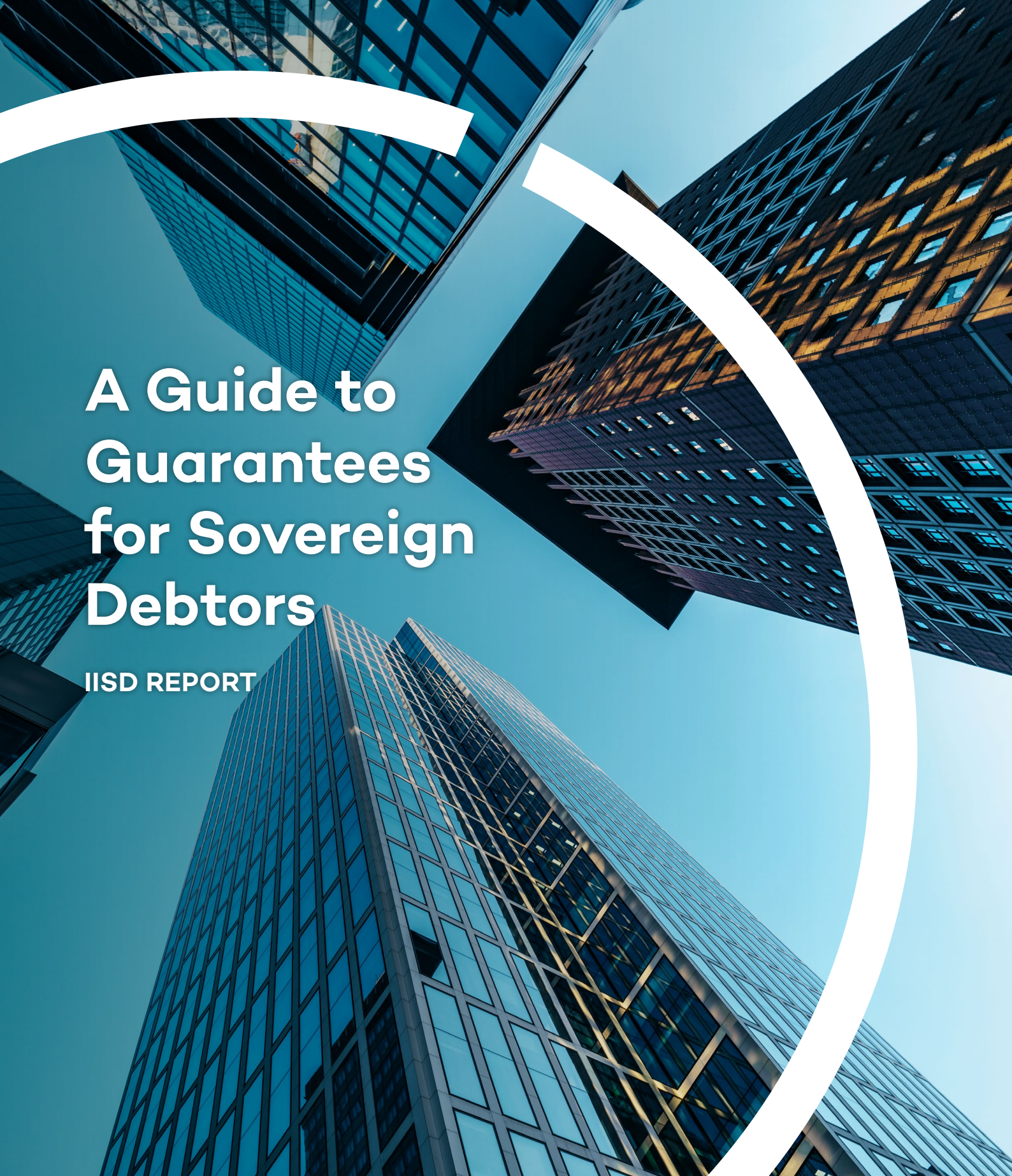




A Guide to Guarantees for Sovereign Debtors

IISD REPORT

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A Guide to Guarantees for Sovereign Debtors

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Executive Summary

Guarantees are a prominent instrument in development finance, helping reduce financing costs, mobilize private capital, and support investment in infrastructure, energy systems, and environmental protection. By transferring risk from sovereign borrowers to highly rated guarantors, they can improve creditworthiness and crowd in private capital. Yet their effectiveness depends on macroeconomic conditions, institutional capacity, and sound policy design, and their use remains limited relative to specific financing needs.

This report examines how sovereign guarantees can be best deployed to support sustainable development outcomes in emerging markets and developing countries. It distinguishes between guarantees used to support public budgets and those used to leverage investments in specific projects. These two instruments differ in their potential to mobilize capital, their developmental and climate impact, and their fiscal implications.

The distinction is important from a guarantee taker's perspective because the two instruments address risk in fundamentally different ways. Guarantees supporting public budgets primarily redistribute risk among investors, guarantors, and sovereign borrowers. By improving the perceived creditworthiness of the sovereign, they may lower borrowing costs and facilitate market access. However, they do not reduce underlying fiscal risks. When used in contexts where debt sustainability is already fragile, such guarantees may simply defer fiscal adjustment and potentially increase long-term vulnerabilities.

Project-level guarantees, by contrast, aim to mitigate specific risks that prevent otherwise viable investments from materializing. These may include regulatory uncertainty, payment risks from state-owned utilities, or political risks associated with infrastructure development. By addressing these barriers, guarantees can help mobilize private capital and support investment in sectors critical for development and climate transitions. Although such guarantees are often structured outside the sovereign balance sheet, they can still create contingent liabilities if projects fail or contractual obligations are triggered.

Across both types, the effectiveness of guarantees depends on the broader macro-fiscal context and the institutional capacity to manage associated risks. Their developmental impact is shaped by how risks are allocated, how contracts are structured, and whether the resulting obligations remain consistent with the sovereign's fiscal capacity. Guarantees are therefore most effective when embedded in credible macroeconomic frameworks under conditions of debt sustainability and aligned with national development strategies.

When used selectively and transparently, guarantees can improve financing conditions and mobilize additional investment. However, if poorly designed or applied without sufficient fiscal oversight, they risk increasing contingent liabilities and delivering limited development benefits.



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Abbreviations and Acronyms

DFC	Development Finance Corporation
DFI	development finance institution
EMDE	emerging markets and developing economies
FODER	Fund for the Development of Renewable
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IRENA	International Renewable Energy Agency
LMO	liability management operations
MDB	Multilateral development banks
MIGA	Multilateral Investment Guarantee Agency
NHFO	non-honoring of financial obligations
NPV	net present value
OECD	Organisation for Economic Co-operation and Development
PBG	policy-based guarantees
PPA	power purchase agreements
PrBGs	project-based guarantees
PRI	political risk insurance
RELP	Renewable Energy Leadership Platform
SBI	State Bank of India
SOE	state-owned enterprises
WBG	World Bank Group



1.0 Introduction

In recent years, the so-called “blended finance” agenda has highlighted the need to close a USD 4 trillion annual funding gap to achieve the United Nations Sustainable Development Goals. Despite significant international attention, these efforts have so far fallen short of mobilizing public and private capital at scale. Touted as a low-cost instrument for guarantor countries to mobilize financing and as a potential instrument to access affordable financing for emerging markets and developing economies (EMDEs) facing mounting debt service burdens, guarantees are a key element of the policy mix.

Guarantees are widely used in development finance as instruments to mitigate risk, lower the cost of capital, and crowd in private investors. By transferring political and credit risks from sovereign borrowers to more highly rated guarantors, they seek to enhance creditworthiness and expand access to financing. In doing so, guarantees aim at helping countries fund their development agendas more efficiently, particularly in capital-intensive sectors like energy and infrastructure (Taquiri & Balco, 2025), where long investment horizons heighten exposure to uncertainty.

Despite their well-recognized potential as risk-mitigation instruments, guarantees have long been described as “an instrument in search of demand” (Aboneaaj & Landers, 2022). In practice, uptake has been constrained by opaque pricing, unclear risk-sharing arrangements, and concerns that public entities bear disproportionate fiscal costs while private investors remain insulated from downside exposure (Gabor, 2021). This critique highlights broader concerns about the transparency and accountability of de-risking instruments within blended finance frameworks. It also raises questions about whether such structures effectively mobilize additional private capital or instead shift risks onto the public sector, potentially increasing contingent liabilities and worsening debt sustainability for already fiscally constrained governments. These limitations have reduced the effectiveness of guarantees as catalytic instruments and weakened their credibility among sovereign borrowers.

This report examines how different types of guarantees can be deployed more effectively to finance development priorities, with a focus on sustainable energy systems and water ecosystem protection. Drawing on three country case studies—Argentina, El Salvador, and India—we examine the conditions under which guarantees allocate risks and contribute to development outcomes, as well as the macro-fiscal conditions under which they do so. It is complemented by insights from expert interviews with specialists from leading think tanks, universities, guarantee providers, multilateral organizations, development finance institutions, rating agencies, legal practitioners, and market actors.



We focus on a key distinction between guarantees used to fund public budgets and those used to leverage investment in specific projects. While both approaches offer opportunities for EMDEs, they are associated with distinct risks and policy trade-offs:

- Guarantees supporting sovereign financing operate on the public balance sheet and are primarily intended to strengthen the state's overall financing position by improving market access, reducing borrowing costs, or extending maturities. Their central policy concern is debt sustainability, with the main risk being the rollover of an unsustainable debt burden.
- By contrast, guarantees used to leverage project-level investment are typically off-balance-sheet instruments designed to improve the investment viability of the project, lower financing costs, and create public goods. While state involvement can ease regulatory and financing constraints, guarantees may also generate significant fiscal exposures, for example, through power purchase agreements (PPAs) and other contractual commitments that give rise to contingent liabilities that ultimately revert to the state.

Against this backdrop, the report provides practical guidance for policy-makers and country officials on how to target guarantee instruments toward long-term developmental outcomes, especially to close the infrastructure investment gaps in the energy and other capital-intensive sectors where evidence on design, pricing, governance, and impact remains fragmented.

