, high transaction costs, data gaps, and institutional fragmentation all limit their effectiveness.

The Green Guarantee Group (GGG) brings together governments, multilateral development banks (MDBs), the private sector, civil society, and a Wise Persons Group to chart a path toward greater uptake of guarantees.

This report distills **4 targeted recommendations and 11 key actions** to unlock the full potential of green guarantees:

Recommendations	Key actions
1. Clarify the supervisory treatment of guarantees and develop practical methodologies	• Regularly review and update a list of "eligible MDBs" and clarify criteria across jurisdictions
	• Develop methodologies for calculating capital relief of complex partial guarantees
	• Standardize guarantee structures and risk coverage, supporting liquidity facilities for quick payouts
2. Develop local and currency risk markets to catalyze investment in local currency	• Encourage donor-provided local currency mechanisms
	• Scale up currency risk hedges, including donor-backed and first-loss facilities
3. Promote data transparency and knowledge sharing to improve risk pricing	• Establish a comprehensive guarantee performance database by expanding the Global Emerging Markets Risk Database (GEMs), including private sector data
	• Implement a tiered-access approach that balances transparency with confidentiality
4. Scale national guarantee institutions and regional platforms to promote pooled guarantee facilities	• Strengthen national guarantee institutions with support from regional hubs
	• Encourage co-investment and collaboration for regional platform development by donors, local governments, and private investors
	• Standardize underwriting criteria and guidelines across MDBs and development finance institutions (DFIs)
	• Explore exposure-swapping arrangements among MDBs and DFIs

Together, these recommendations offer a pragmatic and politically relevant roadmap for the target of mobilizing the USD 1.3 trillion a year by 2035 for EMDEs, in line with the Baku to Belém Roadmap and the COP30 Circle of Finance Ministers. They position guarantees as an investment tool rather than aid, aligning with the political momentum to leverage scarce public funds to catalyze larger flows of private capital toward climate projects. These recommendations offer a pathway to strengthening the enabling environment for guarantees and accelerating the mobilization of private capital for climate action.

The recommendations are informed by technical expert discussions over the past year, bilateral consultations, and input from the GGG-convened "Wise Persons Group" (Annex 4). Experts were consulted in their individual capacities and generously contributed their time, experience, and insights throughout the drafting and review process. Their feedback was instrumental in making the recommendations relevant, technically sound, and actionable across various institutional and market contexts. The GGG extends its sincere appreciation for their engagement and looks forward to continued collaboration.

INTRODUCTION

The global climate finance gap remains stark despite record investment in recent years. Annual climate finance reached USD 1.46 trillion in 2022—more than doubling since 2018—yet this amount is still only a fraction of the USD 7.4 trillion needed each year through 2030 to align with the 1.5°C pathways established by the Paris Agreement (CPI, 2024).

The shortfall is especially acute in emerging markets and developing economies (EMDEs), which, excluding China, attracted just 16% of global climate finance from 2018 to 2022 (ibid). With EMDEs (ex. China) requiring USD 2.4 trillion annually to meet climate and development goals, mobilizing private capital at scale is essential to close this gap, meet the UNFCCC New Collective Quantified Goal on Climate Finance of USD 1.3 trillion annually by 2035, and avert the far greater costs of inaction (IHLEG, 2024; UNFCCC, 2024).

This massive shortfall cannot be addressed solely by public sector resources, particularly given the constrained fiscal space of both potential donor and recipient countries, and the broader trend of declining overseas development assistance. Closing this gap is a collective responsibility that extends beyond aid—it is an investment to realize our shared, Paris-aligned climate goals.

It is essential that available public funds are deployed efficiently to maximize their catalytic effect. A substantial portion of the capital required to address the climate finance gap can be sourced from the private sector. However, private finance is not yet being mobilized at the speed or scale necessary to meet Paris Agreement-aligned targets. This is particularly alarming given the scale of required investment: between USD 6.7 trillion and USD 10 trillion in annual climate finance worldwide through 2050 (CPI, 2024).

Guarantees—instruments that transfer specific risks from investors to a guarantor—are among the most catalytic tools available to unlock private investment for climate action. When deployed strategically, (public) guarantees not only crowd in private finance but also contribute to market development by fostering investor confidence and building local financial capacity over time. By mitigating key risks, such as payment default, and enhancing credit profiles through the backing of a stronger guarantor, guarantees reduce both real and perceived risks, thereby lowering financing costs and making climate investments more attractive to the private sector. However, a fair burden sharing between public and private financing should be regarded.

