



Solidarity

Equality

Sustainability

BLENDED FINANCE DE-RISKING MEASURES

The case of guarantees and credit enhancement instruments

Report

Infrastructure Working Group Priority 2:
Scaling Up Sustainable Infrastructure Investment through Blended Finance

October 2025



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Abbreviations and acronyms

ADB	Asian Development Bank
ADSB	Atradius Dutch State Business
AIFFP	Australia Infrastructure Finance Facility for the Pacific
AIIB	Asian Infrastructure Investment Bank
ALCB Fund	African Local Currency Bond Fund
AUD	Australian dollar
BANOBAS	National Bank of Public Works and Services (Mexico)
BCBS	Basel Committee on Banking Supervision
BNDES	Brazilian National Development Bank
bps	Basis points
CAF	Capital Adequacy Framework
CEF-AFIF	Alternative Fuels Infrastructure Facility from the Connecting Europe Facility
CESL	Congo Energy Solutions Limited
CGV	Credit Guarantee Vehicle (South Africa)
China	People's Republic of China
CIB	Canada Infrastructure Bank
CSDDD	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
DFC	U.S. International Development Finance Corporation
DFI	Development finance institution
DRC	Democratic Republic of Congo
E&S	Environmental and social
ECA	Export Credit Agency
EBRD	European Bank for Reconstruction and Development
ECIC	Export Credit Insurance Corporation of South Africa
EDC	Export Development Canada
EFA	Export Finance Australia
EFM	Emerging and Frontier Market
EMDE	Emerging Markets and Developing Economy
ESG	Environmental, social and governance
EU	European Union
EUR	Euro
EXIAR	Russian Agency for Export Credit and Investment Insurance
FCG	Full credit guarantee
FDIRS	Sustainable Regional Infrastructure Development Fund of Brazil
FJD	Fijian dollar
G20	Group of Twenty
GEMs	Global Emerging Markets Risk Database
GFANZ	Glasgow Financial Alliance for Net Zero
IBRD	International Bank of Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFA	International Financial Architecture
IFC	International Finance Corporation
IRB	Internal ratings-based
IWG	Infrastructure Working Group
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KTZ	Kazakhstan Temir Zholy JSC
MDB	Multilateral development banks

MIGA	Multilateral Investment Guarantee Agency
MLT	Medium-to-long-term export credit insurance
MoF	Ministry of Finance
NaBFID	National Bank for Financing Infrastructure and Development of India
NatDB	National development bank
NDB	New Development Bank
NES	National Electric Grid Joint-Stock Company
NEXI	Nippon Export and Investment Insurance
NHFO	Credit enhancement for non-honouring financial obligations
NSG	Non-sovereign guarantee
OECD	Organisation for Economic Co-operation and Development
PCG	Partial credit guarantee
PIDG	Private Infrastructure Development Group
PRG	partial risk guarantee
PRI	Political risk insurance
RMB	Ren min bi (Chinese yuan)
SEC	Securities and Exchange Commission
SG	Sovereign guarantee
SOE	State-owned enterprise
USD	US dollar

Executive summary¹

This *Report on Blended Finance De-risking Measures* has been developed as a deliverable under Priority 2: Scaling Up Sustainable Infrastructure Investment through Blended Finance of the Group of Twenty (G20) Infrastructure Working Group (IWG) under South Africa's Presidency. The report explores how to further leverage guarantees and credit enhancements by public sector providers – specifically multilateral development banks (MDBs), national development banks (NatDBs), development finance institutions (DFIs) and export credit agencies (ECAs) – to mobilise greater and better private capital flows towards sustainable infrastructure in Emerging Markets and Developing Economies (EMDEs).

The current level of infrastructure investment in EMDEs falls short of these economies' needs. It is estimated that an additional USD 3 trillion per year is needed by 2030 to support these economies to meet national objectives and contribute to the achievement of global targets. Elevated perceived risks in these economies – compared to advanced economies – coupled with waning confidence in key market performance and the evolving geopolitical landscape, further complicate efforts to mobilise additional private capital toward their infrastructure needs. Higher perceived risk increases the cost of capital, which inhibits the private sector from financing infrastructure projects in these countries. Guarantees and credit enhancements are one of the avenues that can address this challenge by covering key risks and improving the risk-return profile of investments, thereby unlocking additional financing to support sustainable infrastructure projects.

The report draws from existing literature, two infrastructure investors dialogues, case studies and survey responses from G20 members and invited countries, MDBs, NatDBs, DFIs and ECAs to highlight good practices and propose policy actions that can be taken to make guarantees and credit enhancements more accessible and perform optimally, based on the national context. This report offers the following voluntary and non-binding recommendations on leveraging guarantees and credit enhancements in blended finance transactions.

¹ The OECD's contribution to this work has been supported financially by the Japanese Government.

Private capital mobilisation

- Public sector providers of guarantees, particularly MDBs, should scale up their offering.
- Financial institutions should consider greater use of partial credit guarantees (PCGs) provided by MDBs, NatDBs and DFIs when providing financing for sustainable infrastructure in EMDEs. This would allow the extension of maturities for both sovereign and corporate borrowers, lower interest rates, increased leverage and access to markets.
- Public sector providers should maintain additionality when introducing or scaling up the use of guarantees and credit enhancements, ensuring effective allocation of scarce public finance and maximising commercial terms for private finance. In practical terms, this includes primarily offering guarantees when there is no commercial insurance product available, ensuring products are appropriately priced for a potential user, and offering guarantees instead of direct debt financing if a private sector financial institution is willing to provide a loan, when covered by a guarantee.

Regulatory capital and institutional support

- The Basel Committee on Banking Supervision (BCBS) could consider undertaking an analytical assessment of how guarantees and other forms of public sector risk mitigation are treated in the Basel framework and its national implementation to determine if this has consequences on the usage of guarantees from public sector providers and the financing of sustainable infrastructure in EMDEs.
- To compensate for the complexity of the offering, public sector providers of guarantees and credit enhancements could extend technical assistance to support the ability of EMDE sovereigns or their project financiers to access guarantees and credit enhancements. This could be in the form of greater capacity building for advisory services or local market development, which are already part of MDB activities.
- To raise awareness of the guarantee and credit enhancement products and terms available *ex ante*, a repository of de-risking instruments could be developed by public sector providers.

Product characteristics

- Public sector guarantee and credit enhancements providers should streamline their processes and reduce the uncertainty involved in using these products. Specifically, aligning guarantee requirements with established loan procedures could improve

efficiency while maintaining appropriate standards. MDBs could consider strengthening their syndication capabilities and mobilisation platforms, offering guarantees as part of an integrated financing package rather than relying solely on external financial intermediaries.

- These providers should also consider how to increase the uptake of guarantees beyond the energy sector and into social infrastructure, such as health and education in EMDEs.
- Public sector providers of guarantees, particularly MDBs, should review their product characteristics; in particular, the types of risks covered, coverage level, pricing, ease of access to potential users and eligibility for regulatory capital relief. This would clarify the benefits and limitations of products and make these more accessible to a larger cohort of financial institutions.
- These providers could consider greater standardisation of product terminology and inclusion of common clauses in contracts where appropriate, which could serve as a starting point to resolve some of the complexity that accompanies the product offerings of guarantees and credit enhancements.

EMDE governments could support these efforts by developing a strong enabling environment to attract private capital into their sustainable infrastructure, including ensuring strong and independent public institutions. Further, these countries could consider reviewing regulatory capital requirements of financial institutions to harness the full potential of these products, mobilising private capital for sustainable infrastructure. In addition, governments could advocate for public sector providers to expand the range of product offerings, simplify their structures, and streamline and standardise processes.

1. Introduction

Blended finance is the strategic use of development finance for the mobilisation of additional private capital towards infrastructure development (OECD, 2022[1]). It combines a range of financial instruments – primarily debt, senior and subordinated; equity, leveraged and unleveraged; and de-risking measures – and non-financial mechanisms to improve the risk-return profile of investments. The instruments provide a toolkit to support EMDEs in their efforts to develop sustainable infrastructure by responding to different types of transaction needs and/or risk profiles, ensuring that the optimal instrument can be applied for each project.

Blended finance risk mitigation instruments can be catalytic in mobilising private capital, either by lowering exposure to risk, reducing the severity of losses, reducing uncertainty, or increasing returns (OECD, 2015[2]). The *G20/OECD Report on the Collaboration with Institutional Investors and Asset Managers on Infrastructure* highlighted that private investors identify appropriate risk mitigation, allocation, and management arrangements as a major factor in facilitating investment in infrastructure (OECD, 2020[3]).

Guarantees and credit enhancement fall within one category of risk mitigation instruments in the diverse strategies, objectives and approaches that the concept of blended finance encapsulates. These instruments have proven most effective in mobilising private finance and changing the risk-return profile of investments. They therefore have the potential for scaling up the mobilisation of private finance towards EMDEs.

The Organisation for Economic Co-Operation and Development (OECD) worked with the South African G20 Presidency to explore how guarantees and credit enhancements can better contribute to the mobilisation of private capital towards sustainable infrastructure in EMDEs, and highlight the policy actions that can be taken to improve the accessibility and functioning of these instruments. The report focuses on guarantees and credit enhancements from MDBs, NatDBs, DFIs and ECAs (i.e., public sector providers of guarantees), and discusses how these can be better leveraged to support private investment into sustainable infrastructure. To this effect, the report examines the following elements:

- Section 2 draws on analysis from the Global Infrastructure Hub as well as private vendor databases to provide an overview of infrastructure investment trends, with a particular focus on EMDEs.

- Section 3 maps different types of guarantees and credit enhancement instruments of blended finance, and presents key benefits as well as challenges that limit the effectiveness of these products. It also illustrates the role guarantees and credit enhancements play in private capital mobilisation and current levels of provision for certain types of instruments.
- Section 4 presents key findings from the survey conducted by the OECD on the provision of guarantees and credit enhancements by MDBs, NatDBs, DFIs and ECAs from G20 and invited countries, and identifies good practices. It consolidates how publicly provided guarantees and credit enhancements have contributed to mobilising private finance in EMDEs, and what policy actions have supported the provision of effective guarantees and credit enhancements.
- Section 5 consolidates the findings of the report, providing a list of good practices and recommendations related to guarantees and credit enhancements.

This report complements the work carried out in the G20 International Financial Architecture (IFA) Working Group through its *Technical Note on The Role of Blended Finance in an Evolving Global Context*, led by the World Bank Group in collaboration with DFIs. The IFA note explores the concept of blended finance in depth and provides a high-level overview of a broad spectrum of instruments, while this report carries out a deep dive into guarantees and credit enhancements. The two reports should be read in conjunction with each other to have a fuller picture of blended finance.

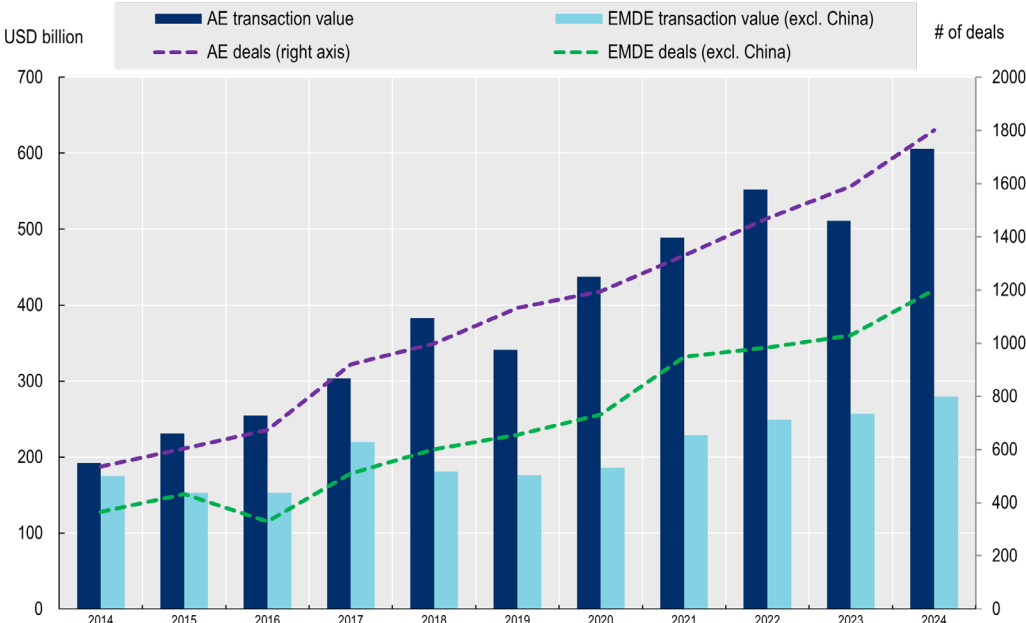
2. Investment needs for sustainable infrastructure and the impact of risk

2.1 Infrastructure financing and investment trends

Infrastructure investments are essential to driving economic growth and promoting sustainable development. From economic infrastructure such as transportation, energy, and telecommunications to social infrastructure such as health, public order and safety, and cultural facilities, these assets form the backbone of economies and contribute to the well-being of societies. Despite some positive trends, global infrastructure investments are not being deployed at the scale needed to achieve sustainable development, particularly in EMDEs.

EMDEs are estimated to require USD 3 trillion per year of additional spending by 2030, mostly in sustainable infrastructure, to achieve national objectives and contribute to the achievement of global targets, with current levels of investment remaining significantly below what is needed (G20 Independent Expert Group, 2023[4]; IHLEG, 2024[6]). The sheer magnitude of infrastructure investment required warrants urgent attention to mobilise greater private capital towards sustainable infrastructure.

Figure 1. Infrastructure finance in advanced and EMDEs (2014-24)



Note: AE=Advanced economies; EMDE=Emerging markets and developing economies. Classifications of AEs and EMDEs are based on the IMF World Economic Outlook. Sectors include power, renewables, Information and Communication technology, transport and water.
Source: IJ Global Database.

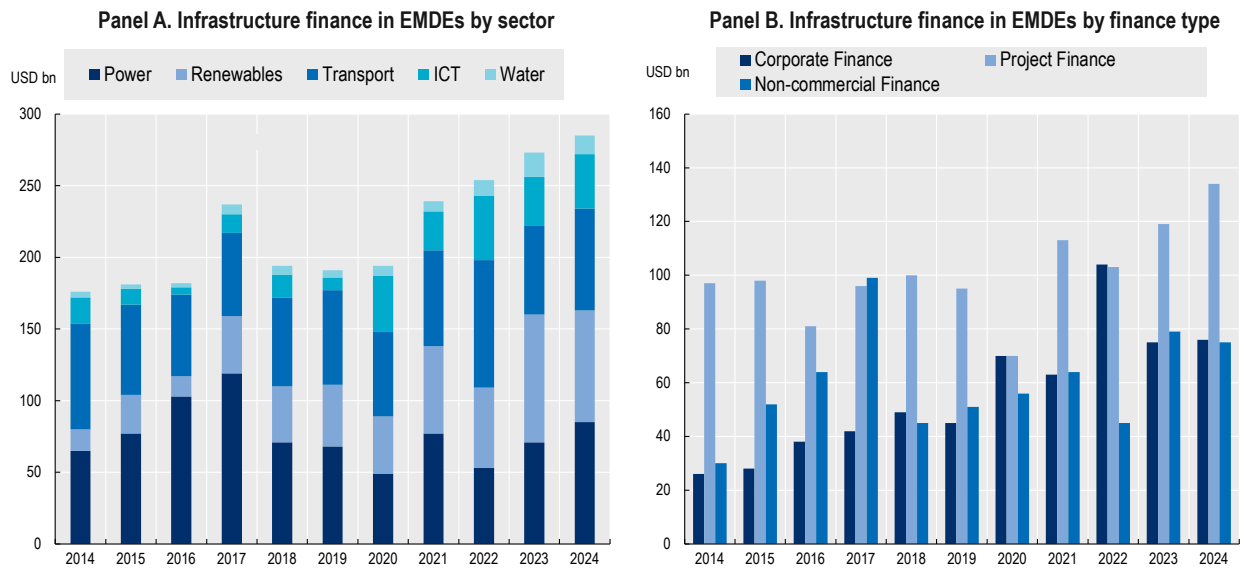
The number of annual infrastructure financing transactions in both advanced economies and EMDEs, excluding China, more than tripled between 2014 and 2024. While annual deals in EMDEs grew by 60% between this period in terms of value, investments into advanced economies' infrastructure constitute approximately two-thirds of global infrastructure finance in terms of value and number of deals, remaining the main destination for global investors. In 2024, infrastructure finance in advanced economies reached USD 606 billion versus USD 280 billion in EMDEs, excluding China.

The largest infrastructure finance transactions in EMDEs have been concentrated in power-related projects, excluding renewables, and transport sectors over the past decade. The value of investments in renewables has increased significantly, from USD 15 billion in 2014 to USD 78 billion in 2024 (see Figure 2, Panel A). Renewables have also become the dominant sector in terms of the annual number of deals, reaching 572 in 2024 compared to 115 a decade earlier.

Project finance constitutes the main type of financing for infrastructure transactions in EMDEs, representing almost half of the total transaction value (USD 1.1 trillion) over the past decade, followed by non-commercial finance (USD 660 billion) (see Figure 2, Panel B). As the predominant method of infrastructure financing, project finance can facilitate the use of guarantees and credit enhancements as blended finance instruments for these transactions.

