

# Credit Risks and Opportunities for Emerging Market Investments:

Insights from MDB/DFI Private Sector Lending

# Agenda

- **Introduction & What is GEMs**
- Why GEMs Matters to Investors
- Key Insights from GEMs Data
- What GEMs Means for EMDEs
- Conclusion

# GEMs — Redefining Risk in Emerging Markets



# Bridging the Gap Between Perception and Reality

Investors often view EMDEs as excessively risky, relying on limited data and sovereign credit ratings that overstate private sector risk.

## GEMs Value Proposition

### DATA-DRIVEN INSIGHTS

Robust statistics on defaults and recoveries grounded in over three decades of MDB/DFI lending.

### RISK REASSESSMENT

EMDE corporates show default rates comparable to high-yield firms in advanced economies.

### DIVERSIFICATION BENEFITS

Low correlation with advanced economy assets enhances portfolio resilience in global downturns.

### EMPOWERING INVESTORS

Experience of MDBs/DFIs dispels misconceptions, highlights EMDE resilience, and supports data-backed allocation decisions.

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# GEMs — A Data-Driven Resource for Investors



GEMs is a consortium of 29 multilateral development banks and development finance institutions pooling decades of credit risk data.



GEMs covers 15,507 loans to 10,476 private counterparties across all sectors, and 169 countries.



GEMs tracks default and recovery rates for loans in EMDEs over the past three to four decades.



GEMs depth:

- > 41 years sovereign and sovereign-guaranteed lending.
- > 31 years private and public lending.



GEMs provides a common risk methodology to ensure consistency and reliability of data.

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# AVERAGE ANNUAL DEFAULT RATES

AVERAGE ANNUAL DEFAULT RATE (1994 – 2024)

**3.54%**

Benchmarked to:

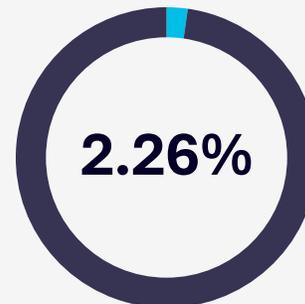
**3.2%**

S&P “B” rated firms

**3.8%**

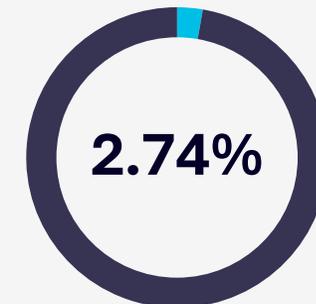
Moody’s “B3” rated firms

Lowest Default Rate GICS Sector  
(1994 – 2024)



Financials

Lowest Default Rate Region  
(1994 – 2024)



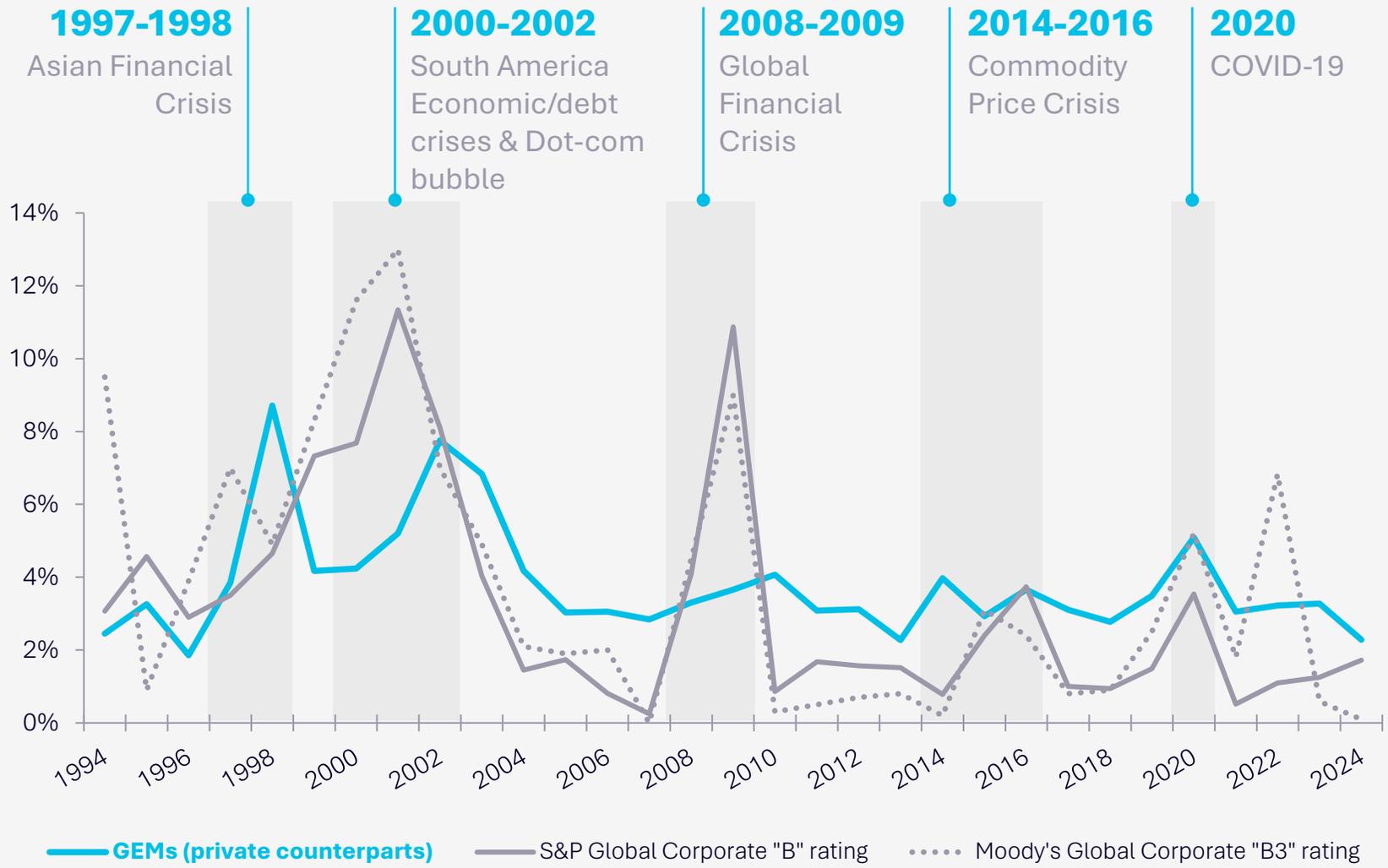
Europe & Cental Asia

What the  
Numbers  
Tell Us

# Resilience During Crises

## GEMs versus Comparators

# What the Numbers Tell Us



# AVERAGE RECOVERY RATES

AVERAGE RECOVERY RATE (1994 – 2024)