Evidence shows that guarantees can mobilize significantly more private capital per unit of public funding than other traditional instruments. According to the OECD, between 2016 and 2021, guarantees leveraged 19% of all private finance mobilized by developed country public funding, followed by syndicated loans (16%), credit lines (9%), simple cofinancing arrangements (7%) and collective investment vehicles (7%) (OECD, 2023). Furthermore, although guarantees represent only about 5% of multilateral development banks' (MDBs') financial commitments, they account for nearly half of the total private capital these institutions mobilize (World Bank Group, 2024). However, **despite their demonstrated impact and near-zero default rates, guarantees remain underutilized, constituting only a small share of multilateral and bilateral development banks' climate finance portfolios.**

Why aren't guarantees fully scaled? Several obstacles stand in the way:

- Supervisory treatment of guarantees, particularly relating to the implementation of the Basel Framework of banking regulatory standards, limits lenders' ability to obtain capital relief from high-quality MDB guarantees.
- Limited availability and high costs of local currency lending and FX risk hedging deter investors.
- Fragmented and non-transparent data on guarantee performance leads to risk mispricing and missed opportunities.
- The absence or limited capacities of national and regional guarantee platforms hinders the ability to pool risks and aggregate projects at scale.

These gaps limit the potential of guarantees to act as powerful levers for climate investment—particularly in EMDEs.

In this context, the GGG aims to advance practical and actionable solutions to scale the use of green guarantees for mobilizing private climate finance in EMDEs, addressing the challenges outlined above. The GGG employs a dual approach, leveraging both technical and political expertise to maximize its impact. On a technical level, the group convenes experts from governments, MDBs, bilateral development finance institutions, the private sector—including commercial banks and investors—as well as civil society and academia to assess major barriers and enhance the effectiveness, affordability, and accessibility of guarantees.

On a political and technical level, the group convenes a network of high-level individuals in the "Wise Persons Group" who validate the GGG's proposals and are positioned to advance solutions and build momentum around key political and climate events.

Guarantees are not a silver bullet, but they are a cornerstone. They are a proven, yet underused tool that can unlock the transformative climate investments needed to secure a resilient and equitable future. The following recommendations chart a pragmatic, actionable path to place guarantees at the heart of climate finance strategies in EMDEs—where they are needed most.

RECOMMENDATIONS

Recommendation 1: Clarify the supervisory treatment of guarantees and develop practical methodologies

Relevant stakeholders: Governments, banking supervisors, MDBs

PART 1: CLARIFYING TREATMENT OF MDB GUARANTEES

The Basel Framework is a set of regulatory standards established by the Basel Committee on Banking Supervision (BCBS), the primary global standard setter for the prudential regulation of banks. The most recent set of major reforms to this Framework, known as "Basel III," was adopted in 2010 (although it is still in the process of implementation) and focuses on strengthening standards for banks' management of credit, liquidity, and market risk. BCBS member jurisdictions are expected to implement the Basel Framework according to their national laws and procedures. **See Appendix 2** for more background on the Basel Framework.

Eligible guarantees are a credit risk-mitigation technique recognized by the Basel Framework, which, if certain requirements are met, permit a bank to shift the risk weight assigned to a credit exposure from that of the underlying obligor (i.e., the borrower) to that of the guarantor. In the case of a commercial bank loan guarantee issued by one of the major MDBs identified in the Basel Framework, such substitution means that the lending bank could benefit from a risk weight of zero for the guaranteed loan, which would provide relief for the purposes of risk-based capital requirements.

KEY ACTIONS TO REALIZE PART 1: CLARIFYING TREATMENT OF MDB GUARANTEES OF RECOMMENDATION 1

- **Key action 1a) Regularly review and update a list of "eligible MDBs" and clarify criteria across jurisdictions.** With due regard to the principle of risk-based regulation, encourage banking authorities (in EMDEs as well as in advanced economies to regularly review and update the list of "eligible MDBs" as mentioned in the Basel Framework CRE20 (20.10) or European Banking Regulation (Article 117(2) CRR). Specific attention should be paid to the status of regional development banks in this regard.

Please note: The proposal above should not lead to narrowing the criteria or scope such that could negatively impact current available guarantees products.

PART 2: STANDARDIZING TREATMENT OF PARTIAL GUARANTEES

For partial credit guarantees, which only cover a portion of the underlying exposure, the Basel Framework lays out the principle that the amount of capital relief provided by the guarantee should be proportional to the share of the underlying exposure covered. In the case of partial guarantees, where there is a clear quantitative limit to the guarantor's exposure, the Basel Framework's standardized approach to calculating risk-weighted assets (RWA) specifies a clear methodology for calculating the amount of capital relief provided. However, there is no methodology under the standardized approach for calculating the capital relief provided by more complex partial credit guarantees where it is not feasible to simply prorate capital relief (e.g., where the guarantee only covers a specific risk, such as political risk or offtake risk).

To date, banks calculating RWA using the internal ratings-based approach have been able to apply custom methodologies, allowing them to obtain capital relief from complex partial MDB guarantees and to pass along the savings from such relief to end borrowers. However, the absence of such a methodology within the standardized approach has limited the ability of banks following this approach to pass along a lower interest rate to borrowers, and may thereby limit demand for MDB guarantees.