Corporate finance transactions have totalled USD 616 billion during the 2014-2024 period but have shown significant growth, increasing from an annual average value of transactions of USD 38 billion between 2014 and 2019 to USD 78 billion in the 2020-2024 period.

Figure 2. Infrastructure finance in EMDEs by sector and finance type (2014-24)



Note: Non-commercial finance in Panel B refers to transactions that involve either equity from the public sector or debt solely from DFIs.

Source: IJ Global Database

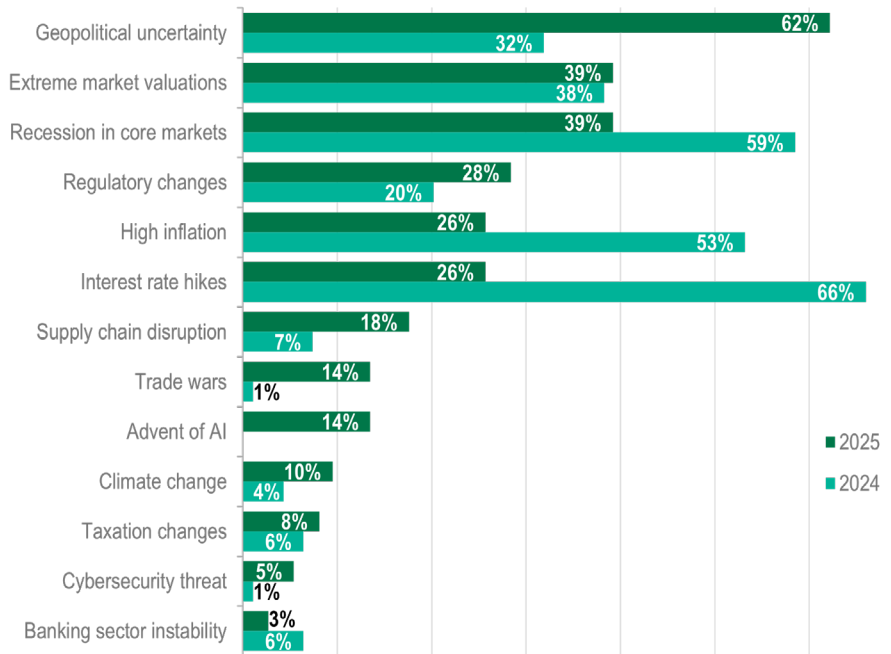
2.2 Risk factors to sustainable infrastructure financing

An important challenge to mobilising private financing for infrastructure in EMDEs is the high levels of assessed risk. The outcome of risk assessments in EMDEs has tended to be greater than what the evidence from defaults indicates (GFANZ, 2024[7]). Corporate default rates in emerging and frontier markets² (EFMs) over the past two decades have remained close to or below global corporate default rates (see Figure 4) (S&P Global, 2025[8]). In recent years, there has been a decoupling of default rates, with a further decrease in EFM corporate default rates relative to the global rate.

The current context of heightened policy and geopolitical uncertainty will compound already existing challenges in mobilising private financing. A recent infrastructure investor survey has shown that geopolitical uncertainty has become by far the main factor that could impact the performance of infrastructure portfolios throughout 2025 (see Figure 3).

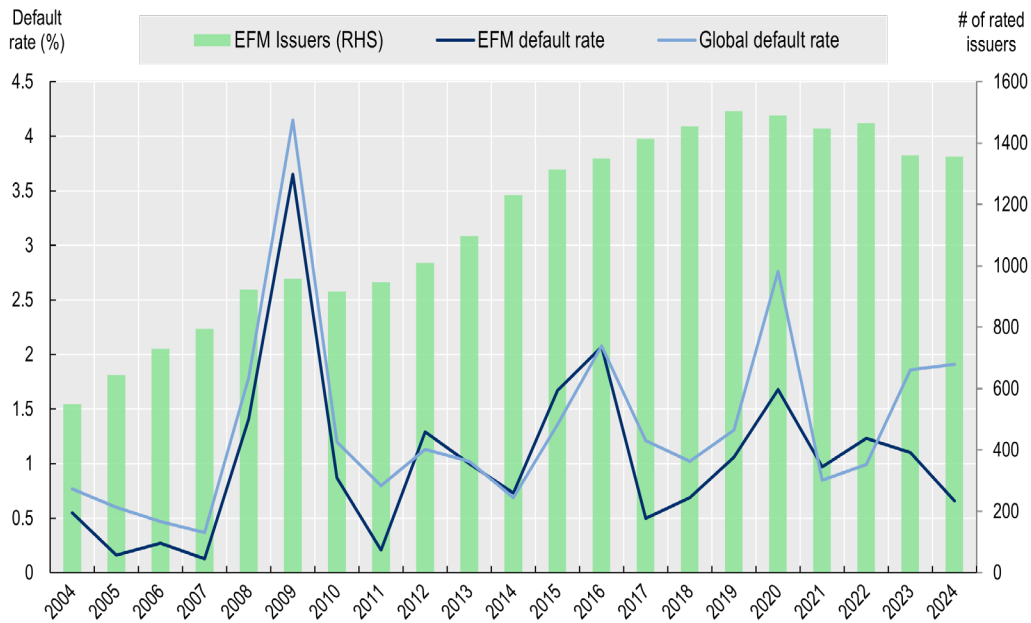
² Frontier markets as defined by S&P Global include Aruba, Bahamas, Cambodia, Curacao, Iraq, Liberia, Marshall Islands, Netherland Antilles (dissolved in 2010), the Syrian Arab Republic, Togo, Turks and Caicos Islands and Venezuela.

Figure 3. Factors that could have the greatest impact on the performance of infrastructure portfolios (2024 and 2025)



Note: Based on survey results with infrastructure investors.
Source: Infrastructure Investor Perspectives 2025.

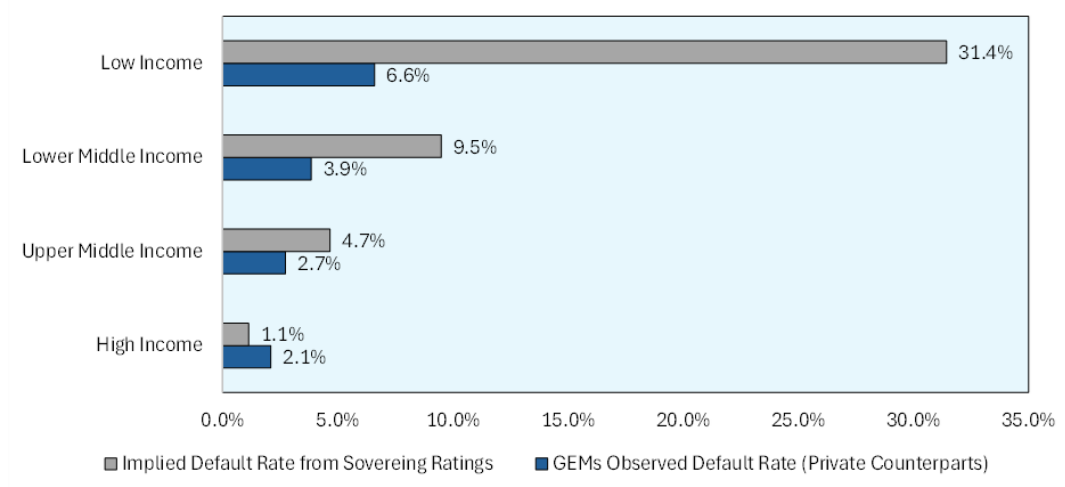
Figure 4. Corporate default rates and number of issuers in EFM



Source: S&P Global

The Global Emerging Markets Risk Database (GEMs), a consortium of 27 MDBs and DFIs pooling their credit risk data, has also collected default and recovery rates for loans to EMDEs from 1994 to 2023. The dataset shows that even though the GEMs default rate on private borrowers was higher in lower-income country groups than in higher-income ones, the default rate in the GEMs sample was lower than the implied default rate from historical country sovereign ratings (see Figure 5) (IFC, 2024^[10]). Specifically, the GEMs private counterparty default rate for low-income countries was 6.6%, far lower than the 31.4% implied default rate from the historical country sovereign ratings.³

Figure 5. GEMs average default rates and country ratings



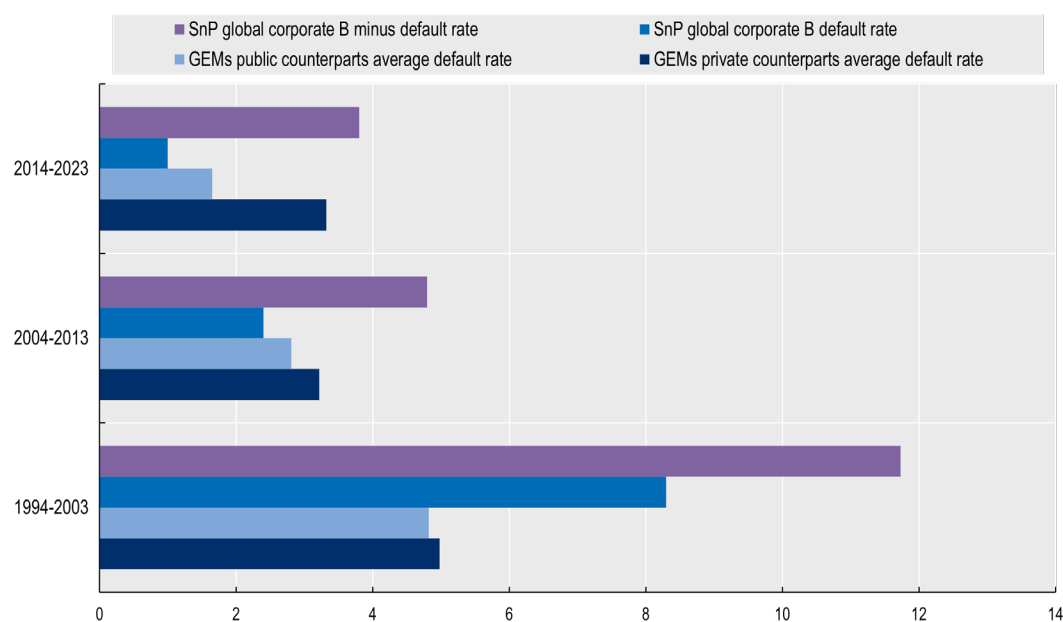
Note: The implied default rate is derived from historical country sovereign ratings from Standard & Poor’s (2024) “Default, Transition, and Recovery: 2023 Annual Global Sovereign Default and Rating Transition Study. March 2024”.

Source: Adapted from IFC Research Note Using GEMs Data

GEMs private lending default rates have decreased over the period, reaching levels between Standard and Poor’s global corporate B and B- rated issuers by 2023 (see Figure 6). This occurred despite the notable increase in the number of GEMs members’ counterparts in EMDEs, as well as in the levels of GEMs members’ exposures in EMDEs over that period.

³ It should be noted that many of the MDBs/DFIs in the Consortium have preferred creditor status and conservative risk appetite, which should be taken into account when interpreting these default rates.

Figure 6. GEMs default rate vs global corporate default rates (1994-2023)



Note: Charts show average default rates over each period
 Source: GEMs database and Standard and Poor's

In addition, MDBs have senior or preferred creditor status, which gives them priority of recovery. Recovery rates for private investment from sources other than MDBs and DFIs could be lower, as these investors – who constitute GEMs consortium members – benefit from a deeper understanding of local markets and strong relationships with borrowers (IFC, 2024_[10]). The positive effect that MDB involvement in infrastructure transactions can have on the stability and predictability of cash flows, including through negotiations when projects face challenges, has been acknowledged by investors and credit ratings agencies as the “halo effect” (Pereira dos Santos, 2019_[11]).

Due to MDBs’ senior or preferred creditor status, countries generally avoid a default on these loans, as that could trigger credit uncertainty. These qualities of MDB loans may contribute to their superior performance, both in terms of lower default rates and higher recovery rates relative to non-MDB-supported transactions.

It should be noted that risk factors are not limited to default rates, and investors will consider a variety of factors when making investment decisions. Thus, while risk perception may be higher than actual default rates for EMDEs, investors will have a number of practical considerations other than default rates. In addition, any financing of an infrastructure project needs to take into account the debt sustainability of the country where the project is developed.

3. Guarantees and credit enhancements, and their contribution to sustainable infrastructure

Guarantees are defined as “a type of insurance policy protecting banks and investors from the risks of non-payment” (Garbacz, 2021[12]). Guarantees typically include recourse by the guarantor to the beneficiary or client. A guarantee is a legal agreement wherein the guarantor commits to pay a portion or the full amount due on a loan, equity, or other instrument in the event of non-payment by the obligor (or loss of value, in the case of investment). Guarantees can cover different types of risks (i.e., commercial or political), as well as different types of investment (i.e., debt, equity or both), and can provide full or partial coverage of payments (i.e., principal and/or interest) (Garbacz, 2021[12]). These instruments are primarily provided to banks and financial institutions that are financing a project, but can also be provided to investors of a project that are not a financial institution. Guarantees can also be provided by an ECA, a pure cover provider, to guarantee another ECA (direct lender) when a country has both types of ECAs.

Credit enhancements are used to improve a borrower’s credit profile through a commitment issued by a financial institution to guarantee payments for the principal and interest on a bond issue or to reduce the expected losses or increase recovery. The credit enhancements referred to in this report are mainly in relation to sovereign and corporate bonds, as well as the issuance of paper notes.

Guarantees and credit enhancements offer opportunities to address risk, both perceived and actual, directly through the structuring of deals. They can be provided by MDBs, NatDBs, DFIs and ECAs to drive investment into sustainable infrastructure by alleviating investor concerns and improving an asset’s risk profile.⁴ Both these instruments are structured finance products which are not over-the-counter or conventional products, but products available to large financial institutions or companies with complex financing needs to manage their risk and/or develop financial markets. These instruments intend to reduce the risk to lenders, resulting in reduced rates of interest and longer tenors. Critically, structured finance products permit illiquid assets such as infrastructure to borrow funds against, for example, its cash flow rather than collateral or security, which may not be available.

⁴ Both guarantees and credit enhancements can be provided by commercial banks and other private sector financial institutions, but this report is limited to the role played by public sector providers.

The G20 Independent Expert Group Report on Strengthening MDBs and the Independent High-Level Expert Group on Climate Finance advocated for an expanded use of guarantees to mitigate risk and catalyse private finance, and underlined the need to bolster MDB guarantee programmes given their potential benefits (IHLEG, 2024[6]; G20 Independent Expert Group, 2023[4]).

BOX 1. G20/OECD INFRASTRUCTURE INVESTORS DIALOGUES 2025

The G20 Presidency and OECD organised two Infrastructure Investors Dialogues as part of Priority 2 of the IWG. The Dialogues brought together global investors and financial experts to discuss policy issues that can better inform infrastructure financing and investment. On these occasions, blended finance and its instruments – specifically guarantees and credit enhancements – were discussed as potential approaches and measures to increase private capital mobilisation towards sustainable infrastructure.

Discussion focused on the mismatch between guarantee products’ design and their regulatory treatment, particularly under the Basel III framework. The following issues were highlighted:

- Guarantees offered by MDBs and DFIs are not always recognised for their credit risk mitigation function under the national implementation of Basel III. For example, the Basel III standardised approach does not include any language or mechanisms to allow the recognition of political risk insurance products. Most of the products that rely on arbitration are ineligible for capital relief as the conditionality clause requires that payments be due “in a timely manner.”
- While the marginal default rate on project finance in EMDEs is less than that of an investment-grade global corporate after five years, it receives a higher capital charge than unrated corporates.
- Capital charges on guaranteed infrastructure loans remain high for lending institutions. In some cases, the same capital provisioning is applied to guarantees as with loans, which disincentivises their use.
- Guarantees and credit enhancements can pose significant challenges in their formulation stage, requiring specialised expertise from both lender and borrower. There is a complexity in structuring the overall financing it is designed to support, which means the number of stakeholders involved often requires significant coordination and expertise. When products and terms are unclear *ex ante*, structuring each transaction as though the guarantee coverage were bespoke – rather than starting from a simplified menu adds to the complexity.
- While blended finance mechanisms are increasingly being integrated into MDB and DFI operations, stakeholders continue to emphasise that improving the enabling environments, policy predictability, and capital treatment under international regulations are equally fundamental to unlocking the full potential of de-risking instruments.

Some stakeholders suggested that the harmonisation of guarantee products, clearer pathways for regulatory recognition, and greater efforts to communicate risk-sharing benefits to supervisors and credit rating agencies could improve the use of guarantees for sustainable infrastructure.

Source: G20/OECD Infrastructure Investors’ Dialogues 2025 (26 February at Finance in Common Summit and 20 March at 2nd G20 Infrastructure Working Group Meeting).

3.1 Mobilisation potential and current levels of provision of guarantees and credit enhancements

Guarantees, which are currently only a small fraction of blended finance instruments, could be scaled up to mobilise higher levels of private capital for infrastructure in EMDEs and contribute to reducing risk perceptions by potential investors.⁵

Efforts to improve their deployment are taking place, with the World Bank Group undertaking a “major overhaul” of their guarantee offerings to provide simplicity, improved access, and faster execution of its programmes (World Bank Group, 2024[13]). This has resulted in all World Bank Group guarantees coming under the umbrella of the Multilateral Investment Guarantee Agency (MIGA) to enable a more consolidated and comprehensive approach to guarantees.