**72.9%**

Benchmarked to:

**70%**

Moody's Global Loans

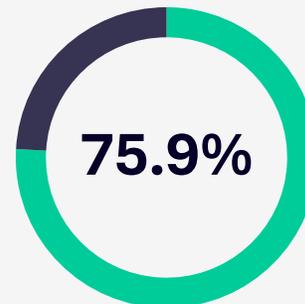
**59%**

Moody's Global Bonds

**38%**

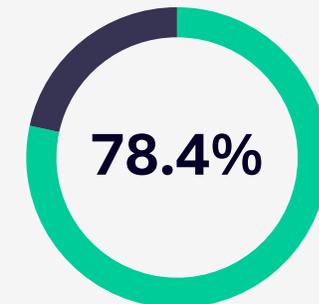
JPMorgan EM Bonds

Highest Recovery Rate Income Group  
(1994 – 2024)



Low-Income Countries

Highest Recovery Rate Region  
(1994 – 2024)



Sub-Saharan Africa

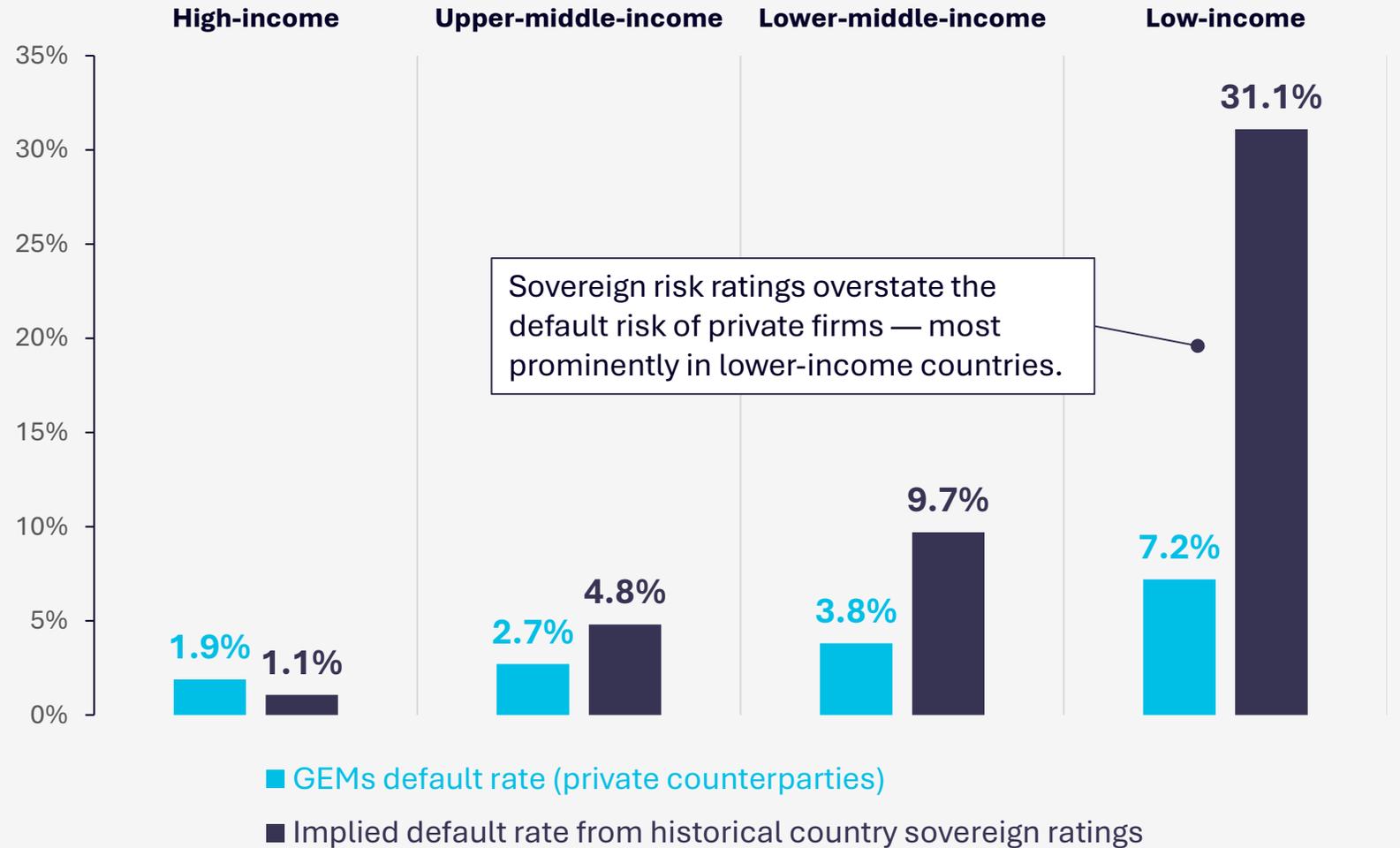
What the  
Numbers  
Tell Us

# Piercing the Sovereign Ceiling

## Sovereign ratings overstate default performance

- > Corporate default rates are far below what sovereign ratings imply. In low-income countries, MDB/DFI portfolio firms show average default rates of just 7%, versus the 31% probability implied by sovereign ratings.
- > Many private firms remain resilient and creditworthy even when their sovereigns are under stress, highlighting a disconnect between sovereign risk signals and actual corporate performance.