KEY ACTIONS TO REALIZE PART 2: STANDARDIZING TREATMENT OF PARTIAL GUARANTEES OF RECOMMENDATION 1

- **Key action 1b) Develop methodologies for calculating capital relief of complex partial guarantees.** Encourage banking authorities to provide a risk-based methodology for banks to calculate the degree of capital relief provided by complex and/or risk-specific partial MDB guarantees under the standardized approach to RWA, consistent with the principles of the Basel Framework's treatment of guarantees.
- **Key action 1c) Standardize guarantee structures and risk coverage, supporting liquidity facilities for quick payouts.** Encourage MDBs and DFIs to consider options for standardizing the structures, risk coverage, and terms and conditions of guarantee products in order to facilitate the use of standardized methodologies for calculating risk weights for guaranteed assets, while recognizing the diversity of risk appetites and risk management practices across institutions. In doing this, these institutions may consider developing liquidity facilities to enable rapid payouts to the beneficiaries of guarantees in the event of a default by the underlying obligor.

Please note: The proposals below should not lead to narrowing the criteria or scope such that could negatively impact current available guarantees products.

Recommendation 2: Develop local markets and currency risk markets to catalyze investment in local currency

Relevant stakeholders: MDBs, donor governments, private sector actors

Exposure to foreign exchange (FX) risk leaves borrowers in developing countries vulnerable to currency fluctuations, which can significantly increase their debt burden. Currency risk hedging facilities help manage FX risk by providing borrowers with certainty about the exchange rate at which they can convert local currency to hard currency when their debt is due, thereby insulating borrowers from local currency depreciation.

While such facilities are crucial for enhancing access to capital for borrowers in developing markets, their services can be prohibitively expensive for borrowers to obtain. Furthermore, a robust currency risk market requires scale and liquidity to function effectively and benefits from the aggregation, diversification, and repackaging of currency risks across multiple regions and instruments. Hedging facilities may be backed by donor or government guarantees, lowering the cost of hedges for borrowers. However, donors should be cautious about creating small, isolated currency risk pools by offering guarantees at the individual lender level, as this can fragment efforts to develop broader, more efficient currency risk markets.

At the same time, the ability of MDBs and DFIs to provide local currency financing at scale remains limited. Currently, most donor guarantees are capped in the donor's currency, discouraging the provision of local currency financing under supported facilities. Often, local financial institutions with lower credit ratings struggle to access international lending, constraining domestic banks' ability to expand local currency lending. This, in turn, limits broader financial market development in EMDEs.

KEY ACTIONS TO REALIZE RECOMMENDATION 2

- **Key action 2a) Encourage donor-provided local currency mechanisms.** Encourage guarantee providers (sovereigns, MDBs, private actors) to offer guarantees denominated in local currency. This would enable the use of guarantees to de-risk local currency investments.
- **Key action 2b) Scale up currency risk hedges, including donor-backed and first-loss facilities.** The availability of currency risk hedges is often low particularly for longer tenors. This can be addressed through donor-funded guarantee facilities and first-loss guarantees that support the development of liquid currency risk markets.

*Numerous examples show how actors are working to address currency risk in local markets, facilitate local currency lending, and develop local financial markets (**See Appendix 3**). Although such efforts offer a model for addressing these challenges in EMDEs, they will need to scale significantly to de-risk the USD 400 billion in annual climate finance needed to meet nationally determined contributions (NDCs) in EMDEs (CPI, 2025b).*

Recommendation 3: Promote data transparency and knowledge sharing to improve risk pricing

Relevant stakeholders: Existing initiatives (Global Emerging Markets Risk Database, GEMs), MDBs and DFIs, credit rating agencies, private sector actors

Borrowers in EMDEs often face large risk premiums that drive up the cost of capital. These elevated premiums are partly due to concerns among investors in developed economies regarding the real and perceived risks associated with investments in EMDEs. Anecdotally, however, guarantee-backed climate projects in EMDEs have exhibited near-zero default rates—likely due to their de-risked design and the rigorous due diligence associated with donor-backed guarantees and concessional capital.

Improved access to data on actual default rates for these projects could help distinguish them from riskier standalone investments, increase investor appetite, improve financing terms for borrowers, and ultimately catalyze greater private capital flows into climate finance in EMDEs.

Additionally, most jurisdictions lack consistent measurement and disclosure of climate-related financial risks, further exacerbating the information gap that hampers accurate risk pricing. Without transparent, forward-looking data on climate-related risks and the historical performance of guarantees, lenders and investors cannot incorporate these factors into pricing and capital provisioning.

KEY ACTIONS TO REALIZE RECOMMENDATION 3

- **Key action 3a) Establish a comprehensive guarantee performance database by expanding the Global Emerging Markets Risk Database (GEMs), including private sector data.** GEMs should expand their scope to include guarantee-specific data, including default rates, recovery rates, and pricing benchmarks across sectors and countries, as well as sovereign credit defaults, real exchange rate risk, and climate risk data.
  - The database should include data from the private sector, where possible, as well as public financial institutions' guarantees that have backed private sector participation. The data repository could include analysis of risk profiles and cross-referencing with credit rating agencies.
- **Key action 3b) Implement a tiered-access approach that balances transparency with confidentiality**. To support initial shifts in market perception, adopt a tiered-access approach to the database, that provides different levels of data to different stakeholders.
  - Key actors whose risk perceptions directly impact pricing—such as credit rating agencies, MDBs, and DFIs—should have access to more detailed information. Meanwhile, aggregated data can be shared more broadly to inform market participants and support better risk pricing practices. This approach would strike a balance between the need for data transparency and concerns regarding confidentiality and data security.

