

Breaking the Lock on Urban Climate Finance: A Proposal for a Green Cities Guarantee Fund to Support Climate Resilient Infrastructure in Cities

MAY 2026

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Executive Summary

Many have claimed that the battle for climate change will be won in cities; yet the slow rate and pace of funding for needed urban mitigation and adaptation projects has hindered progress, necessitating a call for solutions to attract more money for these ends. Annual needed funding for urban climate finance ranges between USD 4–6 trillion, while estimates of the current spending amounts to USD 831 billion, well below the need. Meeting this gap requires increases in public and private finance.

One solution is to develop a strong derisking tool, a guarantee, focused on urban climate-resilient infrastructure. This tool that can ensure debt repayments—either full or partial, address currency volatility and/or political instability—can be employed in conjunction with other debt instruments, such as loans and bonds. However, the conditions must be favorable (i.e., the project and its revenue generation capacities sound). Guarantees have been used widely around the world for small and medium sized enterprises, reaching some USD 1.7 trillion in 2022. However, Latin America lags—its total guarantees represent only four percent of the total.

The guarantee's use in international development is relatively recent but is gaining support. Notable users are the Dutch GuarantCo (founded in 2005) and the Green Guarantee Company funded by the Green Climate Fund in 2022, both focused on Africa and Asia. In addition, the World Bank Group has recently energized its Multilateral Investment Guarantee Agency (MIGA), and the European Union has funded two small funds (CityRiz and United Nations (UN) Capital Development Fund guarantee program), but their results are low so far and these entities have not reached scale regarding subnational infrastructure.

Latin America is a likely region to pilot a guarantee for subnational infrastructure investment—a Green Cities Guarantee Fund—as proposed by the Sustainable Development Solutions Network Global Commission on Urban Sustainable Development Goal Finance. CAF Development Bank of Latin America and the Caribbean is interested in developing the fund. This brief details the process to achieve this end.

Introduction: The Battle for Climate Change Will be Won in Cities: But Where is the Money?

Many have claimed that the battle for climate change will be won in cities—the prestigious Independent High-Level Expert Group on Climate Finance (IHLEG) made the most recent call in 2025 (Bhattacharya 2025, Herman 2019, Guterres 2019). These advocates are reflecting the fact that today, the urban population is 58 percent of the global total, and tomorrow, nearly all future growth will occur in cities as they rise to 67 percent of the total (United Nations 2025).¹

Further, energy, transportation, and buildings in cities are responsible for some 70 percent of the world’s greenhouse gas emissions (Economy Insights 2025). And, critical urban assets need protection in recognition of cities’ contributions to global

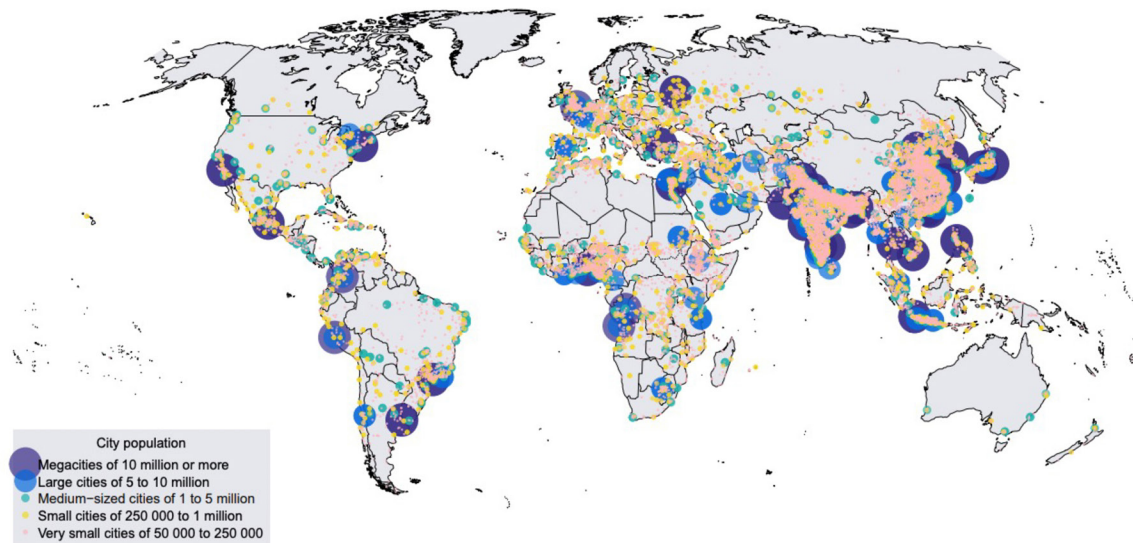
Gross Domestic Product (GDP), estimated at 80 percent today.

Of note, the world’s 12,000 cities vary in terms of size, location, level of development, environmental vulnerability, anticipated growth, and other characteristics. Some 33 megacities (10 million plus) and 49 large cities (5–10 million) have very different needs in addressing climate change than the 429 medium sized cities (1–5 million), 1,822 small cities (250,000–1 million), and 9,807 very small cities (under 250,000) (United Nations Industrial Development Organization 2025, 11). See Figure 1.

Nonetheless, the slow rate and pace of funding for climate change projects in urban places have hindered progress in curbing global warming, necessitating calls for solutions to attract additional finance.

Of note, the type of urban projects and their funding vary due to differing conditions discussed above. While acknowledging these differences, this policy digest treats cities as a single unit, recognizing that its central idea, the creation of a Green Cities Guarantee Fund, would be effective in some but not all places.

Figure 1: Location and Size of the World’s Cities



The United Nations recently issued World Urbanization Prospects 2025 employed the “Degrees of Urbanization” methodology developed by the European Union’s Joint Research Center to explain and display cities and towns measured according to standard criteria to demonstrate that 80 percent of the world’s population currently live in non-rural environments. The report contrasts these findings with those based on country definitions that records the 58 percent urban cited above. Source: United Nations 2025.