## AVERAGE DEFAULT RATE VERSUS COUNTRY RATINGS (1994-2024)



Note: Historical default rates implied in country sovereign ratings are from Standard & Poor's (2024): "Default, Transition, and Recovery: 2023 Annual Global Sovereign Default and Rating Transition Study. March 2024".

# Regional Insights

## Sub-Saharan Africa:

Highest default rates (6%) but also the highest recovery rates (78%).

## Low-income countries:

Recovery rate 76%, highest of all income group.

## PRIVATE LENDING DEFAULT AND RECOVERY RATES BY WORLD BANK REGION

FIGURE 8: PRIVATE LENDING DEFAULT RATES BY REGION

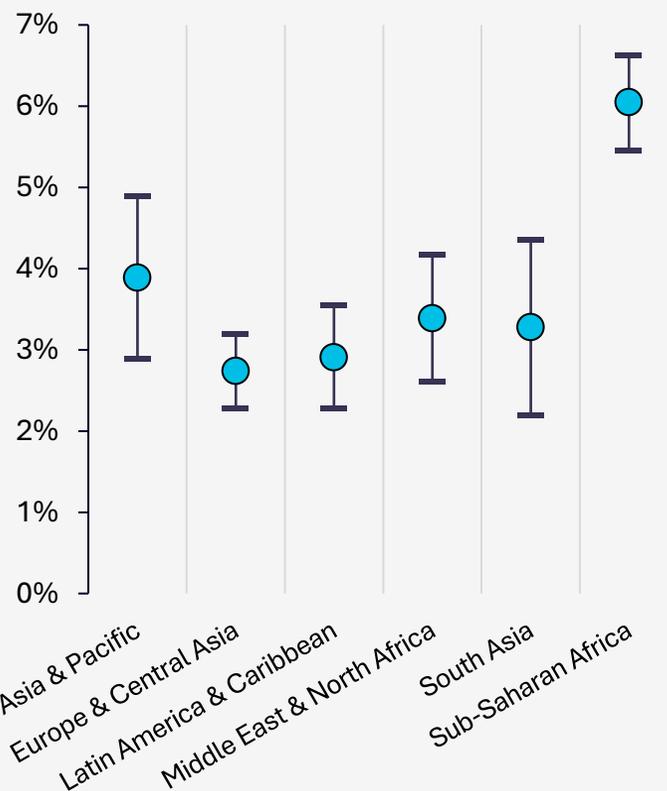
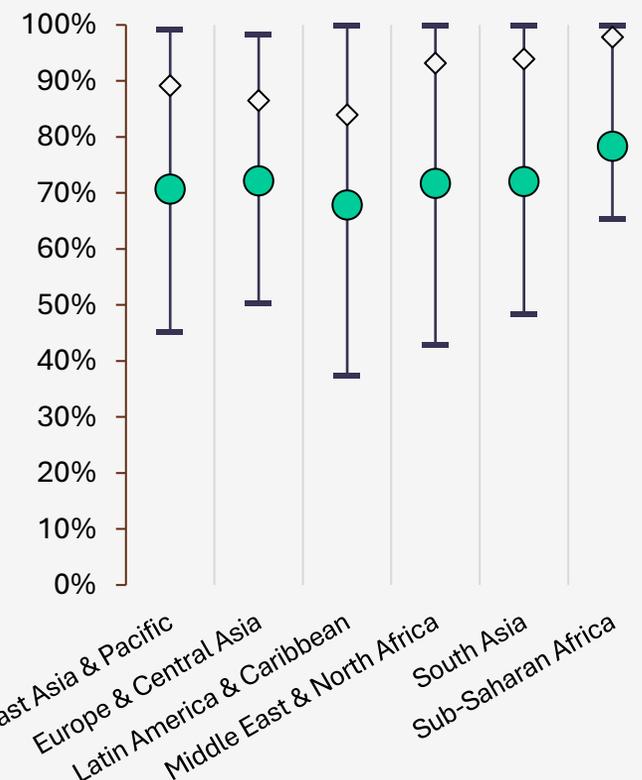


FIGURE 15: PRIVATE LENDING RECOVERY RATES BY REGION



— 90% confidence interval ● Average default rate

— 25th percentile to 75th percentile

◇ Median

● Average recovery rate

# Sectoral Insights

## Financial Sector:

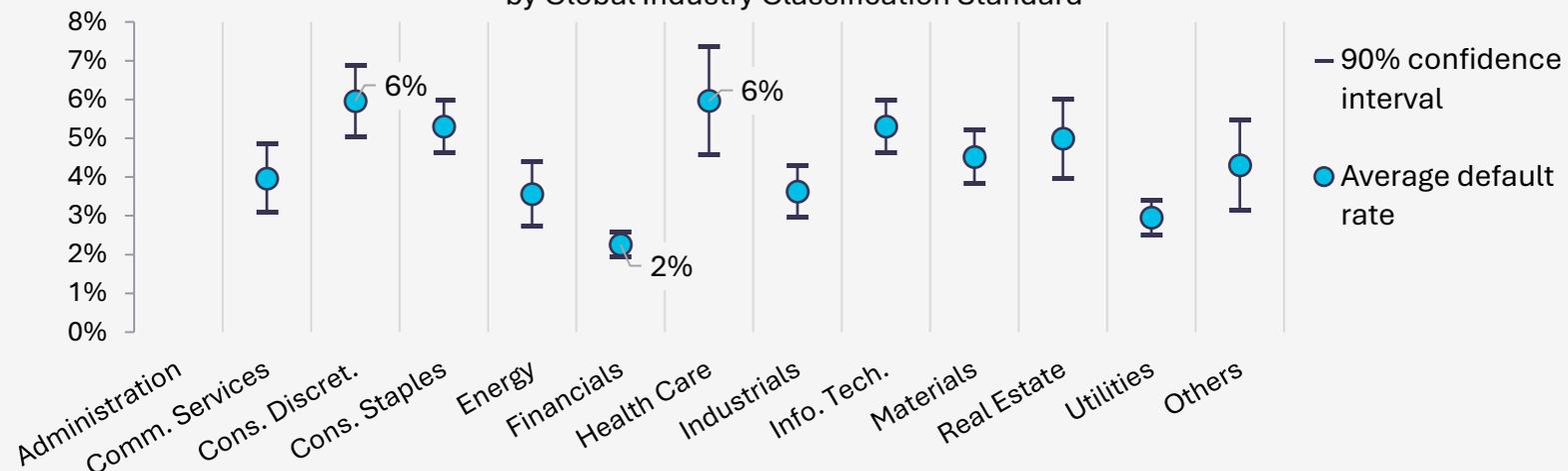
Lowest defaults (2%) and highest recoveries (79%).