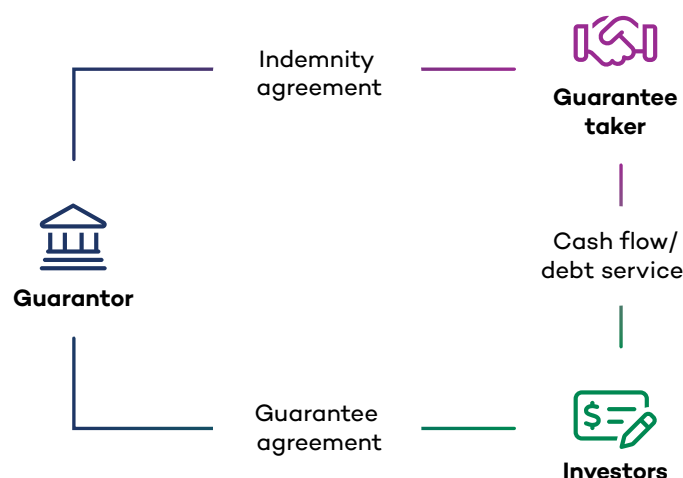
2.0 Understanding the Guarantee Landscape

For sovereign guarantee takers, guarantees are a tool that serves two main purposes: crowding in private capital and lowering the cost of capital (World Bank Group [WBG], 2026; Appendix A for Organisation for Economic Co-operation and Development [OECD] definition, overview of guarantee structuring and differentiation from insurance products).¹ Their basic function is this—if a guarantee is triggered, the official guarantor typically pays the investor the covered amount and subsequently seeks to recover this amount ex post from the borrower under an indemnity agreement.

At a minimum, guarantees involve three parties:

- an **investor** providing finance
- a **sovereign** taking out the guarantee, the “guarantee taker”
- the entity providing risk coverage, the “guarantor.”

Figure 1. Schematic overview of a guarantee involving three parties



Source: Adapted from World Bank, 2015.

2.1 Financing Objective

A central analytical distinction in the guarantee landscape lies between guarantees that support general government financing and those designed to leverage specific investment projects.

¹ Despite a wide literature on the topic, a standardized taxonomy for guarantees does not exist. This can include credit and equity participation, depending on the terminology used (Convergence Finance, n.d.; Garbacz et al., 2021; Lee et al., 2018; OECD 2025); subordinated debt, equity participation, and first-loss tranches may be referred to as forms of credit enhancement rather than guarantees, as the risk protection is embedded in the financing structure rather than provided by an external guarantor. (African Development Bank, 2024; Multilateral Investment Guarantee Agency [MIGA], 2024).



Guarantees in support of general government budgets primarily facilitate sovereign access to financing—through loans or bond issuances—by mitigating risk for creditors. They can also help anchor broader multilateral and bilateral support for a country’s fiscal and macroeconomic framework, including by facilitating debt rollover and liability management operations (LMOs).

By contrast, guarantees used to leverage project-level investment are typically structured as off-balance-sheet instruments designed to enable specific investments by improving project viability and lowering financing costs for private investors.

The principal instruments in these categories are:

- **policy-based guarantees (PBGs):** These guarantees support budget financing without earmarking the use of proceeds. While the guarantee provider does not track spending, operations are typically linked to agreed policy reforms and may underpin sector-wide or programmatic changes that strengthen the enabling environment for private investment. PBGs usually cover a stream of payments and can be structured alongside debt swaps (see El Salvador case study in Section 3.1) or LMOs. Multilateral development banks (MDBs) such as the African Development Bank, the Asian Development Bank, the International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA), and the Inter-American Development Bank (IDB) provide such instruments, often as a subset of their broader credit guarantee frameworks. In the words of one MDB specialist, the funds under a guarantee-supported transaction will flow to the treasury of a sovereign, not to projects.
- **project-based guarantees (PrBGs)** facilitate financing for clearly defined public or sub-sovereign projects—often with sovereign indemnity—with proceeds earmarked for specific uses such as infrastructure investment (see Argentina and India case study in Sections 3.2 and 3.3). The guarantor monitors implementation and ensures compliance with environmental, social, and procurement standards, as well as achievement of development objectives. They are designed to address risks inherent to individual projects, enabling transactions that might otherwise be too costly.

The WBG’s IBRD/IDA focus on this distinction in their guarantees offering. As one expert involved in guarantee structuring explained, “PBG and PrBGs for public-sector operations are identical in product structure. The difference is only in purpose and flow of funds.” At the same time, it is also important to note that the WBG later moved away from emphasizing this distinction in its guarantee offering, instead differentiating guarantees according to the nature of the risks guarantees cover (WBG, 2016); see Appendix A for partial risk and partial credit guarantees.

The reason given is that many operations combine policy and project elements, making this distinction less meaningful. From a guarantor and investor’s perspective, such a risk-based taxonomy accurately reflects how guarantees operate—by covering specific political, regulatory, or payment risks—and aligns guarantee design with financial risk management and capital allocation frameworks.

**Table 1.** Summary guarantee dimensions

Dimension	Key elements
Guarantors	MDB, bilateral, private
Guarantee takers	sovereign debtors, sub-state, development finance institution (DFI), MDBs
Financing objective	Policy based vs. project based
Types of risk for guarantee taker	Debt sustainability, contingent liabilities
Guarantee instruments	Bonds, loans, and other cash flow guarantees
Extent of coverage	partial v full guarantee

NB: Each guarantee can combine various of these categories in one product design.

Source: Authors.

Constraints to Scaling Guarantees

Despite growing interest in guarantees as instruments for mobilizing private finance, their deployment remains modest relative to global investment needs. This reflects constraints on both the demand and supply sides of the market.

This pattern reflects institutional incentives, capital allocation rules, and operational complexity that often favour loans over risk-sharing instruments. At the same time, demand from sovereign borrowers has been constrained by concerns about pricing, fiscal accounting, and contingent liability management. As a result, a persistent gap remains between the theoretical catalytic potential of guarantees and their actual deployment.

Efforts to scale guarantees as a tool for mobilizing private finance have therefore often fallen short of expectations. On the demand side, sovereign borrowers face complex legal structures, opaque pricing, and concerns about contingent liabilities, which can discourage the use of guarantees despite their potential financing benefits (International Monetary Fund [IMF], 2017; Landers, 2021; Razlog et al., 2020).² On the supply side, guarantors face constraints related to balance-sheet capacity, risk management requirements, and administrative complexity (Uzsoki et al., 2018). MDBs in particular face capital adequacy constraints arising from internal risk management frameworks and regulatory environments, which can limit guarantee issuance (Gallagher et al., 2024). As one guarantee practitioner observed, referring to prevailing accounting practices, “MDBs often reflect guarantees as a full liability on their balance sheet, as if they were a definite loss.”

In recent years, MDB reforms have increasingly prioritized the expansion of PBGs to support sovereign financing and macro-fiscal stability (World Bank, 2025). By contrast, interviewees

² Under IMF fiscal reporting guidance, government guarantees are recorded as contingent liabilities, meaning they are not counted as public debt unless the guarantee is called and a payment obligation materializes (Cebotari, 2008, IMF, 2014).



observed that demand for PrBGs has weakened in several contexts, particularly during periods of fiscal tightening, even as investment needs in energy and other infrastructure systems continue to grow. In periods of fiscal stress or limited market access, governments tend to prioritize public balance sheet guarantees that directly ease sovereign financing pressures (see Razlog et al., 2020; as highlighted by interviewees on both the guarantee taker and guarantor sides). PBGs and similar credit enhancement instruments have been used by MDBs to help sovereign borrowers maintain access to capital markets or refinance debt when investor confidence weakens.

Box 1. Magnitudes in the guarantee universe

The global market for guarantees is sizable, but its composition is uneven across time horizons and development objectives. The total stock of cross-border guarantees outstanding was around USD 900 billion (see Lindner et al., 2025, pp.14–15). However, it is important to note that most of the global guarantee volume is concentrated in short- and medium-term trade finance instruments, reflecting the role of export credit agencies in facilitating international commerce (Berne Union, 2026).

By contrast, guarantees that support long-term development finance account for only a small share of the total market, meaning that guarantees directed toward sovereign borrowers, either bilaterally or through MDBs, remain a relatively limited segment (Humphrey & Prizzon, 2014; Bandura & Ramanujam, 2019; Lee, C., Betru, A., and Horrocks, 2018). In 2018, across MDBs more broadly, guarantees accounted for only around 4.5% of balance sheet exposure (IDB, 2018, p. 5), and our analysis has shown that this has not changed significantly since then, indicating that they remain considerably less utilized than traditional sovereign lending instruments. This remains the case even though the World Bank and other MDBs, since establishing guarantees as an operational instrument in the 1990s, have significantly expanded and strengthened the use of IBRD and IDA guarantees.³

It is important to note, however, that cross-institutional comparisons are complicated and differences in terminology and reporting standards of guarantee products are a constraint to consistent measurement and transparency.

This creates a structural tension in the guarantee landscape: the instruments scaling most rapidly are not always those most closely aligned with long-term development and climate investment needs.

Furthermore, sovereigns with credit ratings above B- often do not require guarantees, as they already have sufficient access to affordable capital without external credit enhancement.⁴

³ The World Bank Group has committed to scaling up its annual guarantee issuance to USD 20 billion by 2030 through the World Bank Group Guarantee Platform, which consolidates guarantee operations across the World Bank, IFC and MIGA (World Bank Group, 2024).

⁴ Note: Sovereigns with market access may still benefit from guarantees, improving pricing, tenor, or market confidence.



Consequently, guarantees are often least needed where creditworthiness is strong and most difficult to justify where fiscal vulnerabilities are already elevated.

Beyond capital adequacy constraints, guarantors often prefer partial rather than full coverage to limit moral hazard and fiscal exposure. Taken together, these demand- and supply-side constraints help explain why guarantee volumes remain modest relative to global financing needs and why they often fall short of their catalytic potential.