¹ Of note, the data in the body of this brief reflect former United Nations (UN) assessments, national definitions of urban that vary widely among countries. However, the 2025 report argues that the UN approved Degree of Urbanization data that measure land consumption/population is a more accurate and standard gauge. It yields today’s urban rate (cities and towns) at 80 percent of the total and predicts its rise to 83 percent of the total by 2050. <https://www.un.org/development/desa/pd/world-urbanization-prospects-2025>

Estimating the Urban Finance Gap: Current vs. Future

While no single entity provides authoritative data on the overall financing flows and needs in addressing climate change, much less for the urban sector, several entities provide helpful information to assist in making policy recommendations.

For example, the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Climate Finance's (SCF) regularly issued *Biennial Assessment and Overview of Climate Finance Flows* identified flows of USD 1.3 billion for 2021–2022 (UNFCCC Standing Committee 2024b). It collected national level data from several sources, including the Organization for Economic Cooperation and Development (OECD, Climate Policy Initiative (CPI), BloombergNEF (BNEF), and disaggregated it by sector; not subnational levels.

The SCF also periodically issues a *Determination of Needs in Developing Countries* report, the most recent being in June 2024. While SCF recognized several limitations to the data, it offered an estimate of USD 5–6.8 trillion to 2030 overall need, based on the Nationally Determined Contributions (NDC) from 98 countries (UNFCCC 2024a). CPI's 2025 Global Landscape of Climate Finance report (2025) estimates based on a different methodology agreed with the SCF number, and added that USD 7.1–9.2 trillion would be needed for 2031 through 2050 (CPI 2025).

For subnational level data, the analyses rely on incomplete databases and employ differing methodologies. All recognize these limitations; all conclude that the dollar needs are in the trillions, well beyond current expenditures.

For example, CPI's affiliate, the City Climate Leadership Alliance (CCFLA), has published two State of Cities Climate Finance reports, in 2021 and 2024, identifying current flows and estimating future needs according to a methodology it has developed.² Other entities including OECD, Local Governments for Sustainability

(ICLEI, formerly the International Council for Local Environmental Initiatives), and the Subnational Climate Fund track aspects, mainly mitigation, of subnational finance.

The CCFLA compendium is the most comprehensive. It records flows of USD 831 billion in 2021 to 2022 with USD 814 billion (or 97 percent of the total) for mitigation and USD 10 billion for adaptation and contrasts these numbers with its estimates for the annual needs for mitigation between USD 4.3 trillion from 2025 to 2030 and 6 trillion from 2031 to 2050 and for adaptation, USD 147 billion from 2025 to 2030, and USD 165 billion from 2031 to 2050 (CCFLA 2024, OECD 2022).

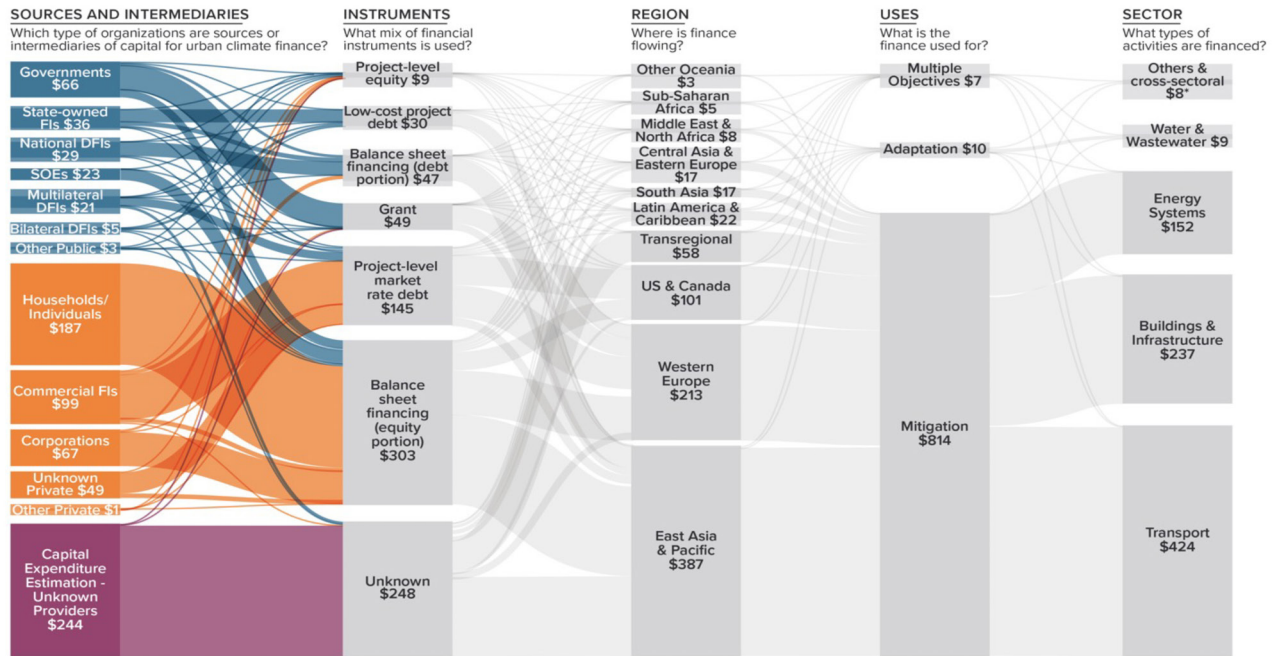
In 2025, the World Bank Group used a slightly different approach in *Banking on Cities, Investing in Resilient and Low Carbon Urbanization*. They did not report current expenses, but focused instead on the total investment and maintenance costs that reduce emissions and manage climate risks for public infrastructure (i.e., transportation, building energy, solid waste management, water and wastewater, flood protection, and heat resilience) (Deuskar et al. 2025). This assessment, based on deep research in low- and middle-income countries, called for USD 7.9–25 trillion between 2025 and 2050 (or annual investment in the range of USD 781–1.3 billion).

Distribution of Urban Climate Flows by Source and Sector

Of the USD 831 billion, 41 percent flowed to high-income countries (or Global North: U.S., Canada, and Western Europe), 40 percent to China, and the remainder to low- and middle-income countries (or Global South). Overall, three sectors captured 98 percent of the total: transportation, 51 percent (USD 424 billion); buildings, 29 percent (USD 237 billion); and energy—primarily solar—18 percent (USD 152 billion) (CCFLA 2024). See Figure 2.