*The Global Emerging Markets Risk Database Consortium illustrates how public data on financial transactions can influence credit ratings and reduce the cost of capital for borrowers in EMDEs with high perceived risk (**See Appendix 3**).*

Recommendation 4: Scale national guarantee institutions and regional platforms to promote pooled guarantee facilities

Relevant stakeholders: Regional MDBs, donors, local governments and private investors

MDBs and DFIs operate independently, leading to duplication, inefficiencies, and limited reach. While global platforms exist, locally anchored and regionally focused initiatives are better suited to addressing local risk profiles, regulatory environments, and financial ecosystems. In particular, national guarantors can aggregate and structure local climate-related projects, provide tailored risk mitigation, and serve as centralized guarantee platforms that are closely aligned with domestic market needs. As shown in the case studies below, they have proven highly effective in mobilizing domestic capital and encouraging private sector participation.

At the same time, **regional cooperation can support risk pooling, standardization, and shared infrastructure, thereby reducing the cost of capital for EMDEs and expanding cross-border investment flows.** Regionally-anchored guarantee structures can facilitate the issuance of local currency guarantees, enhance the capacities of domestic financial institutions by fostering regional or South-South knowledge exchange, and can be effectively linked or integrated into country platforms and blended finance strategies.

KEY ACTIONS TO REALIZE RECOMMENDATION 4

- **Key action 4a) Strengthen national guarantee institutions with support from regional hubs.** Prioritize the establishment and scaling of national guarantee institutions, supported by regional hubs where appropriate.
- **Key action 4b) Encourage co-investment and collaboration for regional platform development by donors, local governments, and private investors.** Regional platforms should complement these efforts by pooling resources, aggregating climate-related projects, enabling joint risk-sharing mechanisms, and facilitating cross-border finance for projects that require regional coordination.

  In both actions above, the pooled vehicles will need to meet the regulatory eligibility criteria for risk-weight substitutions (see recommendation 1)

  - Encourage donors, local governments, and private investors to co-invest in region-specific guarantee funds, like GuarantCo, which focuses on local currency financing in frontier markets.

- **Key action 4c) Standardize underwriting criteria and guidelines across MDBs and development finance institutions (DFIs).** The *Heads of the MDBs Group* and major DFIs should commit to standardizing underwriting criteria and developing common guidelines for measuring risk and pricing guarantees. By standardizing terms for available products and developing interoperable due diligence practices, this can ease access to guarantee products.
- **Key action 4d) Explore exposure-swapping arrangements among MDBs and DFIs.** The establishment of exposure-swapping arrangements would allow MDBs and DFIs to jointly manage risk and reduce concentration, drawing on callable capital, donor contributions, or special drawing rights.

*Efforts are underway to expand the use of guarantees to mobilize long-term local currency financing and deepen regional capital markets. While such examples like InfraCredit Nigeria and the Credit Guarantee and Investment Facility (CGIF) show promise, their scale and replicability remain limited due to persistent structural barriers (**See Appendix 3**).*

A DIRECTORY OF GUARANTEES

An additional challenge identified through the GGG's work is the lack of comprehensive information on the full range of guarantee options, which leaves borrowers struggling to understand and utilize available instruments. This is a particular hurdle for project developers and public financial institutions seeking guarantee support.

To address this gap, the GGG Secretariat is developing a directory of guarantee products. This tool will provide detailed information to help project developers, public financial institutions, governments, local financial institutions in emerging markets, and private investors search, compare, and apply for guarantee instruments—ultimately facilitating a better match between the supply and demand for guarantees. The Guarantee Directory is scheduled to be presented at COP30.

While this report presents a focused set of recommendations, the GGG acknowledges that many complementary topics and innovative applications of guarantees warrant further exploration.

Issues such as the strategic use of technical assistance and capacity building, the role of national financing institutions, and the application of guarantees to sovereign instruments remain crucial areas for ongoing work. These dimensions will be further explored through the GGG's activities, including the online directory of guarantees, continued engagement with stakeholders, and upcoming policy research. This report represents a step forward in a broader effort to create an enabling environment that unlocks the full potential of guarantees in climate finance.

NEXT STEPS AND IMPLEMENTATION PATHWAYS

Looking ahead, the GGG will continue to advance its mission of placing guarantees at the forefront of the international climate finance agenda. Operating both as a technical forum for innovation and exchange, and as a political initiative, the GGG is now entering a new phase of engagement. In close partnership with the Federal Republic of Nigeria, the Group is shaping a concrete action agenda in the lead-up to COP30. The Wise Persons Group will play a central role in validating and promoting the GGG's actionable, solution-oriented recommendations, engaging key stakeholders, and helping to mobilize commitment beyond its membership. Therefore, the recommendations target specific institutions, as follows:

- **Recommendation 1:** MDBs, donor governments, private sector actors
- **Recommendation 2:** Donor governments, private sector actors, and MDBS
- **Recommendation 3:** Existing initiatives (Global Emerging Markets Risk Database, GEMs), MDBs and DFIs, credit rating agencies, private sector actors
- **Recommendation 4:** Regional MDBs, donors, local governments, MDBs, and private investors.

