

GEMs

GLOBAL EMERGING MARKETS RISK DATABASE CONSORTIUM

*Leveraging MDBs and DFIs Emerging Market Credit
Risk Data to Support Investment and Development*



Presented by:

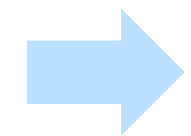
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Agenda



- 1 Global Emerging Markets Risk Database (GEMs)
- 2 GEMs Market Study
- 3 Key Findings and Supporting Data
 - i. Respondent Statistics
 - ii. Views on Emerging Markets
 - iii. Disaggregation Preferences
 - iv. Additional Statistics
- 4 Strategic Focus Areas Post Study

DEFAULT AND RECOVERY STATISTICS



Global Emerging Markets Risk Database

gemsriskdatabase.org

Global Emerging Markets Risk Database (GEMs)

Overview of GEMs Consortium Database

- Established in 2009 as a bilateral project between EIB and IFC to aggregate institutions' credit risk data on private and sub-sovereign lending in for Emerging Market and Developing Economies (EMDEs).

What do GEMs “statistics” refer to?

- Anonymized, aggregated credit risk statistics derived from over three decades of lending to EMDEs by MDBs and DFIs Consortium members.

History of Public Dissemination and Reports

- **Initial Sharing:** Data and derived statistics were initially shared exclusively among member institutions.
- **Public Availability:** Default rate statistics became publicly accessible on the GEMs website in 2021.
- **G20 2022 “Boosting MDBs’ Investing Capacity” Report Recommendation:**
 - Urged GEMs to broaden the dissemination of statistics beyond the default data published on its website.
- **Fully Revamped Reports:** First publications to include both default and recovery rates by counterpart type released in Oct 2024.

The GEMs “statistics” today cover

- Default and recovery rates for private, public, sovereign and sovereign-guaranteed lending in EMDEs.
- Granularity of results, including regions, countries, sectors, historic income group and other newly introduced metrics.

What Is GEMs?

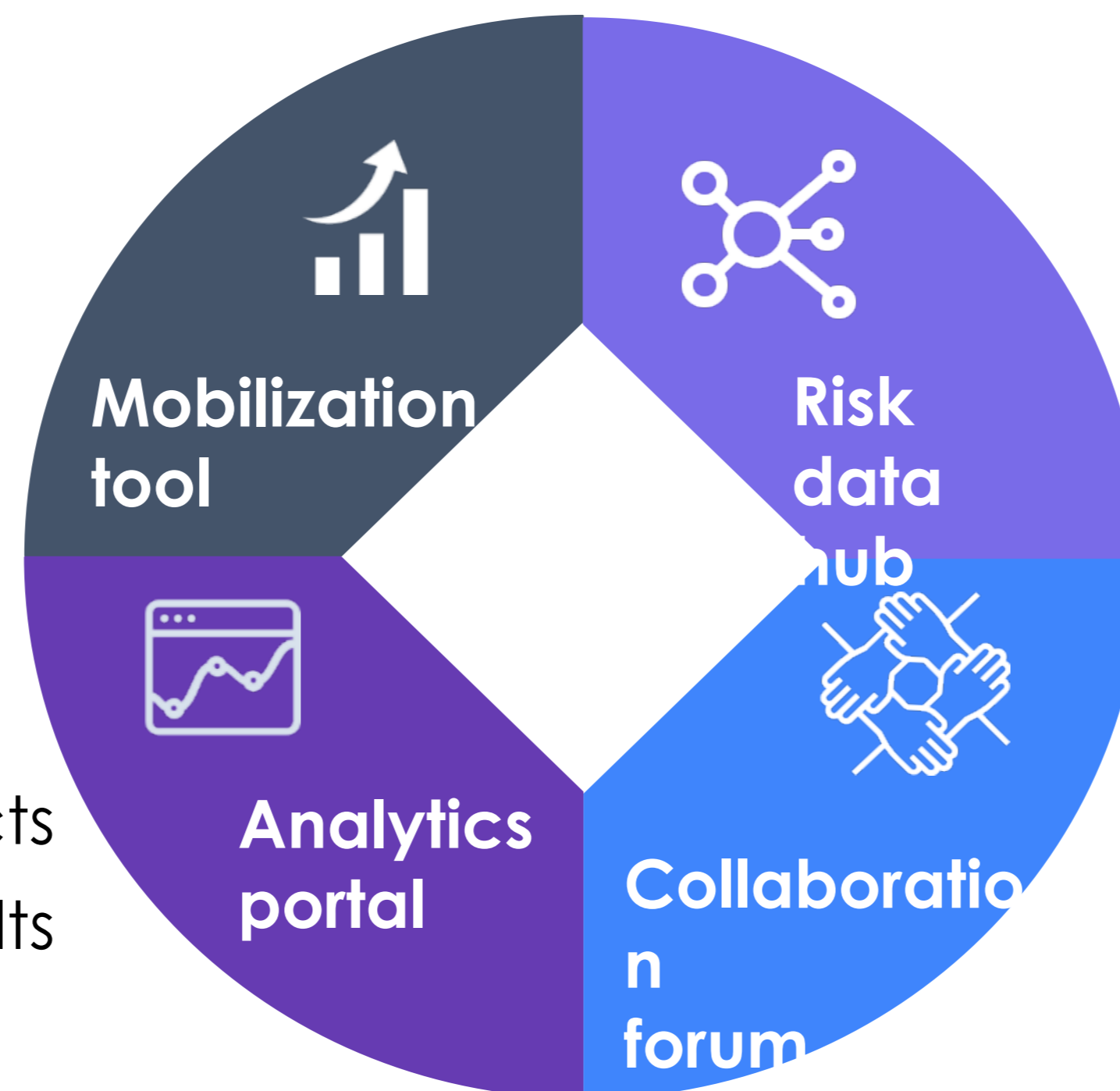
Multilateral effort for better data availability

Addressing information gap for emerging markets

- ✓ Data: key to unlock more investment
- ✓ Statistics for external use published on the GEMs website

Data and methodologies

- ✓ Data resource with 11,000+ counterparts, 20,000 + contracts
- ✓ Approx. 2,300 recorded defaults
- ✓ Common risk methodology
- ✓ Statistics available to members in the GEMs web application & to the public since 2021



Founded in 2009 by EIB and IFC

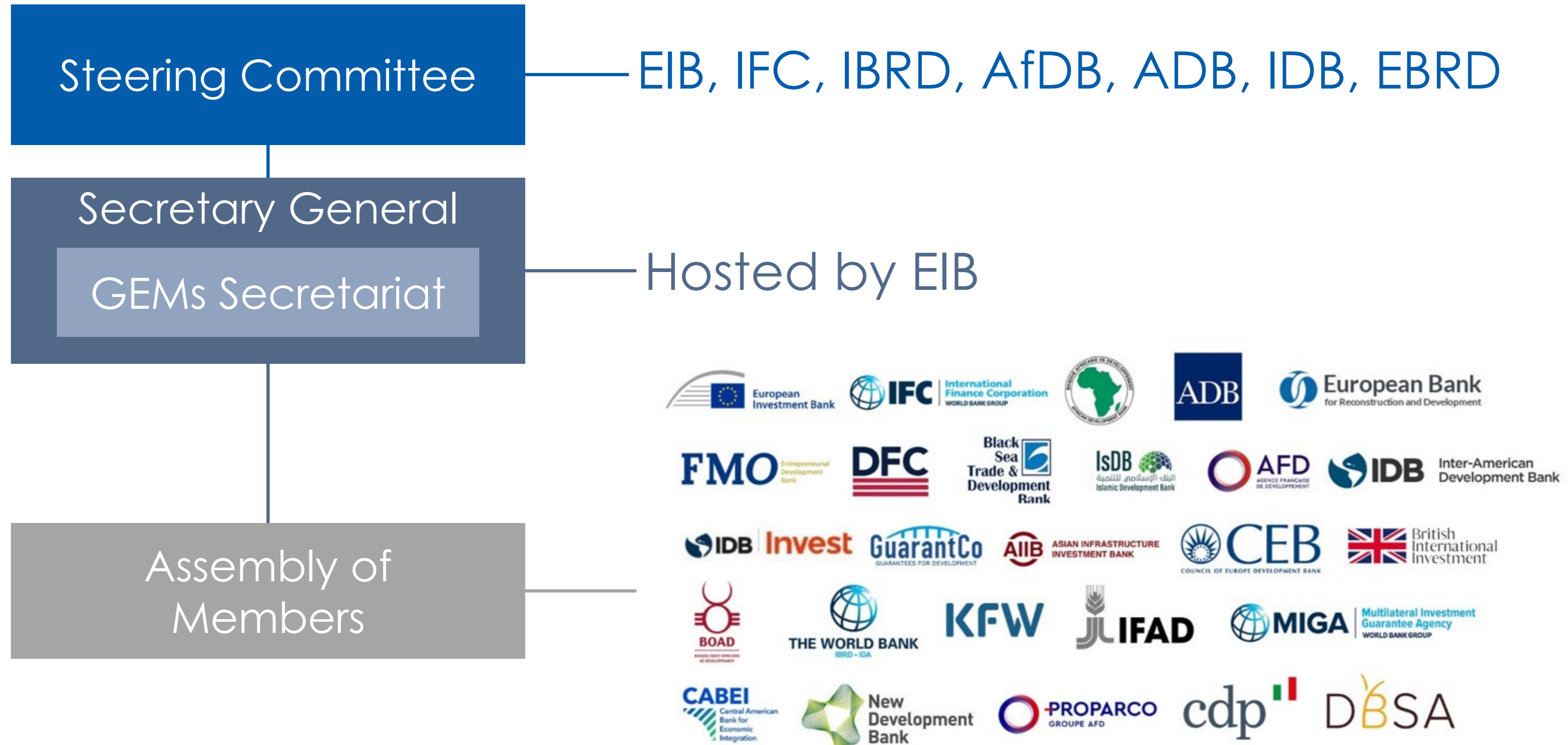
- ✓ Grown to 26 member institutions
- ✓ Anonymized MDBs & DFIs risk data collection
- ✓ History since 1984 (sovereign) and 1994 (private/public)

MDB Collaboration

- ✓ Discussion forum for topics that impact the MDBs and DFIs
- ✓ Synergies with other MDB/DFI initiatives, e.g. multi-beneficiary guarantee programs

Organization and Governance

Joint Effort by MDBs & DFIs



Consortium Membership

Eligibility

The membership of the GEMs Risk Database Consortium is limited to:

- International Financial Institutions established by treaty (such as MDBs)
- Entities within or funded by the governments which have as their role and function the financing and development of emerging markets

Current membership:

- 18 Multilateral Development Banks (MDBs)
- 8 Development Finance institutions (DFIs)
- 2-3 more institutions are expected to join by year-end

Data Processing and Reporting

Counterpart Types

GEMs collects data and publishes statistics for 3 separate counterpart types:

1. “Private” Counterparts

Entities that have private ownership or less than 50% government ownership

2. “Public” Counterparts

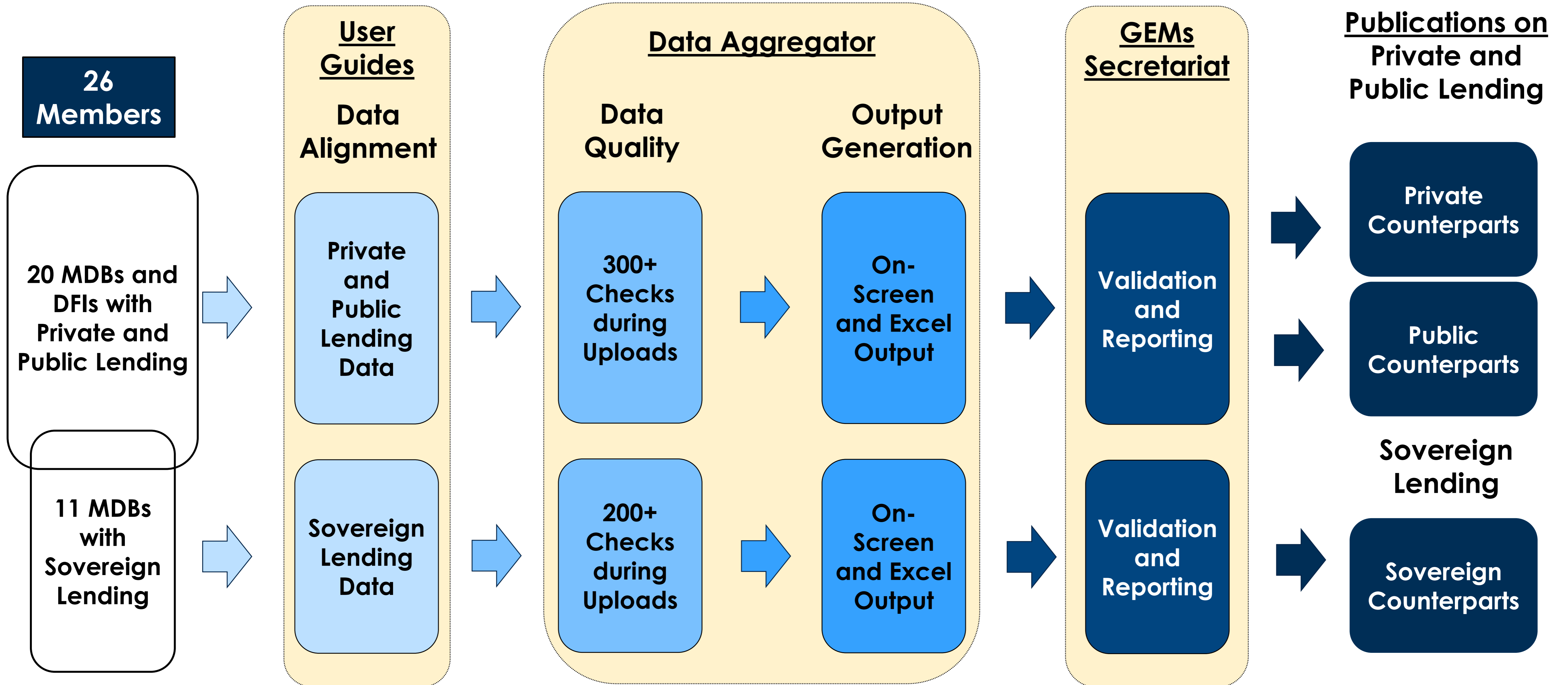
Entities that have 50% or more of government ownership, e.g., state-owned enterprises, public-private partnerships, sub-nationals, municipalities, etc.

3. “Sovereign” Counterparts

MDB lending directly to sovereigns or with a sovereign guarantee. All lending within a country linked via cross-default clauses and subject to simultaneous arrears sanction.

Data Processing and Reporting

Annual data submission



2024 Publications – Two Fully Revamped Reports

New features

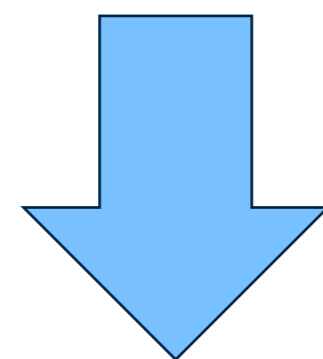
- First publications to jointly include default and recovery rates for all three counterpart types.
- Recovery rates published for the first time for sovereigns → completes coverage of recovery information across all datasets in GEMs.
- Expanded granularity of results (regions, countries, sectors, regions/sectors, historic income group, etc.)
- Indications for distribution of results:
 - ✓ Confidence intervals for annual default rates
 - ✓ Percentiles for recovery rates
- Sovereign dataset history expanded from 1998 back to 1984, now covering 40 years.

2024 Publications – Two Fully Revamped Reports

Limitations on the Availability of Statistics

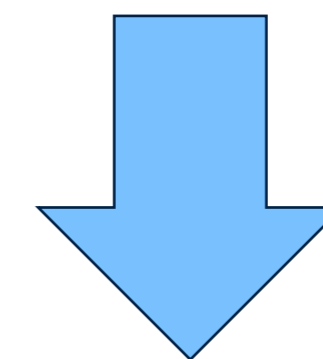
Statistical significance

Averages calculated over few samples cannot be considered good indicators for guiding future lending



Confidentiality

For private and public counterparts it is important to preserve the confidentiality that institutions are contractually obligated to.



Minimum thresholds were set on observations for inclusion of a reported category in the publication for private and public counterparts:

- Default rates: at least 5 years and 20 counterparts of annual observations
- Recovery Rates: at least 10 observed default events

2024 Publications – Two Fully Revamped Reports

Key Numbers

Data History

- **Private and Public:** based on 30 years (1994 -2023)
- **Sovereign/sovereign-guaranteed:** based on 40 years (1984 -2023)

Average Annual Default Rates

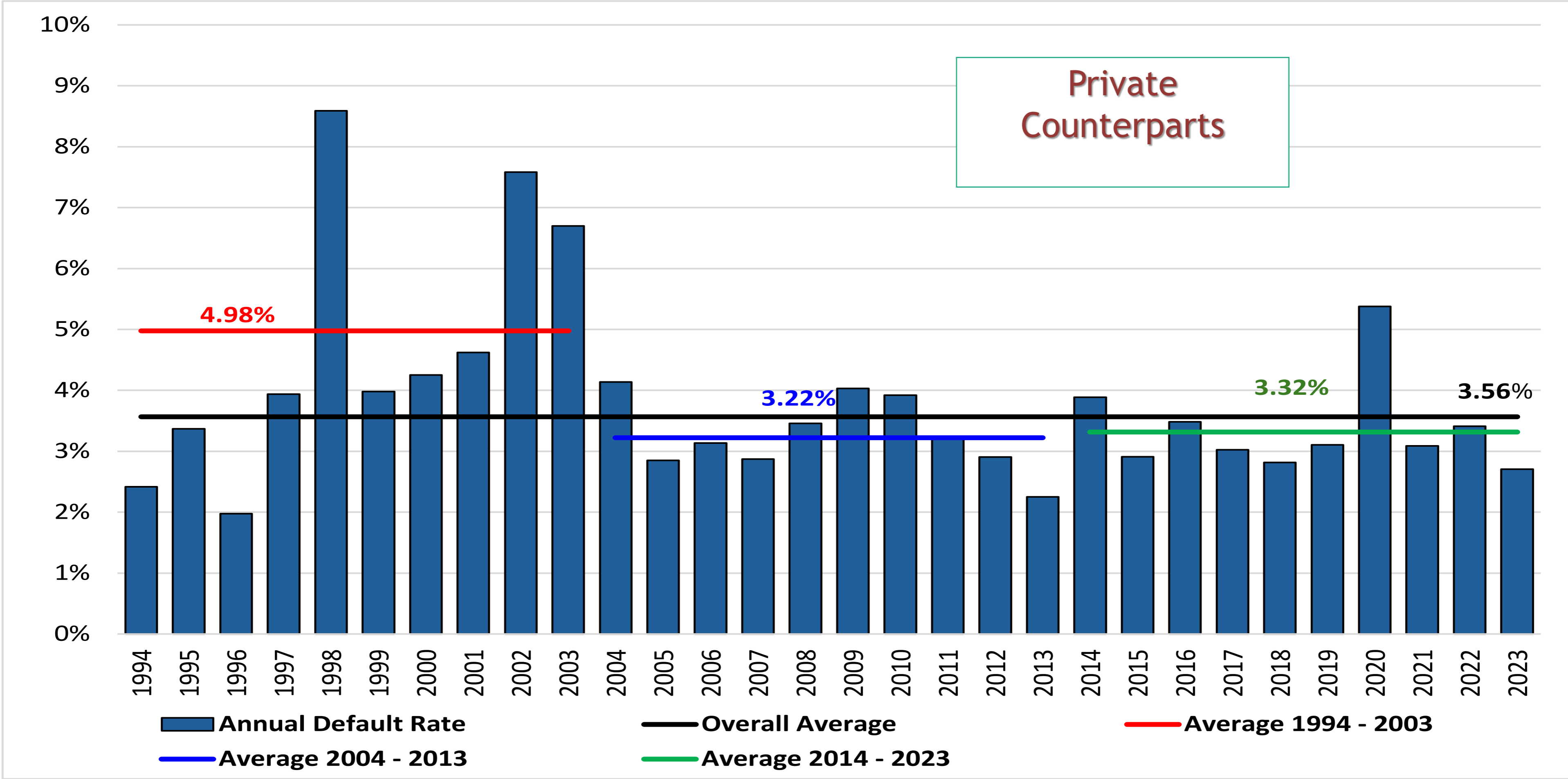
- **Private:** 3.56% (9,929 counterparts and 1,996 default events)
- **Public:** 2.59% (943 counterparts and 242 default events)
- **Sovereign:** 1.06% (166 countries and 50 default events)