2.2 Evaluating Guarantees: Financial, developmental, and fiscal dimensions

Guarantees can generate important benefits by mobilizing capital, lowering financing costs, and supporting development objectives. At the same time, they entail risks, including the transfer of financial exposure to the public sector, the creation of contingent liabilities, governance and transparency challenges, and potential implications for debt sustainability. Their effectiveness, therefore, depends on whether the benefits of improved access to finance outweigh the associated fiscal, governance, and macroeconomic risks.

2.2.1 Capital Mobilization and Financing Costs

Across both guarantee types, a key mechanism through which guarantees generate benefits is by reducing the cost of capital. By enhancing creditworthiness and reducing perceived risks, guarantees can help extend maturities and broaden the investor base. For EMDEs facing elevated risk premiums, this can translate into substantial financing gains.

Central to this is the so-called “halo effect” (Garbacz et al., 2021; Humphrey & Prizzon, 2014). The involvement of a highly rated guarantor, typically an MDB, signals project quality, policy credibility, and institutional backing. Credit rating agencies explicitly recognize this reputational spillover as an additional factor in risk assessment. This intangible positive effect operates differently across guarantee types:

- For sovereign financing guarantees, it strengthens sovereign credit perception, often resulting in tighter spreads, improved market access, and, in some cases, rating upgrades (Aboneaaj & Landers, 2022; Diwan & Devie, 2025). However, the empirical evidence remains limited and largely case-based, and more systematic research is needed to assess the extent to which these effects persist across different market conditions and sovereign contexts.
- For PrBGs, it reduces regulatory uncertainty, facilitates stakeholder coordination, and improves execution, thereby lowering financing costs and strengthening project viability.



Box 2. How guarantees affect credit ratings

Credit rating agencies evaluate guaranteed instruments primarily on the basis of the credit strength of the guarantor rather than that of the underlying borrower. In practice, the presence of a highly rated guarantor, such as a sovereign or MDB, can lift the rating of the instrument toward that of the guarantor, depending on the structure and enforceability of the guarantee. As a result, guarantees function as powerful credit enhancement tools, enabling lower-rated borrowers to access capital markets on terms closer to those available to the guarantor.

Agencies assess factors such as the unconditionality, coverage scope, and legal robustness of the guarantee, but the guarantor's own rating remains the dominant driver. One interviewee with experience in sovereign ratings noted that “for sovereign ratings, what a loan or bond is used for is essentially irrelevant. What matters is the strength of the sovereign and whether the guarantee is full or partial.”

2.2.2 Developmental and Climate Impact

The developmental and climate impact of guarantees depends not only on their ability to mobilize capital but also on whether they address specific market failures and support broader processes of productive transformation. In many EMDEs, investment is constrained by regulatory uncertainty, weak creditworthiness of public counterparties, high financing costs, and limited access to long-term capital. By mitigating these barriers, guarantees can enable investments that would otherwise not occur.

When effectively targeted, guarantees can support structural economic change by facilitating investment in strategic sectors, infrastructure, and technologies that enhance productive capacity, strengthen economic resilience, and accelerate the transition to low-carbon development pathways. This is particularly relevant for emerging sectors such as renewable energy, where high upfront costs and perceived risks often impede investment despite strong social and environmental benefits. Guarantees can also help coordinate investment among governments, development partners, and private investors, supporting projects aligned with national development and climate strategies.

At the same time, guarantees should not be used simply to facilitate additional borrowing or subsidize investments that would have occurred anyway. Their developmental additionality depends on whether they address clearly identified market failures and support investments that generate wider economic, social, and environmental benefits. Ensuring strong governance arrangements, transparent contracts, and effective monitoring mechanisms is therefore essential. In this sense, guarantees should function as catalytic instruments that crowd in private capital while supporting productive transformation, climate objectives, and sustainable development outcomes.



Even where borrowing costs decline, the net benefit must be assessed against the overall cost of capital and the net present value (NPV) of financing, including contingent liabilities. As an expert put it in an interview, “pricing guarantees is difficult because the data is not there, the market is often a black box” (Finance expert, personal communication, 2025).

Box 3. NPV and guarantees

A key consideration when evaluating guarantees is whether they generate meaningful NPV savings for the borrower. If the financial benefits do not outweigh the costs of the guarantee, its use is difficult to justify. Where substantial savings exist, attention shifts to the design of the guarantee and the debt instruments it supports.

A growing literature has examined the pricing, valuation, and effectiveness of guarantees and related credit enhancement instruments. Early studies focused on partially guaranteed bonds and World Bank guarantees in sovereign and sub-sovereign financing (Launay & Gupta, 2016; Launay et al., 2016). More recent work has explored their role in sovereign debt restructuring, debt swaps, and climate finance (Ababou, 2025; Diwan & Devie, 2025; Wambui & Cheruiyot, 2025).

This literature typically assesses guarantees through their ability to reduce perceived risk and crowd in private capital. Their financial impact is often captured through a “crowding-in” multiplier, which estimates how much additional investment can be mobilized through public risk-sharing. Key variables include market interest rates, borrower risk premiums, and the extent to which the guarantee lowers financing costs.

2.2.3 Macro-Fiscal Implications

The benefits of guarantees must be weighed against their fiscal costs and risks. By transferring risk away from investors, guarantees may also shift substantial financial exposure onto governments and public institutions.

Managing government guarantees poses important fiscal challenges. Because the potential costs of guarantees are difficult to estimate and usually materialize only under specific circumstances, they often do not appear in headline fiscal indicators such as the reported budget deficit, complicating fiscal oversight and risk management (Razlog et al., 2020). This does not imply that guarantees should be avoided. Rather, it highlights the need for stronger frameworks to assess, monitor, and disclose contingent liabilities. Given the wide range of stakeholders involved and the complexity of guarantee instruments used to support development and climate objectives, strengthening fiscal risk management, reporting standards, and ex ante evaluation represents an important priority for future policy development and research.

While newer guarantee structures increasingly incorporate layered risk-sharing mechanisms, evidence suggests that many de-risking arrangements remain skewed toward investors, with potentially significant fiscal costs when risks materialize (Gabor & Braun, 2025). This dynamic has been described as “weak de-risking,” a model in which the state supports private



investment indirectly by assuming or absorbing key risks through mechanisms such as state-owned enterprises, public–private partnerships, and price guarantees.

From a sovereign perspective, this raises important questions about the distribution of risks and rewards. While de-risking can mobilize private capital and lower financing costs, public entities often retain exposure to downside risks through explicit guarantees, contractual obligations, or contingent liabilities. In such cases, private investors may capture a large share of project returns, while governments bear a disproportionate share of losses if projects underperform or adverse shocks occur. These arrangements can therefore improve bankability and attract investment, but they may also create hidden fiscal vulnerabilities that only become visible when guarantees are called or support mechanisms are triggered (see Baum et al., 2020; IMF, 2021; Ülgentürk, 2017; and World Bank, 2019).

These risks often take the form of contingent liabilities that may not appear in headline fiscal indicators but can become substantial when guarantees are called. On the other side, systematic evidence of the downside costs of guarantees comes from Bova et al. (2016), who reviewed the realization of many kinds of contingent liabilities. They found that the activation of guarantees related to state-owned enterprises (SOEs), which are often the main recipients of the kind of sovereign guarantees on which this paper focuses, had an average cost of 3% of GDP and a maximum cost of 15%. An insightful example is Mozambique’s fiscal crisis of 2015–16, which followed the disclosure of large, previously secret guarantees to government-controlled companies (Civil Forum for Asset Recovery, 2018; IMF, 2018, 2019).

Guarantees are therefore not costless. They entail explicit fees, structuring costs, and legal complexities, as well as implicit fiscal risks if triggered. To maintain credibility, guarantee takers typically need to meet transparency, policy, and governance standards that reduce moral hazard and ensure appropriate use of public risk-bearing capacity. The direct pricing of the guarantee can materially affect the attractiveness and affordability of the instrument, particularly for projects with limited revenue streams. Pricing remains challenging due to limited standardization and complex structuring requirements (Esquinca et al., 2025; Lindner et al., 2025). While progress has been made in streamlining products, for example through the WBG’s harmonization of its guarantee offering under the Multilateral Investment Guarantee Agency (MIGA) (WBG, 2024), pricing and valuation challenges persist.

Guarantees can shift risk onto the public sector while insulating investors.⁵ In response, newer structures increasingly incorporate layered risk-sharing mechanisms, such as co-guarantees or private reinsurance, to ensure that private investors retain part of the exposure. These approaches aim to preserve incentives and contain fiscal risks while maintaining the catalytic role of guarantees.

While these arrangements can make infrastructure projects more attractive to institutional investors, they may also shift substantial contingent liabilities onto the public sector, weaken fiscal transparency, and lock governments into long-term payment commitments. In such cases, guarantees and related instruments may facilitate private investment without

⁵ Investors may include private financial institutions, institutional investors, or public entities such as pension funds. Any investor exposed to project-related risks may benefit from the risk mitigation provided by a guarantee.



fundamentally reducing underlying risks, raising questions about their developmental and fiscal sustainability.

Guarantees and Debt Sustainability

In principle, guarantees can reduce borrowing costs, lengthen maturities, and mobilize additional private capital without significantly increasing debt vulnerabilities. Thus, countries at high risk of debt distress are generally not well-suited for guarantees, as these instruments may increase fiscal vulnerabilities through contingent liabilities.

Debt sustainability frameworks distinguish between countries with sustainable debt dynamics and those at high risk of debt distress, suggesting that guarantees may improve financing conditions in the former case. In practice, however, this distinction is often blurred. Debt sustainability assessments rely on assumptions about growth, interest rates, and fiscal adjustment that can change rapidly in response to shocks. As a result, countries considered sustainable today may quickly move into distress, particularly if contingent liabilities materialize. As one interviewee with experience in sovereign ratings noted, “what a sovereign invests in is largely irrelevant for the rating, unless it fundamentally alters its repayment capacity” (Finance Expert, 2025)

In this sense, guarantees can be understood as a distinct type of subsidy, best conceived as bespoke (or “boutique”) structured finance instruments designed to address specific risks rather than as broad, general-purpose support measures. Their effectiveness depends critically on sound pricing, balanced risk allocation, and consistency with macro-fiscal conditions. Unlike direct fiscal transfers, guarantees operate by altering the distribution of risk between public and private actors, thereby influencing financing conditions and investment decisions. As such, their benefits and costs are often less visible *ex ante* but can become significant when contingent liabilities materialize.⁶

⁶ According to the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures, a subsidy includes “a government practice [that] involves a direct transfer of funds (e.g., grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g., loan guarantees)” (WTO, 1994).