² The Cities Climate Finance Leadership Alliance (CCFLA) adopted the framing and data from an Organization for Economic Cooperation and Development (OECD) methodology derived from the National Accounts' Classification of the Functions of Government. See OECD's Subnational Government Climate Finance Database a <https://www.oecd.org/en/about/programmes/subnational-government-climate-finance-hub.html>

Figure 2: Landscape of Urban Climate Finance 2021–2022



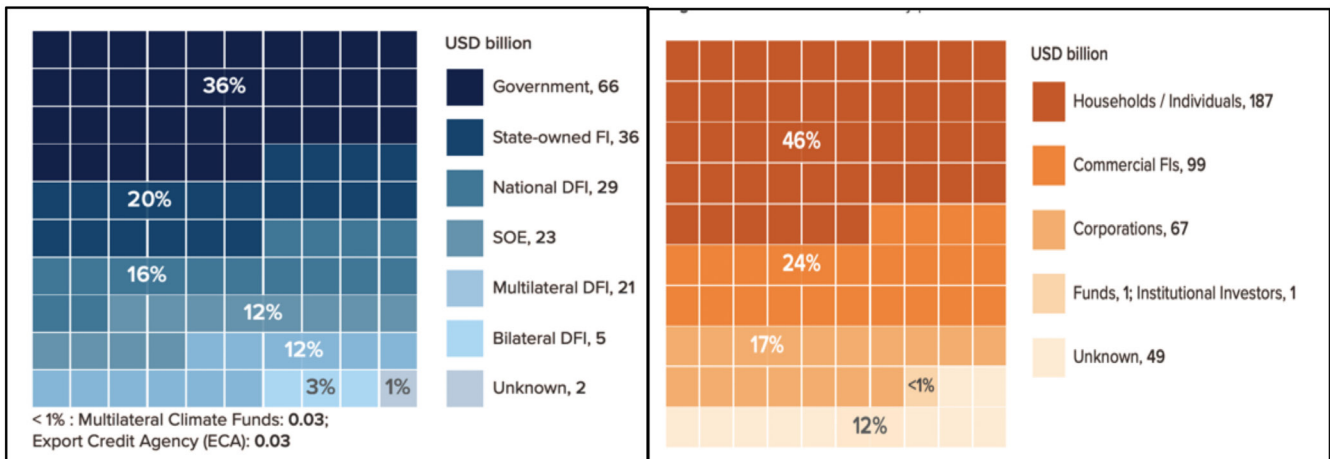
SOEs stands for State-Owned Enterprises. FIs stands for Financial Institutions. DFIs stands for Development Finance Institutions. Transregional refers to financing that was tracked for multiple regions. * Includes waste, agriculture, forestry and other land use, information and communications technology, and industry.

The public sector (in blue) represented 22 percent of the total; the private sector at 48 percent included such household level expenditures as EVs and energy efficient appliances and commercial financial institutions spending on project-level debt and EV financing in the Global North with less investment in infrastructure in the Global South. Source: CCFLA 2024.

Of the total, some 22 percent (USD 183 billion) came from the public sector, with national governments in the developed world supplying a third (USD 66 billion) and multilateral development banks only 12 percent

(USD 21 billion). The private sector share, 22 percent (USD 187 billion), consisted of spending on electric vehicles (EVs), appliances, and solar energy (CCFLA 2024, 29–32). See Figure 3.

Figure 3: Sources of Urban Climate Finance



The breakout of sources of funds in both the public (left) and private (right) sectors demonstrates the strength of national government, SOEs, and household expenditures. Source: CCFLA 2024.

Barriers to Urban Climate Finance

Looking forward, the current flows represent only a fraction of the estimated needs. Furthermore, cities face significant barriers in obtaining financing for climate resilient projects (Seigried et al 2023). Among the barriers are:

1. Difficulties in acquiring sovereign guarantees as required by the multilateral development banks;
2. Lack of their credit-rating from international firms;
3. Relatively small “ticket” size of their projects; and
4. Perceived or actual limited ability to formulate, execute, and manage projects.

These barriers exist for many reasons (White and Wahba 2019). For example, the sovereign guarantee issue emerges when a national government will not support a local initiative because it does not align with its development interests. In other circumstances, it seeks to protect its debt ratios in the face of International Monetary Fund (IMF) debt sustainability rankings and does not want to take on municipal debt, or it is disinterested in supporting a project put forth by a political rival.

The lack of a credit-rating is related to national prohibitions on municipal borrowing or to a locality’s inability to meet qualifications to secure an investable grade rank. Associated with this latter challenge is the fact that many cities have poor quality financial data, accounts, and management systems. On ticket size, the projects in many cities are too small to attract investors accustomed to larger deals.

Finally, a prevailing condition is public and private sectors’ having little “street” knowledge about risk in urban investments owing to inexperience and the absence of records. This phenomenon is especially present in many Global South cities that are highly dependent on intergovernmental transfers that they do not control and/or have undeveloped own source revenue systems (e.g., property tax, land value capture).

Midst the problem of securing finance, rapidly growing cities in the Global South have major basic infrastructure needs (Zhou et al. 2022, Mahendra et al. 2021). Growth alone puts pressure on supplying such critical systems as roads/transport, sidewalks, water, sewer, solid waste disposal, electricity, and telecommunications along with housing and social services including schools, health centers and hospitals (Deuskar et al. 2025).

Finally, with high levels of informal settlements that can constitute 40 to 50 percent of their areas, cities’ efforts to provide the climate resilient systems are further complicated due to issues related to their siting in environmentally vulnerable places, having congested building coverage and the lacking secure land tenure (Bhattacharya 2025, 60–65; Bettencourt and Marchio 2025). While adding mitigation and adaptation to the mix might incur higher costs in the short term, the International Panel on Climate Change argues that pursuing climate resilient development (CRD), a process that addresses climate, poverty, and inequality together, can have long term cost-saving benefits.