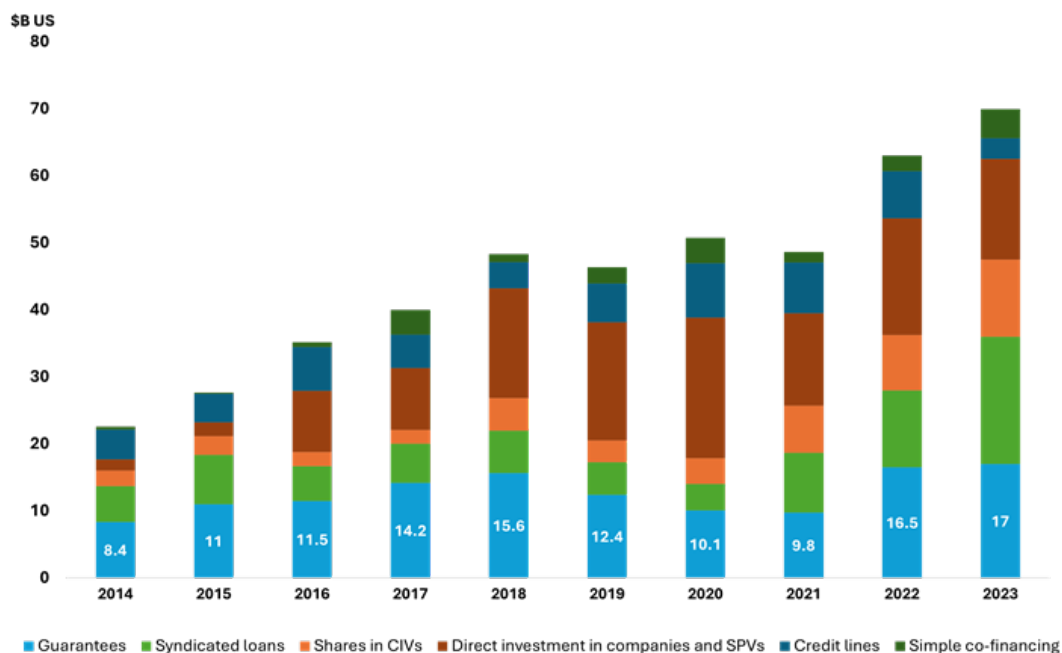
Among the various mechanisms and instruments that could contribute to mobilising private finance towards EMDEs, guarantees have shown great potential. In 2023, total private finance mobilised by guarantees amounted to USD 17 billion, representing around 28% of total private finance mobilised by official development finance interventions over the same period (see Figure 7). Between 2014 and 2023, private capital mobilised by guarantees was USD 127 billion, compared to 78 billion for loans, 48 billion for shares in collective investment vehicles, 123 billion in direct investment in companies and special purpose vehicles, 56 billion in credit lines, and 21 billion through simple co-financing.

However, coverage provided by the World Bank through guarantees has been less than 0.7% of commitments made in the form of loans and grants (G20 Independent Expert Group, 2023_[4]). This is consistent with previous analysis, which revealed that infrastructure guarantees represent a small share of MDB operations (G20, 2018_[14]). To date, concessional loans have accounted for most of the blended financing deployed, with guarantees representing only 3-5% of total risk mitigation financing (Choi, 2023_[15]).

Credit enhancements have not mobilised substantial private capital in the past, especially for sub-national bond issuance. However, recent bond issuance with credit enhancements from MDBs demonstrates the potential of credit enhancements with good structuring and strong technical support (see Section 4.2.5).

⁵ Private sector capital mobilisation for guarantees reflects the total resources made available as a result of using a guarantee, while leverage measures the ratio of official resources employed relative to the private resources mobilised.

Figure 7. Private finance amounts mobilised by year and instrument (2014-2023)



3.2 Mapping of guarantee and credit enhancement instruments

This section covers guarantee and credit enhancement instruments provided by MDBs, DFIs, NatDBs, and ECAs. These instruments vary in terms of the type of risks they cover, the beneficiary of the guarantee, payout triggers and process, as well as in their scope of coverage (i.e., partial or full coverage), and whether the instrument is linked to a specific project, policy initiative, or contractual obligation.

When considering types of guarantees, it is worth distinguishing between funded and unfunded issuances, given their different balance sheet treatments (Garbacz, 2021[12]). For funded guarantees, a significant portion of the guaranteed amount must be set aside and held in escrow, serving as a buffer for potential losses and enhancing the creditworthiness of debt tranches. For unfunded guarantees, only the expected credit loss must be kept aside, enabling a greater degree of leverage from the issuer than with funded guarantees (Garbacz, 2021[12]).

In the current era of constrained public budgets, unfunded guarantees can be useful, as they entail lower initial costs for providers while still supporting private capital mobilisation (Aboneaaj and Mathiasen, 2023[16]). This observation is echoed in the IFA’s complementary report on blended finance, which states that since unfunded instruments such as guarantees do not require upfront funding, they can strategically enhance the risk-return balance of projects (World Bank Group, 2025[17]).

Another distinction across guarantee products is between insurance-type or bank-type products. Insurance-type guarantees are provided by the ECAs⁶ and MIGA, and are generally an agreement between the claim beneficiary (for instance, an independent power producer that has signed a power purchasing agreement with a state-owned utility), and an insurer. Insurance-type guarantees are premium-based and provide indemnification. The two main insurance-type products are political risk insurance (PRI) and medium-to-long-term export credit insurance (MLT). Insurance-type products at times require lengthy claim evaluation periods and extensive claim documentation. The fee is not based on investment size necessarily, but on the risk of losses, with the payout depending on the event and how it impacts losses. MIGA, for example, uses private sector reinsurance extensively, reinsuring more than 70% of its portfolio, enabling it to be more capital efficient.

Bank-type guarantees are an agreement between the guarantor (in this case, banks such as an MDB, NatDB or DFI) and a government or private entity to cover the debt of a third party (in this case, a private investor or a commercial lender). Bank-type guarantees are purchased by governments or private entities for the purpose of enhancing their credit profile to attract lenders, while insurance is purchased by a private investor to cover specific types of losses. Bank guarantees are usually paid on demand (or within 30 days). There are three main bank-type products: partial risk guarantee (PRG), PCG, and policy-based guarantee. Credit enhancement for non-honouring financial obligations (NHFO) is only provided by MIGA, and is a credit guarantee product for state-owned enterprises (SOEs). These are primarily provided by MDBs and DFIs.

There is also a difference in the underwriting of the products, which results in pricing differences. In the case of insurance-type guarantees, the underlying risk for the insurer is the risk of default (i.e., credit risk) by the obligor, which results in a payout. In this instance, pricing is determined on the basis of the probability of loss, and not the level of credit risk of a government or private entity. For insurance-type guarantees, the insurer has the option of purchasing reinsurance to underwrite its products. For bank-type guarantees, the underlying risk is the credit risk associated with the obligor, which is often the government or related entity.

⁶ In this report, only public/government ECAs are the subject of discussion. Government ECAs are subject to the Arrangement on Officially Supported Export Credits, which sets out the most preferential terms and conditions that can be offered, including repayment terms of up to 22 years. Government ECAs can provide MLT with a repayment term of two years or more (OECD, 2024_[70]). Government ECAs will only provide support to sovereign buyers in such countries if it aligns with the World Bank/IMF Debt Sustainability Framework.

Bank-type guarantees can be classified into sovereign guarantees (SGs), where the ultimate responsibility for the loan or guarantee is a sovereign obligation of the national government. PRGs and PCGs outlined below are typically initiated by the national government to provide credit support for a project with private sector lending, and may include a SG. In most cases, the national government would also be responsible for the payment of the guarantee fee. SGs are better suited to risks that are better managed by the government or endogenous to government actions, thus subject to political risk, which includes contractual and regulatory changes that impact availability payments, revenues from user tariffs or demand, and administrative decisions that delay construction or affect a project's performance.

When a SG is extended, this impacts the balance sheet of a government, as a contingent liability arises as a result of the SG. Thus, even if the government does not incur a direct liability, it is responsible for the repayment when a default occurs. This is not the case for non-sovereign guarantees (NSGs). NSGs are typically lent or guaranteed directly to the private sector and carry no such obligation.

To highlight the differences of guarantee products, it is useful to bear in mind that institutional differences will also impact the products they offer or how they are termed. In addition, while the risks covered are classified as political risk and/or commercial risk, the main objective of a guarantee is to compensate for credit risk. Political risk would cover a situation in which government actions cause non-payment of project obligations or are designated as payout events. Commercial risk encompasses more specific borrower-related commercial actions, such as borrower default or contract breach.

Figure 8. Relevant guarantees and credit enhancements offered by key providers

Type	Bank Type				Insurance Type	
Products	Partial Risk Guarantee (PRG)	Partial (Full) Credit Guarantee PCG (FCG)	Credit Enhancements for Non-Honouring Financial Obligations (NHFO)	Policy Based Guarantees	Political Risk Insurance (PRI)	Medium-to-long term Export Credit Insurance (MLT)
Providers	MDBs	MDBs, DFIs	MIGA	MDBs	MIGA, ECAs	ECAs
Covered Party	Private investor (often a project sponsor) or lender	Commercial lender such as bank or bondholder	Commercial lender for sovereign, sub-Sovereign or SOE	Commercial lender such as bank or bondholder	Private investor and lender	Commercial lender or exporter
Sovereign Counter-Guarantee	SG	NSG for MDB SG for DFI	NSG	SG	NSG for MIGA SG for ECA	SG NSG
Risk Addressed	Political	Commercial	Political & Commercial	Political & Commercial	Political	Political & Commercial
Payout Trigger	Government delay or failure on project obligations	Borrower default on guaranteed debt payment	Sovereign, sub-sovereign or SOE failure to pay an unconditional loan or guarantee	Sovereign's failure to pay on the guaranteed instrument	Political events	Buyer default of political event preventing payment

Note: SG=Sovereign counter-guarantees; NSG=non-sovereign counter-guarantees

The other differentiating factor is how the payout gets determined. For breach of contract in a PRI, an arbitral award may be necessary to determine whether a payout should be made. This can be time-consuming and render the payment, once effected, too late to remedy the direct situation in some cases. Otherwise, the guarantor assesses whether the trigger event has been met and determines the payout.

PRG covers both political and commercial risk, while PCG covers only commercial risk. PRG is triggered when a government fails to meet payments on project obligations that cause a lender to miss a payment, while PCG covers shortfalls in debt service shortly after a payment default by a borrower. PCG is also used to cover bond payments, which fall under the credit enhancements category.

PRI, PRG and MLT cover political risks, while policy-based guarantees are often linked to policy reform programmes and their delivery. PRI and MLT are mainly provided by ECAs, although MIGA also provides PRI. Table 1, below, provides a comparison of how the different guarantee instruments function.

Table 1. Typology of guarantees and credit enhancements

INSTRUMENT	RISKS ADDRESSED	DIFFERENTIATING CHARACTERISTICS	WHO DETERMINES/TIME UNTIL PAYOUT
PRI	Political risks (transferability, expropriation, breach of contract, war and civil disturbance)	Unlike loan guarantees, PRI provides indemnification (premium-based) against adverse government actions or civil unrest and may require an arbitral award. For breach of contract, arbitration award may be required before payout	The insurer assesses the claim. There is often a “waiting period” before funds are released. In practice, claims take months, when there is a breach of contract, and are usually payable only after an investor has invoked a dispute resolution mechanism (such as arbitration), has obtained an award for damages, and the host government has failed to honour the award
PRG	Political and contractual breach	Unlike PRI, PRG is contingent on government failure to meet a project’s contractual obligations (e.g., government contractual payments, take-or-pay commitments), which causes a private investor’s or lender’s failure to service loan or non-loan related payments	The issuer verifies the event. MDB review and claim processing take effect. Payouts typically occur within a few months of the claim
PCG	Credit/default risk on portion of debt. Could be up to 100% of the debt amount, but this is rare	It is project-specific, with the involvement of public entities depending on the project. Covers shortfalls in scheduled debt service for loans or bonds. In certain cases, they can be denominated in either hard or local currency Full credit guarantees (100% of debt) offered by some MDBs (e.g., Asian Development Bank (ADB), International Finance Corporation (IFC)) for critical financings, but used sparingly due to moral hazard	The guarantor reviews evidence of default and makes the payment up to the guaranteed amount. Since it is an unconditional commitment, payout occurs shortly after a payment default is confirmed, often within weeks
NHFO	Non-honouring of financial obligations risk	Targets country or public-sector credit risk (distinct from investor-facing PRI). Specifically designed to provide capital relief for commercial lenders	MIGA confirms default, there is typically no arbitration required. Payout may take months to years after official default. Typically follows diplomatic/negotiation phases. NHFO products require a sovereign threshold of at least BB- (just below investment grade)
Policy-Based Guarantees	Credit Risks associated with sovereign borrowers (often tied to reform commitments)	A credit guarantee on a sovereign financing explicitly linked to budget support or policy reforms. Combines features of a policy-based loan with a guarantee: MDB issues a guarantee after the borrower meets agreed reform benchmarks. Calibrated to provide only the minimum amount of credit protection necessary to catalyse the desired commercial financing	The MDB issues the guarantee after reform verification, then handles claims like a standard credit guarantee in the sovereign default Payout follows a covered payment default. Timeline to payout depends on the terms of the underlying bond

INSTRUMENT	RISKS ADDRESSED	DIFFERENTIATING CHARACTERISTICS	WHO DETERMINES/TIME UNTIL PAYOUT
MLT	Credit (trigger) and political risks such as buyer default, war	Insurance for exporters (and their lenders) of capital goods with extended credit terms (1–20+ years) Covers both commercial (buyer insolvency) and political (e.g., war, currency inconvertibility risks)	The ECA verifies the non-payment/event and disburses the insured amount. No arbitration is normally required After the buyer's payment default, the exporter (or bank) files a claim. Payout generally occurs within months

Source: OECD

3.2.1 Political Risk Insurance

PRI aims to mitigate political risks but is structured like an insurance instrument. It covers risks for lenders and investors in a foreign country and can be triggered by four distinct classes of political risk: currency transfer, expropriation or similar measures, breach of contract, and war and civil disturbance (G20, 2018[14]). Public providers include MIGA and ECAs.

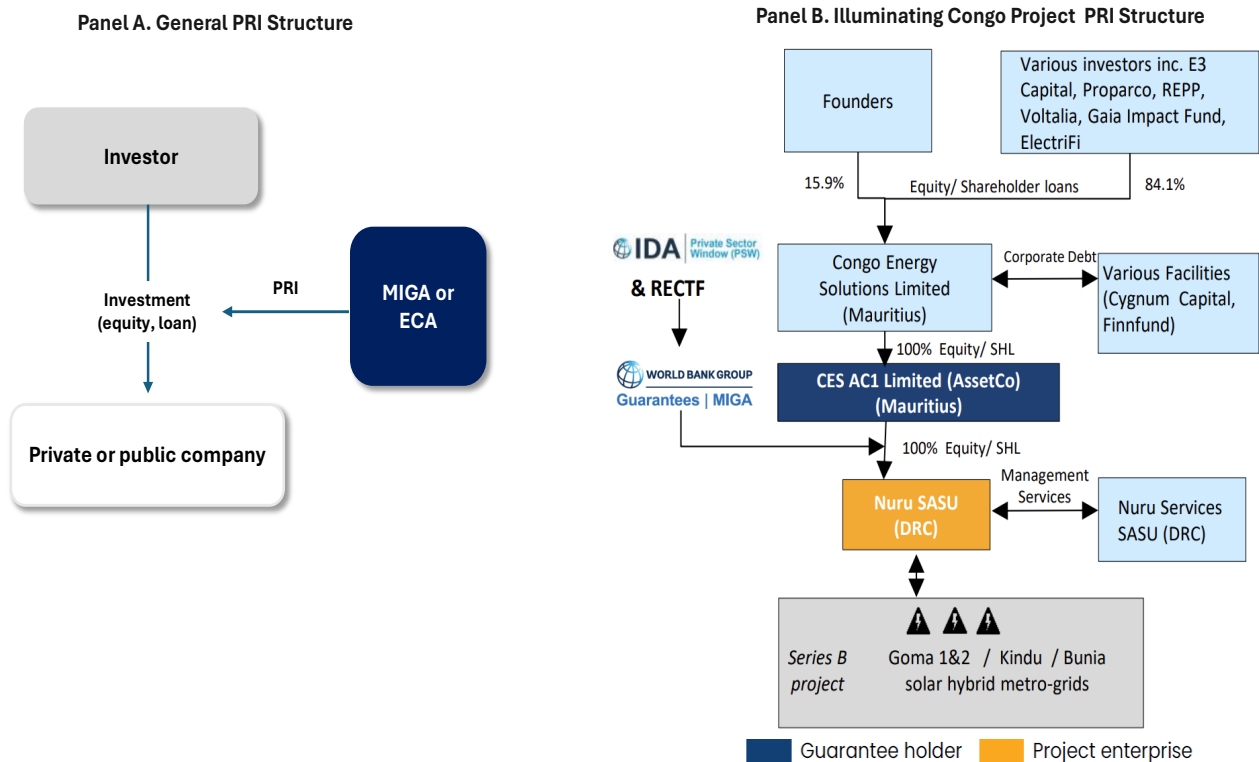
The PRI provided by MIGA functions similarly to guarantees but differs in that insurance is a direct agreement between an insurer and beneficiary to cover specific loss events, whereas guarantees are agreements between the guarantor and obligor to cover debt shortfalls (see Figure 9, Panel A) (G20, 2018[14]). By offering specific cover against political and payment risks, insurance-type products, like those offered by MIGA, lower perceived risk for private investors. Because insurance contracts are underwritten on the basis of loss probability with calculations using both country and project risks, as opposed to the creditworthiness of a borrower, they can be more attractively priced for projects in higher-risk markets (MIGA, 2015[18]).