3.0 Targeting Sovereign Guarantees to Development Outcomes

Drawing on insights from expert interviews and the country case studies of Argentina, El Salvador, and India, this chapter examines the conditions under which guarantees can mobilize capital, support development and climate objectives, and shape fiscal outcomes.

A case study approach is particularly important in this context because guarantee structures vary widely in their design, objectives, and fiscal implications. Guarantees can differ in terms of risk coverage, contractual arrangements, institutional actors, and their interaction with broader macroeconomic conditions. As a result, aggregate data alone often provides only limited insight into how these instruments function in practice. Examining concrete country cases allows for a more nuanced understanding of how guarantees operate in specific institutional and market environments, helping to clarify the mechanisms through which they mobilize finance, allocate capital, and generate investment returns.

The analysis centres on the core distinction between guarantees used to support sovereign financing and those designed to leverage investment in specific projects.

Table 2. Guarantees for energy and water objectives (MDB components)

Country	Year	Type of guarantee	Guarantee (USD million)	Guarantor
El Salvador	2024	Budget support ⁷	1,000/200	International Development Finance Corporation (DFC)/ Development Bank of Latin America and the Caribbean
Argentina	2016	Leveraging renewable energy projects ⁸	480/250	IBRD 1/2
India	2016/2025	Leveraging renewable energy projects ⁹	514	MIGA

Source: World Bank 2016, 2018, World Bank Treasury 2024, (see case studies and for guarantee layer amounts).

⁷ This is a political risk insurance according to the DFC product catalogue (see case study for details).

⁸ This is a payment guarantee (partial risk guarantee), according to the WBG product catalogue (see annex/case study for additional details).

⁹ This is a “Non-Honoring of Sovereign Financial Obligations (NHSFO),” a core credit risk guarantee in MIGA’s product catalogue, introduced in 2009 (See World Bank Independent Evaluation Group, 2022).



Across the three case studies, guarantees were used to support development outcomes, such as energy sector investments. The cases, spanning project-level payment guarantees, credit enhancement guarantees for SOEs, and debt-for-nature swap structures, illustrate how guarantees can be tailored to different institutional and market contexts while advancing common development objectives.

The case studies were chosen to capture diverse applications of guarantee mechanisms in the financing of energy and water objectives across different country contexts. Selected cases reflect variation in project structure, guarantee design, and institutional involvement, allowing for comparative analysis of how these factors influence project outcomes and fiscal implications. The sample includes projects representing a mix of sovereign and sub-sovereign guarantees financing via a state bank, etc., as well as policy-based and project-based instruments. Selection criteria also included the availability of public information, the relevance of the project to national energy transition goals, and the degree of engagement by multilateral development institutions. This approach enables a nuanced understanding of how guarantees operate under differing regulatory, financial, and market conditions.

3.1 Argentina's RenovAr: A guarantee set to support a shift in the energy matrix

Argentina's RenovAr program is an instructive example of how guarantees can mobilize private investment in renewable energy at scale in a high-risk macroeconomic environment. Launched in 2016, RenovAr sought to transform Argentina's fossil fuel-dependent electricity matrix through competitive renewable energy auctions backed by a layered risk-mitigation architecture.

A distinctive feature was that the guarantee supported the overall procurement framework rather than a single project. Key to this structure was a USD 480 million guarantee from the IBRD, approved in 2017 and supplemented by an additional USD 250 million the following year, that backed the government's obligations under the Fund for the Development of Renewable Energy (FODER).

At the time of the program's inception, Argentina's energy landscape was deeply dependent on fossil fuels. Wind and solar energy accounted for less than 2% of total electricity generation, despite significant potential (World Bank, 2018). The sector was also shaped by energy subsidies that kept electricity and natural gas tariffs below cost-recovery levels, requiring substantial government transfers to energy sector institutions and creating significant fiscal burdens. At the same time, repeated policy reversals, economic crises, and the legacy of Argentina's 2001 sovereign default had severely undermined investor confidence and limited access to international project finance. Investors remained concerned about the government's ability to honour long-term contractual commitments, particularly given the central role of public sector entities in electricity market operations and payment flows (International Finance Corporation & World Bank, 2020; Renewable Energy Leadership Platform [RELP], 2025).



Potential to Mobilize Capital and Risk Allocation

RenovAr was structured as an auction-based procurement program, with the Compañía Administradora del Mercado Eléctrico Mayorista S.A. (CAMMESA, the Argentine wholesale electricity market administrator), acting as the central off-taker under 20-year PPAs denominated in US dollars. Investors viewed off-taker risk as closely linked to sovereign risk. Dollar denomination was a deliberate design choice to shield investors from peso depreciation and reduce a major barrier to long-term infrastructure investment in Argentina (World Bank 2018, 2022).

Independent power producers competed through auction rounds based on the lowest offered tariff per megawatt hour. However, competitive auctions alone were not considered sufficient to mobilize investment at the desired scale given concerns about sovereign creditworthiness, currency volatility, and regulatory uncertainty (World Bank, 2018; 2022). To address these concerns, the program introduced a three-tiered risk-mitigation structure.

The first layer consisted of CAMMESA's contractual payment obligations under the PPAs, supported by the Ministry of Energy and Mining (Government of Argentina, 2018). The second layer was FODER, a dedicated trust fund created to provide payment security if CAMMESA failed to meet its obligations. FODER maintained liquidity reserves and also provided termination protection through a put-option mechanism. Under specified trigger events, developers could require the government to purchase projects according to predefined terms.

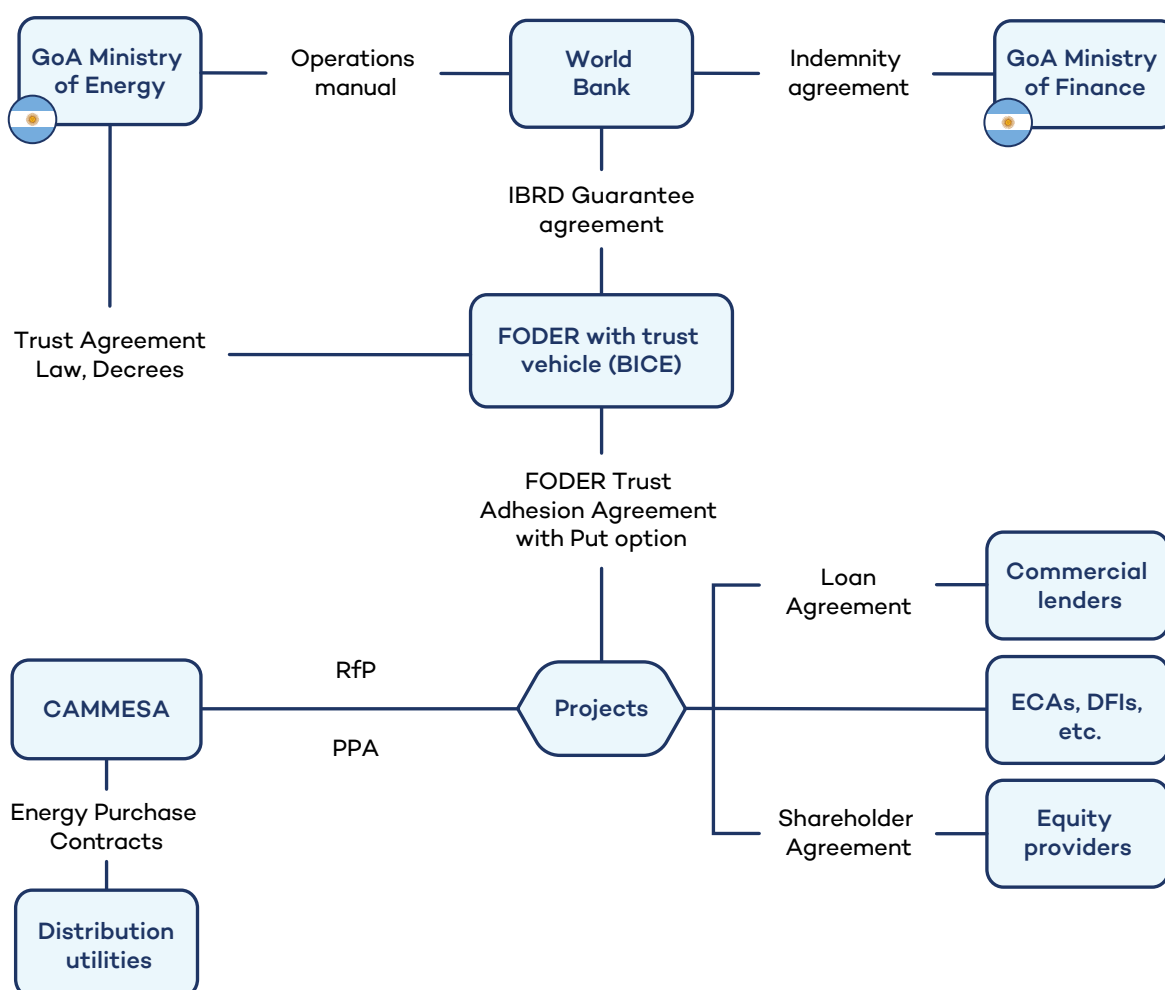
The third and most important layer was the IBRD guarantee. The guarantee backstopped the government's obligation to fund FODER and functioned as the final layer in a sequential chain of obligations involving CAMMESA, the Ministry of Energy, the Ministry of Finance, and FODER, providing a credible backstop against government payment default and helping restore confidence in Argentina's renewable energy market (World Bank, 2018, 2022).