The bottom line is that a huge gap exists between existing and needed investment in climate resilient infrastructure in the Global South. So, the question is: How will urban places especially in the Global South, source the needed funds to support climate resilient infrastructure investments?

Enter the Urban Guarantee Concept: The Case for a Green Cities Guarantee Fund

Many organizations have answers for this question. Of note is the IHLEG's three-part response offered in its recent report, *Delivering an Integrated Climate Science Agenda in Support of the Baku to Belem Roadmap to 1.3 T* (Bhattacharya 2025). The experts, highlighting cities as a key investment area, called for establishing a robust policy foundation (stronger multi-level governance, predictable rules and stronger fiscal base, credible plans and data, and smarter delivery models). They set investment priorities (transport, buildings and energy, and basic services). They listed needed financing approaches. Primary among them was de-risking investment through such instruments as guarantees, subordinated debt, and pooled credit lines.

As a contribution to thinking about enhancing urban climate finance, the Sustainable Development Solutions Network (SDSN) Global Commission on Urban Sustainable Development Goals (SDG) Finance, a high-level problem-solving group co-chaired by Anne Hidalgo (Mayor of Paris), Eduardo Paes (Mayor of Rio de Janeiro), and Jeffrey Sachs, (economist and president of SDSN), has proposed the creation of a Green Cities Guarantee Fund (GCGF). It envisions the GCGF as having the potential to ensure a variety of instruments, including green bonds, and loans for projects and portfolios of projects undertaken by municipalities, city-owned utility providers, the private sector through direct investment, or public private partnerships whose work focuses on urban climate resilient infrastructure (SDSN 2024).

While a guarantee is one way to address this gap, it is not silver bullet, rather a currently underutilized tool to be employed in the right situations.³ A guarantee has the following features. It can:

1. Crowd in private finance;
2. Foster investor confidence; and
3. Build local financial capacity over time.

Depending on its structure, a guarantee can address such risks as performance failures, and currency and political volatility. According to the OECD, the global level, guarantee instruments have incentivized market development such that they accounted for 19 percent of private finance mobilized recently by developed country public sector providers (CPI 2025). In fact, the capital mobilization ratio of guarantees is 6–25 times higher than that of loans, making them a highly effective tool at crowding in investment for green projects (CPI 2025, Falduto and Jaschik 2024).

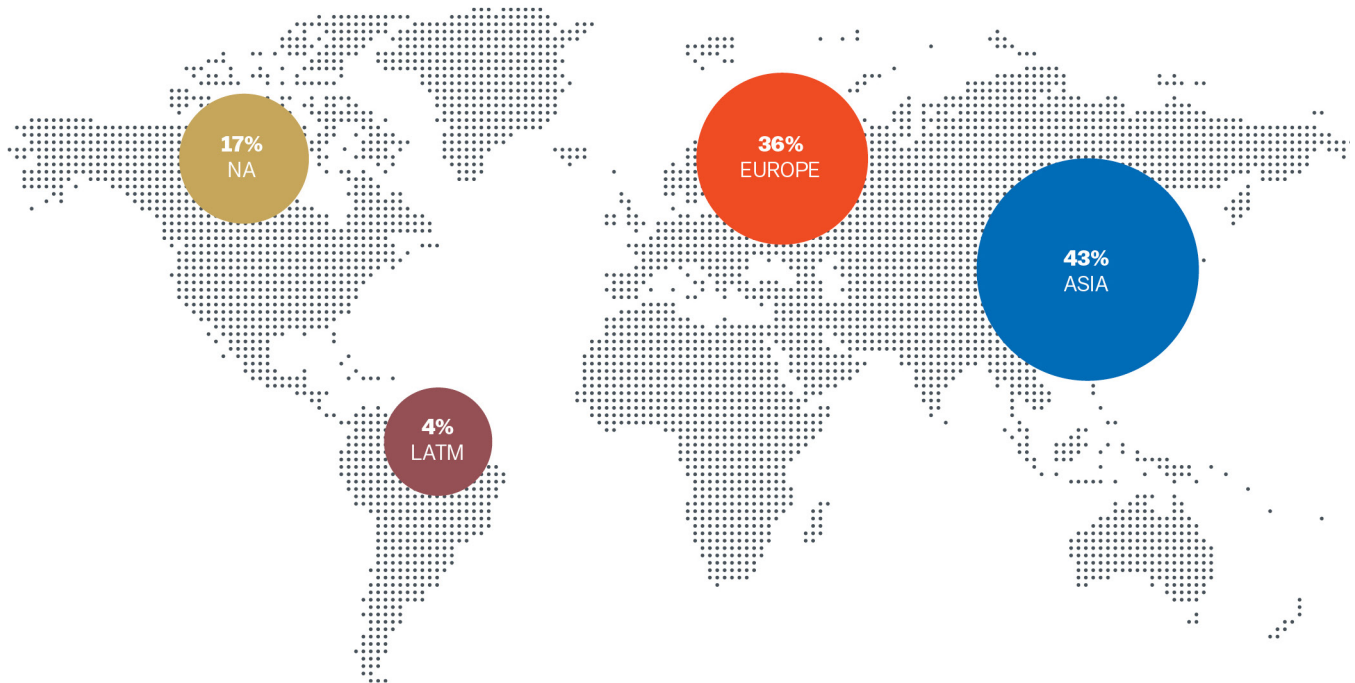
In its proposal, the Commission argued that the GCGF has the potential to fill a significant gap in the urban climate finance market especially where cities lack access to timely and affordable capital for green projects. It asserted that GCGF could catalyze the growth of local commercial debt markets and support access to global capital markets. Since climate finance spans a broad capital base, the Commission viewed the GCGF as having a flexible mandate, supporting the growth of a variety of markets while attracting a wide range of investors to the urban climate finance sector.

History and Use of Guarantees

In use since the 19th century for investments in small and medium sized enterprises (SMEs), guarantees are a well-developed and not new tool. In force in more than 100 countries worldwide, the total value of outstanding guarantees reached USD 1.17 trillion in 2022. They are most common in Asia and Europe where they constitute more than three quarters of the world's guarantee programs. They are scarce in Latin America which has only 4 percent of the total. See Figure 4.