In the case of the Illuminating Congo Project, for example, MIGA partnered with Nuru SASU, a Democratic Republic of Congo (DRC)-based solar company, and issued a USD 50.3 million guarantee to CES AC1 Limited (CESL), a subsidiary of Congo Energy Solutions Limited (a private entity), for the project (see Figure 9, Panel B). The guarantee catalysed private investment in the DRC's challenging environment by supporting CESL's investment in Nuru SASU.

MIGA's guarantee provided: 1) up to 15 years of PRI covering expropriation, currency convertibility and transfer restriction, and war and civil disturbance; 2) unique partial expropriation coverage that protects individual metro-grids as separate sub-projects; and 3) strategic risk-sharing through the Renewable Energy Catalyst Trust

Fund (supported by Norway and Japan) and International Development Association (IDA) Private Sector Window (MIGA, 2023^[19]).

Figure 9. Summary of contractual PRI structures



Note: Panel A presents a general structure, but specific cases may differ.
Source: MIGA.

3.2.2 Partial Risk Guarantees⁷

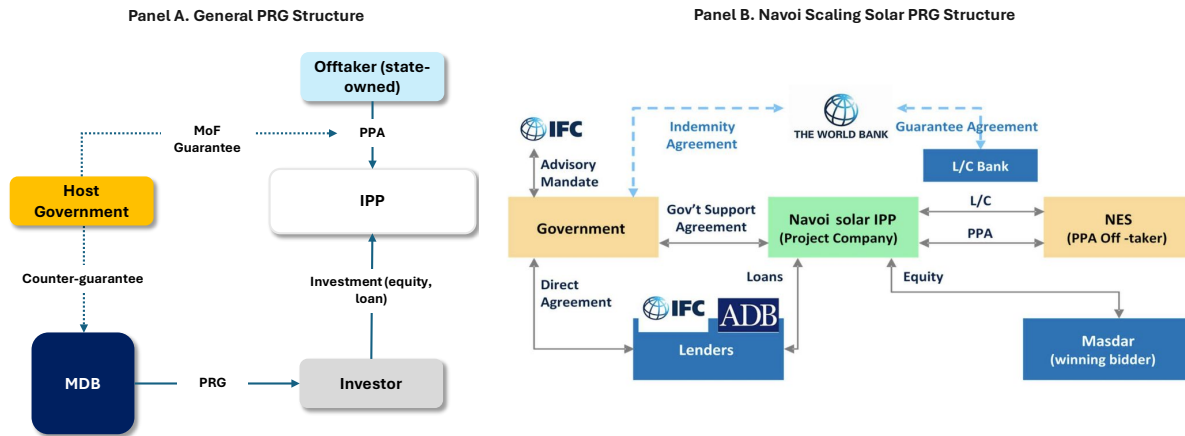
PRGs cover the risk of non-performance by the sovereign or a government-related entity of certain contractual or performance obligations undertaken in relation to a private party (see Figure 10, Panel A). It covers specifically identified risks, but not all risks, which may include currency convertibility and transferability, political violence, breach of contract or expropriation. It is useful for project financing by a commercial bank when the success depends on certain government actions.

A recent case study supported by the International Bank of Reconstruction and Development (IBRD) in Uzbekistan outlines a partial risk guarantee to backstop payment obligations from the state-owned National Electric Grid Joint-Stock

⁷ As noted in Guide to Infrastructure Guarantee Products from Multilateral Development Banks (G20, 2018^[14]), the World Bank and IDB have moved away from the PRG or PCG nomenclature and now use the generic term “guarantee” instead. IDB uses the term “flexible” guarantee, which covers credit risk, political risk or its combination.

Company (NES) under a power purchase agreement. The World Bank/IBRD USD 5.1 million guarantee covered the risk of non-payment by the offtaker, while MIGA provided a political risk insurance policy protecting against broader sovereign risks. This de-risking enabled private financing from Masdar, the project sponsor, which provided up to USD 50 million in equity. This is a first-of-its-kind in Uzbekistan, and helps create a favourable environment for continued private participation in the domestic power market.

Figure 10. Summary of contractual PRG structures



Note: Panel A presents a general structure, but specific cases may differ. PPA=Power purchase agreement, IPP=dependent power producer
Source: OECD and WB

3.2.3 Partial/Full Credit Guarantees

PCGs cover private lenders for a specific portion of the debt (100% in the case of full credit guarantees), regardless of the cause of default (see Figure 11, Panel A) & (G20, 2018[14]). PCG can be applied at the back end of a debt instrument to extend the tenor beyond what the commercial market would otherwise finance. This flexibility to apply to both business and political risks makes these products particularly useful in emerging economies, where capital availability is limited, and where long-term repayment periods are often required (Gatti, 2024[20]). This way, PCGs allow government and private sector borrowers to achieve extended maturities, lower their interest rate costs, access higher amounts of commercial debt and/or access different markets. For example, the Inter-American Development Bank (IDB) offers the Flexible Guarantee Instrument on a single platform that allows borrowing member country sub-nationals, including local governments, to structure partial credit guarantees, with a tenor of up to 20 years (IDB, 2025[21]).

PCGs enhance all or a portion of privately mobilised funds for repayment of loans, bonds, or other debt instruments. This enables PCGs to mobilise private financing

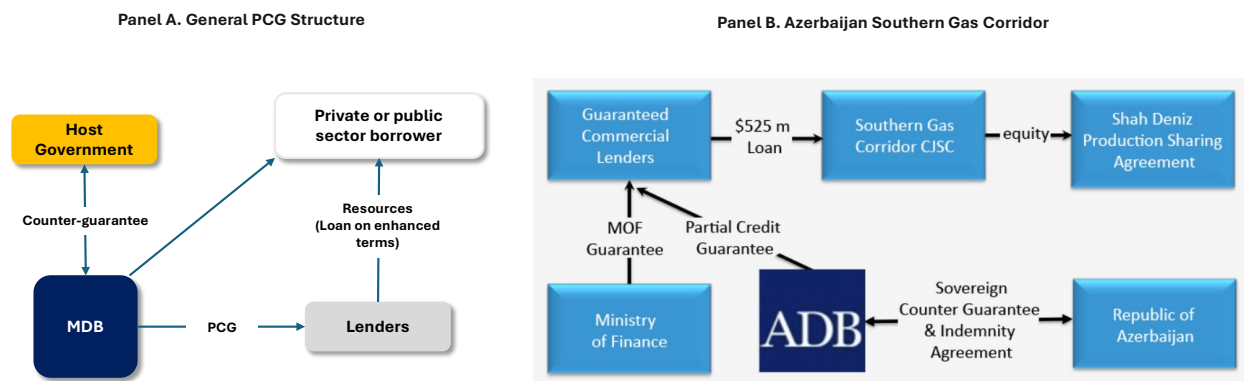
through commercial lending or government bond issues through improved financial terms and conditions, such as longer maturity, more favourable pricing, or improved market access. PCGs can also be used to cover non-payment risk under derivatives contracts, including cross-currency swaps that hedge the currency risk of eligible borrowers.

NHFOs, as offered by MIGA, function similarly and compensate lenders in the event that a public-sector actor, such as a sovereign or SOE, fails to honour a financial obligation, such as a guarantee or loan repayment. The payout is triggered by the failure of the obligor to repay a commitment, but protects the lender against specific public sector risks.

Full credit guarantees are offered to a limited degree as they cover 100% of the funds provided by financiers. MDBs may refer to these as PCGs in some instances, even when their coverage extends to cover the entirety of the debt instrument. The ADB and IFC offer these mechanisms as a means of a credit enhancement for debt instruments (bonds and loans) issued by their private sector clients, by providing an irrevocable promise to pay all shortfalls of principal and/or interest up to a pre-determined amount (G20, 2018[14]). ECAs can offer full coverage in certain cases, but these instruments are not commonly used, as they engender moral hazard on the part of the insured party (Gatti, 2023[22]). In general, full credit guarantees for the entirety of a loan are not considered to provide the appropriate incentives, given the moral hazard they may induce.

In the Azerbaijan Southern Gas Corridor Project, for example, the ADB's PCG supported a syndicated commercial loan to Southern Gas Corridor Closed Joint Stock Company (CJSC) (a state-owned company) backed by a counter-guarantee and indemnity agreement between the Republic of Azerbaijan and ADB. The ADB's guarantee supports the Government of Azerbaijan's SG. The guarantee covered up to 95% in non-payment for up to USD 524.5 million in principal repayments plus regular interest accrued to support Southern Gas Corridor CJSC's (the borrower) investment in the Shah Deniz production sharing agreement aimed at increasing gas production capacity. The ADB's PCG covered the risk that the Ministry of Finance (MoF), acting on behalf of the Republic of Azerbaijan, would not honour its sovereign obligations to repay the lenders in case of a missed payment of principal, interest or guarantee fees. If the MoF did not honour its obligation to repay lenders, the MoF would submit its claim to the ADB under the PCG. The ADB would make the guarantee payment to the lenders through the MoF and would charge guarantee and commitment fees to the MoF based on the institution's equivalent pricing for sovereign loans (see Figure 11, Panel B) (Asian Development Bank, 2018_[23]).

Figure 11. Summary of contractual PCG structures



Note: Panel A presents a general structure, but specific cases may differ.
Source: ADB

3.2.4 Credit enhancements for non-honouring financial obligations

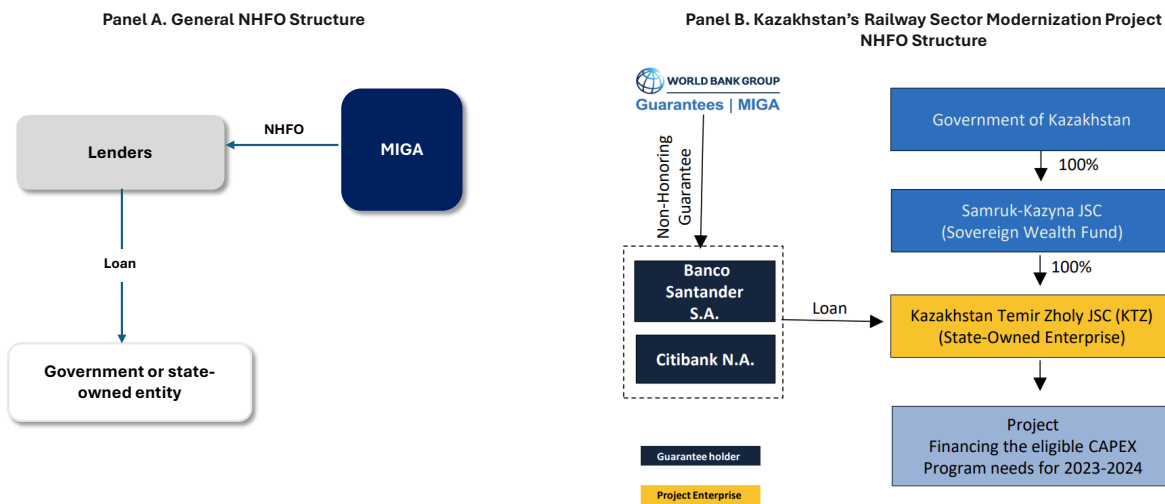
These instruments insure private lenders to government entities, whether sovereign, quasi-sovereign or SOEs, to protect against losses resulting from non-payment due under an unconditional and irrevocable financial payment obligation or guarantee in favour of a project that otherwise meets all of MIGA's requirements (see Figure 12, Panel A) (MIGA, 2025[24]). Because the coverage does not require an arbitral decision for compensation, it may also be used by commercial banks as a credit enhancement to lower amounts of risk capital that have to be provisioned. This feature covers greater risks than comparable PRI products and was designed to stimulate commercial banks to enter lesser-known and riskier markets than they have historically been comfortable investing in (World Bank, 2022[25]). However, NHFO products require a sovereign credit threshold of at least BB-, which excludes around 40 sovereigns whose ratings are mostly single B or lower (S&P Global, 2025[26]). Compensation is based on the amount that the guarantee holder is entitled to recover from the host government pursuant to the terms of the obligation (MIGA, 2025[24]).

The launch of MIGA's NHFO programme has led to a significant increase in the volume of MIGA guarantees, which grew by an annual average of 12% between 2011 and 2023 compared with 2% annually on average before the introduction of NHFO products. These instruments made up around 42% of MIGA's outstanding gross exposure in 2023, representing around half of the cover provided for infrastructure that year (Aboneaj and Mathiasen, 2023[16]). An example of MIGA's NHFO for SOEs instrument took place in Mexico for the federal electrical commission's hydropower rehabilitation project, where the instrument specifically covered the risk of the SOE

failing to make payments, as opposed to political or regulatory breaches, as could be covered by a PRG (MIGA, 2023[27]).

Another recent case study illustrates how a MIGA guarantee was structured to cover a NHFO from an SOE, the Kazakhstan Temir Zholy JSC (KTZ). MIGA provided a USD 621 million guarantee to a syndicate of banks lending to KTZ (see Figure 12, Panel B). NHFO guarantee enabled KTZ to secure 10-year financing on more favourable terms than it would have been able to obtain on its own. (see Figure 12, Panel B).

Figure 12. Summary of contractual NHFO structure



Note: Panel A presents a general structure, but specific cases may differ.
Source: MIGA.

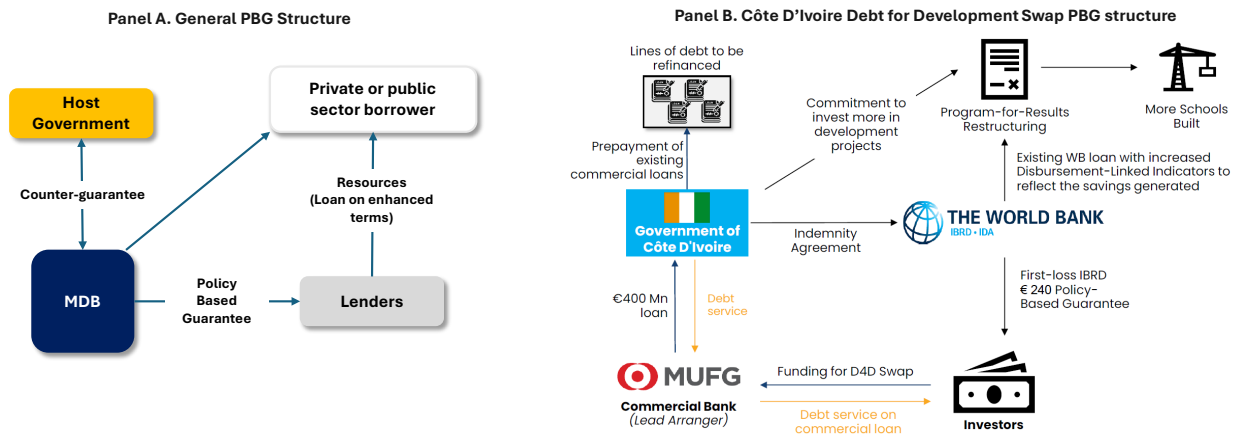
3.2.5 Policy-Based Guarantees

Policy-based guarantees mitigate risk to commercial lenders concerning debt service payment defaults by governments, when the proceeds of the financing are applied to budgetary support in the context of development policy operations. Introduced by the World Bank in 1999, these products are structured identically to PRG, but they are not tied to any specific project or political risks, and are devised to target governments' overall performance in achieving policy objectives and/or policy reforms (see Figure 13, Panel A) (World Bank, 2016[28]).

For example, in 2022, the IDB offered a policy-based guarantee with the aim of boosting the sustainable ocean economy of the Bahamas, which enhanced the government's access to private financing, crowding in an additional USD 185 million, for a total mobilisation ratio of 1.93 to 1 (IDB, 2024[29]). The guarantee focuses on policy outcomes by shifting the risk from commercial lenders to the IDB, and by encouraging positive environmental impacts in a replicable fashion (IDB, 2024[29]).

In the case study below, the World Bank Group Guarantee Platform provided a EUR 240 million policy-based guarantee to support a EUR 400 million commercial loan on better financing terms, including a 15-year maturity and a six-year grace period (see Figure 13, Panel B). This allowed Côte d’Ivoire to refinance nearly EUR 400 million of its existing high-interest debt. By securing better financing terms, the swap will generate EUR 330 million in budget resources over five years, with EUR 60 million in net present value savings. The money saved by replacing the country’s debt with cheaper financing will be used to build over 30 new schools that will benefit 30,000 students (World Bank Group, 2024_[30]).