Average Recovery Rates

- **Private:** 72.9% (1,561 default events)
- **Public:** 85.9% (251 default events)
- **Sovereign:** 94.9% (44 country default events)

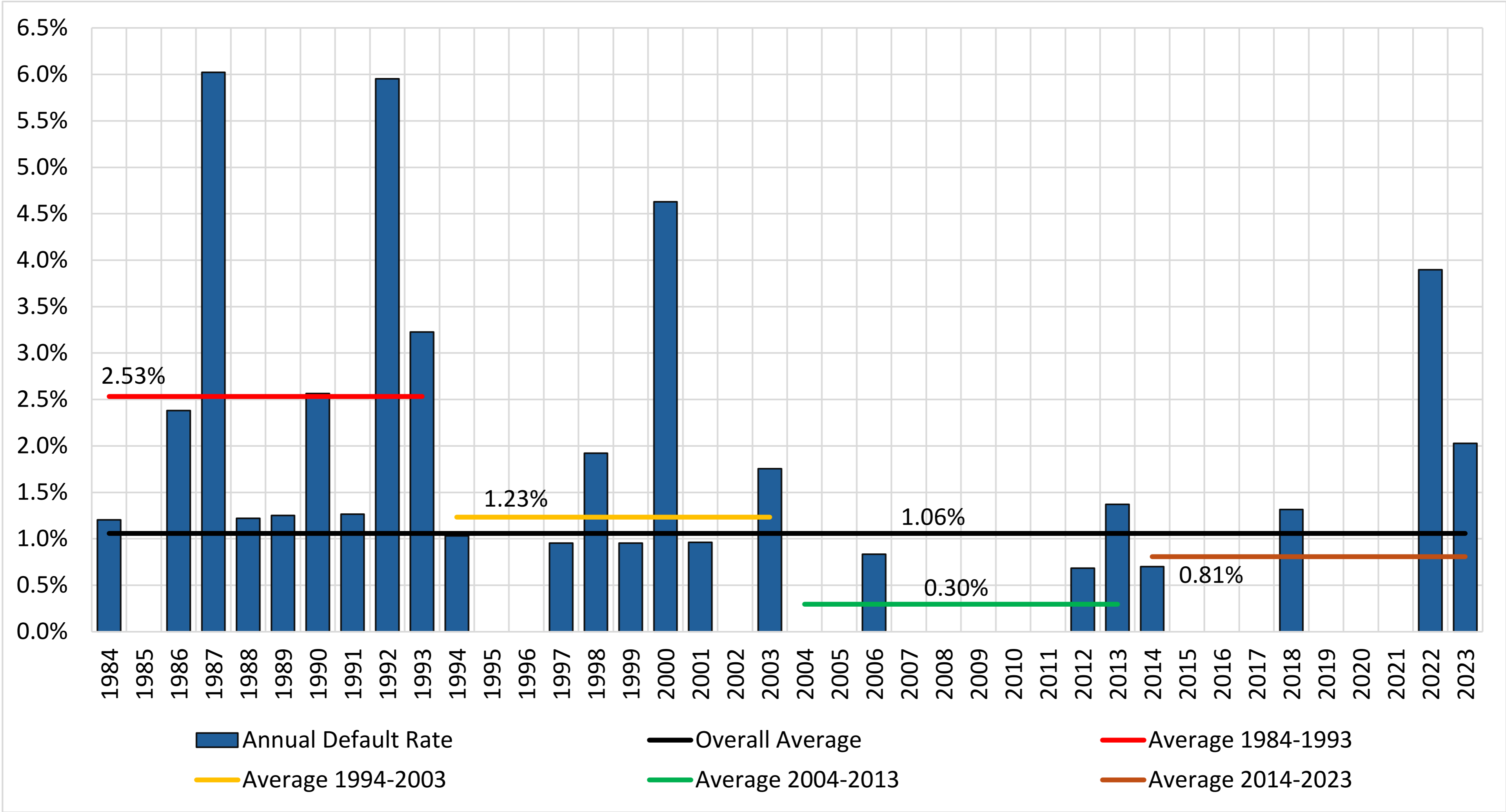
Annual Default Rates – Private

Private counterparts show a lower average default rate from 2004–2013 compared to the previous decade, demonstrating resilience to global crises in private lending. This trend of reduced defaults continues steadily through 2014–2023.



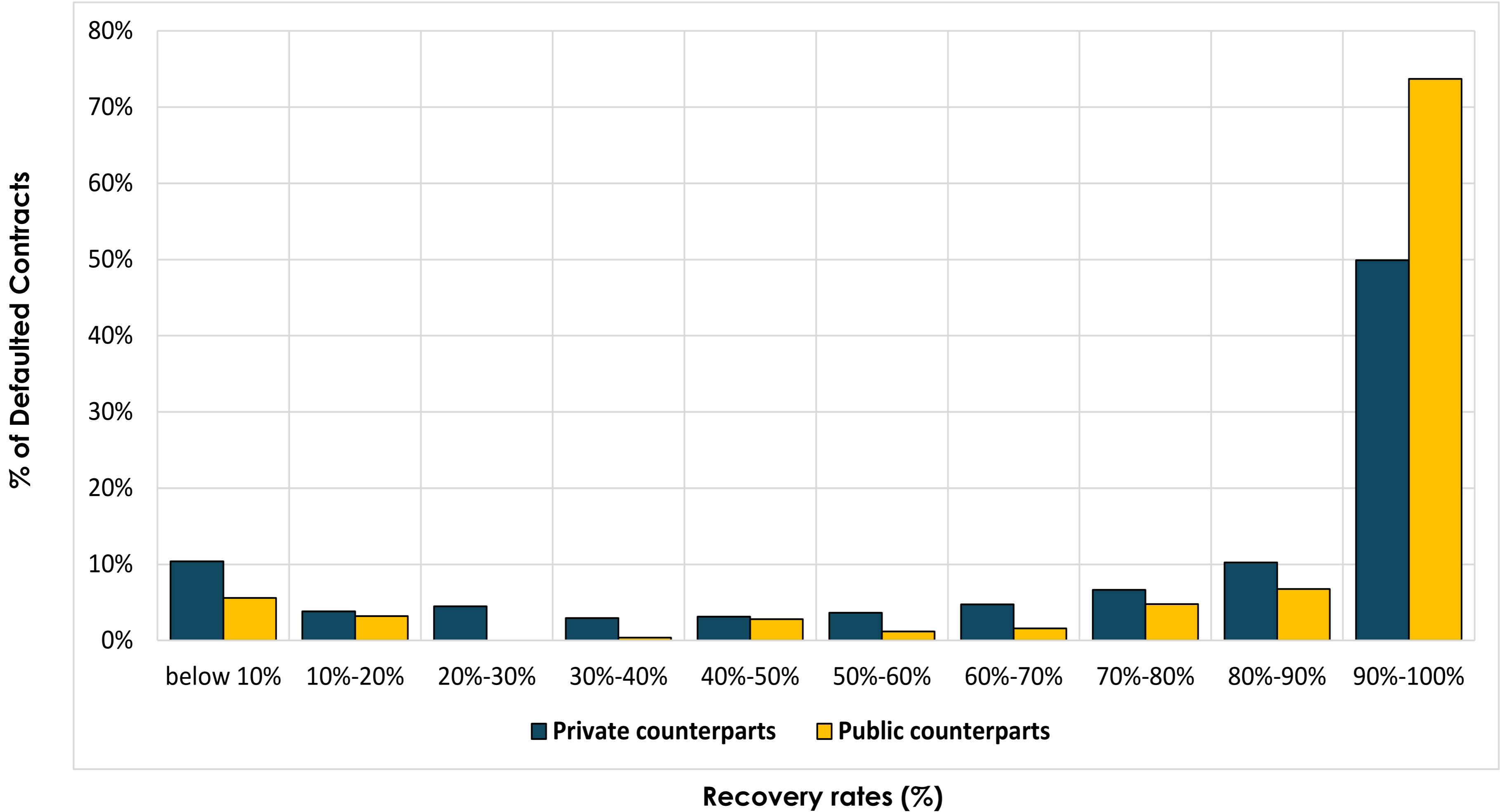
Annual Default Rates – Sovereign & Sovereign-guaranteed

Sovereign default rates trended downward from the highs of the late 1980s and 1990s to lower levels through 2021, with a recent reversal in 2022/2023.