³ Of note, Figures 2 and 3 provided overviews of urban climate finance, but did not reflect the existence or use of guarantees in mobilizing specific funding streams. Accounting for climate finance includes only direct monetary transfers and export credits. The OECD, the primary reporting unit, defines climate finance in its reports as having four components (multilateral and bilateral public finance, climate related export credits and private finance mobilized by multilateral and bilateral public finance) OECD (2024) *Climate Finance Provided and Mobilised by Developed Countries in 2013–2022. Climate Finance and the USD 100 Billion Goal*, Paris: OECD Publishing, <https://doi.org/10.1787/19150727-en>. Climate Policy Initiative (CPI) is roughly aligned with OECD in its report *Climate Policy Initiative. Global Landscape of Climate Finance 2023*. <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/>. The Joint Multilateral Development Banks (MDB) group and the International Development Fund Club (IFDC) that track climate finance engages like the others in data collection. See *Joint MDB Report on Climate Finance*. International Development Fund Club (IFDC) and MDBs 2022. https://www.eib.org/attachments/lucalli/20230128_mdbjs_joint_report_2022_en.pdf

Figure 4: Regional Breakdown of Guarantee Schemes (\$1.7 Trillion in Active Guarantees)

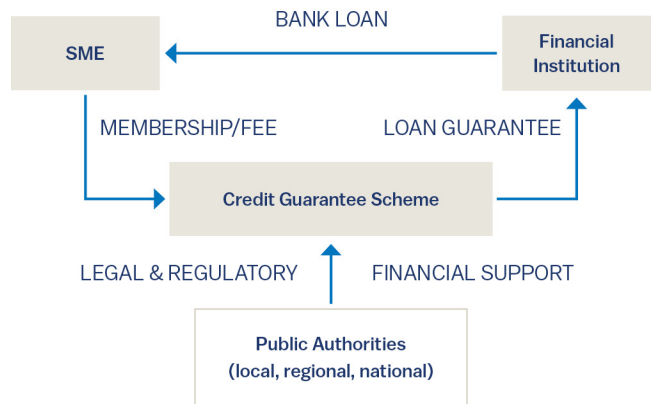


The Latin American guarantee activity is significantly lower than those around the world. Source: Regar 2024.

Recently, countries have used guarantees in crisis situations—after the 2007–2008 meltdown, during the COVID-19 pandemic, or in response to service pressures resulting from the influx of refugees from conflict situations. Prime examples are their appearance as part of the United States Paycheck Protection program during the epidemic and the European Investment Bank’s (EIB) guarantees to Poland (for public services) and Jordan (for SMEs) to address the refugee needs (EIB 2023b, EIB 2023a).

Figure 5 illustrates the typical structure of a publicly sponsored guarantee. It shows the roles of the sponsor (legal and financial support), the financial institution (lender) and the borrower (fee-payer). The entire arrangement (amount and type of coverage, fees, timing) is premised on probabilities i.e., the assessment of risks and the strength of the insured projects and other environmental factors.

Figure 5: Example of a Public Sector SME Guarantee



A guarantee involves three parties, the borrower, the lender and the guarantor
Source: OECD 2013.

Guarantees in International Development

Beyond their primary use as SME support or in crisis situations, guarantees also have a place in development finance. For example, in the public sector, multilateral development banks and national governments have established them to achieve policy goals including economic growth, job creation, and poverty alleviation, targeting agriculture, manufacturing, and infrastructure (World Bank and First Initiative 2015). Public sector guarantee schemes have many forms, depending on a country's regulatory environments and mandates.

Two notable guarantee programs are those of the World Bank's Multilateral Investment Guarantee Agency (MIGA) and the EU's European Fund for Sustainable Development (EFSD). From its origin in 1988, MIGA traditionally guaranteed non-commercial risks (e.g., political) to foster foreign direct investment in the Global South. It began modestly and accelerated in the 2000s—delivering some USD 94 billion over its 36-year existence (MIGA 2023).

In 2021, it issued its first guarantee for a city project without a sovereign guarantee, the Bogota (Colombia) metro, underwritten by BNP Paribas, a mixed ownership publicly traded company⁴ (World Bank Group 2025). In 2024, the World Bank president, Ajay Banga, consolidated the bank's 20 guarantee products, each with different standards, offered by the International Finance Corporation, World Bank, and MIGA into the World Bank Guarantee Platform hosted by MIGA.

Banga set a goal of issuing guarantees of USD 20 billion by 2030 (World Bank Group 2024). In 2017, the EFSD's External Investments Program (EIP) launched a EUR 3.7 billion guarantee program focused on SMEs and agriculture, renewable energy, information and communication technology, and cities. By 2019, it had allocated EUR 300 in guarantees to the EIB, European Bank for Reconstruction and Development (EBRD), and French Agency for Development (AFD)

(European Commission 2019, MIGA 2023). The EBRD used the guarantees in its Municipal, Infrastructure, and Industrial (MIIR) program that supported crisis and green investments in Ukraine and elsewhere (Manchanda 2021).

Other development finance institutions (DFIs) have developed guarantee programs to support national development, including the African Development Bank Group (AfDB), Asian Development Bank (ADB), Latin American Development Bank (CAF), and the Inter-American Development Bank (IDB). Since the early 2000s, such major bilateral development agencies as the United States Development Finance Corporation (DFC), and the Swedish Development Agency (SIDA) have joined the AFD to offer guarantees to national governments, primarily for SMEs. The public funders offer guarantees to subnational governments conditioned on a sovereign approval.

More specialized DFIs like the Private Infrastructure Development Group (PIDG), a small multilateral donor organization founded in 2002 that focuses on the mobilization of private capital in emerging markets, has also entered the guarantee space through its partner GuarantCo (established 2005), which offers partial credit guarantees ranging between USD 5 and 50 million for up to 50 percent of the long-term debt position of a project or company primarily to private sector borrowers (PIDG 2023, GuarantCo).