Figure 13. Summary of contractual PBG structures



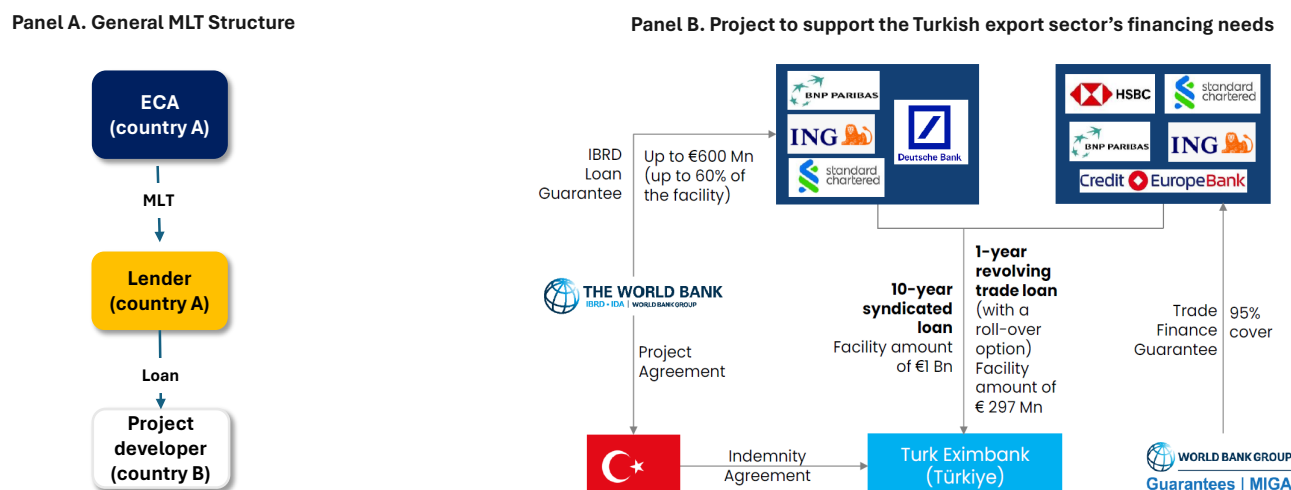
Note: Panel A presents a general structure, but specific cases may differ.
Source: MIGA.

3.2.6 Medium-to-Long-Term Export Credit Insurance

MLT is designed to protect lenders, often banks, from losses incurred by non-payment by the debt obligor in international transactions or trade finance. It is often structured as a buyer credit insurance, meaning the lender is insured against the risk that the borrower, usually a government, SOE, or corporate buyer, fails to repay a loan used to finance the purchase of goods, services, or infrastructure that is cross-border in nature (see Figure 14, Panel A). MLT typically covers both commercial and political risks. These instruments are often used to support large-scale infrastructure projects, where the repayment extends over a long-time horizon of up to 22 years. This insurance is mainly supplied by ECAs for their commercial lenders, and by MIGA. This structure enables the provider to cover repayment risks faced by the commercial lender, insuring the loan against any loss event, and facilitating financing for the buyer as a result.

The case (Figure 14, Panel B) below combines a PCG with a MIGA MLT-type guarantee (also called Trade Finance Guarantee). MIGA issued an individual guarantee of EUR 297 million for one year in support of five commercial banks to cover 95% of principal and interest related to their EUR 300 million short-term trade loan to Türk Eximbank against non-payment risk. The proceeds of the loan will be used as short-term loans to Turkish export-oriented companies for the production of export goods (World Bank Group, 2024^[31]).

Figure 14. Summary of contractual MLT structures



Note: Panel A presents a general structure, but specific cases may differ.
Source: MIGA

3.3 Key benefits of guarantees and credit enhancements

In this section, cross-cutting benefits of guarantees and credit enhancements that have been raised in various policy discussions, including in this report, as well as engagements with the private sector, including the G20/OECD Infrastructure Investors Dialogue (see Box 1), are listed. Due to the limited availability of academic literature on the effectiveness or evaluation of guarantee and credit enhancement products of MDBs that are publicly available, this section draws on reports that have examined this issue based on private sector input.

3.3.1 Mobilisation of private finance using different instruments

As shown by OECD data (see Figure 7), guarantees from development finance providers mobilised the greatest share of private capital between 2014 and 2023. This is affirmed by the Independent High-Level Expert Group’s report, which found that guarantees mobilised 5 to 6 times more private finance than traditional loans for sustainable investments in EMDEs (IHLEG, 2024^[6]).

Partial risk and credit guarantees improve the credit profile of the government or related entity and mobilise private financing in a variety of ways. This can happen through extended maturities, lowering of interest rate costs, access to higher amounts of commercial debt and/or different markets, as well as non-financial benefits provided by the participation of MDBs if this is the case.

The non-financial benefits of MDB guarantees are not directly related to MDBs’ financial role but are rather due to MDBs’ status as a credible and independent third party that provides a “seal of quality” to projects, as intermediaries between stakeholders and local authorities. This intangible benefit, or “halo effect,” could differentiate MDB offerings from other banks/institutions that provide such guarantees, but credit-rating agencies have approached this on a case-by-case basis (G20, 2018^[14]).

Credit enhancements shift project risks to highly rated institutions, lowering the effective risk premium of projects and making them more bankable (Blended Finance Taskforce, 2023^[32]). A recent example of a credit enhancement successfully crowding in private capital for sustainable infrastructure took place in Egypt, which issued Africa’s first sustainable “panda bond” denominated in Chinese renminbi, to unlock new sources of capital with the assistance of a credit enhancement jointly provided by the African Development Bank and the Asian Infrastructure Investment Bank (AIIB) (African Development Bank, 2023^[33]). By leveraging the AAA credit rating of MDBs, the transaction encouraged investor confidence in sustainable infrastructure projects and set a precedent for other EMDEs to access Chinese capital markets. This issuance demonstrated how credit enhancements can go beyond traditional credit guarantee structures to support sovereign sustainable finance in non-traditional currencies and markets (see Box 7).

3.3.2 Sustainability considerations

MIGA uses a sustainability approach that is similar to IFC Performance Standards. This points to a convergence of requirements towards those of the IFC Performance Standards for guarantees and raises the possibility of interoperable due diligence between public sector providers as the basis for environmental and social due

diligence, particularly those that use IFC Performance Standards extensively. If MIGA provides a guarantee where another MDB/DFI is in the structure, it often replicates very similar due diligence processes, with time, cost and complexity implications for the user. MIGA has now developed mutual reliance frameworks with IFC, IBRD/IDA and some other MDBs/DFIs, but this is not universal.

3.3.3 Potential capital efficient financing

Exposures covered by guarantees from BCBS-listed eligible MDBs (CRE20.14) may receive a 0% risk weight for the protected portion, while other MDBs are treated under rating-based rules (CRE20.15), as outlined in Section CRE 20.14, provided they satisfy the requirements of having a very high (generally AAA) issuer credit ratings, and a strict mandate (Basel Committee, 2023[34]). This weighting reduces the capital adequacy requirements for a guaranteed loan. Additionally, under CRE 22.71, lenders can substitute the risk weight of the counterparty with that of the guarantor. Since the guarantor of these projects is a highly rated MDB, the lower risk weight enables banks to lend at a lower cost (Basel Committee on Banking Supervision, 2023[35]).

This benefit is, however, not uniformly applied across jurisdictions and financial institutions. The Basel framework has a list of entities recognised as eligible for a 0% risk weighting, whereas DFIs such as GuarantCo have not been recognised as eligible, limiting capital efficiency (Basel Committee on Banking Supervision, 2023[35]). Some MDBs, like the New Development Bank (NDB), would also not benefit from this 0% risk weighting given their credit rating.

3.3.4 Supporting specific risk and credit profiles

The usefulness of guarantees and credit enhancements when compared to other instruments lies in their flexibility. As by design, these products address specific risks of a project or context (IHLEG, 2024^[6]) and are structured to support the specific project in most cases. Thus, guarantees and credit enhancements allow lending to be adapted to national circumstances by addressing barriers specific to each country (BRICS, 2024). Guarantees and credit enhancements can also support other financing characteristics, such as tenor, when the financing that is enabled through the guarantees allows the investment to be aligned with the time horizon of the project itself (Climate Policy Initiative, 2025^[37]).

3.3.5 Local financial market development

Guarantees and credit enhancements can also help develop local financial markets, where increased usage improves the investor perception and aligns this with the actual risk profile. Guarantees can present a wider range of investors with potential

opportunities in EMDEs by providing support in transacting in markets and products which they may not have traditionally been active in. Moreover, every project delivered builds out the data and understanding of the actual risk profile of similar projects, helping to close the gap between perceived and actual risks.

The provision of guarantees and credit enhancements signals to private investors that the credit profile of a country or project is investable, leading to consideration by investors who may not have contemplated the market as an investable opportunity. Due diligence carried out by an MBD or DFI to provide a guarantee or loan can support market development in two ways.

Firstly, MDBs and DFIs can act as market leaders in entering and developing investment opportunities for private investors, and in the case of credit enhancement for bond issuers, enable capital market development. This can stimulate further private sector participation and contribute to mitigating overly high-risk perceptions that previously hindered development (Garbacz, 2021^[12]).

BOX 2. THE AFRICAN LOCAL CURRENCY BOND FUND

Through the European Fund for Sustainable Development, Germany and the EU are providing guarantees to the African Local Currency Bond Fund (ALCB Fund), with which it has now signed a further framework agreement worth EUR 100 million. Backing for this comes from the EU, which provided a counter-guarantee in the same amount from the European Fund for Sustainable Development Plus in 2023.

The ALCB Fund is the largest local-currency bond fund in Africa, aiming to catalyse local capital markets across the continent by anchoring domestic bond issuances in priority sectors, such as affordable housing, energy access, and small and medium-sized enterprise finance.

Established in 2012, the Fund leverages guarantee support to lower risk for its investors. This enables it to act as a first mover in underserved markets, crowding in private and institutional capital. The Fund was established with a dual mandate to support the development of domestic African capital markets, while also channelling private-sector investment to Sustainable Development Goals-aligned transactions where the ultimate beneficiaries are low-income households and micro, small and medium businesses. The Fund combines its investment activities with technical assistance to support first-time issuers and build market standards in African countries.

As of 2024, it has enabled 97 investments across 16 countries, achieving a 9:1 leverage ratio, with approximately USD 400 million enabling approximately USD 3.44 billion. Key deals include Africa's first gender bond (Ecobank Côte d'Ivoire), green bonds in Namibia, and landmark corporate bond issuances like Sonatel in Senegal.

Source: (ALCB Fund, 2025^[38]) (European Union, 2019^[39])

Secondly, it provides proof of concept for some markets if guarantees permit private lenders to extend lending in EMDEs, showcasing that other private financing could also invest with blended finance instruments, including guarantees.

It is important that guarantees be provided in local currency and domestic sources of finance in local projects to support local market development. Guarantees can expand private sector insurance capacity and development of its insurance markets, especially if a public sector guarantor reinsures its exposures.

3.3.6 Additionality

In development, the concept of additionality is generally agreed to mean that an intervention will lead, or has led, to effects which would not have occurred without the intervention. Additionality requires establishing a causal relationship between the intervention and the additional effects, i.e., financial and development additionality (OECD, 2018^[40]).

Financial additionality refers to situations where finance is mobilised and an investment is made that would not have materialised otherwise explain that “... an official transaction ... is financially additional if it is extended to an entity that cannot obtain finance from local or international private capital markets with similar terms or quantities without official support, or if it mobilises investment from the private sector that would not have been invested otherwise” (OECD, 2016^[41]). DFIs and MDBs define additionality as “... a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector” (DFI Working Group, 2018^[42]). These definitions emphasise the mobilising element, which presupposes the absence of crowding out of the private sector, but also other potential dimensions of financial additionality, including improved conditions and terms of finance (Winckler Andersen, 2021^[43]).

Public sector providers of guarantees, which are MDBs, NatDBs, DFIs and ECAs, should ensure additionality in practice when deploying guarantees, maintaining effective allocation of scarce public finance and maximising commercial terms of private finance. This could include only offering guarantees when there is no commercial insurance product available, pricing products appropriately for a potential user and offering guarantees instead of direct debt financing if a private sector financial institution is willing to provide a loan, if covered by a guarantee. This can be implemented through better tracking of additionality and through measures of transparency, as recommended in the OECD Blended Finance Guidance (OECD, 2021^[44]).

3.4 Key challenges of guarantee and credit enhancement instruments

While the benefits of guarantees and credit enhancements present a compelling case to improve their provision towards sustainable infrastructure, key challenges which can hamper supply and demand towards guarantees and credit enhancements remain.

3.4.1 Regulatory requirements

Global financial regulations present challenges in scaling up the provision of guarantees and credit enhancements *vis-à-vis* the private banks that could participate in a transaction. Under the Basel III framework, exposures benefit from capital relief only where the guarantor is an MDB meeting the BCBS eligibility criteria; otherwise, they follow external ratings of their lending activities (see Section 3.3.3). Nevertheless, ambiguities remain in recognising the risk improvements provided by guarantees. Moreover, recognition is limited to BCBS-listed MDBs, with other providers, such as GuarantCo, not included; therefore, their guarantees take the provider's actual risk weight. This has reportedly led to lower utilisation of guarantees by banks, at the potential cost of capital that could be relieved for banks (GFANZ, 2024^[7]).

Banks' ability to recognise the risk reduction provided by guarantees is stated in Basel's standardised approach (CRE 22.71) for guarantee (counter-guarantee) as "...must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due...".

Because of strict rules around what counts as "unconditional" and how quickly a guarantee has to pay out, especially under CRE 22.71 and CRE 36.105, even strong guarantees from institutions such as MIGA or DFIs often do not qualify for capital relief, even when they clearly reduce actual credit risk. As a result, these kinds of credit enhancements either have to be booked separately, do not provide any regulatory capital benefit, or need to be structured in complex and expensive ways, such as using special purpose vehicles or liquidity backstops (GFANZ, 2024^[7]).

Many of the products offered by MDBs, such as MIGA's non-honouring public debt guarantee, contain exclusion clauses (e.g., nuclear or hazardous materials) that may raise questions about unconditionality, potentially disqualifying them from capital

relief if they impede timely payout, even in jurisdictions without any nuclear activity.⁸ Since Basel III requires that no clause can prevent payout, such an exclusion clause can cause the entire capital relief to be disallowed. In the absence of clear guidance, many banks have taken a conservative interpretation, not recognising the instruments' capital relief (GFANZ, 2024[7]). In addition, unless the guarantee covers the full exposure, the 0% risk weight applies only to the guaranteed portion, leaving residual risk that often results in non-competitive pricing, as governments tend to benchmark this structure against standard bank lending, which is usually cheaper.

Furthermore, Basel's standardised approach (CRE 22) for guarantee capital relief recognition does not include language or mechanisms to allow for the full recognition of PCG and PRI. For instance, guarantees against convertibility of the currency or transfer risks, when a local currency cannot be converted due to changes in nominal value or regulatory/exchange restrictions, are often left uncredited; thereby reducing banks' incentive to use them. Experts from issuing institutions state that more robust guidance on how MDB and DFI instruments would qualify for capital relief could expand their use (GFANZ, 2024[7]).

The reason for the unconditionality requirement in the Basel framework is the substitution approach, i.e., the mechanism by which guarantees are recognised in the regulatory framework. Under this approach, the bank may treat the guaranteed exposure as a direct exposure to the guarantor. As such, the substitution approach assumes that the guarantor has assumed all payment obligations of the original obligor. If, however, certain events are not covered by the guarantee, the bank is still exposed to the credit risk of the original obligor for these uncovered events instead of being exposed to the credit risk of the guarantor, making a full substitution no longer appropriate.

In theory, the level of the substitution in the regulatory framework could be adjusted to take account of any credit events that are not covered by a guarantee. The key practical challenge in this context is, however, to calibrate this necessary adjustment in an appropriate and reliable way. This is in particular true for events which occur at a low frequency but typically have a high impact on credit risk.

It should be noted that most global banks, particularly those designated as systemically important banks, would be expected to use their internal ratings-based (IRB) approach (CRE30 to CRE36) for their capital adequacy. However, interpretation

⁸ It should be noted that World Bank is reported to have terminated its ban on nuclear energy projects in June 2025 (Bearak, 11 June 2025^[61]).

relative to the standardised approach could influence the discretionary decisions made related to the treatment of guarantees, even for their IRB approach.

For banks using the IRB approach, there are also limitations in their ability to recognise the capital relief from PRI due to the conditionality clause. In CRE36.105, “The guarantee must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due...”

Many PRI products, aside from non-honouring guarantees and cases of expropriation, necessitate an arbitration process before any funds can be released, as the guarantor first attempts to facilitate a resolution that avoids escalation and allows a project to continue. For example, MIGA’s breach of contract product is a form of PRI providing protection against losses in case of a breach of contract by a sovereign and providing a payout in case there is interference in the arbitration process or non-payment after an award. Protections against breach of contract are highly desirable, as research indicates that these types of incidents can become more likely as the duration of a loan increases. Industry organisations believe that breach of contract would be the most popular form of guarantee if eligible for some degree of capital relief, given the wide range of risks it covers (GFANZ, 2024^[7]). Yet, MDBs indicate that this is currently a very small part of their business, suggesting that firms are being held back from using it due to the capital treatment. Banks are attempting to work around the framework restrictions, but this has not been possible at scale.

Most of the products that rely on arbitration are ineligible for capital relief as the conditionality clause requires that payments be due “in a timely manner” which is often not the case for an arbitration. The awards from such arbitration processes can take a significant amount of time to resolve, while under CRE 20.104 (SA) and CRE 36.68 (IRB), an exposure must be considered in default after 90 days – or, in some cases, 180 days.