## Consumer discretionary and health care

have highest defaults (6%), but recoveries relatively strong in the 70% range.

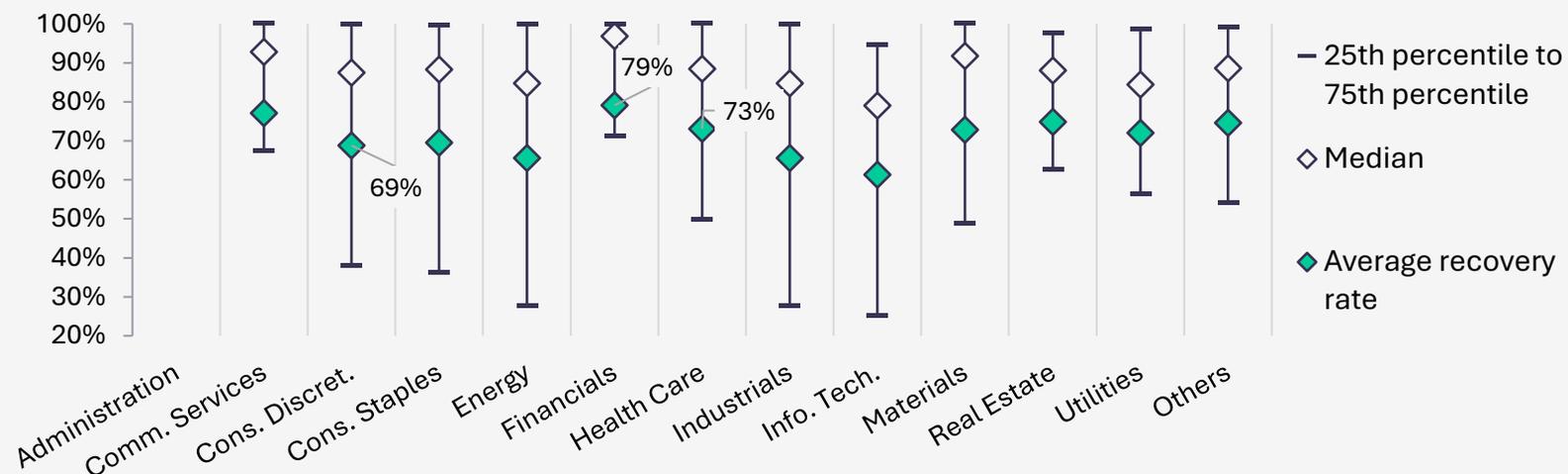
## DEFAULT RATES

by Global Industry Classification Standard



## RECOVERY RATES

by Global Industry Classification Standard



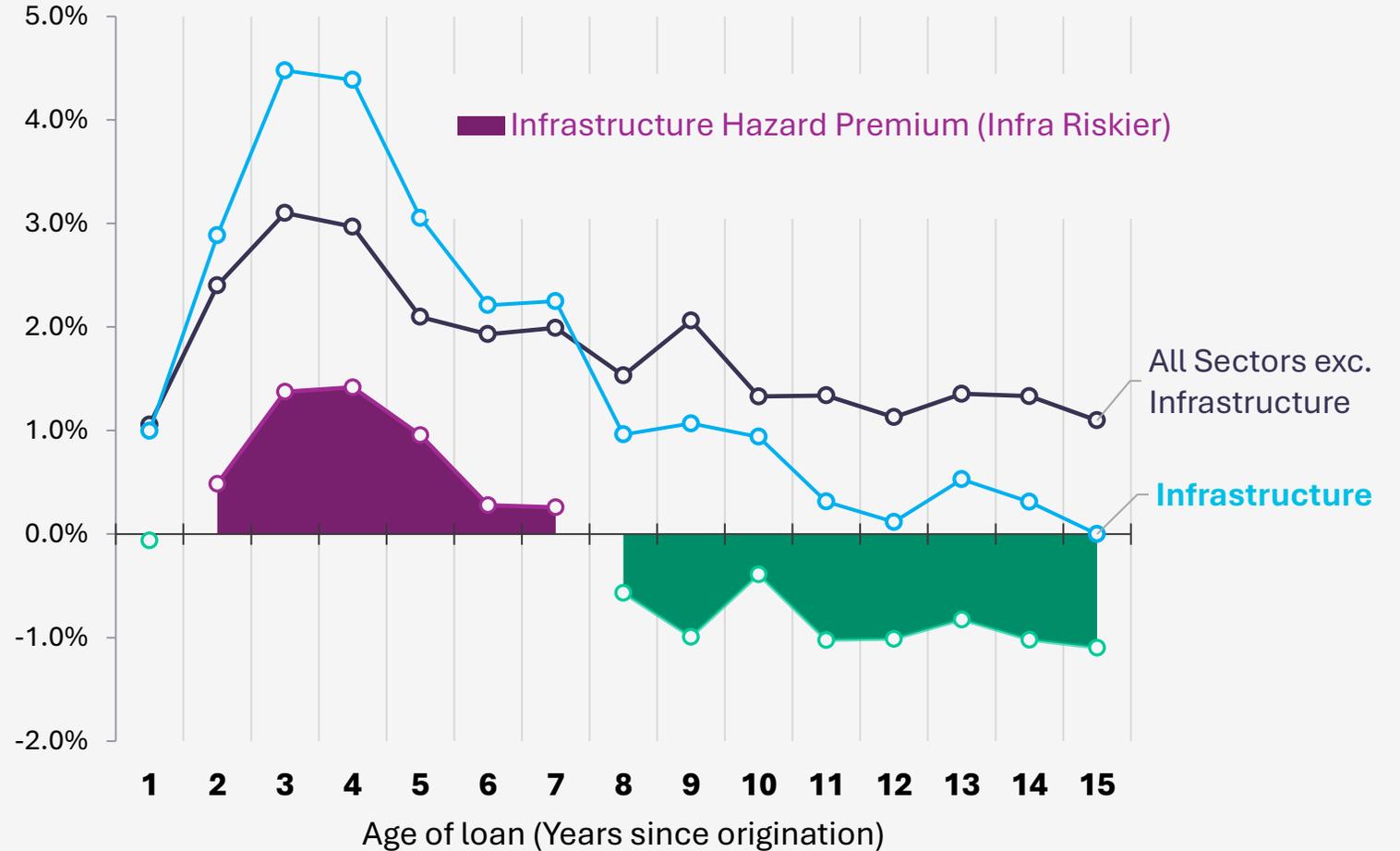
# Infrastructure

## Front-Loaded Risk, Back-Loaded Stability

Infrastructure loans exhibit higher default risk than other sectors in the early years (e.g., during construction, permitting, and ramp-up), but **become safer than other sectors once projects are established**. GEMs data confirm this pattern, in line with Moody's and S&P findings that defaults in infrastructure project financing are front-loaded but long-lived projects are more resilient over time.