The guarantee also created a direct relationship between investors and the World Bank. In certain trigger events, project developers could submit claims directly to the bank rather than relying exclusively on domestic institutions. This feature was widely regarded as enhancing the credibility of the risk-sharing framework, and it reduced concerns about political and contractual enforcement risk. The International Finance Corporation complemented the guarantee through advisory support on auction design and investor outreach. The program attracted substantial investor interest and generated significant oversubscription, resulting in billions of dollars of investment commitments.¹⁰ Several factors contributed to this outcome, including competitive auction design, improving renewable energy economics, dollar-denominated PPAs, the FODER payment security mechanism, and the IBRD guarantee. Although it is difficult to isolate the marginal contribution of the guarantee relative to these other factors, investors and program stakeholders consistently identified the risk-mitigation framework as an important element in making projects financeable in Argentina's high-risk macroeconomic environment.

¹⁰ Renewable energy tariffs declined rapidly, with average solar tariffs falling from approximately USD 59.75/MWh in the first auction round in 2016 to USD 43.50/MWh by the 2017 auction round, a reduction of roughly 27% (Solarplaza, 2018).



Figure 2. Argentina's FODER guarantee structure



Source: Authors, based on World Bank, 2018.

Developmental and Climate Implications

From a development perspective, RenovAr delivered transformative early results in a sector that had historically failed to attract sustainable private investment. The program diversified Argentina's energy matrix, supported the country's climate commitments under the Paris Agreement, and demonstrated how competitive renewable energy auctions and multilateral risk-sharing mechanisms could mobilize private capital in a high-risk macroeconomic environment.

By 2024, renewable energy sources supplied approximately 16% of Argentina's electricity demand, compared with less than 2% at the program's inception. Expected annual emissions reductions from the program amounted to approximately 4 million tonnes of CO₂, driven primarily by the displacement of fossil fuel generation (International Renewable Energy Agency [IRENA], 2026).



The program also illustrates how guarantees can support renewable energy investment in systems where public sector entities play a central role. This is particularly relevant for many emerging and developing economies, where utilities face financing constraints.

Its auction framework and risk-sharing architecture were studied through World Bank knowledge-sharing initiatives. In this sense, RenovAr contributed not only to domestic energy transition objectives but also to broader learning regarding renewable energy procurement in developing economies (under RELP and IRENA).

A further developmental benefit arose through declining renewable energy costs. Renewable energy costs declined substantially during the implementation period, although these reductions reflected a combination of competitive auction design, improving investor confidence, and broader global declines in renewable energy technology costs. Competitive auctions reduced winning tariffs from approximately USD 59/MWh in the first rounds to around USD 41–43/MWh in later rounds. Lower generation costs created the potential for reduced electricity procurement expenses, and, over time, lower fiscal pressures associated with Argentina's extensive energy subsidy system which had long imposed significant fiscal costs through below-cost energy pricing and government transfers to the power sector (World Bank, 2018).

At the same time, the program highlighted the limitations of guarantee-supported investment in contexts characterized by persistent macroeconomic instability. From 2018 onward, Argentina experienced severe economic turbulence, including rapid currency depreciation, rising inflation, and an IMF-supported stabilization program. These developments increased uncertainty for investors and weakened the broader investment climate despite the program's initial success.

The anticipated fourth auction round was never launched, illustrating how macroeconomic conditions can ultimately constrain program continuity. Transmission bottlenecks further limited outcomes. An estimated 1.5–2 GW of awarded renewable generation capacity faced delays; in several regions, grid expansion lagged behind renewable energy deployment, reducing the ability of awarded projects to reach commercial operation on schedule and limiting the full realization of auction outcomes (IRENA, 2026). The experience demonstrated that mobilizing private capital into generation assets alone is insufficient; complementary investment in transmission and system integration is equally necessary for successful energy transition outcomes (RELP, 2025).

More broadly, RenovAr illustrates that guarantees can accelerate market development and support renewable energy deployment, particularly where sovereign and payment risks inhibit investment, but they cannot overcome all structural barriers. Macroeconomic stability, infrastructure planning, and institutional continuity remain essential determinants of long-term success. While it is difficult to isolate the precise contribution of the guarantee from other factors, including declining global renewable energy technology costs and the competitive auction framework itself, the increase in investor participation and financing commitments following the introduction of the RenovAr framework suggests that the guarantee played an



important catalytic role in restoring market confidence and facilitating private investment at scale.

Macro-Fiscal Implications

While RenovAr is often presented as a successful guarantee-supported investment program, its macro-fiscal implications deserve careful attention, particularly given Argentina's history of debt crises and fiscal instability. The program demonstrates both the opportunities and the risks associated with using contingent liabilities to mobilize private capital.

FODER was designed as an off-balance-sheet trust fund that insulated payment obligations from the annual budget process and created a degree of separation between project financing and sovereign accounts. However, this institutional structure did not eliminate underlying fiscal exposure. Rather, it transformed direct liabilities into contingent liabilities that would materialize under specific stress scenarios.

The program's sequential guarantee structure ultimately depended on public sector support. If CAMMESA failed to meet its obligations, responsibility shifted through a chain involving the Ministry of Energy, the Ministry of Finance, FODER, and finally the IBRD guarantee. Although the World Bank absorbed the final layer of risk, the preceding obligations remained contingent liabilities of the Argentine state.

This arrangement highlights an important lesson regarding guarantees. They do not remove sovereign risk; instead, they redistribute it across institutions, time horizons, and contractual structures. The credibility of the IBRD guarantee was necessary precisely because investors questioned the reliability of domestic institutions and public finances.

The use of dollar-denominated PPAs further illustrates the macroeconomic trade-offs embedded in risk-allocation decisions. Dollar denomination successfully reduced currency risk for investors, helping attract international capital. However, it simultaneously transferred exchange-rate risk to the public sector. As the peso depreciated sharply after 2018, the local-currency cost of fulfilling PPA obligations increased substantially. This contributed to growing fiscal pressures and intensified debates over energy subsidies and public expenditure.

The program also raises broader questions about transparency and fiscal risk management. Layered guarantee structures and specialized financial intermediaries can improve investment outcomes but may also obscure the scale and distribution of contingent liabilities. The Argentine supreme audit institution criticized the lack of transparency around pricing structures and quantifiable fiscal costs (Auditoría General de la Nación, 2023)

At the same time, governance practices for these instruments are still evolving. The use of complex guarantee structures in the energy sector has expanded faster than the development of established standards and best practices. Strengthening governance will therefore require transparent reporting, regular assessment of guarantee exposure, and integration of contingent liabilities into medium-term fiscal planning.

Importantly, there is no evidence that the World Bank-backed termination guarantee was ever called or that projects exercised the put-option mechanism. However, available evidence suggests that FODER's liquidity facilities were used on several occasions to address temporary



payment shortfalls, particularly during periods of economic stress and revenue collection difficulties. This suggests that the lower tiers of the risk-allocation structure performed their intended stabilizing function, allowing payment disruptions to be managed without escalation to the final MDB-backed guarantee layer (Climate Transparency, 2025).

The RenovAr experience ultimately demonstrates that guarantees are most effective when deployed as catalytic and time-bound instruments rather than permanent substitutes for underlying creditworthiness. They can support market creation, reduce financing costs, and crowd in private investment, but they cannot compensate indefinitely for macroeconomic instability, fiscal imbalances, or weak institutions.

Several broader lessons emerge. First, guarantees can have substantial additionality in high-risk environments when combined with credible market reforms. Second, program-level guarantee structures can create efficiencies through risk pooling and standardized investment frameworks. Third, guarantees are complements to, not substitutes for, sound macroeconomic management¹¹ and broader energy sector reform such as phasing out fossil fuel subsidies, modernizing and expanding grids, and other enabling policies, such as carbon pricing and incentives for storage infrastructure. Finally, careful management of contingent liabilities is essential to ensure that developmental gains are not offset by future fiscal burdens.

3.2 El Salvador Debt Swap: Water preservation amid debt sustainability concerns

Potential to Mobilize Capital and Risk Allocation

El Salvador has adopted a new fiscal sustainability framework aimed at anchoring public finances and reducing public debt over the medium to long term. The legislation establishes explicit debt-to-GDP targets¹² supported by stricter fiscal rules, enhanced transparency provisions, and a medium-term fiscal framework to guide budget planning (“El Salvador Passes,” 2025; IMF, 2025). At the same time, the country continues to face elevated debt burdens and macro-financial vulnerabilities, including exposure to external shocks and the need for sustained fiscal consolidation to maintain debt sustainability.

Within this context, in late 2024, El Salvador launched a landmark debt-for-nature swap, which included a PBG at its centre. Despite strong political alignment around the need for investment in long-term water security, financing had long been lacking. The proceeds from the swap were oriented toward the Río Lempa watershed, the country’s most vital ecological and economic asset, covering 49% of national territory, supplying around 70% of its water, and supporting roughly 80% of its population.

¹¹ Argentina’s 1999 PBG underlines this point. Following the 2001 default, guaranteed obligations crystallized into fiscal liabilities and complicated restructuring efforts, contributing to a temporary decline in the use of MDB-backed sovereign guarantees (Aboneaaj & Landers, 2022).

¹² 80% by 2030, 75% by 2035, and below 70% by 2045.



Developmental and Climate Implications

The operation restructured existing sovereign debt into approximately USD 1 billion in “impact notes,” backed by a political risk insurance guarantee from the U.S. DFC and a liquidity facility from the Development Bank of Latin America and the Caribbean, which provided a USD 200 million standby letter of credit.

Through a buyback of outstanding debt already traded at a discount and lowered borrowing costs through guarantees, the transaction is expected to generate an estimated USD 350 million in savings over the life of the operation (DFC, 2024). However, such estimates should be interpreted with caution, as they depend on assumptions about future interest rates, refinancing conditions, and the counterfactual cost of borrowing in the absence of the guarantee. As a result, the precise magnitude of the financial benefit remains difficult to assess *ex ante*. These resources are being channelled into a 20-year conservation and restoration program for the Río Lempa basin, governed by dedicated institutional arrangements and performance-based incentives (Furness, 2024).

The structure includes a conservation fund for immediate projects and an endowment account designed to accumulate resources and be unlocked once the impact notes are repaid. Conservation activities are executed by non-sovereign entities, and the agreement integrates both financing mechanisms and policy reforms. Among these are commitments by the government to establish a zonal organization for watershed oversight and to implement a national water data monitoring system.