Some efforts have been made for the guarantor to provide a liquidity facility to bridge this gap until the arbitration is decided and the credit can be accessed (see Box 2). Some organisations, such as the U.S. International Development Finance Corporation (DFC), have adopted accelerated processes to address these issues within six months. Thus, banks must rely on additional tools to cover the gap, undermining the benefit of the guarantee. At the same time, MDBs and DFIs do not feel incentivised to accelerate their processes without clarity that such an accelerated timeline would qualify the product for capital relief.

BOX 3. USE OF LIQUIDITY FACILITY TO SUPPORT A PRI DEAL: REFINANCING OF BENBAN SOLAR IN EGYPT

To address potential liquidity risks arising from an arbitration, some guarantees include a liquidity facility to backstop this.

This was the case for the refinancing of Egypt's Benban Solar project.

Structure: MIGA PRI cover combined with the European Bank for Reconstruction and Development (EBRD) liquidity facility.

- USD 335 million bond issued to refinance six solar projects
- USD 250 million uncovered second tranche subscribed to directly by DFI lenders (e.g., the EBRD, DFC and German Investment Corporation)
- MIGA provided a 19-year political risk guarantee for the USD 85 million first tranche, which was also supported with an EBRD liquidity facility
- The resulting credit enhancement enabled the bonds to be rated investment grade and so attract a range of institutional investors
- MUFG Securities EMEA arranged the transaction

Source: MIGA

3.4.2 Capital adequacy framework for MDBs

The way MDBs account for their capital adequacy and how guarantees are treated relative to a loan will also affect the MDBs' capacity to extend guarantees, but also the relative attractiveness for an MDB to provide guarantees.

Reforming MDBs' capital adequacy frameworks (CAFs) to maximise MDB financing capacity while maintaining robust credit ratings has been a central area of discussion for the G20. In 2022, the G20 commissioned an independent review of MDB CAFs to identify measures that could expand their capacity to provide financing to countries in need while better accounting for MDBs' features – self-regulation, policy relevance, preferred creditor status, callable capital, exposure concentration, centrality of ratings and business model (G20, 2022[45]).

Most MDBs publish an annual statement detailing each institution's measurement of capital adequacy, with a minimum capital allocation required to maintain a AAA credit rating. Credit rating agencies also have their own methodology for assessing the capital adequacy of MDBs (S&P Global, 2024[46]). The independent review noted that rating agency assessments had considerable influence in determining risk tolerance, which could lead to overly conservative MDB approaches to capital adequacy.

MDB CAF reforms following the independent review have focused on implementing measures that can strengthen MDB capital adequacy and enable greater leveraging of private sector finance, including through risk transfer techniques such as guarantees (G20, 2022^[45]).

3.4.3 Limited awareness and standardisation of guarantees and credit enhancements

A significant challenge to increasing the usage of guarantee and credit enhancement instruments lies in the lack of awareness of their existence by many lenders. Current offerings of instruments by various providers have created confusion within the market, due to the range of options and varying applicability of instruments (MIGA, 2024^[47]). Better information on the product offering, as well as the benefits, may attract a broader swath of investors and lenders.

When there is a lack of clarity on products or terms *ex ante*, structuring each transaction as if the risk cover from a guarantee is bespoke rather than starting from a simplified menu increases the complexity. Product characteristics can be reviewed, in particular types of risks covered, coverage level, pricing, ease of access to potential users and eligibility for regulatory capital relief. In addition, a repository of de-risking instruments could support the mapping of products, for example.

Greater standardisation of product offering and their labelling across MDBs could also facilitate the use of these products by governments and investors (Pereira dos Santos, 2019^[11]). Current efforts by key providers, such as the World Bank Group to create a one-stop shop for guarantee products aimed at accelerating, simplifying, and improving access to these instruments could contribute to overcoming this challenge and scaling up the use of these instruments (MIGA, 2024^[47]).

3.4.4 Complexity of structure

Structuring guarantees and credit enhancements, especially those involving multiple guarantors and lenders, requires significant technical expertise that some private banks and/or governments may not possess. MDBs and DFIs may face capacity constraints that limit their ability to structure and manage guarantees at scale (Garbacz, 2021^[12]). In addition, the complexity of infrastructure projects themselves, including their long-time horizon and complex risk structure, presents an added layer of difficulty that makes the use of guarantees and credit enhancements challenging (BRICS, 2024).

While sovereign-backed guarantees aid in mitigating risk once secured, in practice, arranging this requirement for instruments such as political risk guarantees can involve complex political negotiations, regulatory approvals, and high-level

coordination. This can slow down the project timeline and deter private investment (G20, 2018^[14]).

3.4.5 Timing of payout for guarantees

In cases of PRIs for breach of contract, the payout may be dependent on an arbitration decision being reached, which could be a lengthy and time-consuming process. This could lead to the payout not being made in a timely manner. This may prevent the product from being a reliable source of cash flow at the time of need. The private sector has expressed this as being a factor that could inhibit their use in some cases (see Box 1).

4. Experiences in the effective use of guarantees and credit enhancements

The potential of guarantees and credit enhancement instruments to support private capital mobilisation to EMDEs was discussed in previous sections. However, to better understand how these instruments are being utilised and what their use illustrates in terms of benefits and limitations of the instruments, the OECD carried out a survey with MDBs, as well as with G20 members and invited countries' NatDBs, DFIs and ECAs. In addition, a call for case studies on the utilisation of these instruments was put forward to countries to learn how guarantees are being effectively used and what good practices exist as a result of these instruments.

The case studies are compiled in the Annexure, which benefited from inputs from Australia, Brazil, the People's Republic of China (hereafter 'China'), Japan, the Netherlands, Russia, South Africa, Switzerland, and the European Union (EU), as well as from the AIIB, IDB, IFC and MIGA.

Export Finance Australia (EFA), Export Development Canada (EDC), the National Bank for Financing Infrastructure and Development of India (NaBFID), Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI), Japan International Cooperation Agency (JICA), Atradius Dutch State Business (ADSB), Russian Agency for Export Credit and Investment Insurance (EXIAR), Saudi Arabia, Export Credit Insurance Corporation (ECIC) of South Africa, World Bank Guarantee Platform (MIGA), IDB, and IDB Invest and NDB provided inputs to the survey.

Most of the cases that were shared were of PCG instruments being used (JBIC, Australia Infrastructure Finance Facility for the Pacific (AIFFP), AIIB, IDB, IDB Invest, ADSB). MIGA provided a PRI case, while IFC and Russia provided PRG cases. There were also cases that combined two types of guarantees, such as PRI and PCG from NEXI, and PRG and PCG from China Export & Credit Insurance.

From an institutional perspective, while it is clear that MDBs such as MIGA and IDB have the capacity to provide long-tenor guarantees, at the national level, these were not articulated as well as the JBIC did in its ability to provide long-tenor guarantees. At the national level, ECAs appear to have a more structured and established approach to the provision of export credit insurance (EFA, EDC, NEXI, ADSB, EXIAR, ECIC) and taking advantage of their structure could prove an important avenue of facilitating MLT and PRI for export financing related to infrastructure projects. While the Canada Infrastructure Bank (CIB) Act and its investment policy allow for loan

guarantees to be provided, CIB has not yet deployed them. This is due to the market’s consistent preference for direct lending.

NatDBs have the capacity to create financial vehicles within the framework of applicable national regulations, which provide a certain degree of flexibility in terms of the supply of guarantee products and enhancements for risk mitigation. These vehicles could serve as a platform for mobilising funds from public sources, private entities and institutional donors, to pool efforts and share risk.

This section examines the limitations of guarantees from the institutional experience of providers of guarantees and credit enhancements. This should be viewed together with Sections 3.3 and 3.4.

The case studies provide a number of good practices that guarantees and credit enhancements have demonstrated. It is important to take into account both the primary and secondary benefits guarantees can provide when structuring offerings.

Table 2. Institutions that provide guarantees

INSTITUTION	TYPE	INSTRUMENTS OFFERED	KEY FEATURES	KEY BENEFITS	KEY LIMITATIONS
MIGA	MDB	PRI NHFO PRG PCG PBG MLT	Comprehensive guarantee offering across WBG balance sheets High coverage (up to 95%) and long tenors (15-20y); Strong focus on EMDEs	Efficient economic capital model to assess risk, broad engagement across WB regions Engagement across public and private entities	Requires public sector counterparty, can be complex
IDB	MDB	PRG PCG PBG	Sovereign-linked guarantees, all unfunded, same capital treatment as loans; long tenors	Supports fiscal space and reform programs; aligns with sovereign lending projects.	(i) Predominance of middle-income countries in their portfolio, (ii) the fact that guarantees are intermediary instruments – countries seek direct financing, and currently rely on commercial and investment banks to mobilise that financing, (iii) the lack of knowledge and expertise within MoFs and MDBs regarding the potential benefits of guarantees for mobilising financing in countries rated below investment grade; and (iv) the limited pipeline of investment projects based on PPP solutions that could benefit from the use of guarantees

INSTITUTION	TYPE	INSTRUMENTS OFFERED	KEY FEATURES	KEY BENEFITS	KEY LIMITATIONS
IDB Invest	MDB	PCG	No sovereign guarantee required, supports bonds and PPPs	Targeted to support private finance, capital market access	Guarantees tailored to the specifics of each transaction, lower scalability
NDB	MDB	PCG PRG	Not yet launched	Exploring PCGs/PRGs; shows potential EMDE funding potential	Not yet operational
EFA (Australia)	ECA	PCG PRI	Provides both funded and unfunded instruments OECD Arrangements applied to pricing	Flexible structuring, no specific EMDE focus Export Finance Guarantee	Minimum requirements for environmental, social, and governance (ESG)/financial crime standards can impact competitiveness in key markets, limited guarantee pipeline and infrastructure application
EDC (Canada)	ECA	PCG Intl Trade Finance	Market-based terms, coverage up to 100%	Custom structuring, wide eligibility	Not deployed in EMDEs due to not providing capital relief to banks, and a lack of standardised documentation
CIB (Canada)	NatDB	PCG	No instances of use	Option available	No instances of use due to market preference for direct loans
NaBFID (India)	NatDB	PCG	Not yet launched	Infrastructure focus under development	Legal frameworks are still under development
JBIC (Japan)	DFI/ECA	PCGs	Long tenors, up to 100% cover	Mobilises private capital by offering co-financing opportunities with a guarantee, leveraging its ties with local governments and banks	Limited lending capacity: typically guarantees 40% and lends up to the remaining 60%
JICA (Japan)	DFI	PCG	Not yet launched Authorised as of 2025	Strong balance sheet and operational scale	Infrastructure not yet a core target, still building framework
NEXI (Japan)	ECA	MLT PRI PCG	Loan Insurance covering political and commercial risk	Comprehensive risk cover for lenders	Pre-requisites such as Japan Interest
ADSB (Netherlands)	ECA	MLT PRI	The OECD Arrangement for Export Credits applied to maximum tenors, coverage, and pricing	Backed by the Dutch State under EU Capital Requirements, enabling 0% risk weighting for the covered part of the loan	Blended finance instruments in 'very early stages of development', no method for assessing catalytic impact
Bank Gospodarstwa Krajowego (Poland)	NatDB	PCG	All types of guarantees, including payment guarantee under the guarantee of a foreign bank	Guarantees secure a wide range of domestic and export contracts across all industries	Instruments are for Polish exporters and foreign importers buying goods and services from Poland

INSTITUTION	TYPE	INSTRUMENTS OFFERED	KEY FEATURES	KEY BENEFITS	KEY LIMITATIONS
Korporacja Ubezpieczeń Kredytów Eksportowych (Poland)	ECA	MLT	The credit insurance protects against the risk of non-payment by customers caused by an array of events, including customer bankruptcy or non-payment, issues with political risk, and force majeure risk	The solutions are offered for small companies, large companies and banks	The credit insurance is offered for exporters, companies selling in Poland, firms planning to venture into exports, small and large enterprises, regardless of industrial sector
EXIAR (Russia)	ECA	MLT PRI	Unfunded; Risk commensurate with country economic position and experience of cooperation, High coverage (90%+) across instruments	Broad (commercial and political) risk protection Export Credit Insurance Export-Oriented Infrastructure Credit Insurance	Long payout periods (4 months or more) for investment insurance)
National Infra Fund (Saudi Arabia)	NatDB	PCG	Not yet launched	Potential for blended finance role	Not yet launched
ECIC (South Africa)	ECA	MLT PRI	Unfunded, high coverage up to 100%	EMDE focus, flexibility around restructuring	High content requirements has caused concern from banks

Source: OECD survey responses

4.1 Considerations from institutional experience and cases

4.1.1 Complexity of structuring an offering

A number of institutions have expressed the complexity of structuring a guarantee as a limitation. This, in turn, can mean less scalability of guarantees, given the resources required to structure an offering.

This is a fundamental challenge to the provision of guarantees, which is also a feature of guarantees, as offerings are structured to what is needed for a transaction. Reflecting on Section 3.2, one of the takeaways from the mapping exercise is that the structured nature of offering makes it difficult to find a classification which can be easily understood or accessible to governments and investors.

The relatively limited offering at the national level may also indicate a preference for direct financing over guarantees (EFA, CIB). Direct financing from DFIs and ECAs, while an important tool on many occasions, may not necessarily facilitate private capital mobilisation unless it is for jointly financing a project with the private sector.

4.1.2 Regulatory capital

Regulatory limitations also emerge as an issue for some institutions. While MIGA has taken advantage of its engagement across regions to have more efficient economic

capital,⁹ IDB and EDC express regulatory capital relief as a limitation to broader deployment. The IDB applies equal capital treatment to guarantees and loans, where it allocates a dedicated USD 1 billion outside of the regular country envelope to accommodate guarantees. This measure has helped preserve space for their use. Allowing guarantees to count at a discounted rate against country lending envelopes in terms of capital requirements could support their greater use.

As stated above, the complexity of structuring an offering, on top of which a lack of regulatory capital relief may play into limiting its attractiveness relative to a loan offering. This may also push up its pricing.

4.1.3 High requirements for guarantees

While guarantees and loans can be a catalyst for mainstreaming certain requirements, high requirements can also serve to limit their deployment.

In a competitive market for private capital, while sustainability requirements could provide a level of confidence and advantage, it appears that some countries have experienced certain sustainability requirements as being limiting. While sustainable assets under management continued to grow in 2024, there has been heightened scrutiny and politicisation of ESG during 2024 (Thompson, 2025[48]). At the same time, the EU's sustainability agenda, including the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the Taxonomy Regulation, remain in place for now. The EU Commission put forward an Omnibus proposal in February 2025 to cut red tape and simplify laws related to sustainability reporting, human rights and environmental due diligence based on the Competitiveness Compass (building on the Draghi Report) (EU Commission, 2025_[49]).

4.2 Good practices from cases and institutional experience

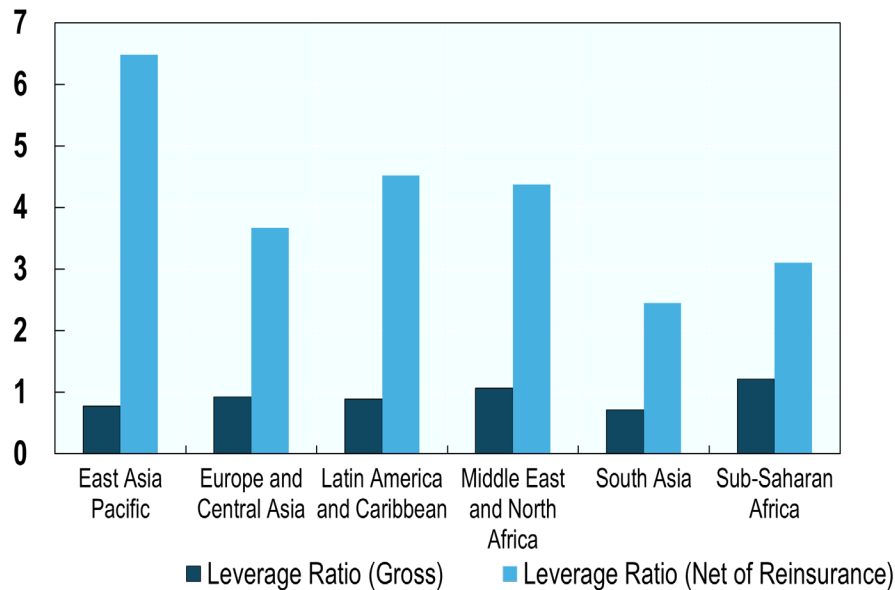
4.2.1 Designing products to mobilise private capital

All case studies are centred on the ability of guarantees to mobilise private capital in EMDEs for sustainable infrastructure. However, not all institutions track the level of

⁹ MIGA seeks to operate in a financially sustainable manner by generating sufficient revenue from its guarantee and investment portfolios to cover its operating and claims-related expenses and contribute to the growth of its capital base. MIGA's business revenue base is represented by net premium income from its guarantee portfolio which is comprised of gross premium income less premium ceded to reinsurers net of ceding commissions and less brokerage costs. Operating income, defined as net premium income less administrative expenses, combined with earnings from the investment portfolio and after claim loss provisioning, enables MIGA to increase capital resources in the form of retained earnings and insurance portfolio reserve to strengthen its ability to support existing and new guarantee exposures. (MIGA, 2024_[69])

private capital mobilisation by guarantees. MDBs such as MIGA and IDB have provided private sector capital leverage levels, which are a key indicator to better understand how blended finance and guarantees are affecting private capital mobilisation. MIGA’s leverage ratio of FY22-24 varies by region between 0.71 in South Asia and 1.21 in Sub-Saharan Africa (net of reinsurance, which varies between 3.1 in Sub-Saharan Africa and 6.48 in East Asia Pacific, indicating high reinsurance availability for East Asia Pacific¹⁰) (see Figure 15). The IDB’s ratio of 1.8 across its portfolio, all within Latin America, is in line with MIGAs.