GuarantCo's funders via PIDG are U.S. (USD 383 million share capital), U.K. (USD 175 callable capital), Canada, and AFD (USD 12 million in credit lines) (GuarantCo 2025). Operating in Asia and Africa, since its founding, its guarantees have leveraged USD 6.8 billion total investment, of which 84 percent is private sector. However, the business is fragile. While in 2024, it had USD 855 million of active guarantees, reporting a USD 5.3 million profit, the company had experienced significant losses in 2021–2022 due to large guarantee calls. Shareholders pitched in with USD 23 million in equity to help right the situation (Stichting Cardano Development 2022).

⁴ Multilateral Investment Guarantee Agency (MIGA) provided a USD 828 guarantee to Bank BNP Paribas Société Anonyme (SA) to insure its loan to Empresa Metro de Bogota that is building a 24 kilometer, 16 station line with loans from International Bank for Reconstruction and Development (IBRD), Inter-American Development Bank (IDB), and European Investment Bank (EIB)—these banks approved the first tranche in 2018 and a second tranche in 2025. MIGA is guaranteeing the second tranche loans. See World Bank. 2025. "World Bank Supports Significant Construction Phase of the Bogota Metro." <https://www.worldbank.org/en/news/press-release/2025/12/05/banco-mundial-respalda-la-fase-de-construccion-mas-importante-del-metro-de-bogota>

Additional support for derisking lending grew in the years following the establishment of Guarantco, as an innovative but complex web of inter-related organizations emerged under the aegis of the Stichting Cardano Development, a Dutch foundation.

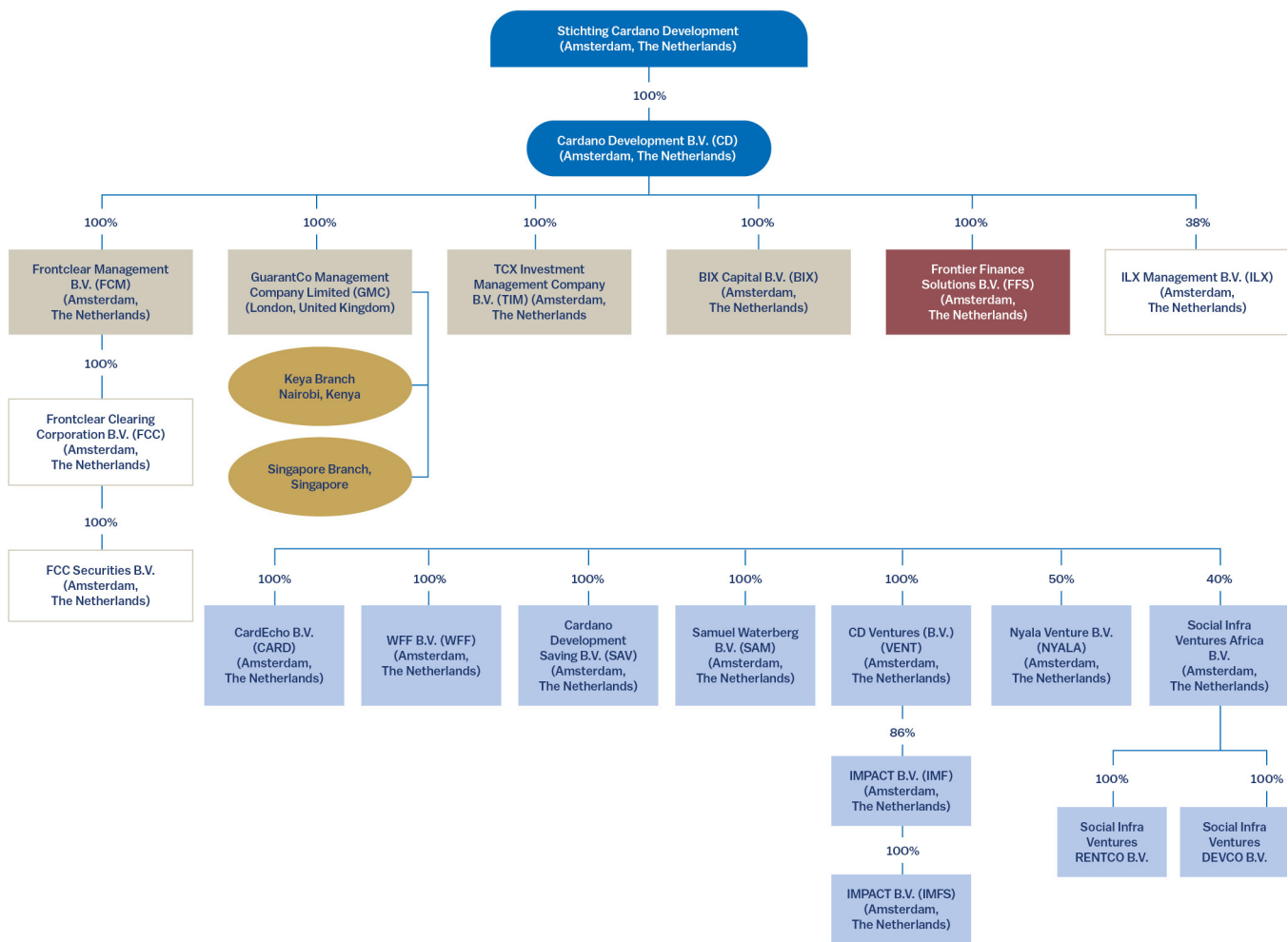
Here is the timeline:

- **2007:** FMO employees founded TCX to hedge currency risks for institutions and other investors.
- **2010:** FMO employees left the Dutch development bank to create the Cardano Development B.V., a holding company to manage TCM, GuarantCo, and later, three other affiliates.
- **2013:** Cardano Development transferred its ownership to Stichting Cardano Development to take advantage of

its beneficial non-profit/public benefit status. It acts as Cardano Development’s holding and financing vehicle (Cardano Development 2023).

- **2021:** Former GuarantCo employees created the Development Guarantee Group (DGG) to manage privately run guarantee funds.
- **2024:** Its first fund, the Green Guarantee Company (GGC), began operations as a chartered UK entity registered on the London Stock Exchange, capitalized by the Green Climate Fund, with additional support from the U.K., Nigeria, and the U.S. It focuses on green bonds in Africa and Asia (Tran 2024). Its management team, veterans of GuarantCo, have experience in private sector; not public sector or subnational government guarantee activities (Perera 2024). See Figure 6.