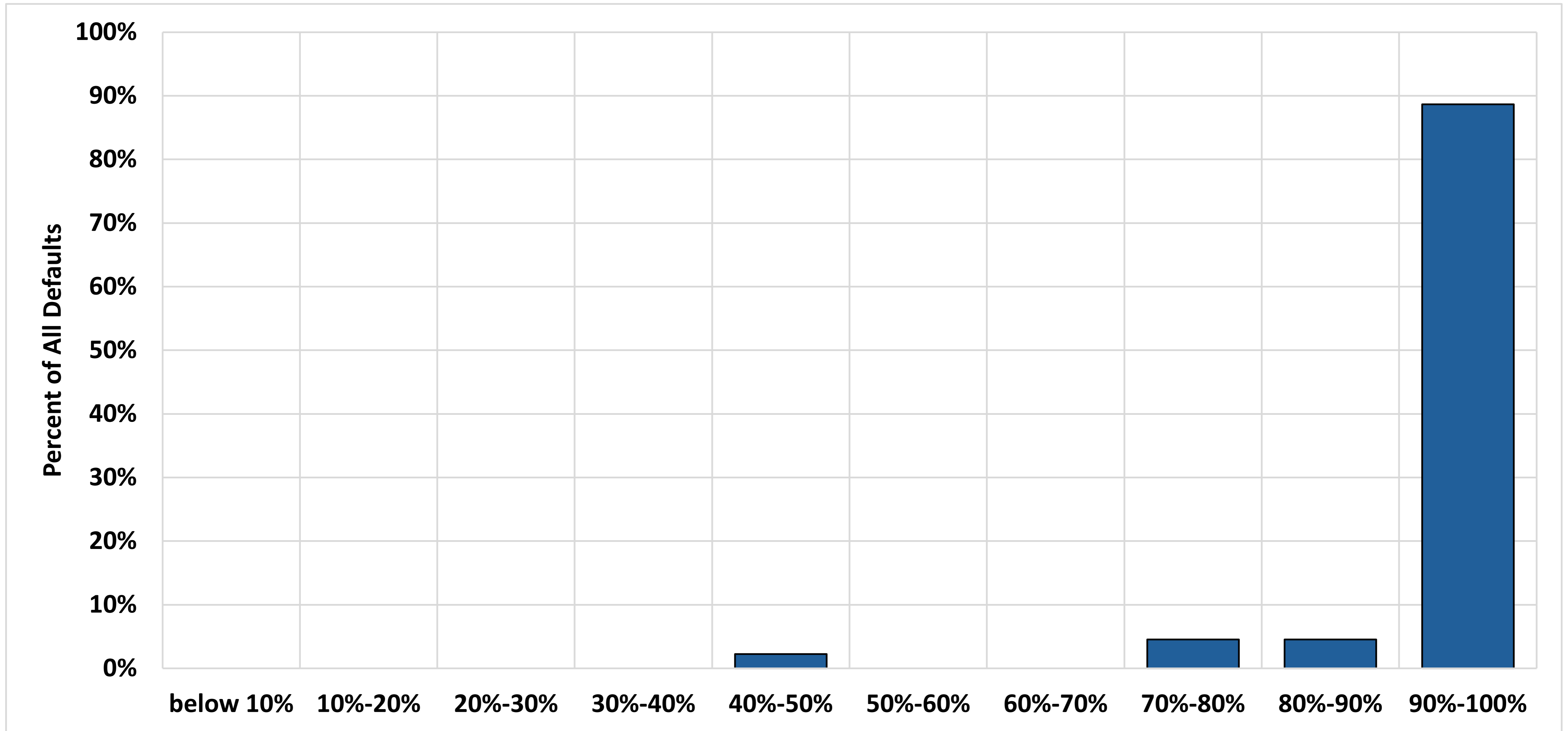


Recovery Rates – Private & Public

Over half of the defaulted contracts across counterpart types have recovery rates above 90%, with fewer than 10.5% resulting in losses over 90%.

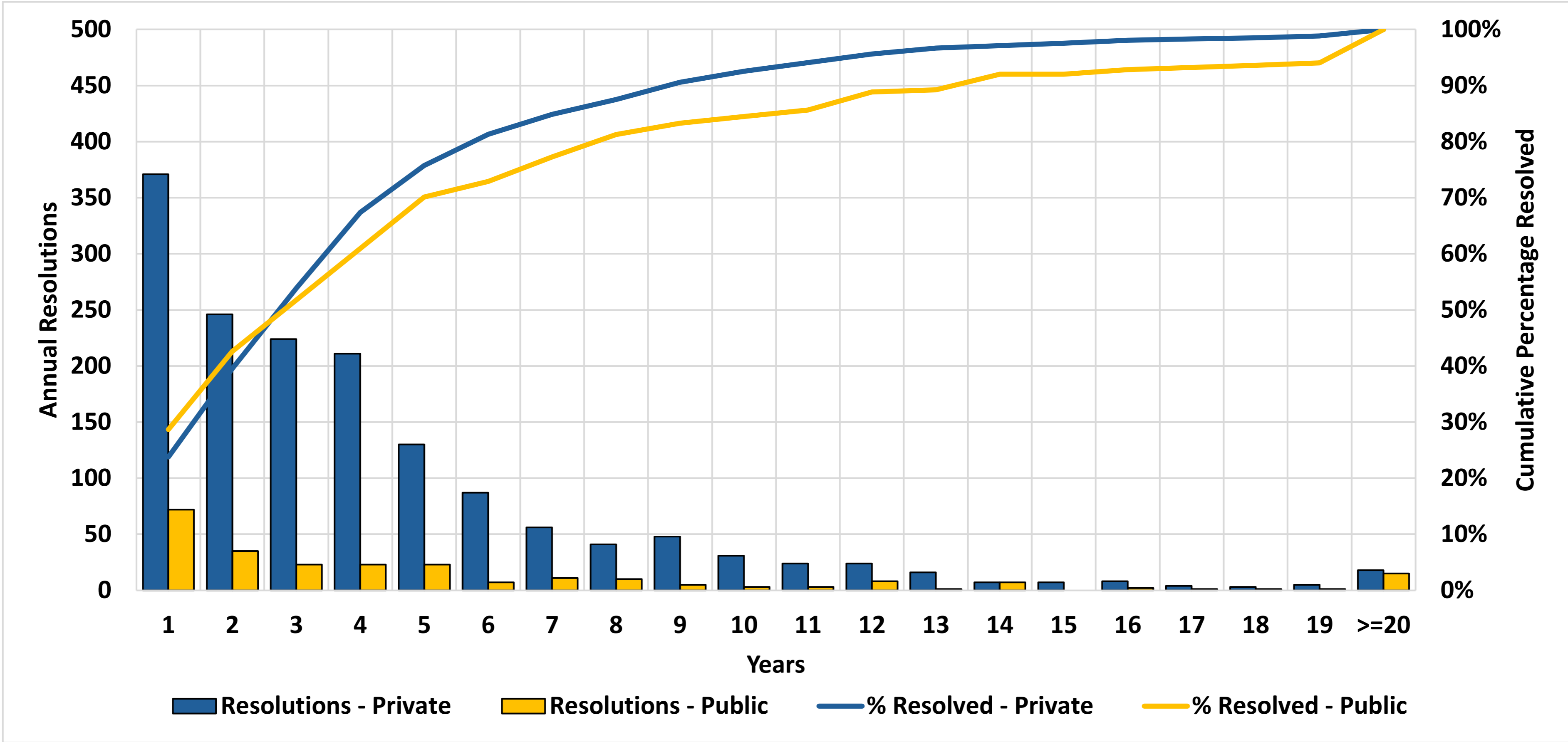


....And Even More Concentrated at the High End for Sovereign



Time to Resolution – Private & Public

- 67% (or 2/3) of the defaulted contracts with private counterparts recovered within 4 years of the default event. Only ~1% of defaults took 20 years or longer to recover.
- Public lending follows a similar trend - 61% of defaulted obligations being recovered within 4 years, but ~6% of contracts taking longer than 20 years to recover.



How Does GEMs Compare? Results on Par with that of Non-Investment Grade Firms...

The numbers speak for themselves.

Statistics from the GEMs database from 1994 to 2023 show that:

Default rates are low at **3.6%**

in private sector lending, compared to

S&P Global
B credit rating

3.3%

Moody's
B3 credit rating

4.0%

Recovery rates are high at **72%**

in private sector lending, compared to

Moody's
Global Bonds

59%

Moody's
Global Loans

70%

J.P.Morgan
Emerging Market Bonds

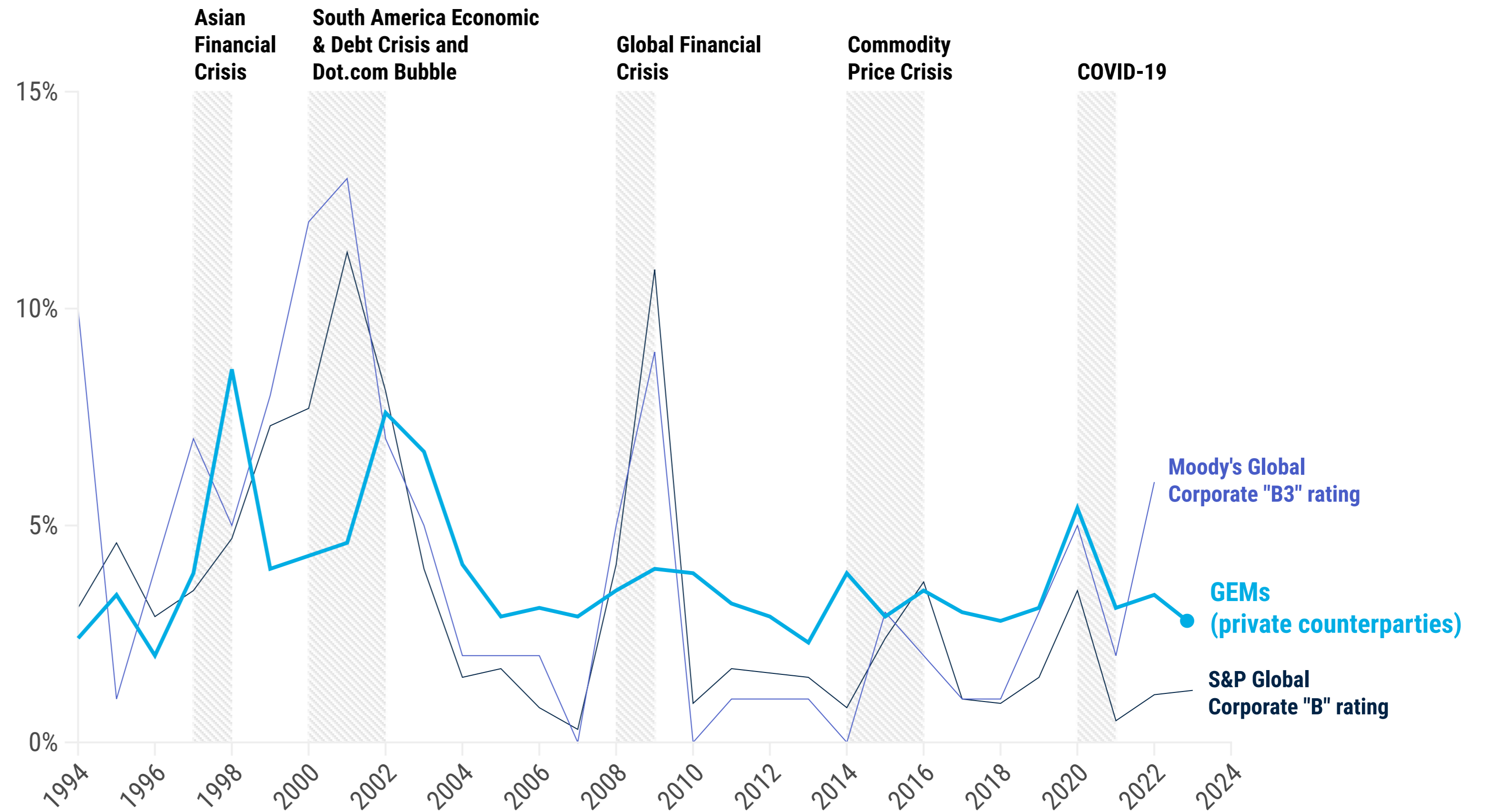
38%

Standard & Poor global corporate "B" rating is from Standard & Poor (2024): "Default, Transition, and Recovery: 2023 Annual Global Corporate Default and Rating Transition Study, March 2024". Moody's global corporate "B3" rating is from Moody's (2023): "Default Trends – Global. Annual Default Study, March 2023".