Figure 15. MIGA's private capital leverage ratios (FY22-24)



Source: MIGA

Mexico’s BANOBRAS provides guarantees which have an explicit aim of mobilising private capital towards infrastructure (Box 3).

¹⁰ MIGA uses reinsurance to leverage its investment guarantee capacity. This enables MIGA to free up some of its capacity to provide more guarantees. When reinsurance is provided, the net guarantee exposure can be lessened. This in turn can increase the leverage ratio when reinsurance is available.

BOX 4. GUARANTEES PROVIDED BY MEXICO'S NATIONAL DEVELOPMENT BANK

The National Bank of Public Works and Services (BANOBRAS) is the Mexican development bank responsible for infrastructure financing. BANOBRAS was given the authority to offer new financial guarantees in order to increase private sector investment in public infrastructure projects.

BANOBRAS provides a range of financial guarantees for both states and municipalities, as well as for projects:

- **Securities debt guarantees:** These guarantees can be used to support bonds issued to the market by project developers.
- **Bank guarantees:** These guarantees support the debt service the project must pay to a bank due to contracted loans.
- **Guarantees for service provision projects:** These guarantees are intended to cover the periodic payment obligations of the contracting units derived from the service provision contracts signed with the suppliers of the service.
- **Pari-passu guarantees** are similar to other schemes, with the main difference that losses are assumed pro rata between BANOBRAS and commercial banks.

Source: OECD (2021^[50]), OECD Implementation Handbook for Quality Infrastructure Investment: Supporting a Sustainable Recovery from the COVID-19 Crisis, <https://doi.org/10.1787/479131b2-en>.

Guarantees can be particularly useful for new industries/sectors that have the potential to attract private capital. This is the case for renewable hydrogen, for which a variety of guarantees are available to stimulate the deployment in EMDEs (Box 5).

BOX 5. GUARANTEES TO CATALYSE INVESTMENT IN RENEWABLE HYDROGEN

Hydrogen produced from renewable power, or “renewable hydrogen”, is considered a critical technology to put hard-to-abate industries on a path consistent with net-zero emission pathways. The global annual hydrogen consumption is foreseen to increase from the current levels of 100 million tonnes to 500-600 million tonnes by mid-century. The OECD and the World Bank estimate that 30 billion USD investment, including renewable power assets and electrolyzers, is required to develop 1 million tonnes of annual hydrogen production capacity.

The decarbonisation potential offered by renewable hydrogen has boosted political and industrial ambition: more than 2,000 projects of varying sizes have been announced between 2020 and the end of 2024. These announced projects promise as much as 27 million metric tons of renewable hydrogen. However, less than 10% of projects have reached a final investment decision, including only a handful of large-scale projects, which are necessary to structure the renewable hydrogen value chain and create lead markets.

Globally, USD 360 billion worth of subsidies are available to support green hydrogen supply and demand, nearly 90% of which are in North America, the European Union and Japan. However, due to limited public resources, such government support cannot be replicated in EMDEs, despite their abundant and low-cost renewable energy resource potential. There are particularly high perceived risks in EMDEs, including uncertainty on the renewable hydrogen offtake (both volume and price), political and regulatory risks,

insufficient enabling infrastructure, technology risks and macroeconomic risks. These risks result in a high cost of capital and strongly affect the bankability of a project and deter investors: an increase of 10% in the cost of capital can increase the levelised cost of hydrogen production by around 75%. It is therefore of paramount importance to develop risk mitigation instruments, such as guarantees. This is what the OECD advises policymakers, financiers and project developers.

According to investor surveys conducted for the OECD's most recent publication, *Leveraging De-risking Instruments and International Co-ordination to Catalyse Investment in Clean Hydrogen*, offtake guarantees, performance guarantees, and partial credit guarantees are particularly promising for renewable hydrogen projects in EMDEs.

- Offtake guarantees: Given the low maturity of the clean hydrogen market, long-term hydrogen offtake agreements with creditworthy offtakers are the main measure to address the fundamental offtake issue. Offtake guarantees can enhance a clean hydrogen project's credit profile and improve its bankability assessment.
- Performance guarantees: Performance guarantees can reduce uncertainties regarding construction delays, upfront cost overruns, energy or hydrogen production, as well as operation and maintenance cost uncertainty. In the short term, performance guarantees for hydrogen are expected to mainly relate to production and supply. For example, performance guarantees have significant potential to be applied to electrolyser performance, as manufacturers do not necessarily have a strong enough track record to provide sufficient certainty on the performance of their technology in real conditions.
- PCG: These can improve the credit profile of borrowers by decreasing perceived and actual risks of investment losses, therefore increasing confidence among investors. This can help borrowers to diversify their sources of funding, obtain financing in their currency of choice, and extend maturities. Given the long lifetime of clean hydrogen assets, extending loan maturity can be a major benefit.

Source: OECD/The World Bank (2024^[51]), *Scaling Hydrogen Financing for Development*, OECD Publishing, Paris, <https://doi.org/10.1787/0287b22e-en>; IEA (2024^[52]), *Hydrogen Production and Infrastructure Projects Database*, <https://www.iea.org/data-and-statistics/data-product/hydrogen-production-and-infrastructure-projects-database>; IFC/ESMAP (2025^[53]), *Unlocking Opportunities: A framework for assessing green hydrogen potential in emerging markets*, <https://www.ifc.org/content/dam/ifc/doc/2025/a-framework-for-assessing-emerging-market-s-green-hydrogen-potential.pdf>; Lee and Saygin (2023^[54]), "Financing cost impacts on cost competitiveness of green hydrogen in emerging and developing economies", <https://doi.org/10.1787/15b16fc3-en>, and OECD/The World Bank (2024), *Leveraging De-Risking Instruments and International Co-ordination to Catalyse Investment in Clean Hydrogen*, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/9a377303-en>.

The benefits of guarantees are relevant given the downstream impact they can have. However, it is important to consider whether MDBs, NatDBs, and DFIs having a specific focus on private capital mobilisation would be useful to support the additionality concerns mentioned in an earlier section.

The IFC mobilised USD 100 million for a structured Liquidity Support Guarantee to backstop offtaker payment obligations in the event of an early termination, regardless of whether the termination is disputed, to boost clean and affordable power generation in Africa. This combined a blended finance guarantee, a contingent debt facility and a subordinated blended finance loan to unlock debt financing for an innovative solar leasing solution to boost clean electricity generation and support sustainable development in some of Sub-Saharan Africa's most challenging markets.

Under its GREEN operations, the JBIC has mobilised private financing towards a loan to the government of Benin and BNDES (the Brazilian NatDB). Japanese financial institutions were guaranteed EUR 0.5 million for Benin, which was co-financed with the JBIC. The JBIC guaranteed the co-financing amount of USD 95 million by Japanese banks and a Japanese branch of a global bank for a credit line to BNDES. Both had an effective private capital mobilisation level of 50%.

ADSB's Climate Investor 2 developed a guarantee towards institutional investors' equity investment into a fund vehicle that is financing climate adaptation and water projects in EMDEs. The provision of a guarantee expands the pool of investors willing to enter higher-risk markets/countries.

It is clear that opportunities for guarantees can only be supported by having a strong enabling environment in which the private sector is willing to invest. The stronger the enabling environment, the better the risk profile can be managed both in terms of guarantees and the financing itself. Thus, having a strong enabling environment underpins any private capital mobilisation towards sustainable infrastructure in EMDEs.

4.2.2 Combining instruments to mitigate risks effectively

The cases provided demonstrate how guarantee operations are carried out in practice, and an important lesson is that many projects are facilitated by using multiple guarantee products in parallel. NEXI describes how it uses coverages of both PRI and PCG. This was for the Gulf of Suez 2 Wind Power Project, which guaranteed and mobilised USD 163 million, covering 100% political risk and 97.5% of commercial risk.

In the case of SINOSURE's guarantee to Palembang Waste to Energy Project in Indonesia, the insurance policy provided a "double-95" coverage (maximum indemnity ratio of up to 95% for both political and commercial risks). The Development Bank of Singapore and Bank Negara Indonesia provided a parallel loan tranche.

Analysing the risk profile of a project and supporting its financing through appropriate risk mitigation is essential. The use of comprehensive risk coverage, which, for the provider, is a single instrument, is important for guarantees to fully extend their use.

While not yet operational at this time, Brazil's Sustainable Regional Infrastructure Development Fund (FDIRS) has the option of integrating different financial instruments with guarantees to support risk modelling.

4.2.3 Local currency usage

Foreign exchange risk can pose major challenges for infrastructure projects, in terms of borrowing in foreign currency to acquire exported goods and services, and repayment in foreign currency when the revenue stream is in the local currency. Some guarantees are using a local currency aspect to offset some of the foreign exchange risks that are inherent in infrastructure projects.

In the Palembang Waste to Energy Project in Indonesia, guaranteed by SINOSURE, a dual currency structure was adopted to hedge against exchange rate risks, with the financing currency tied to the project's revenue stream.

The Private Infrastructure Development Group (PIDG) partnered with the Nigeria Sovereign Investment Authority to establish InfraCredit Nigeria in 2017, with an initial capital of USD 25 million guaranteed by PIDG's GuarantCo. InfraCredit, a AAA risk-rated institution, provides Naira-denominated guarantees to enhance the credit quality of local currency debt instruments issued to finance infrastructure projects. With over 22 transactions by InfraCredit, it has enabled local currency finance for up to 20 years in the domestic bond market.

The AIFFP provided a guarantee that offered the necessary credit support to ANZ Bank Fiji, enabling a loan in local currency for Airports Fiji Pty Ltd during a period of severe economic uncertainty (Box 6).

BOX 3. AIRPORTS FIJI PTY LTD (AFL) LOCAL CURRENCY FACILITY

The AIFFP, alongside the ANZ Fiji, provided a corporate debt facility to Airports Fiji during the COVID-19 pandemic. AIFFP's guarantee provided the necessary credit support to ANZ Fiji, enabling a loan to Airports Fiji during the severe economic uncertainty of COVID-19. The loan funded essential maintenance and capital works at Nadi International Airport and several outer island airports. Airports Fiji also operates traffic and airspace for Fiji, Tuvalu, New Caledonia, Kiribati and Vanuatu.

Guarantee Details:

The total debt facility amounted to FJD 106 million. Of this, ANZ Fiji funded FJD 96 million (AUD 61.9 million), backed by a 100 per cent guarantee from the EFA on behalf of the AIFFP. The remaining FJD 10 million (AUD 6.5 million) was provided as a loan from EFA on behalf of the AIFFP. The tenor of the loan and guarantee was five years.

Key innovations:

AIFFP's guarantee gave ANZ Fiji the security needed to lend to Airports Fiji during a challenging period. This support gave Airports Fiji critical liquidity, enabling it to preserve cash reserves, maintain its capital expenditure programme, and position itself to scale up operations once borders reopened.

Lessons:

Partnering with a local financing institution via the use of a guarantee can be an effective method to support lending in local currency and unlock commercial loans, especially during periods of economic volatility.

This approach can help sustain ordinarily commercially viable enterprises through exceptional circumstances until they can return to stability.

Source: OECD survey responses.

4.2.4 Using guarantees to develop local markets

The local currency aspect of the Palembang Waste to Energy Project, InfraCredit Nigeria and Airports Fiji Pty Ltd contributed to the deepening of the local currency market, with improved activity in local currency trades resulting in the expansion of liquidity in the market. It also expands the possibility of trade financing being able to use local currency if a large enough foreign exchange market exists. By guaranteeing local currency-denominated loans, these structures have enabled the increased possibility of local currency deals being made.

IDB Invest provided a guarantee of 125 million Reais (Brazilian currency) for the first time, for an energy project, as well as a guarantee of an infrastructure debenture in the local capital markets. The AAA guarantee of IDB Invest supports the development of capital markets in Brazil, which can, in turn, mobilise new sources of liquidity like the domestic multi-family offices.

The JBIC's four case studies, illustrated in the Annexure, focus on partnerships with local partners, leveraging its longstanding relationships with these entities. This has enabled strong engagement that can contribute to the development of these local partners.

The AIIB guarantee to Egypt's Sustainable Transport and Digital Infrastructure will be discussed further below, but the bond issuance was in Renminbi-denominated, being Egypt's first issuance in China's capital market and providing a new financing avenue for the Government of Egypt, with greater access to the international capital markets (see Box 7).

4.2.5 Using credit enhancements to support local currency-denominated loans

PCGs provide the bulk of cases that were provided, indicating the strong role that PCGs can play as a guarantee. They have a particularly strong role in terms of supporting the credit risk of a local currency-denominated loan (Box 6, Airports Fiji case) as in SINOSURE's Indonesia case, as well as PIDG's InfraCredit. This points to the possibility that PRCs have a role in not only mobilising private capital but also supporting the development of local markets more broadly. Credit guarantees can extend maturities, lower interest rate costs, access higher amounts of commercial debt and/or different markets, as well as non-financial benefits provided by the participation of MDBs if this is the case. This is evident in the cases that were provided.

The AIIB's guarantee to the Egyptian government's Panda bond issuance is a particularly important issuance (Box 7). Credit enhancements towards bonds have the potential to develop local capital markets and expand the pool of both local and global investors in the local market. However, structuring a credit enhancement to successfully support a bond issuance can be challenging, given that the bond is limited by its sovereign credit rating in order to access a broader capital market base by improving its credit quality.

InfraCredit by GuarantCo/PIDG is another example that has had an impact on the capital market in Nigeria. GuarantCo first credit-enhanced a Nigerian corporate bond in 2011, which took 18 months to obtain Nigerian Securities and Exchange Commission (SEC) approval.

In the past, credit enhancements were not always successful, especially for sub-national bond issuance (e.g., Argentinian provincial bonds with federal guarantees in the late 1990s and Indonesia in the early 2000s for credit guarantees for local government bonds). This points to the importance of not only having facilities for credit enhancements but also having facilities to improve the enabling environment and institutions.

BOX 4. EGYPT'S INAUGURAL SOVEREIGN PANDA BOND ISSUANCE

Egypt's inaugural sovereign Panda bond issuance took place in October 2023, marking Egypt's entry into international sustainable finance markets with the issuance of a sustainable Panda bond in the Chinese market. It is the first for both Egypt and the African continent to issue a sustainable bond. Despite its non-investment-grade credit rating, the successful issuance demonstrated Egypt's growing capacity to access diverse international markets for ESG financing.

The bonds, valued at RMB 3.5 billion (about USD 480 million), benefited from partial credit enhancement guarantees from two multilateral development banks: the African Development Bank and the AIIB,

leveraging their AAA ratings. The African Development Bank provided a partial credit guarantee of up to USD 345 million equivalent in Renminbi, while the AIIB extended a partial debt guarantee of up to USD 200 million, collectively covering up to USD 545 million, including the bond's principal and any accrued but unpaid interest. The Panda bonds, denominated in Chinese yuan, were issued with a three-year maturity and a 3.5% coupon rate, which the Egyptian Minister of Finance noted was lower than the rates for comparable USD-denominated bonds.

The proceeds from Africa's first Panda bond offering were committed to achieving Egypt's green and sustainable development objectives, particularly in transportation and digital infrastructure, as outlined in its Sovereign Sustainable Financing Framework. The projects financed by these funds integrate both social and environmental goals, marking steps towards exploring new avenues for infrastructure financing in Egypt, especially as the country continues to expand its pipeline of sustainable and green infrastructure projects.

Moving forward, the Egyptian government plans to direct more financing toward social investments, signalling an ongoing commitment to integrating sustainability and social responsibility into its broader financial strategy.

Sources: OECD (2024^[55]), OECD Economic Surveys: Egypt 2024, <https://doi.org/10.1787/af900de2-en>; AIIB (2023^[56]), Egypt: Egypt Sustainable Transport and Digital Infrastructure Guarantee, <https://www.aiib.org/en/projects/details/2023/approved/Egypt-Sustainable-Transport-and-Digital-Infrastructure-Guarantee.html>; Reuters (2023^[57]), Egypt sells 3.5 bln yuan in 3-year panda bonds in debut issue, <https://www.reuters.com/article/markets/egypt-sells-35-bln-yuan-in-3-year-panda-bonds-in-debut-issue-idUSL1N3BM1Q0/>; AfDB (2023^[58]), Egypt issues Africa's first Sustainable Panda Bond worth 3.5 billion RMB backed by African Development Bank and Asian Infrastructure Investment Bank, <https://www.afdb.org/en/news-and-events/press-releases/egypt-issues-africas-first-sustainable-panda-bond-worth-35-billion-rmb-backed-african-development-bank-and-asian-infrastructure-investment-bank-65097#:~:text=Egypt%20has%20successfully%20issued%20a%20>.

4.2.6 Pricing levels and fees for sovereign guarantees

Given the structured finance nature of guarantee and credit enhancements, which would require resources from parties to be able to structure an offering, the cost of guarantees is a key consideration when determining the value and usefulness of a guarantee.

Information on pricing was provided by the IDB and MIGA. The NDB and NaBFID also provided this; however, their products are not yet operational at this stage.