Figure 6: Cardano Development Group Structure Chart



Former employees of FMO, the Dutch development bank, have developed a complex but supportive structure to provide guarantees for private sector investments in the Global South via the creation of the Stichting Cardano Development, a charitable foundation, the beneficial owner of all the subsidiaries. (This chart predates the creation of the DGG). Source: Stichting Cardano Development 2024.

While the Dutch operations were developing, in 2022 the E.U. renewed its investment plan as European Fund for Sustainable Development Plus (EFSD+), increased funding for its earlier guarantee program, and allowed other entities beyond national governments to qualify for support. The result was its funding two urban-focused guarantee operations, both oriented to sub-Saharan Africa. The new guarantee entities were CityRiz (2022) and the Guarantee Facility for Sustainable Development (2025).

In addition, EFSD+ continued to support guarantees for EBRD's MIIR program (Ahlemeyer 2023). EFSD+ allocated EUR 30 million to CityRiz as an AFD affiliate and EUR 154 million for the Guarantee Facility as a UN Capital Development Fund affiliate. In comparison to its overall budget (EUR 37 billion), these are small sums. As of early 2026, City Riz and the Guarantee Facility have not signed any guarantee agreements due to lack of local lender interest (CityRiz) or the fact that the fund is in its initial start-up phase (UNCDF).

Piloting the GCGF

While guarantees for urban development focusing on Asia, Africa, and Central Europe, were emerging in Europe, Latin America and Caribbean (LAC) did not share in this movement despite the low amount of its guarantee activities and large market. In 2024, the region had only four percent of the world's guarantee activities, yet it had some half billion urban population (82 percent—anticipated to arise to 89 percent of total population by 2050) in its 33 countries (United Nations 2025).

As the region has been urbanizing for more than 70 years, its 17,000 subnational (municipal and regional) governments have developed capacity sufficient to manage needed infrastructure projects in water and sanitation, transport, energy and telecommunications, but they are strapped for climate finance (Bonilla and Pineda et al 2025). CCFLA reported LAC's urban climate finance flow in 2021–2022 at USD 22 billion and estimated its needs at USD 321 billion for mitigation and adaptation at USD 49 billion (CCFLA 2024).

In fact, in June 2025, the IDB recognized this gap with its approval of a USD 1 billion five-year pilot program to provide loans, guarantees, and technical assistance to subnational governments that meet its lending standards. With the program under development, the IDB envisions supporting about ten to fifteen operations at the USD 20–100 million level with market rate interest loans having a ten-to-fifteen-year tenor. Information about its proposed guarantee element is not available (Bonilla and Pineda 2025).

The IDB experiment offers evidence of the potential for a parallel development of the GCGF. Accomplishing this goal requires the completion of three basic steps. Discussion are already occurring with the Green Climate Fund as a possible funder and CAF (Latin American Development Bank) as a possible sponsor and co funder.

In 2024, CAF expressed interest in an arrangement and has engaged a consultant to explore various arrangements (Diaz-Granados 2024). As one of the strongest development banks in the region, CAF has a strong credit rating (AA+ Standard and Poor), USD 55 billion in assets and 20 shareholder countries and 13 private banks as members, all LAC based—neither the US nor Europe are involved. This membership provides for more nimble decision-making processes than with other multi-lateral development banks that include the United States and others from outside of the region whose decision-making can become entangled in political concerns (Humphreys 2022).

Steps for Realizing the Green Cities Guarantee Fund

Moving from a concept to a working operation calls for additional technical work to be undertaken by consultancy team composed of those with business and legal experience with guarantee facilities (Brockman and Lindfield 2025). In general, the proposal calls for the creation of an entity focused on urban climate resilient infrastructure investments to be established in a nation with the legal ability to undertake transactions with subnational governments, public-private partnerships, and private investors in that country and in the surrounding region.

The approach is not linear but represents a series of inter-related decisions. They encompass:

1. Developing the organizational/ governance framework. Many models exist within the world of development finance, ranging from being a wholly owned subsidiary to an independent entity.⁵
2. Creating a business plan. Many details are to be ironed out depending on the first decision.
3. Raising capital including determining funders, the size of the fund and nature of contributions (e.g. paid in, callable, lines of credit).

Organizational/Governance Framework

The organizational/governance framework will include recommendations for the nature of the entity and any relationships it might have with partners or sponsors, the governing board (members and competencies), and key governance policies. These policies will include making sure that the entity has an effective oversight

body that sets policy, strategic direction, risk oversight, performance monitoring and hiring and supervision of key staff.

Since a recent survey of guarantee facilities revealed that only 19 percent of them are privately governed stand-alone entities, it is likely that the GCGF will engage in some type of partnership to take advantage of existing administrative institutional support of its partner (Brockman and Lindfield 2025). While the Stichting Cardano Foundation model is interesting, it is too complicated to when a simpler arrangement with CAF may be more appropriate.

As mentioned earlier, CAF's interest in the GCGF stems from its experience in supporting other guarantees as well as its members' mandate to devote one third of its efforts to subnational lending (CAF-Latin American Development Bank 2024). To this end, CAF's 2026 Strategic Plan explicitly cites cities, local government, urban systems, and urbanization as key focal points CAF (CAF-Latin American Development Bank 2024). Further, CAF is engaged in foundational work: it sponsored a comprehensive study of the level of decentralization among the countries, finding that a significant number of cities and regions have powers, capacities, and demand for climate resilient finance (Alves 2025).