However, further dialogue is still needed to define implementation pathways and operational steps.

In parallel, the GGG is actively engaging with the G20 and the COP30 Presidency to facilitate an ambitious scaling up of guarantee instruments. A key priority in 2025 will be the further refinement of the GGG's recommendations, with the aim of securing concrete implementation commitments by COP30.

To that end, the GGG and its Wise Persons Group will continue to engage with key stakeholders and international initiatives, such as the Bridgetown Initiative, the G20 Sustainable Finance Working Group, the COP30 Circle of Finance Ministers, and processes under the Fourth International Conference on Financing for Development (FfD4). This ongoing engagement between FfD4 and COP30 will help identify champions, define timelines, align incentives, and translate technical proposals into policy and market practice.

APPENDIX 1

METHODOLOGY

The themes covered in this report were raised by stakeholders from across the guarantee ecosystem and selected based on the following criteria:

- **Broad relevance:** Frequently highlighted across discussions, indicating wide stakeholder interest and applicability.
- **Actionability:** Offering clear, tangible steps for implementation within current financial and regulatory frameworks.
- **Scalability:** Demonstrating potential for replication and expansion across different markets and financial institutions.
- **Innovation:** Introducing new or improved approaches to guarantee structures, deployment, or risk-sharing mechanisms.
- **Catalytic potential:** Strengthening the enabling environment for private capital mobilization and accelerating climate finance flows.
- **Diverse applicability:** Addressing the needs of both public and private financial institutions, as well as developed and developing economies.

ALIGNMENT WITH GLOBAL CLIMATE FINANCE INITIATIVES AND PROCESSES

The GGG's approach aligns with and seeks to complement several high-level international efforts aimed at reforming the global financial architecture and mobilizing climate finance as scale, *inter alia*:

- **The Bridgetown Initiative's call for reform of the international financial architecture, particularly its recommendation to expand risk-sharing mechanisms (14B)** to mobilize private capital and concessional finance for sustainable development while addressing the interconnected challenges of climate change, debt distress, and constrained fiscal space in developing countries.
- **The World Bank Group (WBG) and the African Development Bank's Mission 300, which engages African governments, the private sector, and development partners to expand affordable, clean electricity access to 300 million people in Africa by 2030**. As part of this initiative, the WBG supports new guarantee platforms for innovative financing and de-risking, aiming to provide patient capital to private companies advancing distributed renewable energy solutions.
- **The Multilateral Investment Guarantee Agency (MIGA) is a key player working in guarantee issuance under the WBG.** Its efforts to streamline guarantee deployment across WBG entities, including the International Finance Corporation (IFC), the International Bank for Reconstruction and Development, and the International Development Association (IDA),

through its **World Bank Group Guarantee Platform** provide a consolidated list of products and support across institutions.

- The **Fourth International Conference on Financing for Development (FfD4),** as GGG recommendations align with priorities identified in the Outcome document of the Fourth International Conference on Financing for Development (notably paras. 39l, 39o, 39q, and 56), including calls for better use of risk-sharing instruments, more effective blending of public and private capital, and improved regulatory environments to facilitate private sector participation.
- The **Independent High-Level Expert Group on Climate Finance (IHLEG)** underscores the need for scaling guarantee instruments, particularly to de-risk investment in EMDEs and optimize the use of scarce public finance (IHLEG report, 2024).
- **The Paris Pact for People and the Planet (4P)** calls for a more efficient international financial system that can better mobilize private capital for projects in developing countries. Its goal is to help achieve Paris-aligned net-zero and nationally determined climate targets, while also combating poverty and safeguarding fiscal space.

The following ongoing international processes provide timely and strategic entry points for the adoption and implementation of the GGG's recommendations:

- **G20 Sustainable Finance Working Group:** As G20 members increasingly prioritize scalable solutions for blended finance and risk mitigation, the GGG's technical proposals on guarantees, particularly around Basel III implementation and FX risk, can contribute to shaping future G20 deliverables.
- **COP30 Circle of Finance Ministers and the Baku to Belém Roadmap**: Launched under Brazil's COP30 Presidency, this initiative aims to mobilize USD 1.3 trillion annually by 2035, as determined by the New Quantified Goal on Climate Finance (UNFCCC, 2024). Led by Finance Minister Fernando Haddad, the Circle convenes finance ministers to advance priorities such as MDB reform, expansion of concessional finance, development of country platforms, and private capital mobilization—all of which align closely with the GGG recommendations.
- **UNFCCC COP Processes (COP30 and beyond):** GGG recommendations are highly relevant to ongoing negotiations under the UNFCCC, particularly around the role of public finance in enabling system-level change and the operationalization of Article 2.1(c).