1

...and default rates are lower during global crises

Annual Default Rates, GEMs Versus Comparators



2

Default rate are lower than those for **sovereign ratings**

GEMs Average Default Rates and Country Ratings

High income



Upper middle income



Lower middle income



Low income



GEMs Impact on Capital Mobilization

Reassessing Emerging Market Risk

- GEMs data suggest
 - the risks of investing in EM firms are lower than perceived - default rates and recoveries comparable to advanced economies, supporting stronger investment cases.
 - diversification benefits of private lending in EMDEs alongside advanced economies especially during downturns in advanced economies.
- MDBs and DFIs, with in-country staff and extensive regulatory expertise, improve outcomes and reduce risk for investors.

Future Plans and Confidentiality

- Enhance transparency and availability of credit risk statistics derived from MDBs and DFIs activities in EMDEs.
- The GEMs reports are evolving. Future editions will feature further disaggregated and more detailed statistics
- Encourage private capital mobilization in EMDEs by inviting investors to use GEMs historic default and recovery rates as a benchmark for pricing of and provisioning for risk and explore investment opportunities, either directly or alongside GEM participants.

What Do Investors Know about GEMs?



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GEMs Investor Perceptions Market Study: Overview of Outreach

Investor Interest

- IFC-commissioned internal survey (Aug 2023) shows investor interest in GEMs data
- IFC (acting on behalf of the GEMs Consortium) leads the GEMs Market Study from March – October 2024.

Market study main objectives

1. To gauge market awareness, assess investor demand and potential uses for current private sector focused GEMs statistics
1. To identify additional statistics that would serve as useful credit risk indicators for investors
2. Explored ways to enhance GEMs reporting to boost private capital mobilization (PCM) into EMDEs, alongside MDBs and DFIs.

Protecting Data Quality and Security

- Key considerations - ensuring the protection of data quality, confidentiality and security.

Grant Support for the Study

- The study was funded by a grant from the MDB Challenge Fund
- The MDB Challenge Fund is administered by New Venture Fund
- It supported by grants from the Gates Foundation, Open Society Foundations and the Rockefeller Foundation.

GEMs Investor Perceptions Market Study: Overview of Outreach



72 Interviews covering 66 Institutions*, of which:

- 28 Asset Managers
- 23 Banks
- 15 Others (including advisors, rating agencies, and insurance companies)



Institutions' AUM range from US\$ 25 million to US\$ 4 trillion

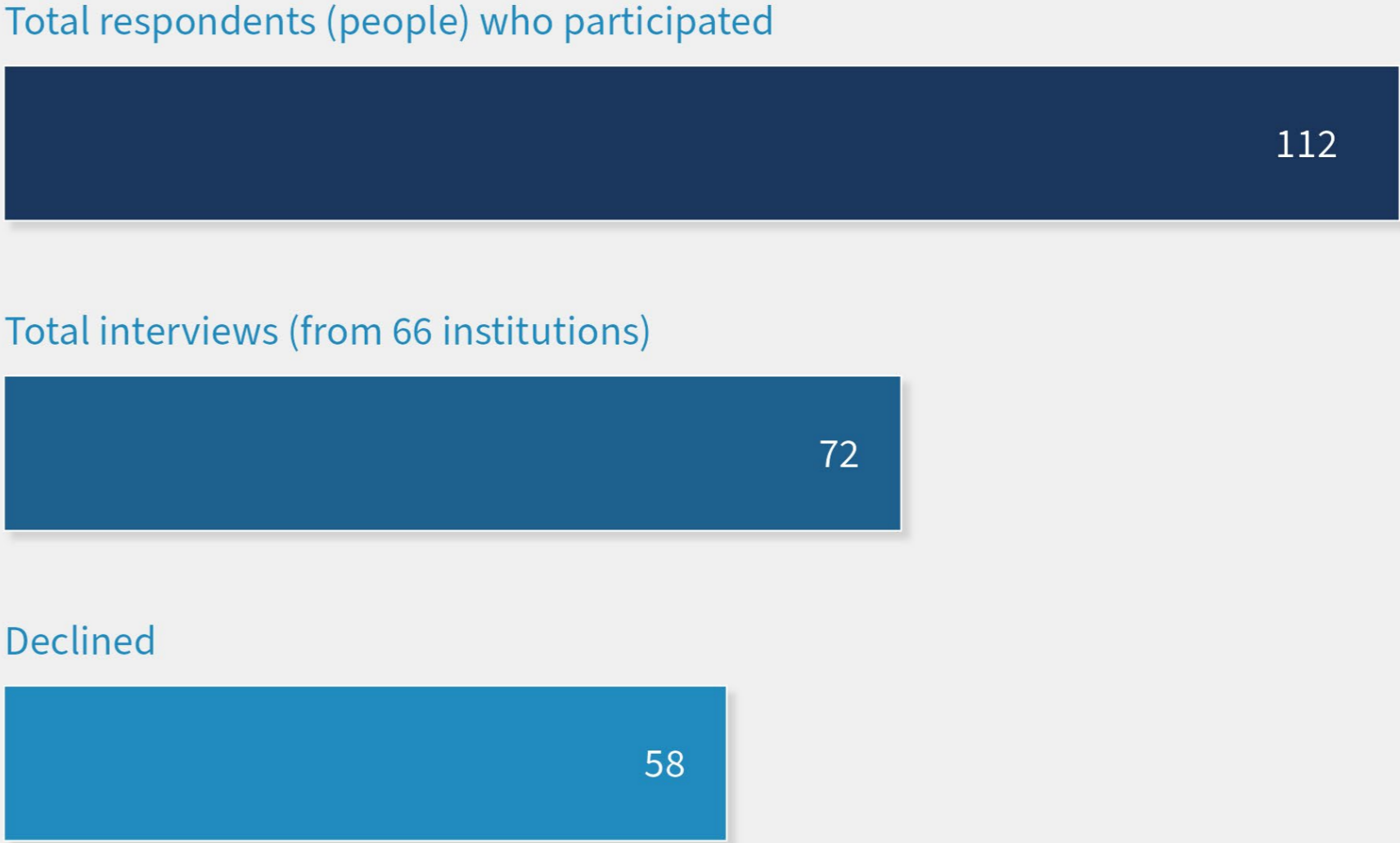


112 direct interview participants;
322 pages of transcripts



Pre-interview internal consultations to represent multiple organizational views – some institutional interviews represent internal views of up to 15 people.

Outreach by numbers



* Very large global institutions, which have multiple divisions segregated by Chinese walls, were interviewed more than once.



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Key Findings of the Study

Investment Appetite:

- High interest in increasing investment in emerging markets (EMs).

EM Credit Data Availability Concerns:

- EM credit data is perceived as generally expensive and incomplete.
- Many banks use their own research and facilities, leading to apprehensions about data sharing.

GEMs Statistics Available to the Public - Awareness and Value:

- 63% of respondents were unfamiliar with GEMs.
- Of those who know about GEMs, 80% valued availability of such statistics.
- 2/3 of all respondents expressed a willingness to utilize GEMs statistics more, particularly for enhancing risk models in EMs.

Strong Demand for Additional GEMs Statistics such as:

- Country and sector level disaggregation (which GEMs has just begun to publish)
- Collateral/guarantee statistics, followed by credit ratings and lending in local currency.

Interest in Climate Statistics:

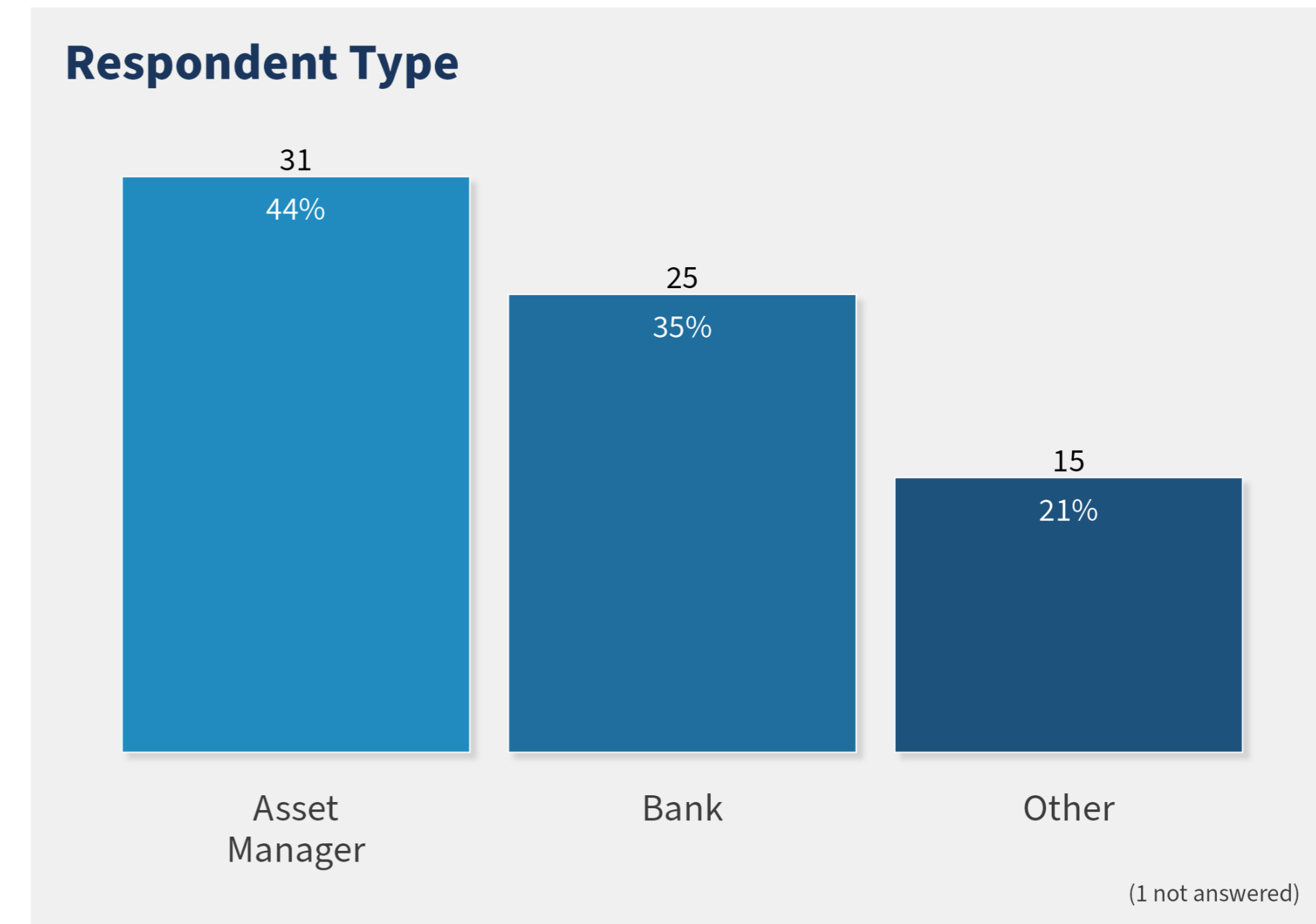
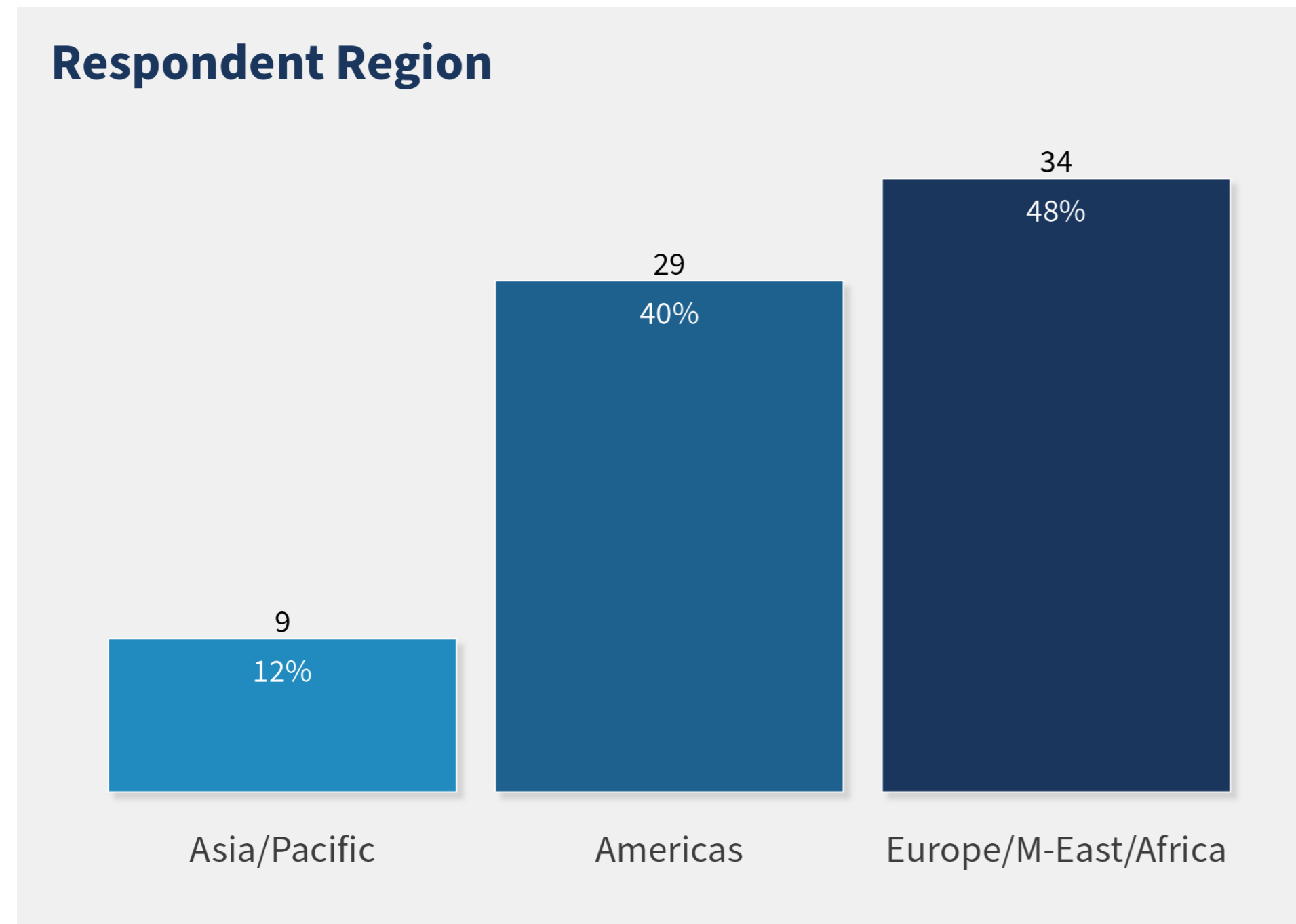
- While generally a lower priority, climate statistics garnered significant interest from a subset of ESG-focused investors.

Reluctance to Share Proprietary Data:

- > 50% of private firms were hesitant to share proprietary data in a hypothetical joint database due to confidentiality concerns.

Respondent Types

Balanced across major regions.



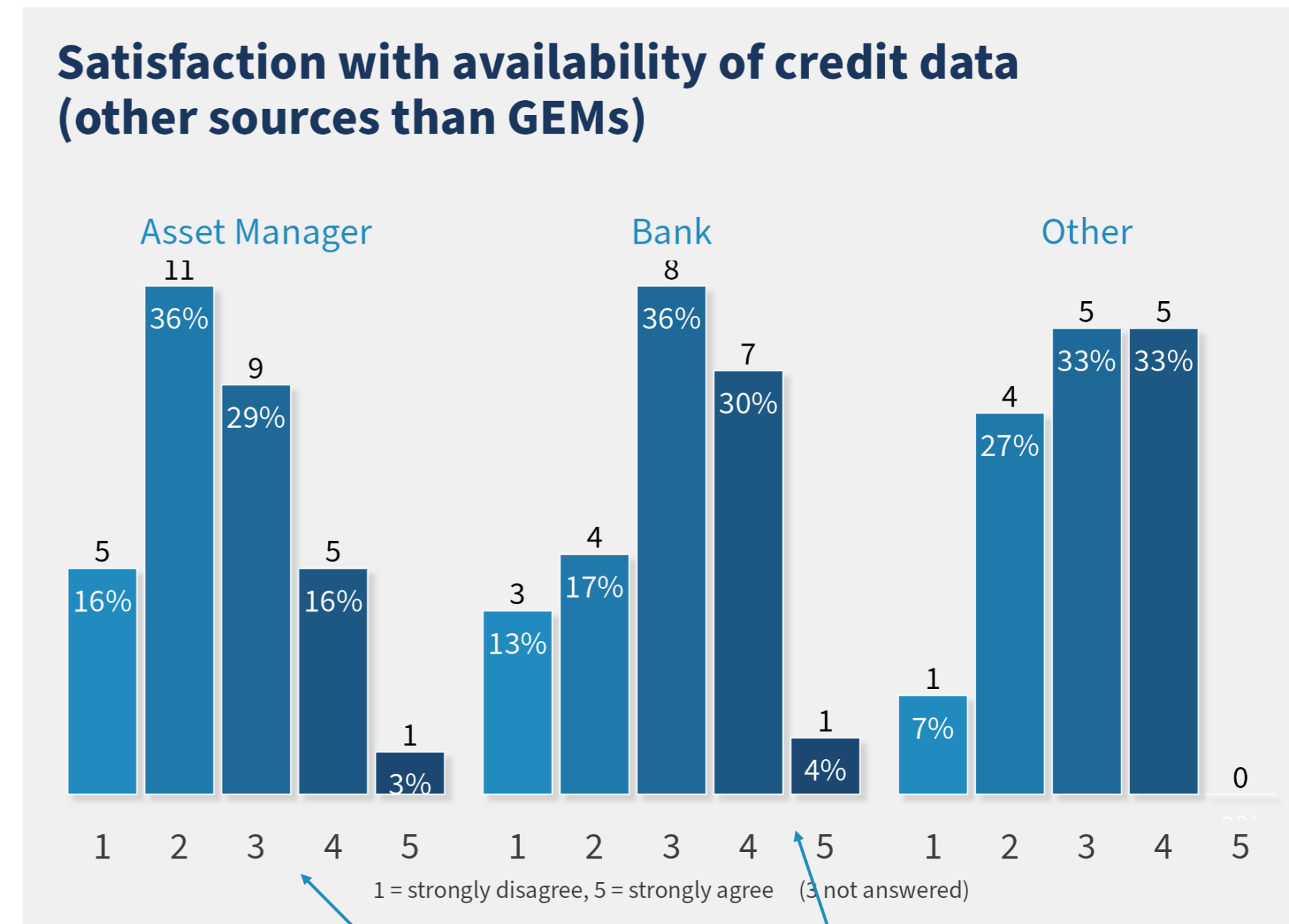
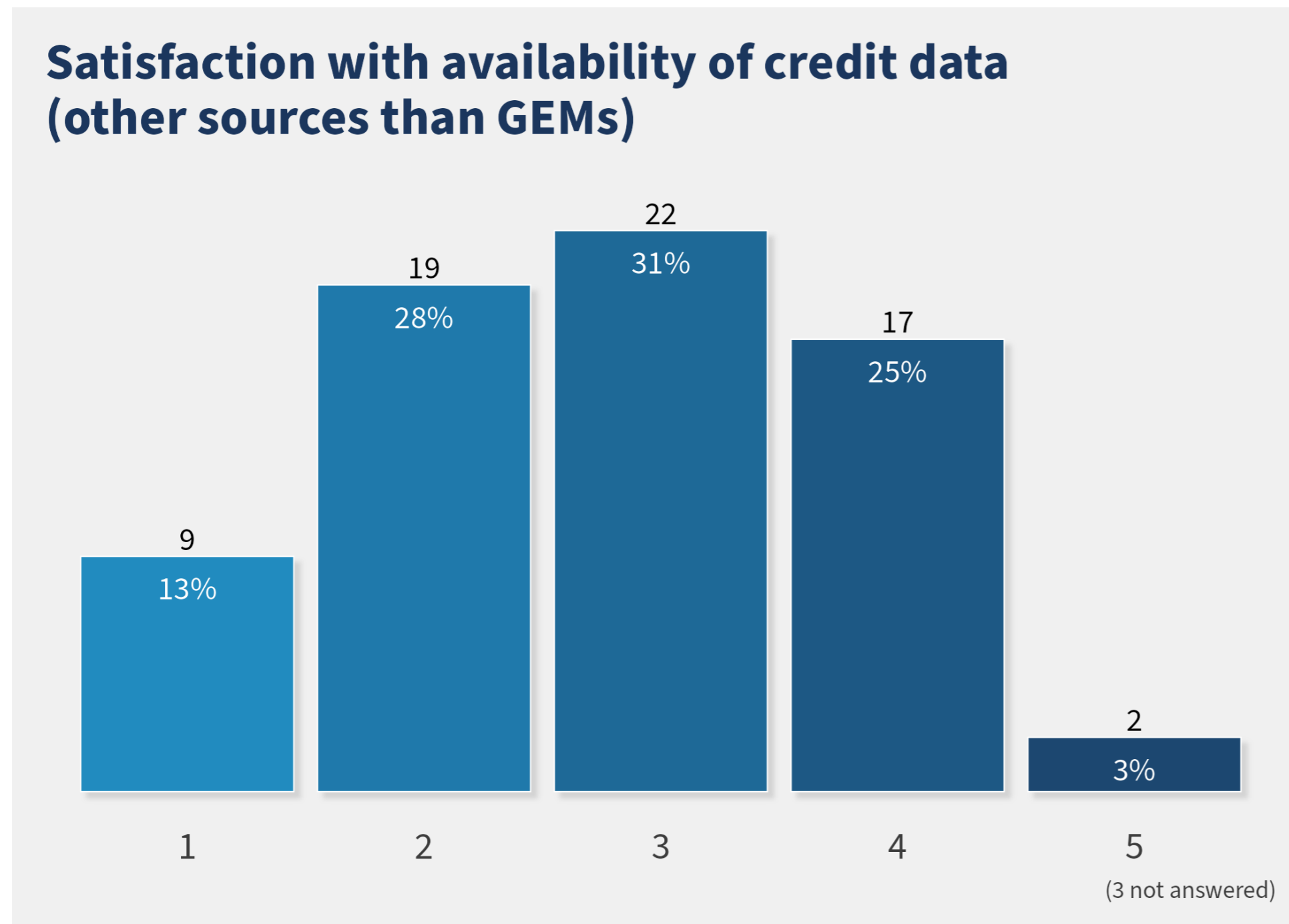
EMEA slightly over-represented, likely due to the significant focus on Africa at this time.