Seven countries stand out for their potential for piloting the work due to the relative strength of their subnational institutions (e.g., some of their local governments have credit ratings): Argentina, Brazil, Colombia, Costa Rica, Mexico, Peru, and Uruguay (S&P Global 2025). It has worked with University of Pennsylvania's Institute for Urban Research (IUR) to do stakeholder mapping; it has engaged a consultant to assess the appropriate fit of GCGF within the institution and has been in contact with the Green Climate Fund to explore opportunities to secure support for developing the business plan and capitalization.⁶

⁵ The World Bank, for example, has several fiduciary arrangements with trust funds deposited with it ranging from complete ownership and governance to simply acting as a financial intermediary. [https://www.worldbank.org/en/programs/trust-funds-and-programs#:~:text=Financia%20Intermediary%20Funds%20\(FIFs\)%20are,by%20the%20FIF%20governing%20body](https://www.worldbank.org/en/programs/trust-funds-and-programs#:~:text=Financia%20Intermediary%20Funds%20(FIFs)%20are,by%20the%20FIF%20governing%20body). Likewise, the Stichting Cardano Development owns Cardano Development B.V. is a holding company with six subsidiaries, each having varying degrees of independence. https://www.cardanodevelopment.com/wp-content/uploads/2025/09/250926-STCD-consolidated-AR-2024_stamped.pdf

⁶ CAF's foundational work includes publication of a study of decentralization and evaluation of subnational powers in Latin America and the Caribbean. (Alves, G., P. Brassiolo, F. Buccari, C. Camacho, R. Cifuentes, R. Estrada, and G. Fajardo. 2025. "Nearby Solutions: The Role of Regional and Local Governments in Latin America and the Caribbean." <https://scioteca.caf.com/handle/123456789/2432>). Two studies by the Penn Institute for Urban Research, one on the enabling environment for subnational access to international finance that is public (<https://pennur.upenn.edu/publications/enabling-environment-current-conditions-for-subnational-access-to-international>) and another, unpublished, on stakeholders for the Green Cities Guarantee Fund. CAF also commissioned a fourth study by a private consultant on how to integrate such a program within the organizational structure. To date, CAF has issued a few guarantees, notably to Brazil for the Sao Paolo Metro and to Peru for investments in irrigation for agriculture and for regional energy provision. (See <https://www.caf.com/es/quienes-somos/proyectos/cfc011765-linea-6-del-metro-de-sao-paulo/> for a description of the metro. Download the Excel spreadsheet at this site to see the others).

Business Plan

The business plan requires a series of decisions characterizing the types of guarantees. They include the cost of capital and optimal capital structure that will determine the guarantee capacity (i.e., how much capital can be leveraged). Among the decisions to be determined are currency (dollars or local), coverage (partial or full), coverage type and triggers (performance, political or exchange volatility), intended lenders (e.g., institutions, funds, individual investors), eligible borrowers (e.g., municipal governments, special purpose vehicles, private companies engaged in urban projects), kinds of projects (e.g., transport, buildings, energy, water, sewer, waste, tree planting) and definition and measurement of qualifying climate elements.

Fees are a key element of the business plan. Pricing is dependent on the guarantor's risk appetite, expected and accepted losses to be covered by the capital pool. Risk considerations include an evaluating the borrower's credit profile, the nature of the project (e.g., its revenue raising ability), and the macroeconomic conditions (e.g., inflation, political conditions).

An equation illustrates (U.S. Small Business Administration 2026):

Expected loss (risk assessment/probability) + cost
of funds + administration = fee for the guarantee⁷

If past practice is an indicator, most partial credit guarantees carry an annual fee of 1.2 to 2.3 percent of the guaranteed portion (Brockman and Lindfield 2025). While the expectation is that fees could be negotiated, ultimately, as with any insurance company, the fees (and interest income from investing the capital reserves) must provide a cushion sufficient to cover losses and administrative expenses.

Capitalization

Preliminary discussions with the Green Climate Fund and CAF concluded that GCGF should aim to raise USD 100 million in initial equity with the expectation that it will leverage investments at one time or above this amount. CAF anticipates that the GCGF would aim to secure about half to three quarters of the targeted amount through cash-based seed funding from the Green Climate Fund, CAF reserves, and from other shareholders via multilateral or bilateral agreements. The remainder would be secured through callable capital agreements with existing or other shareholders.

“The choices that will be made on urban infrastructure in the coming decades—on urban planning, energy efficiency, power generation, and transport—will have a decisive influence on the emissions curve. Indeed, cities are where the climate battle will largely be won or lost.”

—UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE 2019

⁷ For a basic overview on fee setting see: Goodman, L., E. Seidman, J. Parrott, and J. Zhu. 2014. “Guarantee Fees—An Art, Not a Science.” Washington, D.C.: The Urban Institute <https://www.urban.org/sites/default/files/publication/22841/413202-Guarantee-Fees-An-Art-Not-a-Science.PDF>. For an example of how the U.S. Small Business Administration rates for 2026 see “Small Business Administration Guarantee Fees: Current Costs for 7(a) and 504 Loans” <https://www.lendio.com/blog/sba-guarantee-fee#sources> and for a discussion on the E.U. rate setting see Nicolaides, P. 2021. Pricing of Guarantees Lexxion. <https://www.lexxion.eu/en/stateaidpost/pricing-of-guarantees/>.

Conclusion

Achieving the development and climate goals agreed by the United Nations member states requires significant investments in cities, yet urban-focused finance is severely lagging. One solution to attract more capital from public and private sources is to develop a guarantee fund. Guarantees are widely employed around the world, mainly to support the creation of small and medium-sized (SME) enterprises. Asia and Europe dominate these markets, Latin America trails in this area.

Recently, international and national development agencies and socially minded entrepreneurs including the World Bank, and the Stichting Cardano Development have used them, albeit sparingly, to support projects undertaken by national governments or by creditworthy private companies engaged in blended finance programs in the Global South.

In 2022, the E.U. supported two city-focused guarantee programs focused on Africa and Asia. In 2024, the SDSN Global Commission on Urban SDG Finance proposed the creation of the GCGF for Latin America that has high needs and low levels of urban climate finance. Given the region's need, the IDB is piloting subnational lending program that includes guarantees, a situation that validates and complements, not replace the GCGF idea. The GCGF concept poised for further detailing to outline its structure/governance, business plan, and capitalization. While the European models are interesting, an approach led by CAF, the Latin American Development Bank, is more feasible. CAF is seriously exploring the project with internally and externally. It is in discussions with the Green Climate Fund in seeking support for it.

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