### HAZARD RATE: DEFAULT RATE CONDITIONAL ON SURVIVAL

GEMs Private Lending Portfolio, 1994-2024



Note: Over the full 25-year loan-age horizon covered in the GEMs sample (1994–2024), infrastructure contracts exhibit a higher cumulative default rate than other sectors (19.4% versus 14.8%).

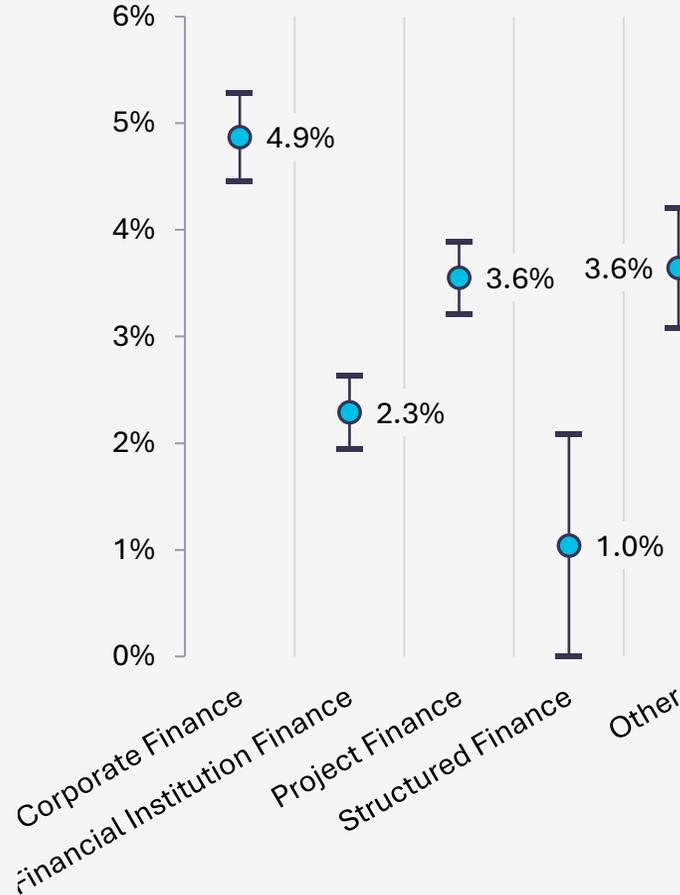
# Project Insights

## Which type of projects have stronger credit performance?

- > Default rates lowest in **structured finance (1%)**.
- > Defaults highest in **corporate finance (approx. 5%)** and **project finance (3.6%)**, but recoveries strong at **71%**.

