

Guaranteeing the future?

The role of guarantees in development and climate finance

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Guarantees are legally binding agreements under which guarantors agree to pay part or the entire amount due on a loan, equity or other instrument in the event of non-payment, or a loss of value in the case of an investment. In recent years, their use as a financial instrument in international development and climate finance has been increasing.

This report is the first comprehensive civil society analysis of guarantees in an area that is still largely unexplored. It provides an overview of the current landscape in order to raise awareness of the potential impact of an increased issuance of guarantees for development and climate action. It provides a mapping of the providers of guarantees, introducing three guarantee-issuing organisations: the World Bank Group's Multilateral Investment Guarantee Agency (MIGA); the EU's European Fund for Sustainable Development Plus (EFSD+); and the Swedish International Development Cooperation Agency (Sida).

Based on the existing evidence, the analysis goes on to explore the opportunities and the risks that these instruments pose from a development and climate justice perspective. It finds that there is still a case to be made. More transparency and evidence are needed on the exact nature and role of individual guarantees; the institutional mandate; and their long-term financial and development additionality. This is key to ensuring that guarantees for development and climate do not divert attention from unmet commitments and undermine development and sustainability objectives.

Why use guarantees?

The underlying rationale for using guarantees is that they will attract private finance, lowering the risk of private investors in projects such as capital-intensive energy infrastructure, which otherwise would probably not have been attractive. Guarantees are also being provided with the stated goal of lowering the cost of capital in sovereign borrowing.

Yet, as this report details, they must be treated with caution. This is especially important in cases when it is not clear who bears the ultimate cost if, and when, guarantees are called upon. Furthermore, the rise of guarantees poses a critical question: In a world potentially awash with guarantees, what are the implications for aid budgets, socioeconomic development and the climate justice agenda, which are so critical for the global south?

The rise of guarantees

In February 2024, World Bank Group President, Ajay Banga, announced the goal of tripling annual guarantee issuance to US\$20 billion by 2030. Following this, the World Bank Group launched a new "one-stop guarantee platform" in July 2024. The platform is housed at the MIGA, the arm of the Group that promotes foreign direct investment into developing countries by providing guarantees to investors and lenders and is the world's largest and most significant issuer of guarantees. Junaid Kamal Ahmad, the Vice President for Operations at MIGA, summed up the rise of guarantees at his organisation as an 'inflection point', which is strengthening the transformation of MDB's 'from a lending institution to becoming a leveraging institution'.

Although, in aggregate terms, guarantees are still not a major instrument to mobilise private finance, they are becoming an increasingly attractive instrument of choice of many institutions and rich countries. This is particularly the case in relation to aid budgets and the financing of climate needs (see Box 1 overleaf).

In future, in conjunction with major developments such as the MDB reform agenda, the rise of guarantees in development and climate will likely accelerate, as yet another approach to de-risking private investment. However, the success of such guarantees has been mixed both in terms of the ability to kickstart private investment and in terms of realising the social outcomes which justify their use.

Box 1: Examples of the recent rise in guarantees

Bridgetown Initiative: The Bridgetown initiative includes a proposal for the International Monetary Fund (IMF) and multilateral development banks to offer \$100 billion a year in currency risk guarantees. These guarantees are intended to drive private sector investment in projects focusing on green energy transitions.

Multilateral Development Bank climate sovereign guarantees: Just ahead of the COP29, the Asian Development Bank announced an increase in its climate finance by \$7.2 billion after the United States and Japan agreed to underwrite risk for some existing loans.

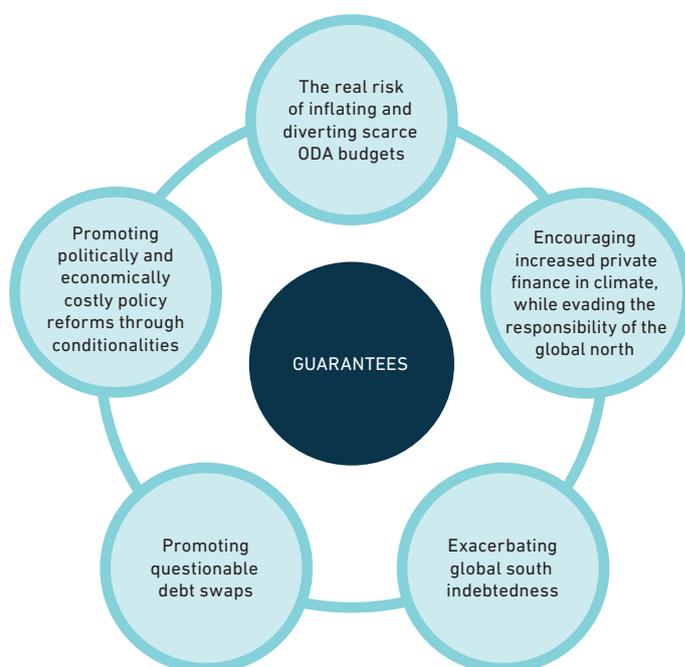
European Fund for Sustainable Development Plus (EFSD+): The European Union’s developmental mandate, delivered through the European Fund for Sustainable Development Plus (EFSD+) has expanded its use of guarantees. Between 2017 and 2021, 16 guarantees worth approximately EUR 1.75 billion guarantees were signed under the old EFSD with the expectation of mobilising investment worth EUR 11 billion.

Official Development Assistance (ODA): The 2023 rules on aid reporting allow rich countries to report the grant equivalent of guarantees in their ODA statistics. The adoption of these rules follows the rise of initiatives aimed at using aid to leverage private finance. Concrete examples of this can be found in Sweden, Denmark and, more recently, in Norway.

Opportunities and risks

This report recognises that if designed and deployed appropriately, guarantees can be a major opportunity for mobilising both public and private finance. They can help lower the interest rate on debt and reduce the cost of capital for socially desirable projects that are expected to yield less profits than other competing opportunities.

However, when focusing on the future trajectory of guarantees, it is important to consider also the five main risks that they might pose. This report identifies the following risks:



This report concludes that to understand the evolving role of guarantees, it is essential to go beyond a technocratic rationale and an analysis focused on the amount of money mobilised. It is necessary to also contextualise the necessity to issue them and assess their long-term impact on development and climate policy. While guarantees may play a major role in catalysing or accelerating private investment around the world in the future, questions around the precise role, nature and relevance of guarantees for sovereign global south states and the socio-economic structural transformation of those countries, must first be answered.

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