Asset managers and banks are well represented.

Includes Ratings Agencies, Advisors, Insurance companies.

Data Availability in General is Poor

Sources other than GEMs are sparse, incomplete, and expensive. Asset Managers, in particular, are unsatisfied



Banks tend to be more satisfied with the availability of credit markets data than Asset Managers are. Greater familiarity with lending market?

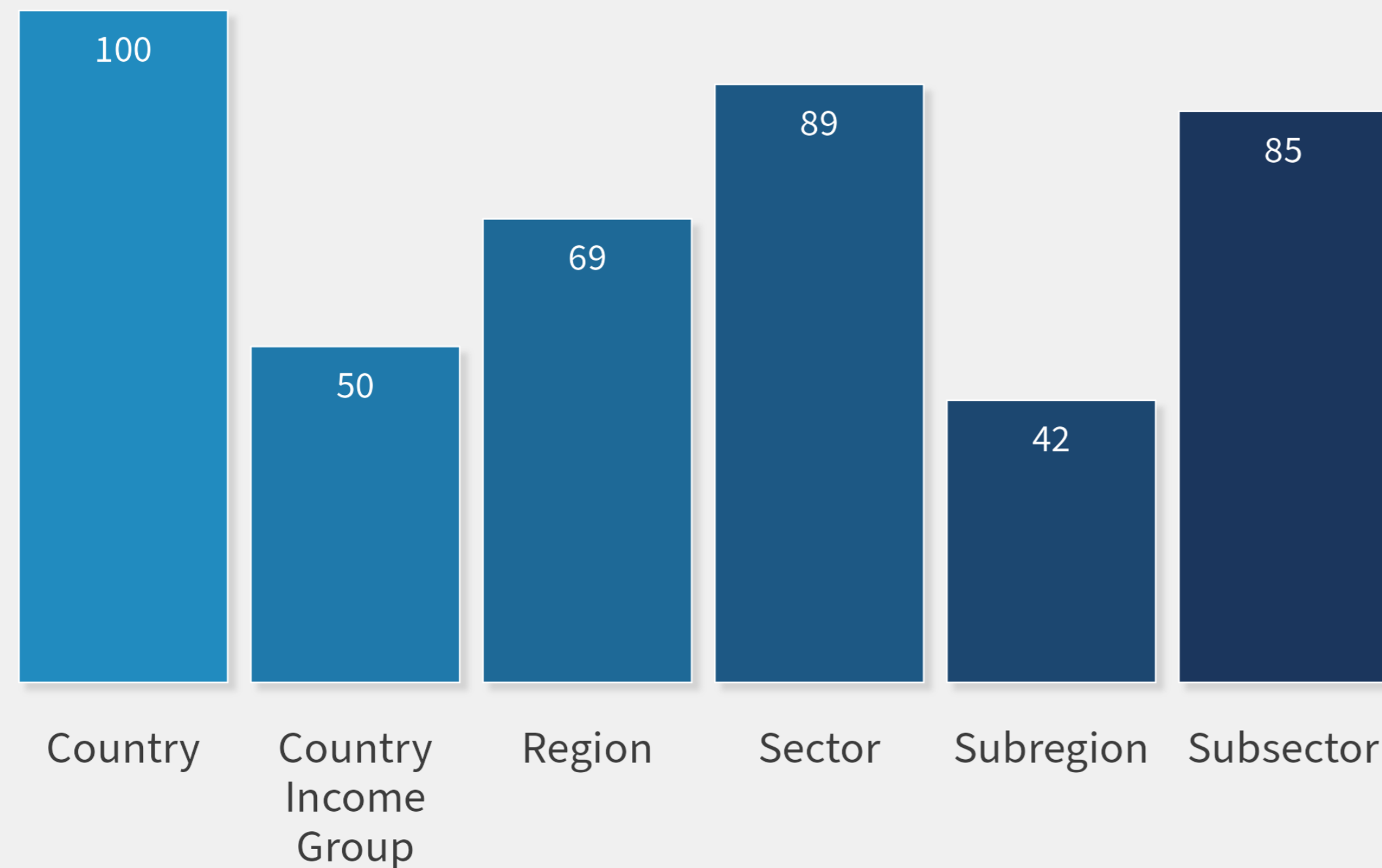
* "Other" includes advisors, rating agencies, and insurance companies.

Disaggregation Preferences



All disaggregation dimensions are in demand, but “Country” dominates

Scores for preferred disaggregation dimensions



- Disaggregation is the topic which solicits the strongest views.
- **Country data** disaggregation leads by quite a large margin, followed by **sector** and **subsector**.
- Country Income Group is a dimension that fewer are interested in.
- Subregion comes last but is mostly already covered by Country and Region.

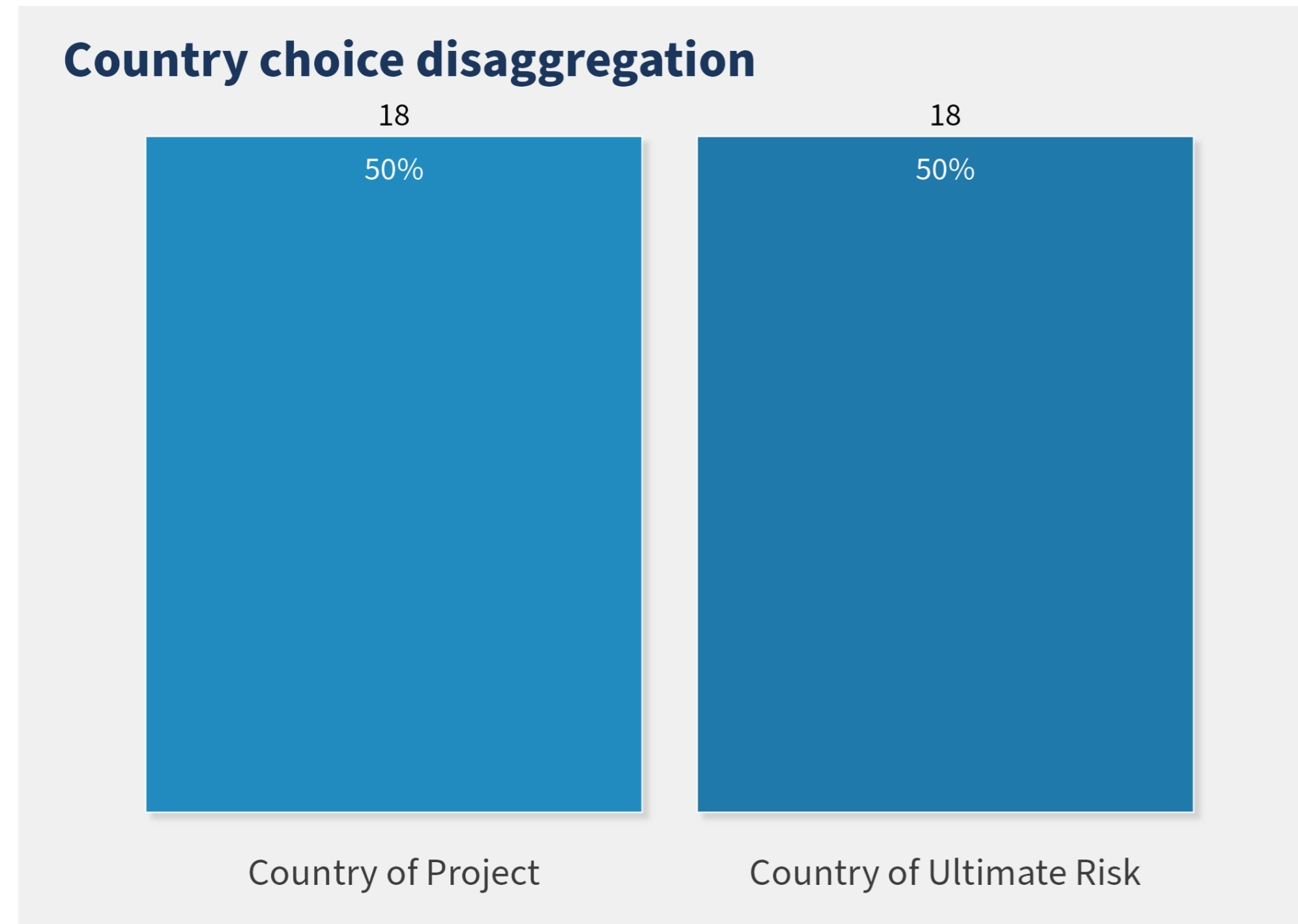
Methodology:

- Each Respondent was asked to rank each dimension from most to least important.
- For each dimension, a rank of most important scored 6, second most important scored 5, etcetera, down to least important which scored 1.
- Scores were totaled per dimensions and normalized to 100 for the largest bar.