### DEFAULT RATES

by project type

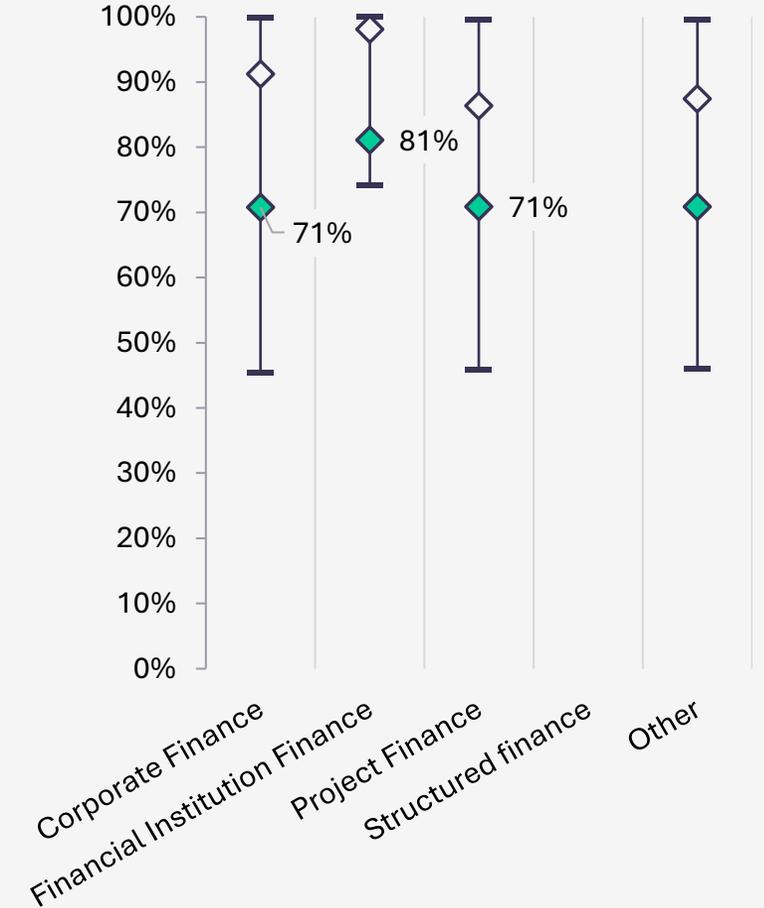


— 90% confidence interval

● Average default rate

### RECOVERY RATES

by project type



— 25th percentile to 75th percentile

◇ Median

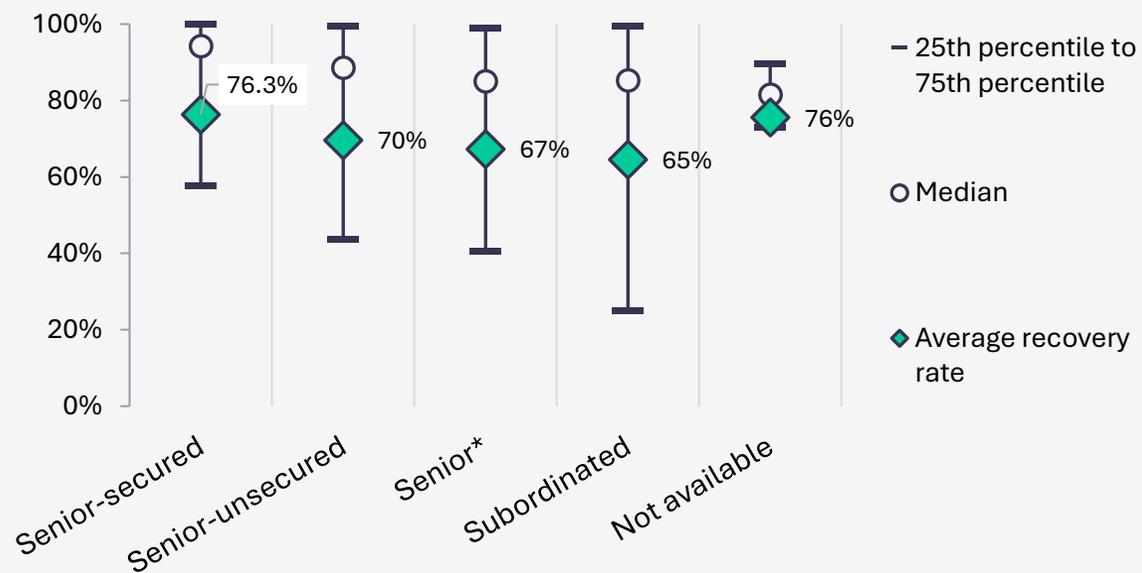
◆ Average recovery rate

# Which projects have stronger credit performance?

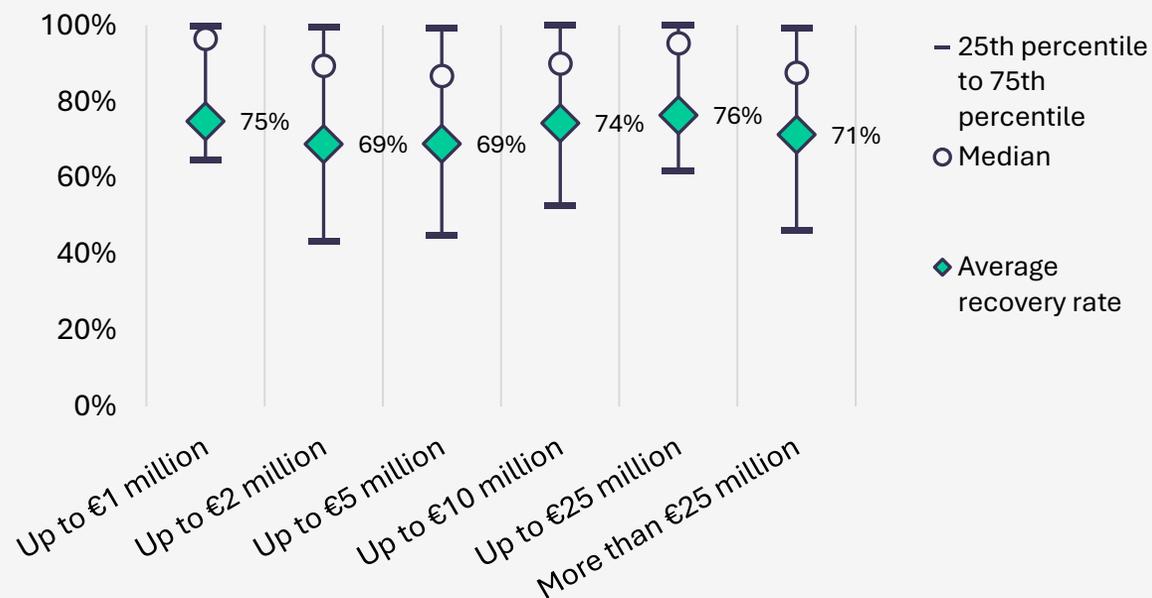
Senior-secured instruments have highest average recovery rate (**76.3%**), reflecting strong collateral backing.

Recovery rates across different contract sizes relatively uniform, indicating that contract size does not affect recovery.