APPENDIX 2

BASEL FRAMEWORK OVERVIEW

The Basel Framework is a set of regulatory standards for commercial banks (technically, "depository institutions") that is negotiated among the members of the Basel Committee on Banking Supervision (BCBS). The BCBS membership is drawn from 28 jurisdictions—primarily the advanced economies plus large emerging markets—covering about 90% of the world's banking assets. BCBS member jurisdictions are expected to implement the Basel Framework according to their national laws and procedures. However, many other jurisdictions also base their banking regulations on the Basel Framework; Nigeria, for example, announced its intent to implement the latest iteration of the Framework (Basel III) in September 2021. Since the Basel Framework must be implemented by individual jurisdictions to have any force, it is important to note that implementing rules and regulations may differ, to some degree, across jurisdictions; this may be particularly true for banks headquartered in EMDEs.

The first iteration of the Basel Framework (Basel I) was established in 1988, and focused primarily on setting minimum capital requirements for banks' credit risk. Basel II, agreed in 2004, introduced more risk-sensitive capital requirements, as well as capital requirements for operational risk. Basel III, adopted in response to the global financial crisis in 2010, significantly strengthened capital requirements, and introduced regulatory requirements related to liquidity and market risk, among other reforms.

The key principles of capital requirements for credit risk under the Basel Framework are that banks should hold capital against unexpected losses on assets, and that the amount of capital required should be related to the riskiness of a bank's assets. Accordingly, the Framework establishes risk weights for different categories of assets that banks hold, with lower risk weights assigned to lower-risk assets.[2] For example, bank exposures to highly rated sovereigns and MDBs are assigned a risk weight of zero, while exposures to sovereigns with a credit rating below B- have a risk weight of 150%. A bank's (RWA) is the sum of all its assets, with each asset multiplied its respective risk weight. Minimum capital requirements are then specified as a percentage of RWA (with the exception of the minimum leverage ratio, which is based on total assets).

The effect of these risk-based capital standards is that banks must hold more capital against riskier loans, which are assigned higher risk weights. Since banks cannot usually increase their capital in the near term, and capital must generate returns for shareholders, banks generally charge riskier borrowers higher interest rates to compensate for the higher capital usage. Guarantees can counteract this effect by allowing the bank to substitute the risk weighting of the guarantor for that of the borrower. In cases where the difference in credit quality between the guarantor and borrower is large—such as a zero-risk weight MDB guaranteeing a loan to a borrower in an emerging market with a 150% risk weight—the guarantee can lead to a large reduction in the interest rate of the loan.

2 The Basel Framework lays out two approaches for assigning risk weights: the standardized approach and the internal ratings-based approach. The standardized approach lays out fixed risk weights for different types of assets (usually based on external ratings), and is what is described in this overview. The internal ratings based approach follows the same principles but allows banks to develop internal models to determine the risk weights of their assets, which can be more accurate but depends on higher technical capacity within the bank. Banks using this approach are generally larger and more sophisticated than standardized approach banks.

APPENDIX 3

CASE STUDIES

***The below case studies support recommendation 2**, highlighting actors that address currency risk in local markets, facilitate local currency lending, and develop local financial markets.*

Case Study 1: EBRD SME Local Currency Lending Program

The European Bank for Reconstruction and Development's (EBRD) SME Lending Program leverages donor-backed first-loss guarantees to lower borrowing costs for SMEs while maintaining parity with local bank interest rates. The program channels local currency financing to SMEs primarily through local financial institution intermediaries, which also receive technical assistance to strengthen their credit assessment capabilities. By the end of 2024, the program had approved USD 1.1 billion in local currency lending.

Rather than subsidizing interest rates, the program reduces the EBRD's required margin by using first-loss guarantees to absorb investment risk. Since defaults are relatively infrequent, the capital backing the guarantee can often be recycled, enhancing the program's capital efficiency. These guarantees also mitigate currency risk and are coupled with national policy commitments to develop local capital markets—particularly through money markets (OECD, 2025). As local markets develop, the fund's dependence on donor capital is expected to diminish.

Beyond SME lending, the program supports banks and financial institutions in improving local currency liquidity, enhancing credit ratings, and advancing financial inclusion. At the country level, it contributes to policy and regulatory reforms that promote economic stability, bolster sovereign credit ratings, and reduce exposure to foreign currency debt (EBRD, 2025).

By leveraging guarantees to foster capital market development in EMDEs, this and similar programs help de-risk investments and create a demonstration effect that builds investor confidence and encourages broader market participation. This is particularly critical for climate projects, which often face higher perceived risks and require long-term capital that is more readily mobilized in stable, functioning local markets.

Case Study 2: TCX Partial Donor-Funded Guarantee Facility

The Currency Exchange Fund (TCX) operates a donor-backed guarantee facility designed to improve the affordability of foreign exchange (FX) risk hedging in frontier and emerging markets. It protects borrowers from local currency fluctuations by allowing them to repay loans in local currency while ensuring that lenders or donors receive the expected amount in hard currency. The facility is backed by the European Fund for Sustainable Development Plus (EFSD+) and capitalized with USD 1.5 billion from a range of DFIs, MDBs, and donor governments (CPI, 2025). It has de-risked USD 8.4 billion in external lending across 70 different currencies (CPI).

Acting as a price-maker, TCX operates in markets where offshore or long-term currency hedging options are limited or entirely absent. To manage this significant risk exposure, TCX diversifies its portfolio across a wide range of currencies globally (TCX, 2025) This approach enables it to repackage and redistribute currency risk across different markets and has supported both its operational and financial sustainability, with a modest targeted annual return of 1.6%.

