

# Private sector

# instruments: blended

# finance and guarantees

Part of the False and Distracting Finance Solutions mini-series ■ Written by the Debt and Climate Working Group

The debt and climate crises are deeply connected - but false 'solutions' risk distracting from, delaying, and ultimately avoiding the deep changes needed to resolve them. This mini-series will give you the evidence, talking points, and tools to push back and promote genuine, lasting solutions to the debt and climate crises.

## THE SALES PITCH

### What is blended finance and what is the role of guarantees?

There is no single agreed definition of blended finance. In general, blended finance refers to the combination of concessional public finance (i.e. finance offered on more favorable terms than the market) with private or other sources of public finance, aiming to attract private investments in response to development and climate challenges. In practice, it shifts risk from private investors to public entities, making high-risk projects more appealing to the private sector. The stated goal is to increase total funding for development and climate action in the Global South.

Common instruments used in blended finance include concessional loans, equity, grants, and risk-sharing guarantees. Guarantees are now gaining traction in climate finance. They 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. As with other instruments of blended finance, the underlying rationale for using guarantees is that they will attract more private finance into climate action, as they transfer the risk from private investors to public sector entities.

### Why it is on the negotiating table

The idea of using blended finance to attract private finance isn't new. It dates back to the 2015 World Bank "Billions to Trillions" agenda, later turned into the 2017 Maximizing Finance for Development strategy. It has gained momentum in recent climate finance discussions, especially after last year's New Collective Quantified Goal (NCQG) decision. The idea behind it is that there isn't enough public money to meet the growing climate finance needs of developing countries, so private capital must fill the gap, requiring already scarce public resources to de-risk these investments.

At COP30, this narrative is likely to be prevalent not only in the Baku to Belém Roadmap to \$1.3 trillion, where the argument will be made that we will only reach that target if we rely largely on de-risking approaches to leverage private finance. It is also likely to pervade other discussions around Article 2.1c of the Paris Agreement, Just Transition, and the COP30's Action Agenda.

## REALITY CHECK

### Why it is a false/distracting solution

- ▶ **Blended finance** exacerbates the sovereign debt crisis. This is because blended finance is not entirely concessional, but also because it sometimes requires Global South countries to provide sovereign guarantees, or can include contingent liabilities (i.e. payments required from governments in certain circumstances, such as currency depreciation or low demand). These elements can increase countries' debt burdens.
- ▶ **Blended finance has not been successful in mobilising adequate amounts of private finance** for climate action, and in particular for adaptation, and to ensure a just transition. Much of the hype about blended finance is based on unrealistic assumptions.

- ▶ **Blended finance can lead to major transformations in recipient countries' regulations and domestic policy frameworks** to adapt to investors' needs, through for example policy conditionality, and lead to privatisation of public services, making them more costly and less accessible to ordinary citizens, while constraining developing countries' policy space.
- ▶ **Blended finance can crowd out domestic financial markets and exacerbate dependencies.**
- ▶ **Blended finance projects in general suffer from challenges including low transparency and poor democratic accountability**, and projects targeting climate action are not an exception.
- ▶ **In the case of the use of guarantees, questions remain about their exact role, nature and relevance** for the socioeconomic structural transformation of sovereign states in the Global South.
- ▶ When reported as official development assistance (ODA), **blended finance and guarantees risk diverting scarce concessional resources** from other uses with proven track records in supporting development and climate action, such as budget support, and inflating aid budgets, with a potential liability that more often than not will fail to materialise.
- ▶ **Using blended finance and guarantees contradicts demands for grant-based climate finance** from countries in the Global South, on the basis of the polluter pays principle, ecological debt by the Global North, and common but differentiated responsibilities of richer countries that are primarily responsible for driving global warming and climate change.

## THE REAL FIX

- ▶ Rich countries should provide public, grant-based, adequate, new and additional climate finance. Rich countries can unlock trillions by taxing polluters and using fair redistributive measures. The Baku to Belém Roadmap should reflect this, and follow the mandate that created it by focusing on grants, concessional non-debt creating instruments and measures to create fiscal space.
- ▶ Country ownership and community-led solutions should be at the forefront of building resilience and adaptation to climate change, and should be supported through adequate instruments that increase access to affordable and sustainable finance. Blended finance must not be used as a financing instrument to address loss and damage, as this is a responsibility of countries in the Global North to those in the Global South.
- ▶ When blended finance is used, projects must be transparent and publish key information on project costs, subsidies to different actors and disclosures of intermediaries.
- ▶ In the specific case of guarantees, their deployment should be contextualised, based on an assessment of the risks they pose, the value they add and their long-term impact on development and climate policy. Their use should not divert attention from unmet development commitments and the need for grants-based climate finance.

### Learn more

- ▶ Eurodad and ActionAid's report '[Blended finance for climate action: good value for money?](#)'
- ▶ Eurodad's report '[Guaranteeing the future? The role of guarantees in development and climate finance](#)'
- ▶ "Debt and Climate Justice: Strategic Engagement in UNFCCC Processes at COP30 and Beyond", Debt and Climate Working Group, October 2025

### About us

The Debt and Climate Working Group is a global coalition of civil society organisations, activists, academics, and movements collectively advancing justice at the intersection of the debt and climate crises. **For more information, contact Tess Woolfenden, [tess@debtjustice.org.uk](mailto:tess@debtjustice.org.uk).**