IDB has three flat fees:

- Commitment or stand-by fee (50 bps): Charged on the difference between the maximum guarantee amount and the actual guaranteed amount, starting from the effective date. In practice, for all guarantees approved by the IDB so far, this difference has been zero, so the commitment fee has not been charged.
- Lending spread (80 bps): Applied on the full guaranteed amount once the guarantee becomes effective. The commitment fee and the lending spread are charged at different times and on different amounts, so the maximum annual cost of the guarantee is 80 bps, or 0.8%. As the guaranteed obligations are paid

down and the guarantee is released, the lending spread can be applied to the remaining balance, if requested by the counterpart.

- Inspection and supervision fee, currently set at 0%.

Table 3. Pricing level of guarantees (relative to guarantee amount)

	COMMITMENT OR STANDBY	LENDING/GUARANTEE		FACTORS AFFECTING FEES
IDB	50 bps	80 bps	0 (Inspection)	N/A
MIGA	Political risk products: range is around 60 bps to 170 bps Credit enhancement products: range of 80 bps to 240 bps			Project size, tenor, types of guarantee, country risk and portfolio profile
NDB (sovereign)	25+25bps	50 bps	0-20 bps (maturity)	Country risk premium

Source: OECD survey responses

Thus, for IDB guarantees, the actual fees charged so far have been a maximum of 0.8% of the full guaranteed amount. There is no variation in the fees based on risk, term or country, but it still permits IDB guarantees to be cost-effective in countries which are below investment grade. In turn, it may not be attractive for investment-grade countries, but these countries may still use IDB guarantees to develop specific markets, such as green bonds or to improve the term structure of a debt.

MIGA has an annual fixed fee, which is determined based on factors such as project size, tenor, types of guarantee, country risk and portfolio profile. The pricing range is around 60 basis points (bps) to 170 bps for PRI and 80 bps to 240 bps for PCG. For MIGA NHFO products, the pricing range is around 60 bps to 170 bps for PRI and 80 bps to 240 bps for credit. MIGA pricing reflects expected losses at the portfolio level. As part of this, IBRD/IDA guarantees are comprised of upfront charges (ranging from 25 to 90 bps) and recurring charges (ranging from 50 to 165 bps), depending on the project type, guarantee tenor and country.

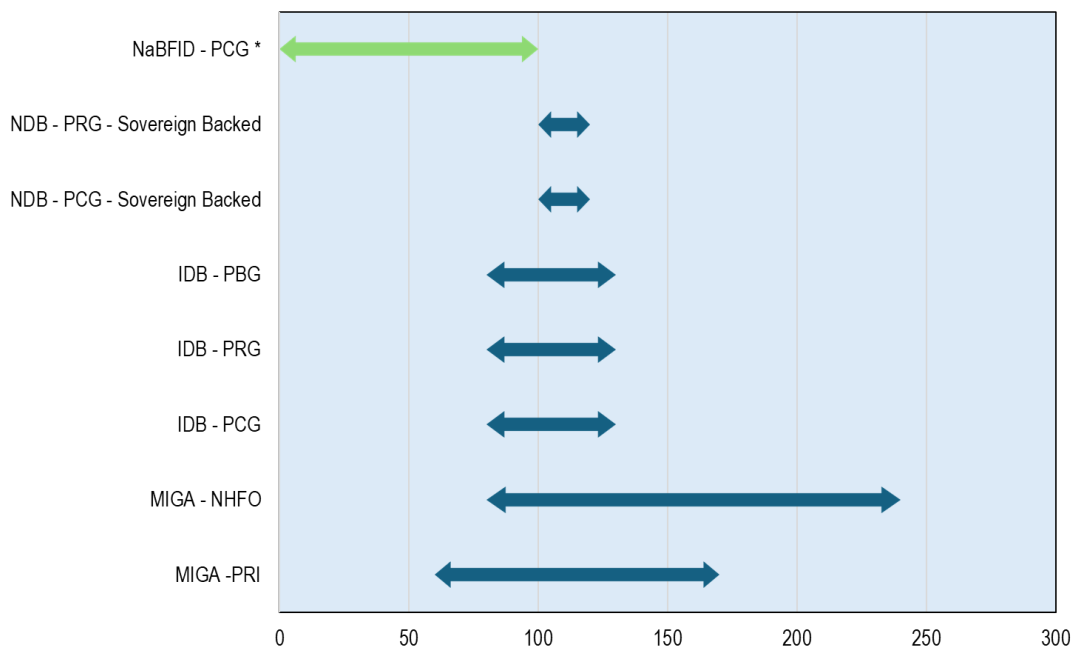
The NDB has shared some of its assumptions for pricing its guarantees. PCG should be sovereign-backed, with a front-end fee (upfront and one-time, 25 bps); standby fee (recurring, 25 bps); guarantee fee (recurring, 50 bps + maturity premium ranging from 0 to 20 bps); and country risk premium (recurring, case-by-case and applicable to non-member countries). For non-sovereign guarantees, pricing would be determined on a case-by-case basis, consistent with an equivalent non-sovereign loan pricing and the non-sovereign loan pricing framework.

NDB's PRG with sovereign guarantees, the front-end fee (upfront and one-time, 25 bps); standby fee (recurring, 25 bps); guarantee fee (recurring, 50 bps + maturity

premium ranging from 0 to 20 bps); and country risk premium (recurring, case-by-case and applicable to non-member countries).

The pricing range appears to be a reasonable level for countries which may not be investment-grade and have difficulty accessing international capital markets. Furthermore, the riskier a country, the more advantageous the guarantee fee levels. For countries that are investment grade, it appears that accessing markets for either capital or guarantees would be more advantageous, which also adheres to the MDB guarantees, providing additionality.

Figure 16. Fee range for selected instruments (bps)



Note: *For NaBFID: provisional range for instrument under development, to be “under 1%”

The above relates only to MIGA sovereign guarantees, which are non-concessionary (risk plus cost to MIGA). For IBRD/IDA, the pricing is loan-equivalent depending on member country grouping, typically ranging from 0.5% to 1.7% per annum. Guarantees in IDA countries (i.e., those with lower per capita income and creditworthiness) are concessionary; those in IBRD countries (i.e., those with relatively higher per capita income and creditworthiness) do not qualify as concessionary. IFC guarantees are provided on a fully commercial basis, based on risk-adjusted return on economic capital and other relevant factors.

4.2.7 Leveraging guarantees to strengthen local institutional capacity

As discussed earlier, creating a robust enabling environment is a key requisite for improved financing opportunities, including the use of guarantees. Guarantees, in some cases, are accompanied by certain benefits that can contribute to the enabling environment.

MIGA has a project in the Democratic Republic of Congo, which is conflict-affected. The guarantee is a PRI, given the instability of the political situation and guarantees USD 50.3 million over a 15-year period and essentially mobilises private capital to the mini grids (see Figure 9). It leveraged the World Bank's various expertise through MIGA, providing the guarantee to CESL, mobilising the support of the IDA Private Sector Window and MIGA's Renewable Energy Catalyst Trust Fund for the guarantee. The IFC provided upstream advisory services on scaling mini grids as well as a financing package of USD 10 million of subordinated quasi-equity investment in Nuru. The advisory service by the IFC supports the implementation of the project, enhancing its chances of success.

InfraCredit provided by GuarantCo was also accompanied by technical assistance to Nigeria's SEC, which was instrumental in improving the procedure for bond issuance.

IDB's guarantee to Ecuador's renewable energy sector is a PCG with a technical cooperation loan that is expected to mobilise USD 1 billion with a tenor of 25 years. It addresses not only credit risk, but also legal and fiscal risk through its contractual payment prioritisation and the government's commitment to assume payment in case of distribution default, with the involvement of the Central Bank (see Box 8). The gender and governance integration component includes institutional capacity building and gender inclusion measures as eligibility requirements, adding additional benefits through the structure.

BOX 5. NON-CONVENTIONAL RENEWABLE ENERGY SOURCES IN ECUADOR

In 2025, the IDB approved a Conditional Credit Line for Investment Projects for the Government of Ecuador to promote private investment in non-conventional renewable energy sources. The first operation under this programme combined a PCG with a technical cooperation loan to de-risk 12 renewable energy projects (827 megawatts). This project is expected to mobilise USD 1 billion.

Guarantee Details:

- Coverage: Up to USD 77 million (equivalent of 5 months of the Power Purchase Agreement)
- Tenor: Up to 25 years
- Structure:

Level I: Contractual payment prioritisation in favour of power generators.

Level II: The Government of Ecuador's commitment to assume payment in case of distributor default.

Level III: IDB partial credit guarantee triggered when *Levels I* and *II* fail, with disbursement managed through a private trust.

Key innovations:

- Risk Mitigation: The level structure mitigates the legal, fiscal, and credit risk exposure, giving confidence to investors and lenders.
- *fastER* Facility: To ensure structured and transparent payment flows, the guarantee is backed by both a private trust and a Public Fund Account at the Central Bank.
- Reinstatement Mechanism: Uniquely allows the guarantee coverage to be restored under predefined conditions, increasing the sustainability of the risk management approach.
- Gender and Governance Integration: The structure incorporated institutional capacity-building and gender inclusion measures as eligibility requirements.

Lessons:

- Risk Mitigation Unlocks Private Capital: Effective risk-sharing mechanisms are essential to mobilise investment in countries with limited creditworthiness.
- Integrated Financial and Institutional Support is Critical: Combining credit guarantees with technical assistance to strengthen regulatory capacity enhances project viability and long-term sustainability.
- Scalability and Replicability: The *fastER* IDB model is now being considered for future projects with expected investments of USD 1.25 billion, and it provides a reference for similar efforts across Latin America and the Caribbean.

Source: OECD Survey responses

4.2.8 Responding to potential needs

Table 2, above, contains a number of initiatives which are yet to be operationalised and, if effective, could support private capital mobilisation. This is the case for Brazil (FDIRS), the EU (Alternative Fuels Infrastructure Facility from the Connecting Europe Facility, CEF-AFIF), India (NaBFID), Japan (JICA), Saudi Arabia (National Infra Fund), South Africa (Credit Guarantee Vehicle, CGV), as well as the NDB.

FDIRS has been developed to be managed by the private sector for faster implementation and targets regional infrastructure development. It covers a number of risks beyond credit, including compensation, demand, foreign exchange and completion risks.

The EU's CEF-AFIF de-risks implementing partners' financing through a credit enhancement mechanism, where a grant is blended with a financing component by a financing institution (i.e., implementing partner or other), thus ensuring 'skin in the game'. The EU's contribution is earmarked at EUR 40.95 million.

The CGV's credit guarantee aims to shift the burden of due diligence from institutional investors to the credit risk insurance company. It provides credit guarantees to develop infrastructure bonds and develop the South African capital market at the same time.

NaBFID, JICA, National Infra Fund, and the NDB are still in early stages of development, with details yet to be fully provided.

4.2.9 Standardisation and documentation

While standardisation of products has been offered by investors as a way of improving access to guarantee and credit enhancements (see Box 1), the complexity and tailored nature of guarantee products may not be conducive to product standardisation per se. Nevertheless, there could be more discrete avenues by which to improve the commonality of product offerings.

For example, the IFC's guarantee towards clean and affordable power generation in Africa simplified energy procurement for public utilities, as only key project documents were needed, i.e., a relatively standardised lease agreement with a typical initial duration of 5 years, which can be extended as needed. The streamlined documentation, the upfront availability of debt financing through an innovative portfolio financing approach, and the use of modular technology are expected to significantly reduce deployment timelines to approximately 9 months from negotiations to the first production of electricity.

5. Conclusions and recommendations to scale up guarantees and credit enhancements for sustainable infrastructure

5.1 Good practices

Key takeaways from the experiences of G20 members and invited countries, and public sector providers of guarantees and credit enhancements are summarised below.

5.1.1 Product offerings

PCGs and/or credit enhancements are being used extensively, and appear to be a key product that could be extended with political risk coverage.

Products that address political risk can be critical for projects in high political risk environments. This can be particularly important for EMDEs that experience political instability and those that require financial support to develop key infrastructure assets. However, there is also a need to consider debt distress issues. ECAs apply sustainable lending practices to ensure that export credits do not contribute to the run-up of unsustainable external debt by lower-income countries. Thus, lending to the public entities in these countries must be consistent with the World Bank and International Monetary Fund Debt Sustainability Framework.

The cases demonstrate the critical role that guarantees and credit enhancements can play in mobilising private capital towards sustainable infrastructure. In many cases, commercial banks require the support of guarantees to be able to provide lending to the projects. Thus, guarantees and credit enhancements can enable private capital to be mobilised when a nudge is needed to push a deal over the line.

PRIs and MLT are often directly provided to investors or financial institutions, and do not necessarily require the participation of the government. However, PRGs, PCGs, NHFOs and policy-based guarantees always require the participation of the government, either through a counter guarantee or as a counterparty. PRIs and MLT are well-established products, with private sector providers as well. Providing a similar framework to the other guarantee products in terms of standardisation of terminology and some contractual terms could provide a level of commonality to improve the awareness and usage of the other products.

Credit enhancements for bond issuance could be an area in which PCGs could have a greater role in advancing not only private capital mobilisation towards sustainable infrastructure, but also contribute to the development of local capital markets.

ECAs have a strong track record of providing trade finance and/or PRI or MLT. Their continued contribution to supporting infrastructure financing in EMDEs is clear, and countries should take advantage of them to the extent possible.

The pricing of guarantees by MDBs is set at reasonable levels and in a way that avoids crowding out the private sector. These pricing levels are advantageous for non-investment-grade, riskier countries in particular, so EMDEs should consider how to take advantage of such offerings.

5.1.2 Secondary benefits

Guarantees and credit enhancements have the potential to contribute and support local market development, local currency use and/or access to international capital markets.

When guarantees are accompanied by technical assistance to support project delivery, this has an added benefit of developing institutional capacity and improving the enabling environment, with the added value of improving the risk perception of investors related to EMDE infrastructure projects.

5.1.3 Continuing strong interest

The number of new initiatives that are being developed to provide guarantees in a number of countries indicates the strong interest countries have in providing guarantees when the need arises. It will be important to track how these schemes are operationalised to better understand how guarantees are being integrated into the private capital mobilisation framework.

5.2 Recommendations

Based on the discussion in the report, the following voluntary and non-binding recommendations are put forward:

5.2.1 Private capital mobilisation

Guarantees and credit enhancements have demonstrated their ability to support infrastructure projects with private capital for EMDEs. Thus, public sector providers of guarantees, particularly MDBs, should scale up their offering.

Financial institutions should consider greater use of PCGs provided by MDBs, NatDBs and DFIs when providing financing for sustainable infrastructure in EMDEs.

This would allow the extension of maturities for both sovereign and corporate borrowers, lower interest rates, increased leverage and access to markets.

Public sector providers should continue to uphold the principle of additionality when introducing or scaling up the use of guarantees and credit enhancements, ensuring effective allocation of scarce public finance and maximising commercial terms for private finance. In practical terms, this includes primarily offering guarantees when there is no commercial insurance product available, ensuring products are appropriately priced for a potential user, and offering guarantees instead of direct debt financing if a private sector financial institution is willing to provide a loan, when covered by a guarantee.

5.2.2 Regulatory capital and institutional support

The BCBS could consider undertaking an analytical assessment of how guarantees and other forms of public sector risk mitigation are treated in the Basel framework and its national implementation to determine if this has consequences on the usage of guarantees from public sector providers and the financing of sustainable infrastructure in EMDEs.

To compensate for the complexity of the offering, public sector providers of guarantees and credit enhancements could extend technical assistance to support the ability of EMDE sovereigns or their project financiers to access guarantees and credit enhancements. This could be in the form of greater capacity building for advisory services or local market development, which are already part of MDB activities.

To increase awareness of the guarantee and credit enhancement products and terms available *ex ante*, a repository of de-risking instruments could be developed by public sector providers.

5.2.3 Product characteristics

Public sector guarantee and credit enhancements providers should streamline their processes and reduce the uncertainty involved in using these products. Specifically, aligning guarantee requirements with established loan procedures could improve efficiency while maintaining appropriate standards. MDBs could consider strengthening their syndication capabilities and mobilisation platforms, offering guarantees as part of an integrated financing package rather than relying solely on external financial intermediaries.

These providers should also consider how to increase the uptake of guarantees beyond the energy sector and into social infrastructure, such as health and education in EMDEs.

Public sector providers of guarantees, particularly MDBs, should review their product characteristics; in particular, the types of risks covered, coverage level, pricing, ease of access to potential users and eligibility for regulatory capital relief. This would clarify the benefits and limitations of products and make these more accessible to a larger cohort of financial institutions.

These providers could consider greater standardisation of product terminology and inclusion of common clauses in contracts where appropriate, which could serve as a starting point to resolve some of the complexity that accompanies the product offerings of guarantees and credit enhancements.

EMDE governments could support these efforts by developing a strong enabling environment to attract private capital into their sustainable infrastructure, including ensuring strong and independent public institutions. Further, these countries could consider reviewing regulatory capital requirements of financial institutions to harness the full potential of these products, mobilising private capital for sustainable infrastructure. In addition, governments could advocate for public sector providers to expand the range of product offerings, simplify their structures, and streamline and standardise processes.

The collective efforts of governments and public sector providers of guarantees and credit enhancements should address key risks and improve the risk-return profile of investments, thereby unlocking additional private capital to support sustainable infrastructure projects in EMDEs.

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