The deal tied environmental performance directly to fiscal savings by using earmarking mechanisms. Compliance with specific conservation milestones triggers an interest rate step-down, lowering the government’s borrowing costs. Conversely, failure to meet these commitments results in monetary penalties. Another notable feature of the arrangement are the protected conservation payments even in scenarios of sovereign default or trustee turnover, which ensures that watershed restoration remains funded regardless of broader economic developments.

The transaction benefited from strong political coordination across the presidency and key ministries, particularly finance and environment, as well as credible implementing partners and governance arrangements that ensure effective implementation and monitoring. The combination of financial engineering and policy alignment proved central to feasibility, while performance-linked incentives, such as interest step-downs tied to conservation outcomes, helped align financial and environmental objectives.

The case illustrates that sovereign debt treatment and environmental policy can, to some extent, be mutually reinforcing. Guarantees may have helped lower financing costs and mobilize private capital (more research on quantifying this needs to be done for more conclusive evidence) while linking the operation to concrete environmental outcomes.

However, the scalability of such models remains uncertain: while transaction sizes have been rising in recent years (see Colodenco et al., 2025), the share of resources ultimately channelled to conservation may be relatively small, with significant structuring and administrative costs attached (over 20 years annually, roughly USD10 million will fund the program directly,



while approximately USD 7 million per year will fund an endowment) (DFC, 2024). At the same time, in an era of declining international grant financing for important environmental initiatives like those linked to nature restoration, biodiversity, and water conservation, under the right conditions, this model can contribute to advancing the environmental agenda.

Macro-Fiscal Implications

From a financing perspective, the transaction illustrates how guarantee-backed LLM operations can support both debt management and environmental policy objectives. Multilateral partners have complemented the operation with broader macro-financial support. The IDB has approved a USD 350 million policy-based loan (see IDB, 2018) and another tranche of 500 million (Economist Intelligence Unit, 2025) to strengthen fiscal management and public investment systems. Under its program with the IMF, El Salvador has committed to reforms aimed at strengthening financial integrity and improving macro-fiscal governance.¹³

Despite these reforms, fiscal and macro-financial risks persist. These include continued exposure to Bitcoin price volatility, which remains a source of fiscal and financial uncertainty given the government's holdings of the asset and its earlier adoption as legal tender. Fluctuations in Bitcoin prices can affect public balance sheets, investor perceptions, and the credibility of macroeconomic management. Additional risks stem from vulnerability to external shocks, such as potential trade policy changes in the United States, El Salvador's main export market, as well as the need to sustain fiscal consolidation under the program with the IMF. The IMF-supported program targets a sustained improvement in the primary fiscal balance and a gradual reduction in public debt ratios over the medium term. Achieving these targets may prove challenging given historically elevated debt levels, limited fiscal space, and the country's track record of fiscal deficits prior to the program. Maintaining consistent consolidation over time will therefore be essential to ensuring that recent financing operations translate into durable improvements in debt sustainability.

The case also highlights the limits of such instruments in contexts of elevated debt vulnerability. In El Salvador's case, the USD 350 million in savings represents about 1.4% of its total external debt stock, and the country remains exposed to high external debt burdens. Debt service is at almost 100% of exports, and external debt stocks are also at elevated levels, with 75% of gross national income (World Bank, n.d.). External debt stocks remain above 200% of exports, having peaked at almost 300%. Hence, the swap, while reducing near-term debt service costs, does not fundamentally alter long-term debt dynamics. In this sense, guarantee-backed LMO may ease financing pressures but risk deferring rather than resolving underlying solvency challenges. Interviewees stressed the notion that guarantees as an instrument should be left behind as soon as possible, as the goal should be to develop capacity and credibility to sustainably borrow in capital markets.

More fundamentally, the effectiveness of guarantees depends on the macro-fiscal context and the sovereign's credit profile. Countries in acute debt distress may be ill-suited to such instruments, while highly rated sovereigns may have limited need for them. In this

¹³ Including measures to make private sector acceptance of Bitcoin voluntary and ensure tax obligations are settled in USD, alongside broader reforms to public finances and financial oversight (IMF, 2025b).



sense, guarantees can sometimes resemble an instrument in search of demand: where fiscal conditions are weakest and financing constraints most binding, their use may be inappropriate due to heightened debt vulnerabilities; where macroeconomic fundamentals are strong enough to support their use, governments may already enjoy relatively favourable market access without the need for credit enhancement. This tension creates a risk that guarantees are used in contexts where they primarily delay adjustment rather than address underlying fiscal challenges, potentially encouraging governments to roll over liabilities and postpone necessary fiscal consolidation.

In cases of severe debt overhang, guarantees may primarily facilitate debt rollover operations, enabling governments to refinance existing obligations at lower cost without addressing underlying solvency constraints. This can create “extend and pretend” dynamics, where liquidity pressures are eased in the short term, but structural vulnerabilities remain unresolved, potentially delaying necessary debt restructuring. As emphasized in the sovereign debt literature, when debt burdens are already unsustainable, incremental financing or credit enhancement risks being “too little, too late” to restore debt sustainability (Krugman, 1988; Panizza et al., 2009). In such contexts, guarantees may improve marginal financing conditions but cannot substitute for comprehensive debt treatments—they may even increase future fiscal risks if contingent liabilities materialize.

While innovations by MDBs point toward more flexible approaches to risk allocation, their fundamental limitations remain similar. MDBs increasingly use layered risk-sharing structures that combine different instruments, such as partial guarantees, non-honouring of public debt coverage, and second-loss tranches, to distribute risk across public and private actors. These arrangements can enhance the attractiveness of sovereign or project financing by improving creditworthiness and mobilizing private investors.

For example, the first joint IBRD-MIGA guarantee platform supported Côte d’Ivoire’s sustainability-linked financing in 2025, combining different guarantee instruments to strengthen investor confidence and expand market access. However, such structures do not eliminate the underlying fiscal and macroeconomic risks associated with sovereign borrowing. If the sovereign’s debt position remains fragile, the presence of guarantees may improve financing conditions but cannot fundamentally resolve debt sustainability challenges. As a result, these instruments remain constrained by the broader macro-fiscal context in which they are deployed. It is thus important that these operations are accompanied by prudent fiscal risk management and a broader assessment of debt sustainability beyond a narrow focus on restructuring status.¹⁴

Where public debt is already unsustainable, or where countries are assessed to be at high risk of debt distress, guarantee-backed operations should generally be avoided. In assessing fiscal space for such instruments, policy-makers should err on the pessimistic side, recognizing that contingent liabilities can materialize under adverse macroeconomic conditions and further amplify fiscal vulnerabilities.

¹⁴ See, for example, the World Bank has developed a decision tree framework developed to support countries in identifying the most suitable debt swap instrument (World Bank & International Monetary Fund, 2024, p. 11).

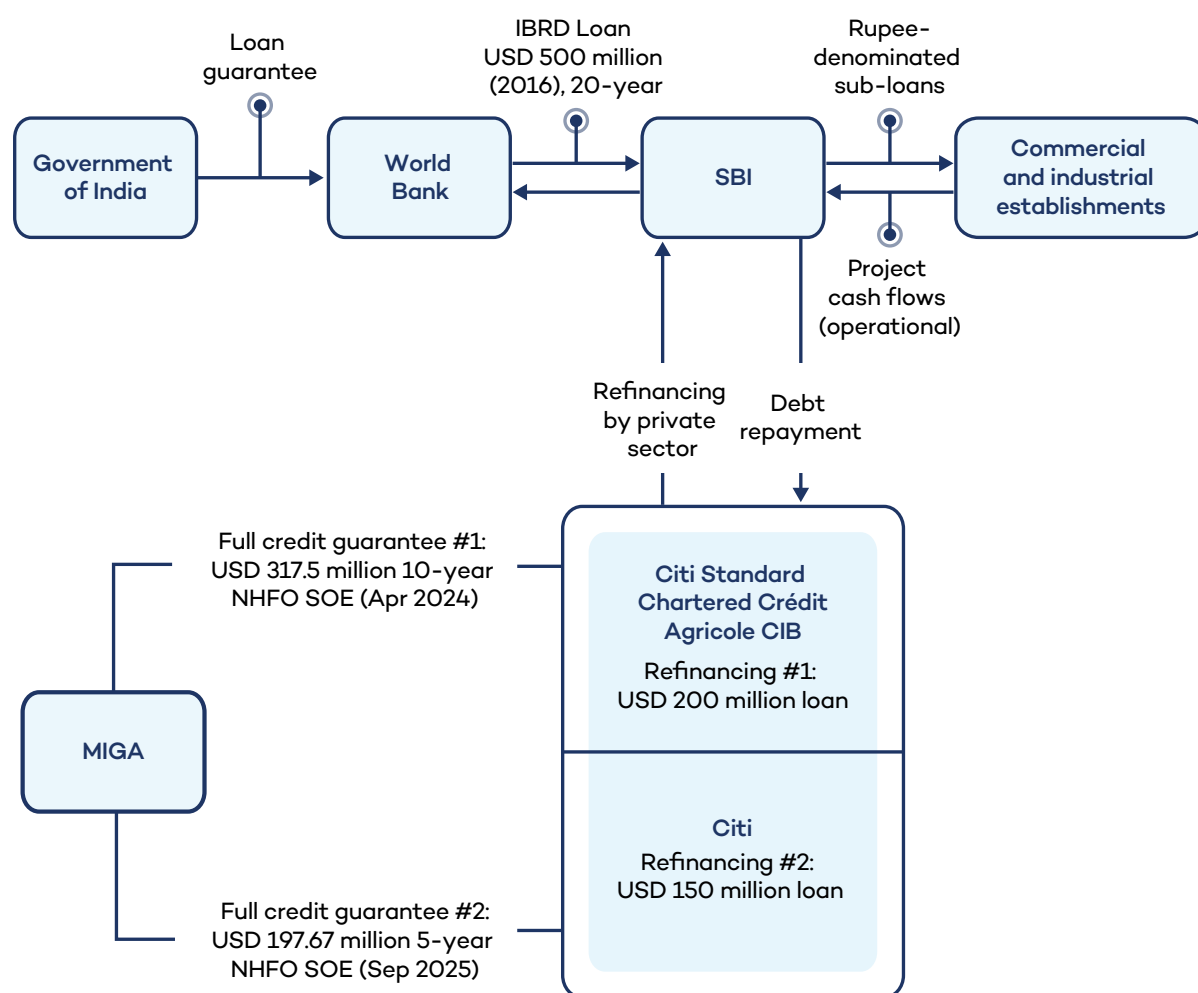


3.3 India's Guarantee Model for Rooftop Solar Financing

Potential to Mobilize Capital and Risk Allocation

Another important case study for studying guarantees in the context of development finance is the Grid-Connected Rooftop Solar Photovoltaic Program in India. In this case, project-based, full credit guarantees were used by MIGA (MIGA 2024, 2025). This was done to enable the recycling of the sovereign guarantee of the Government of India for other IBRD projects in India and refinance a USD 500 million IBRD loan to India's largest state-owned bank, the State Bank of India (SBI), via private lenders (World Bank, 2016; World Bank Treasury, 2024).