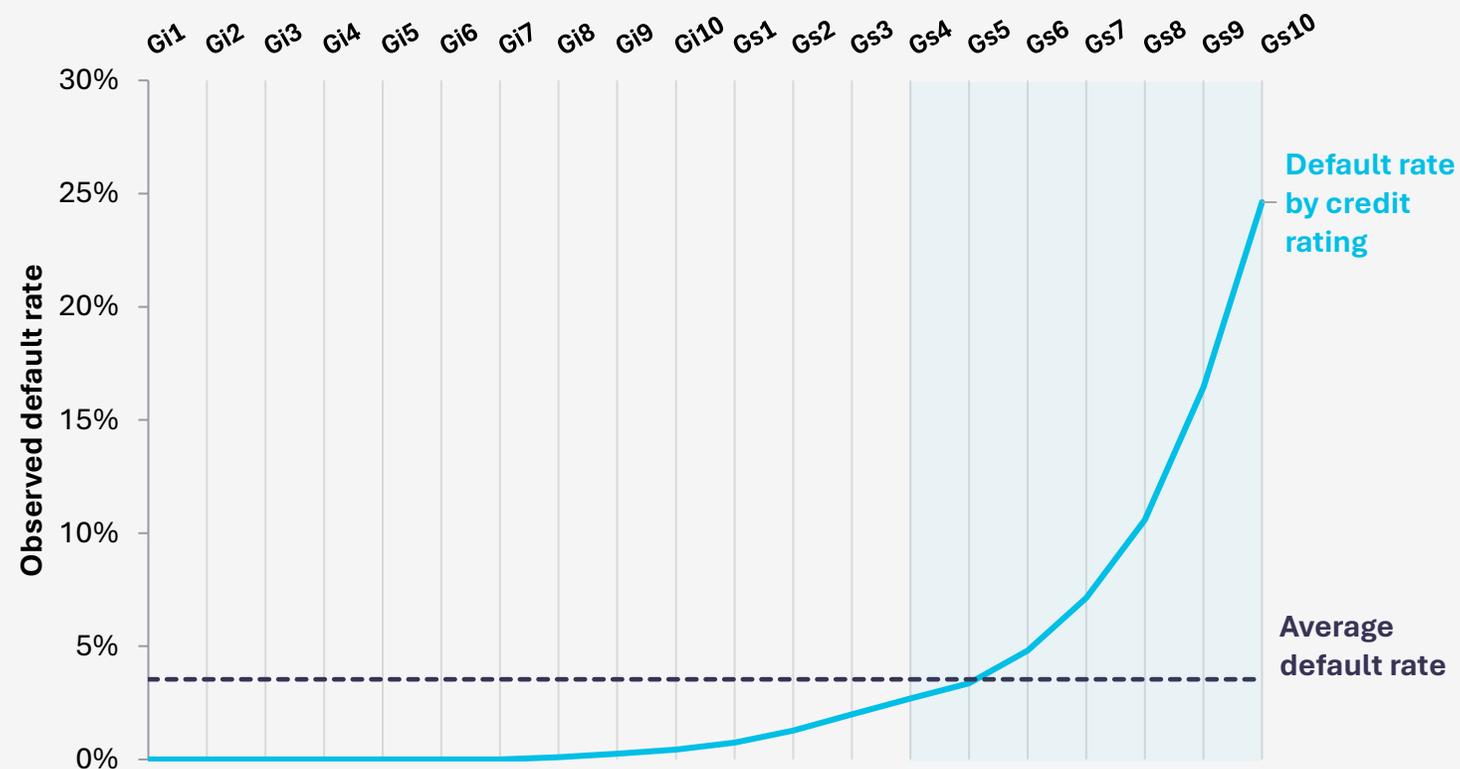
## RECOVERY RATES BY SENIORITY



## RECOVERY RATES BY CONTRACT SIZE



## ONE YEAR DEFAULT RATES BY CREDIT RATING

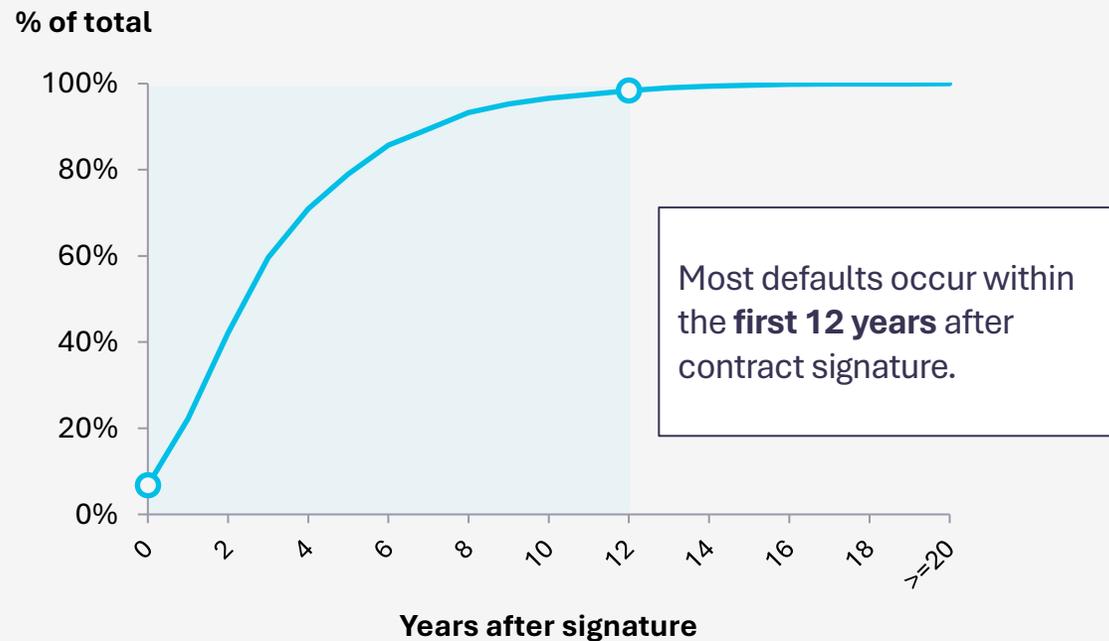


Which projects have stronger credit performance?