TCX's current portfolio spans over 70 countries across EMDEs, with a focus on projects that contribute to the Sustainable Development Goals, including climate-related investments. In addition to its hedging services, TCX collaborates with market participants to enhance liquidity in local currency markets and works with national authorities to strengthen debt management capacity (CPI, 2025).

TCX maintains a non-speculative mandate, offering hedges only against actual exposures linked to the real economy (TCX, 2025). Combined with donor funding that absorbs losses from extreme currency fluctuations, this approach allows TCX to offer hedging products at subsidized, below-market rates. Donor-backed guarantee facilities like TCX play a critical role in scaling the availability and affordability of currency risk hedges, thereby improving access to capital for borrowers in EMDEs.

The case study below supports recommendation 3, *illustrating the potential role that public data on financial transactions can play in affecting credit ratings and reducing the cost of capital for borrowers in EMDEs with high perceived risk. It also highlights the challenge of balancing increased transparency with maintaining anonymity in financial transactions.*

Case Study 3: Global Emerging Markets Risk Database (GEMs) Consortium

The Global Emerging Markets Risk Database (GEMs) Consortium was established in 2009. The European Investment Bank (EIB) serves as its secretariat. With an expanded consortium of members, it is now one of the largest credit risk databases for emerging markets, aggregating anonymized data from 26 multilateral MDBs and DFIs to assess default and recovery rates.

A 2024 GEMs publication found that, over the past 40 years, sovereign-guaranteed lending in EMDEs had a low default rate of 1.06% and a high recovery rate of 94.9%. These credit statistics are critical for mobilizing private capital into EMDEs (GEMs, 2025).

Expanding GEMs to include guarantee-specific data would enable MDBs and private investors to more accurately assess risk, optimize pricing, and improve the attractiveness and accessibility of guarantees. While the GEMs team has expressed plans to collect data on guarantee performance, they note that this will require the development of a new platform to host the expanded database—anticipated within the coming year (2025-2026).

Nonetheless, stakeholders continue to call for greater transparency and data disaggregation, including project-level creditworthiness within the default and recovery pools. More granular data would significantly strengthen GEMs' value for pricing and investment decision-making.

Additional challenges remain regarding the application and relevance of GEMs data. Interviews with 66 global private sector investors—including 23 banks, 28 asset managers, 15 insurance companies, as well as rating agencies and investment advisors—revealed a disconnect between awareness and interest: Only 37% of respondents were familiar with GEMs, yet 80% expressed strong interest in data from multilateral institutions. Despite this interest, the interviews revealed a reluctance among private sector actors to share their own investment data due to concerns about confidentiality.

The interviews also found that while climate-related statistics were generally a lower priority for most investors, a smaller subset expressed significant interest. This is particularly relevant as GEMs considers how to expand its data set, including guarantee-specific data (ICF-GEMs, 2024).

The case studies below illustrate support recommendation 4, highlighting promising efforts to expand the use of guarantees to mobilize long-term local currency finance and deepen regional capital markets. InfraCredit Nigeria and the CGIF demonstrate how tailored guarantee products and supportive institutional structures can successfully crowd in private capital and strengthen domestic financial ecosystems. However, while these initiatives have delivered measurable results, they remain limited in scale and replicability due to persistent structural barriers—such as fragmented guarantee markets, limited donor coordination, and the absence of shared infrastructure for risk pooling and standardization. The recommendations presented in this report aim to address these systemic challenges, offering a pathway to scale up and replicate these models more efficiently through stronger regional platforms, exposure-swapping mechanisms, and coordinated public-private investment strategies.

Case Study 4: InfraCredit Nigeria—Unlocking Local Currency Infrastructure Finance

InfraCredit Nigeria is a specialized infrastructure credit guarantee institution established in 2017 by the Nigerian Sovereign Investment Authority in partnership with GuarantCo, and later supported by the Africa Finance Corporation, InfraCo Africa, and KfW Development Bank (InfraCredit, 2025). Its core mandate is to enhance the credit quality of local currency (Naira-denominated) debt instruments issued to finance infrastructure projects, thereby mobilizing long-term domestic capital from pension funds, insurance companies, and other institutional investors (IISD, nd).

Key Products and Guarantee Solutions

InfraCredit offers innovative guarantee products tailored to address the unique challenges of infrastructure finance in Nigeria's domestic market:

Financial Guarantees: InfraCredit's flagship product provides irrevocable and unconditional guarantees on principal and interest payments for eligible infrastructure bonds. It elevates the credit rating of these bonds to investment grade, making them attractive to risk-averse institutional investors who have historically concentrated their portfolios in government securities (InfraCredit, 2025).

Contingent Refinancing Guarantees: This product supports greenfield infrastructure projects by offering refinancing guarantees, typically for tenors of 2–5 years, thus providing assurance to investors during the critical early stages of project operation (InfraCredit, 2025).