Figure 3. India's grid-connected rooftop solar photovoltaic program guarantee structure



Source: Authors based on World Bank Treasury, 2024.

Refinancing the IBRD loan required SBI to prepay USD 200 million of the original facility. Under IBRD's pricing structure at the time, early prepayment triggered a USD 8.5 million prepayment premium (World Bank Treasury, 2024). Without adjustment, this fee would have undermined the financial viability of the refinancing for SBI.



The WBG developed a coordinated financial solution. SBI paid the USD 8.5 million prepayment premium to IBRD. MIGA absorbed this cost by discounting its guarantee premium by an equivalent amount. Additionally, IBRD paid USD 4.55 million to MIGA in recognition of the balance-sheet benefits of the transaction. This coordinated approach ensured that SBI was not financially penalized for refinancing and that IBRD maintained financial neutrality (World Bank Treasury, 2024). As a result of this transaction and related pricing reforms, IBRD removed prepayment fees from its pricing structure in October 2024, making similar refinancing transactions more scalable in the future (World Bank Treasury, 2024).

The refinancing freed up USD 200 million in IBRD lending capacity for India, enabling new development initiatives before reaching exposure limits. It also reduced the Government of India's contingent exposure to SBI's credit risk for the refinanced portion. In effect, risk was reallocated to make effective use of MIGA's guarantee framework.

The SBI rooftop solar program illustrates the catalytic role of guarantees in early-stage markets. The initial sovereign-backed IBRD loan enabled market entry and risk reduction, while subsequent MIGA-backed refinancing mobilized private capital and reduced sovereign exposure. The case illustrates a phased de-risking model. In Phase I, sovereign backing enabled market entry. In Phase II, a multilateral guarantee enabled private refinancing. This graduated transition from sovereign support to private participation reflects best practices in blended finance and risk layering (OECD, 2018).

Developmental and Climate Implications

India's rooftop solar market was still nascent in 2016, with roughly 500 MW of installed capacity against a national target of 40 GW. Limited access to affordable long-term finance, perceived credit risks, and shallow domestic capital markets constrained uptake.

The program was anchored in a USD 500 million IBRD loan to SBI, backed by a sovereign guarantee, which enabled SBI to on-lend to rooftop solar developers and households at significantly lower interest rates (approximately 8.5%–9%) compared to prevailing market rates of 12%–16%. This concessional financing improved project bankability, stimulated demand, and helped establish a track record for rooftop solar lending in India's domestic financial system. In this early stage, the sovereign-backed MDB loan served as a market-creation instrument, reducing financing costs and demonstrating the commercial viability of rooftop solar.

In 2024–2025, as the portfolio matured and repayment performance became established, part of the IBRD exposure was refinanced through private lenders, supported by MIGA guarantees for SOEs. This “One World Bank Group approach” enabled a transition from sovereign-backed public finance to private finance supported by multilateral guarantees. The refinancing mobilized commercial capital, reduced the sovereign's contingent exposure, and freed MDB balance-sheet capacity for new development priorities. As one interviewee emphasized, guarantees “can free up existing assets on bank balance sheets, allowing banks to scale up investments.”



From a development perspective, the program contributed to scaling rooftop solar deployment and diversifying India's energy mix. It also supported the development of local financing channels for clean energy, strengthening SBI's role as a key intermediary and building institutional capacity for renewable energy lending. The phased design, moving from sovereign-backed lending to multilateral guarantees and private refinancing, illustrates a graduated de-risking pathway in which guarantees function as temporary catalytic instruments rather than permanent subsidies.

From a climate perspective, rooftop solar reduces reliance on fossil fuel-based electricity generation, lowers greenhouse gas emissions, and can strengthen energy security by diversifying sources of supply. By improving access to affordable financing, the program helped address one of the principal barriers to the adoption of distributed solar technologies in India. It also supported the development of a market segment that complements utility-scale renewable energy by enabling households, commercial users, and small businesses to participate directly in the energy transition. The expansion of distributed solar generation can also improve energy access and resilience by reducing dependence on centralized generation and transmission infrastructure. While the contribution of the program to national emissions reductions was modest relative to the size of India's overall energy system, it played an important demonstration role by establishing financing mechanisms and institutional capacity that could support the future scaling of distributed solar technologies.

The India case highlights several advantages of this approach. It demonstrates how guarantees can enable proof of concept in nascent sectors, lowering entry barriers for investors and establishing bankable transaction structures. At the same time, the program reveals structural constraints in scaling distributed solar finance. Currency risk and the high cost of hedging remain significant barriers for long-tenor foreign currency lending in emerging markets, reducing the concessional advantage of MDB financing. While international commercial lenders participated in the refinancing, domestic financial institutions have not yet replicated the model at scale without multilateral credit enhancement or public support, suggesting that demonstration effects may require further policy alignment and risk-sharing mechanisms to diffuse more broadly through the financial system.

Macro-Fiscal Implications

The case demonstrates the value of a phased approach to de-risking, in which guarantees support market creation and are gradually withdrawn as sectors mature. It also highlights the importance of institutional coordination across MDB lending, guarantee, and treasury functions in structuring transactions that align financial sustainability with development impact.

In fact, it shows how balance-sheet recycling can expand MDB lending capacity: once assets are operational and de-risked, they can be transferred to private financiers supported by multilateral guarantees, allowing development banks to redeploy scarce capital. Also, the refinancing structure redistributed risk from the sovereign balance sheet toward a multilateral guarantee framework, thereby reducing direct contingent liabilities for the government.¹⁵

¹⁵ Compare to Kenya's USD 680 million Lake Turkana Wind Project, where generous take-or-pay PPAs shifted demand risk to the state. A case of "weak de-risking" which illustrates a top-down de-risking approach in which central governments actively structure markets for investors at high fiscal cost and with limited local accountability (Gabor & Braun, 2025).



This distinguishes the India case from many guarantee-supported operations in which contingent liabilities accumulate on the public balance sheet. Here, the refinancing structure helped reduce rather than expand direct sovereign exposure.

India's experience provides a replicable model for mobilizing private capital for clean energy under fiscal constraints. Guarantees can support a graduated transition from public to private finance, enabling refinancing of mature assets and freeing MDB capital for new investments. Instruments such as MIGA's guarantees can crowd in commercial lenders in maturing sectors, provided that macroeconomic and currency risks are managed.

At the same time, the operation remained small relative to the size of the Indian economy and the country's overall energy investment requirements. Its significance therefore lies less in its direct macroeconomic impact than in demonstrating a replicable model through which sovereign-backed development finance can gradually transition to private capital.

For domestic replication, however, deeper local financial markets, improved risk-sharing frameworks, and policy alignment remain critical. More broadly, the case illustrates that guarantees can be effective, time-bound catalytic tools that support development outcomes while managing sovereign fiscal exposure, provided they are embedded in coherent macro-fiscal and sectoral strategies.



4.0 Conclusion

Guarantees are a potentially valuable instrument within the broader development finance toolkit, but their benefits are contingent on macroeconomic conditions, institutional capacity, and sound policy design. By distinguishing between guarantees used to support the sovereign budget and those designed to leverage investment in specific projects, this report has examined their potential to mobilize capital, support development and climate objectives, and shape macro-fiscal outcomes from a guarantee taker's perspective.

The analysis shows that guarantees remain significantly less utilized than traditional lending instruments and are a relatively small component of the development finance landscape despite growing policy attention. Although the overall global stock of cross-border guarantees is substantial, only a limited share is directed toward long-term development objectives. Their deployment continues to be constrained by both demand- and supply-side factors. On the demand side, sovereign borrowers often face concerns about pricing, legal complexity, fiscal accounting, and contingent liabilities. On the supply side, guarantee providers face capital adequacy constraints, risk management requirements, and operational complexities that often make traditional lending more attractive than risk-sharing instruments.

Where guarantees are used, their principal aim is to facilitate access to private capital. By improving perceived creditworthiness and transferring specific risks to highly rated guarantors, guarantees can lower borrowing costs, extend maturities, and broaden the investor base. Their use may also generate positive reputational effects associated with MDB involvement. In the case of PrBGs, they can signal policy and regulatory support for the project, thereby improving market confidence. However, evidence on the magnitude and persistence of these benefits remains limited and highly context-dependent.

The developmental and climate impact of guarantees depends not only on their ability to mobilize finance, but also on whether they address genuine market failures and support productive transformation. Guarantees can be particularly valuable in sectors such as renewable energy, infrastructure, and environmental protection, where regulatory uncertainty, payment risks, or limited access to long-term finance constrain investment. Their developmental additionality ultimately depends on whether they enable investments that would not otherwise occur and whether they generate wider economic, social, and environmental benefits.

At the same time, guarantees are not costless. By reducing risks for investors, they may transfer financial exposure to governments and public institutions through contingent liabilities. These liabilities often remain outside fiscal indicators and can become significant when guarantees are called. The benefits of guarantees must therefore be assessed against their fiscal costs, including explicit fees, risk-bearing obligations, and their implications for debt sustainability. Effective governance requires transparent reporting, robust pricing methodologies, and integration of contingent liabilities into fiscal and debt management frameworks.