GEMs Market Study

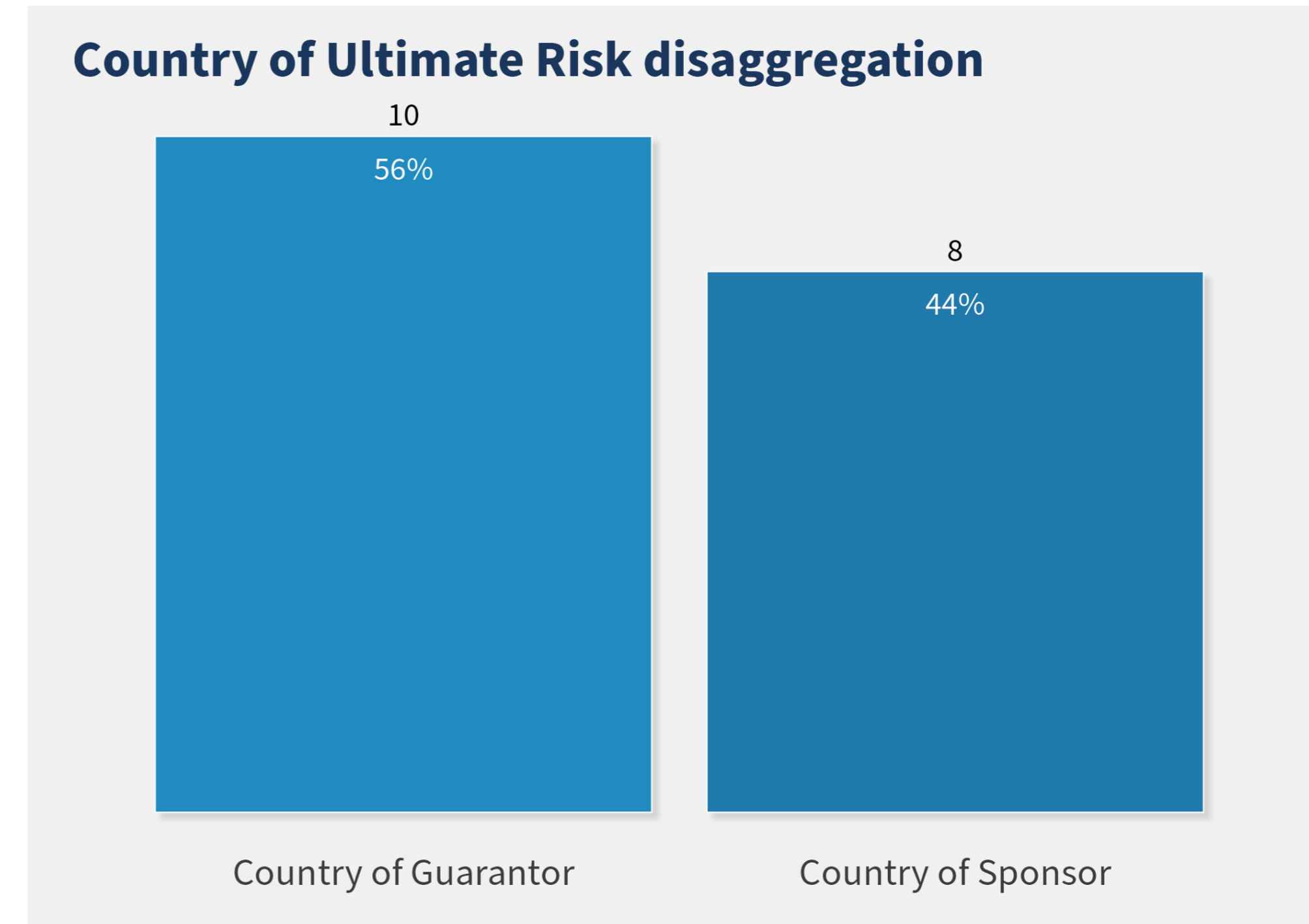
Additional Statistics

Additional breakdown of Country disaggregation choices



Where country was ranked in the top 2, respondents were asked to clarify which country risk they meant.

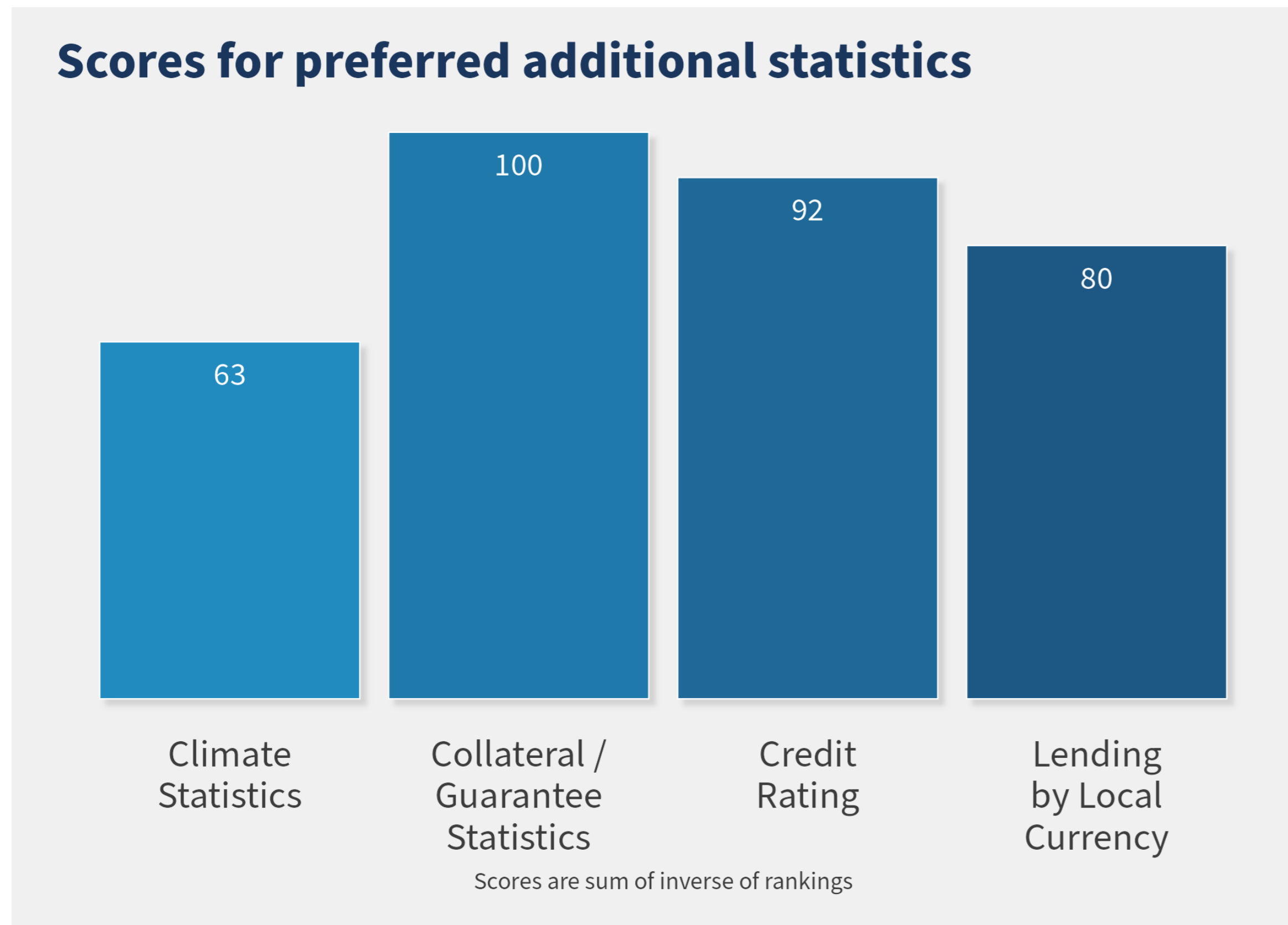
Both country of ultimate risk and country of project came out quite evenly.



Further disaggregation where Country of Ultimate Risk, was selected, sees the Country of Guarantor edging ahead of Country of Sponsor.

Additional Statistics

Collateral statistics are ranked highest, then credit rating and local currency (LC); climate statistics rank surprisingly low



Methodology:

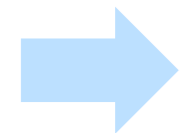
- Each Respondent was asked to rank each dimension from most to least important.
- For each dimension, a rank of most important scored 4, second most important scored 3, etcetera, down to least important which scored 1.
- Scores were totaled per dimension and normalized to 100 for the largest bar.

- **Collateral / Guarantee statistics** lead, closely followed by **Credit Rating** and **Lending by Local Currency**.
- Collateral / Guarantee Statistics solicited some mention of "unconventional" or "hidden" factors such as risk-reducing swap contracts, and geopolitical considerations.
- The internal credit rating is important because some investors are ratings constrained. The lack of reliable external ratings is a barrier to investment.
- Climate Statistics were of low interest but a small, vocal group—mainly ESG or climate-focused investors—ranked it highly.



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Strategic Focus Areas Post Study

- IFC and GEMs Consortium presented the study findings at IMF-WBG annual meetings in Washington DC in Oct.
- Additional presentations are taking place at outreach events in various regions.
- Aim is to increase visibility of GEMs' work among global investors.
- Increase private sector awareness and understanding of Emerging Market Credit Risk
- Engage investors in discussions on how GEMs data can enhance their risk modeling and pricing frameworks, to better guide their asset allocations.
- Focus on stimulating investment and encouraging greater private sector capital mobilization into EMDEs.

Acknowledgements

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IFC and the GEMs Consortium would like to thank each of the 101+ individuals from 66 firms – including 28 asset management firms, 23 banks, and 15 other firms, including insurance companies, rating agencies, investment advisors and other firms - who took their valuable time (over 50 total hours of interviews, resulting in 330 total pages of transcripts) to participate in the GEMs Investor Perceptions and Market Demand Study. Their knowledge of, passion for, and expertise in investing in emerging markets and the challenges it poses was clear and much appreciated.

Special thanks also to Thomas Browne and team from Delphos International for conducting the survey and undertaking this study, and the GEMs Steering Committee and GEMs Secretariat for their valuable contributions, and for their feedback and guidance.

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