Annuity PPP Guarantees: Designed for public-private partnership (PPP) projects under a design-build-finance-operate-and-maintain structure, this guarantee covers up to 20 years, supporting revenue-generating infrastructure and enabling long-term financing (Get Invest, 2025).

Eligibility and Impact

InfraCredit's guarantees are available for a wide range of infrastructure sectors, including energy (excluding oil), transportation, telecommunications, urban infrastructure (housing, health, education), waste management, agriculture, and select mining projects. Eligible borrowers include special-purpose vehicles, operating companies, privatized entities, public corporations, and subnational governments. All projects must comply with InfraCredit's environmental and social safeguards and demonstrate implicit government support.

Development Impact and Market Transformation

InfraCredit addresses a critical market failure in Nigeria: the lack of long-term, local currency financing for infrastructure. By providing credit enhancement, InfraCredit enables infrastructure companies to issue investment-grade bonds, thus unlocking domestic institutional capital for projects that would otherwise struggle to secure affordable financing. This approach not only reduces the cost of capital and extends loan tenors (up to 20 years) but also catalyzes the development of Nigeria's nascent infrastructure bond market.

The institution's success is evident in its rapid evolution from a startup to a publicly listed company in less than a decade, attracting both international and domestic investors. InfraCredit's model has mobilized significant private capital, diversified institutional investor portfolios, and demonstrated the viability of local currency infrastructure bonds as an asset class. Its impact is now recognized as a replicable model for other emerging markets seeking to unlock domestic capital for sustainable infrastructure development.

Case Study 5: CGIF—Deepening Local Bond Markets in ASEAN+3

The Credit Guarantee and Investment Facility (CGIF), established in 2010 under the Asian Bond Markets Initiative, is a multilateral development agency owned by the ASEAN+3 countries (10 ASEAN member states, China, Japan, and South Korea) and the Asian Development Bank. With USD 700 million in capital contributions, the CGIF's mission is to enhance financial stability and boost long-term investment in the region by developing local currency bond markets. By mitigating risks for investors and issuers, the CGIF addresses systemic challenges such as currency mismatches and short-term foreign debt dependency, which contributed to the 1997 Asian financial crisis (CGIF, 2025).

Key Products and Guarantee Solutions
The CGIF specializes in **irrevocable and unconditional bond guarantees**, covering 100% of principal and interest payments for local currency-denominated bonds issued by investment-grade corporations. Key features include:

- **Coverage:** Up to USD 140 million equivalent per issuance, with tenors of up to 10 years (extendable to 15 years for justified cases) (IISD, nd).
- **Eligibility:** Corporations must be based in ASEAN+3 countries, pass the CGIF's credit assessment, and comply with environmental and social safeguards. Prohibited activities include weapons production, gambling, and tobacco.

- **Currency Focus:** Primarily local currency bonds, though foreign currency issuances are permitted if hedged against export receipts or financial derivatives.

Development Impact
CGIF has played a catalytic role in expanding ASEAN+3 bond markets by:

- **Enabling First-Time Issuers:** As of 2023, 50% of CGIF-guaranteed bond issuers were accessing bond markets for the first time. For example, in 2025, the CGIF guaranteed Cambodia's inaugural project bond, marking a milestone for the country's capital markets.
- **Diversifying Funding Sources:** By 2024, CGIF-guaranteed bonds accounted for 15% of Viet Nam's corporate bond market, attracting institutional investors like insurance companies that previously avoided corporate debt.
- **Supporting Green and Cross-Border Finance**: The CGIF has expanded into green bonds and cross-border transactions, such as its 2025 guarantee for CIA FIRST's second tranche bond issuance, which supported renewable energy projects in Cambodia.

Market Transformation
CGIF's guarantees have helped reduce the region's reliance on short-term foreign currency borrowing, a key factor in financial fragility. Since 2010, the CGIF has issued over USD 1.37 billion in guarantees, contributing to a 30% growth in ASEAN corporate bond markets. Its interventions have also improved financial stability by:

- **Lowering Borrowing Costs:** Guarantees elevate bond ratings, often to «AA» or «AAA,» reducing yields by 150–300 basis points.
- **Extending Maturities**: CGIF-backed bonds average 7–10 years, compared to 3–5 years for non-guaranteed corporate debt in the region.
- **Promoting Regional Integration:** Cross-border guarantees, such as a 2024 issuance for a Thai renewable energy firm listing bonds in Singapore, demonstrate CGIF's role in fostering intra-ASEAN investment.

APPENDIX 4

GGG ORGANIZATION

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This report is a deliverable of the Green Guarantee Group (GGG) initiative, of which the Secretariat is co-hosted by the European Climate Foundation (ECF) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH through the Climate Diplomacy Action Programme (CDAP). The GGG's Secretariat works in close collaboration with the Climate Policy Initiative (CPI), which provided technical support in preparing this report.

The report is funded by the International Climate Initiative (IKI) on behalf of the German Federal Foreign Office. IKI is a funding program of the German Federal Government, established in 2008 to promote climate action and biodiversity conservation.

Supported by:

Federal Foreign Office

on the basis of a decision by the German Bundestag

INTERNATIONAL CLIMATE INITIATIVE

Implemented by:

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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