The case studies of Argentina, El Salvador, and India illustrate these broader dynamics in practice, showing how guarantees can support development and climate objectives through different channels and in different macroeconomic contexts. By comparing these cases, the analysis highlights the diversity of guarantee structures and reinforces the importance of analyzing concrete country experiences rather than treating guarantees as a single, homogeneous instrument. Each case sheds light on how guarantees interact with broader fiscal and policy frameworks, and how sovereign borrowers weigh the trade-offs between accessing cheaper finance and assuming new forms of contingent liabilities.

The case studies demonstrate that guarantees can support development and climate objectives through different channels and in different macroeconomic contexts. Argentina illustrates the potential of guarantees to support renewable energy market creation; El Salvador demonstrates their use in linking financing improvements to environmental objectives; and India highlights their catalytic role in developing new financing markets. Together, these cases show that guarantees can operate across different layers of the financing chain and that their effectiveness depends heavily on country context, institutional capacity, and broader policy frameworks.

Taken together, these cases show that guarantees can operate across different layers of the financing chain, from sovereign balance sheets to project cash flows, and can be tailored to distinct development objectives. A central finding of this report is that guarantees are fundamentally different instruments depending on whether they support sovereign financing or specific investments, and they should therefore be assessed differently from a guarantee taker's perspective.

Budget financing guarantees primarily improve financing conditions by lowering borrowing costs, extending maturities, and supporting market access. Their main function is to redistribute risk among investors, guarantors, and sovereign borrowers rather than to reduce underlying fiscal vulnerabilities. As a result, their effectiveness depends critically on debt sustainability and the broader macroeconomic context. PrBG, by contrast, are designed to address specific market failures that inhibit investment, such as regulatory uncertainty, payment risks, or weak creditworthiness of public counterparties. By mitigating these barriers, they can mobilize private capital and support development and climate objectives that might otherwise not materialize. Both types of guarantees, however, may create contingent liabilities that require careful fiscal management and transparent reporting.

At the same time, the case studies show that guarantees do not operate in a vacuum. Their effectiveness depends critically on the macro-fiscal context in which they are deployed. While guarantees can ease financing constraints and improve financing conditions, they cannot substitute for sound macroeconomic management or resolve underlying solvency challenges. As the experiences of Argentina, El Salvador, and India demonstrate, guarantees can either alleviate or exacerbate fiscal vulnerabilities depending on how risks are allocated.

Cost considerations must therefore be carefully calibrated. Theoretical cost advantages, including reputational and signalling effects often described as “halo effects,” suggest that guarantees may lower borrowing costs and crowd in private investors. A recurring finding across the case studies is that it remains difficult to isolate the contribution of guarantees from



broader policy reforms, market developments, and macroeconomic conditions. This makes rigorous assessment of additionality and value for money particularly important.

Guarantees supporting sovereign financing should only be deployed under conditions of debt sustainability and where they clearly improve financing conditions. Moreover, guarantees involve explicit fees and structuring costs, as well as implicit fiscal risks through contingent liabilities, whether on or off the sovereign balance sheet. These liabilities must be transparently recorded and integrated into medium-term fiscal frameworks and debt management strategies. Hidden project-level costs, such as emissions lock-in or exposure to commodity price volatility, should be incorporated into assessments of overall project viability and development impact.

Ultimately, guarantees are neither a substitute for fiscal adjustment nor a silver bullet for mobilizing development finance. They are best understood as targeted risk-sharing instruments whose effectiveness depends on sound pricing, transparent governance, and alignment with broader development, climate, and macroeconomic objectives. The central policy challenge is therefore not how to maximize guarantee volumes, but how to allocate guarantees to contexts where they address genuine market failures, generate measurable development benefits, and remain consistent with fiscal sustainability.



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Appendix A. Definitions and Key Concepts

Definition

A guarantee can be defined as a “legally binding agreement under which the guarantor agrees to pay part or all of an 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 (Mirabile et al., 2013).” At their core, guarantees are designed to bolster investor confidence, reduce risk exposure for private financiers, enhance creditworthiness, and ultimately lower financing costs. Guarantees can support a diverse range of beneficiaries, from financial institutions and capital market investors to trade financiers, by providing either comprehensive financial risk coverage or more limited protection, notably against credit and political risks.

Guarantee types include: (i) loan guarantees, which backstop debt extended by lenders; (ii) bond guarantees, which enhance creditworthiness and lower borrowing costs in capital markets; and (iii) cash flow guarantees, which secure specific payment streams such as power purchase agreements. By stabilizing revenues and reducing risk, these instruments can improve project bankability and attract long-term private investment.

Extent of Coverage

Full guarantees transfer all credit risk to the guarantor, while partial guarantees cover only part of an obligation or specific risks, thereby preserving risk sharing and market discipline. In practice, partial guarantees typically cover 40%–60% of financing amounts. The choice of instrument ultimately depends on the type of risk being covered and whether the guarantee supports sovereign budget obligations or specific investment projects.

Guarantee vs. Insurance

Guarantees are different from insurance as risk management instruments. While the former compensates losses from specified events in a two-party contract, the latter covers a borrower’s failure to meet an obligation within a three-party structure between lender, borrower, and guarantor (Humphrey & Prizzon, 2014). Claims-based insurance compensates losses from specified events (Bandura & Ramanujam, 2019), while guarantees cover failure to meet obligations for different reasons and thus can act as ex ante credit enhancement.¹⁶

¹⁶ In practice, however, the distinction can be blurred. Certain forms of insurance, such as political risk insurance, can also function as credit enhancements by providing a contingent liability that backstops potential losses and improves financing terms. In general, both instruments involve specifying contingent events that are not expected to occur regularly and providing an asset or guarantee that mitigates losses rather than pooling risks across a broad set of exposures. With a guarantor acting as an intermediary, financing conditions can improve: who bears the underlying risks remains a matter of ongoing policy debate.



Guarantors

Guarantors are typically highly rated states or financial institutions that leverage their creditworthiness to reduce perceived risk and improve financing conditions. By sharing or transferring risk, guarantors can extend maturities, lower interest rates, catalyze private capital, and support development objectives. Three main types of guarantors are relevant in sovereign guarantee structures:

- A sovereign state may guarantee the obligation of another sovereign, or a DFI¹⁷ may act as a **bilateral guarantor**.
- Multilateral development banks (MDBs) provide guarantees backed by their balance sheets and preferred creditor status as **multilateral guarantors**.
- Private financial entities provide guarantees to sovereign borrowers, typically under structured finance arrangements, e.g., insurance companies, commercial banks.

Guarantee Takers

Guarantee takers are the primary recipients of the guarantee, typically seeking to reduce financing costs and improve access to capital. In the context of this report, the focus is on official-sector guarantee takers, excluding purely private borrowers. Three main categories can be distinguished:

- **National governments** use guarantees to reduce risk premiums and extend maturities on external or domestic borrowing.
- **Subnational entities**, such as states in federal systems, SOEs, or municipalities, may benefit from guarantees to access capital.
- Public **development banks**, including multilateral, regional, or national development banks, use guarantees to support co-financing arrangements and risk-sharing.

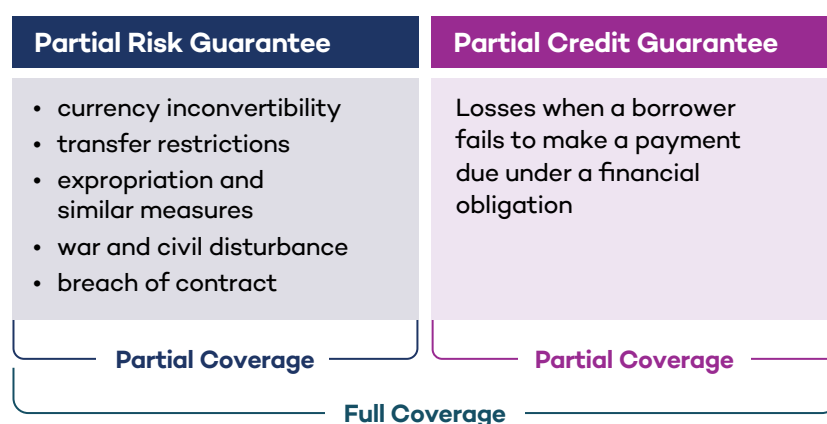
¹⁷ A publicly backed financial institution that provides long-term development finance and risk-mitigation.



Risk View on Guarantees

Leading MDBs structure their guarantee portfolios around those principal risk types and offer two distinct instruments, **partial risk guarantees** and **partial credit guarantees**.¹⁸ This distinction reflects different underlying risk profiles- financial default risk in the case of credit guarantees, and non-commercial or political risks in the case of risk guarantees and enables MDBs to tailor instruments to specific financing needs and market constraints. Recent institutional reforms underscore this trend.

Figure A1. MDB risk-focused categorizations of guarantees



Source: Adapted from Bandura & Ramanujam, 2019; Sclovsciaia, 2024.

The Evolution of MDB and DFI Guarantees

Guarantees have been part of MDB mandates since their creation. The IBRD's Articles of Agreement (1944) authorized the bank to "guarantee, participate in, or make loans," a model later adopted by other MDBs. However, guarantees only became an important operational instrument from the 1980s onward, as MDBs increasingly sought to mobilize private capital alongside public finance. Over time, MDBs developed guarantee products for both public and private sector financing. Within the WBG, MIGA has focused on political risk insurance and private investment guarantees, while IBRD and IDA have supported sovereign borrowing and public investment projects. Since 2023, these instruments have been consolidated under a unified WBG guarantee platform. Regional MDBs and bilateral DFIs have followed similar paths, reflecting a broader shift from direct public lending toward the use of public balance sheets to mobilize private investment (see World Bank Development Committee, 2024).

¹⁸ See African Development Bank (2024) and the World Bank (2026). See also political risk insurance as a hybrid case used as a for-profit tool and in development finance to protect investors against adverse government actions or instability, reducing country risk (MIGA, n.d.).

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