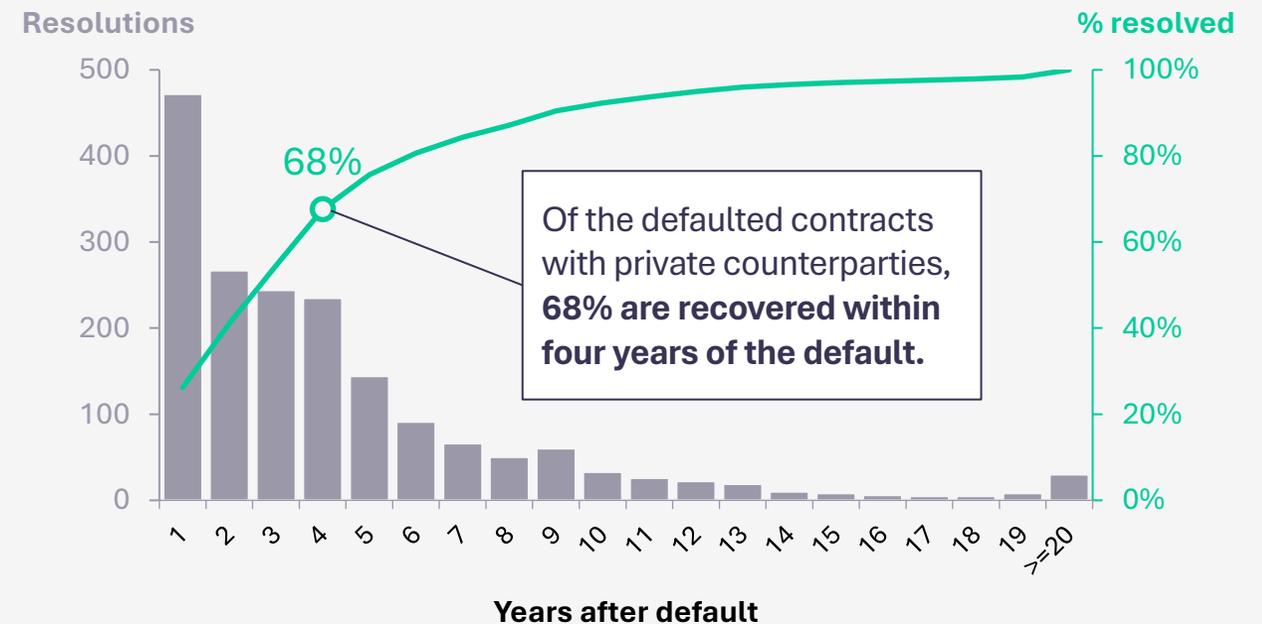
One-year default rates increase steadily as credit ratings deteriorate, with a rise beginning at GEMs rating level Gs4 and peaking at Gs10

# What do we know about time to default and resolution?

## TIME TO DEFAULT



## TIME TO RESOLUTION OF DEFAULTS



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# Why Invest in Emerging Markets with MDBs/DFIs?



## A Paradigm Shift in Risk Perception:

GEMs data reveals that **emerging markets are less risky** than commonly perceived.

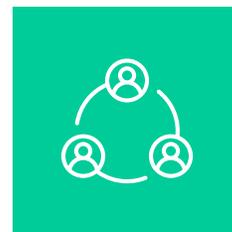
Default rates are comparable to corporates in advanced economies, and recovery rates often **outperform global benchmarks**.



## Empowering Smarter Investments:

GEMs provides **granular insights** by region, sector, country, income group, project type, contract size, currency and many other cross-cuts.

Investors can make **data-driven credit risk management** decisions based on this granularity.



## Driving Impact and Returns:

By leveraging GEMs data, investors can:

- **Diversify portfolios** to mitigate global economic shocks.
- **Mobilize capital for** private sector growth.
- **Achieve competitive returns** while managing credit risks and advancing sustainable development goals (SDGs).



## A Call to Action:

Collaborating with MDBs and DFIs provides access to **local expertise, advisory services, and active project supervision**.

Partner with MDBs and DFIs to **unlock untapped opportunities** in emerging markets and **drive impactful investments**.

# GEMs Use Cases

## S&P Global Ratings

S&P Global

S&P recalibrated its MLI rating criteria by leveraging GEMs data on historical recoveries and defaults, resulting in improved assessment of sovereign exposures and potential lending headroom for EMDEs.

## ILX Fund



ILX Fund used GEMs default and recovery statistics to demonstrate stable performance for MDB/DFI co-investments, helping mobilize private sector capital and accelerate deployment across emerging markets.

## Guarantor DFI

DFI

A guarantor DFI applied GEMs data to calibrate IFRS 9 lifetime PDs and LGD estimates for its sovereign portfolio, enhancing expected credit loss modeling and strengthening audit readiness and risk pricing.

## Regional MDB

MDB

A regional MDB transitioned from external rating agency scorecards to internal, region-specific PD curves using GEMs data, improving model auditability and enabling more granular provisioning and pricing decisions.

## Risk Control

RISK CONTROL

Risk Control provided research on MDB risk transfer business models using GEMs statistics to objectively compare model outcomes and support more robust PD/LGD calibration and governance across MDB portfolios.

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# Access GEMs Statistics

- **GEMs Website**   
[www.gemsriskdatabase.org](http://www.gemsriskdatabase.org)
- **GEMs LinkedIn Page**   
[www.linkedin.com/company/gems-global-emerging-markets-risk-database](http://www.linkedin.com/company/gems-global-emerging-markets-risk-database)
- **GEMs Secretariat**   
[gems@eib.org](mailto:gems@eib.org)
- **World Bank Group's Open Data Portal**   
[https://data360.worldbank.org/en/dataset/IFC\\_GEM](https://data360.worldbank.org/en/dataset/IFC_GEM)
- **Bloomberg Terminal**   
Search "GEMs" on DSET <GO>
- **GEMs Webtool**   
Member institutions have access to their own data only and can calculate credit risk statistics based on their own data, the rest of the Consortium's data or on data as a whole. They utilize the statistics to calibrate models and inform investment decisions.

***GEMs is a global collaboration committed to revealing the true credit performance of investments in emerging markets and developing economies to help unlock their full potential.***