Global Emerging Markets Risk Database (GEMs): The Data That Challenges Risk Myths in Emerging Market Investing

November 2025

Key Takeaways

- GEMs data challenges conservative risk perceptions: EMDEs investments with MDBs/DFIs backing deliver stability and strong performance.
- MDBs/DFIs loans match developed market default rates but achieve superior recovery outcomes.
- High-quality, creditworthy projects exist even in countries with low sovereign ratings.
- Proven resilience and diversification: GEMs spans multiple global crises, showing MDBs/DFIs lending is lowly correlated to global markets.

What is GEMs?

GEMs is a collaborative initiative of 29 multilateral development banks (MDBs) and development finance institutions (DFIs), launched in 2009 by the European Investment Bank (EIB) and the International Finance Corporation (IFC). It pools decades of credit risk data to support investment in emerging markets and fosters technical cooperation. GEMs tracks default and recovery rates for loans in Emerging Markets and Developing Economies (EMDEs).

Introduction to GEMs Private Loan Disclosure

Investing in EMDEs continues to pose significant challenges for institutional investors. Persistent concerns such as currency volatility, political instability, unfamiliar legal frameworks, and limited liquidity have long shaped perceptions of risk in these regions. While many institutions are comfortable allocating to liquid EMDEs bonds, few venture into privately structured loans, where complexity, conservative strategic asset allocation mandates and unfamiliar risk profiles are often priced in as an additional premium. This risk aversion has real consequences: EMDEs attract far less investment than advanced economies, particularly in private markets, which are essential for financing climate and sustainable development needs. The scale of the challenge is immense: EMDEs require an estimated USD 4 trillion annually to achieve the Sustainable Development Goals by 2030, and USD 2.8 trillion each year for clean energy investments over the next decade. A key barrier to unlocking this capital is the conventional view that emerging markets are inherently high-risk investment destinations. This perception is often rooted in the lack of reliable, long-term data on credit performance, especially for private loans, making it difficult for investors to calibrate risk models and justify allocations.

How GEMs works: Data collection and scope

GEMs aggregates anonymised data from MDBs and DFIs on both performing and non-performing loans across 169 countries, covering 15,507 loans to 10,476 private counterparties. The dataset spans 31 years (1994–2024) for private and public lending and 41 years for sovereign, and sovereign-guaranteed lending.

Using a shared methodological framework, GEMs produces statistics on default and recovery rates, disaggregated by geography, sector, and income group.

This is precisely where the new and improved Global Emerging Markets Risk Database (GEMs) makes a difference. The latest GEMs data release provides unique, independent and harmonized insights into the true risk profile of lending to EMDEs corporates, financial institutions, and project finance in partnership with Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs). By pooling historical data across institutions, the GEMs Consortium enables a more accurate and representative view of credit risk than any single MDB or DFI could provide alone. This helps investors move beyond anecdotal or overly conservative risk assessments, supporting more informed and confident investment decisions in EMDEs.

For this document, we will focus exclusively on the segment of the GEMs database that relates to private loans originated and syndicated by MDBs and DFIs. This is directly relevant to ILX's investment strategy, which centres on private lending in partnership with these institutions. By narrowing the scope to this dataset, we aim to provide investors insights into the actual risk and return characteristics of the Development Finance asset class in EMDEs helping to challenge common perceptions and support the case for greater institutional investment in these critical markets.

Dispelling risk myths: Actual risk in EMDEs is lower than perceived when investing alongside MDBs/DFIs

Low Default Rates

The overall average default rate across GEMs data is 3.54%, based on 10,476 private counterparties and around USD 500 billion in signed loans. Looking at trends which are disclosed in more details below, GEMs shows higher default rates in 1995–2004 (5.14%), declining in 2005–2014 (3.26%), and stabilizing in the last 10 years at 3.29%.

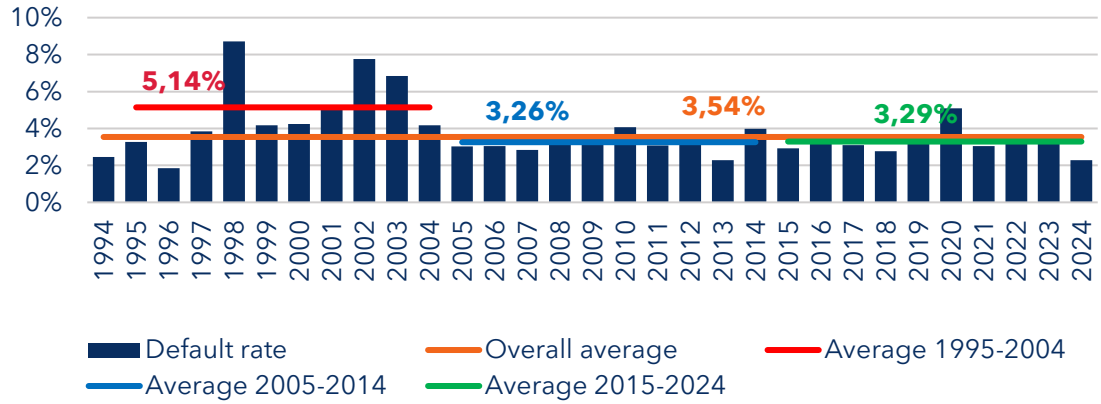
If we extrapolate on the trends we saw in public EM debt markets over the same period, we can conclude that this reflected a broader maturation of EM credit markets which impacted positively the private lending activity of MDBs. The highest period of defaults (between 1995 and 2004) reflects a period of macroeconomic, political and currency volatility, with limited access to a diversified funding sources as local capital markets were rather underdeveloped. The overall economic backdrop improved in the period of 2005–2014 leading to default rates falling to 3.26%. This coincided with a wave of reforms across emerging economies, including better fiscal discipline, currency stability for the larger EMDEs countries, stronger regulatory oversight, and the rise of local capital markets. The last 10 years, we can see default rates stabilizing at 3.29%, suggesting that these improvements have become embedded.

Defining Default and Recovery Rate: Key concepts for the analysis

GEMs defines a default event as occurring under any of the following conditions: i) Non-payment within 90 days of the due date; ii) A specific provision is raised for the contract; iii) Full or partial write-off of the loan; iv) Agreement to a distressed restructuring; v) Bankruptcy of the borrower; vi) Realisation of loan security.

The recovery rate is the ratio of discounted cash flows received (or expected) after a reference date (e.g., default date) to the outstanding amount at that time. These flows may include principal, interest, fees, and penalties, and can come from the borrower, guarantors, or collateral sales.

Annual default rates stabilised in the last 10 years

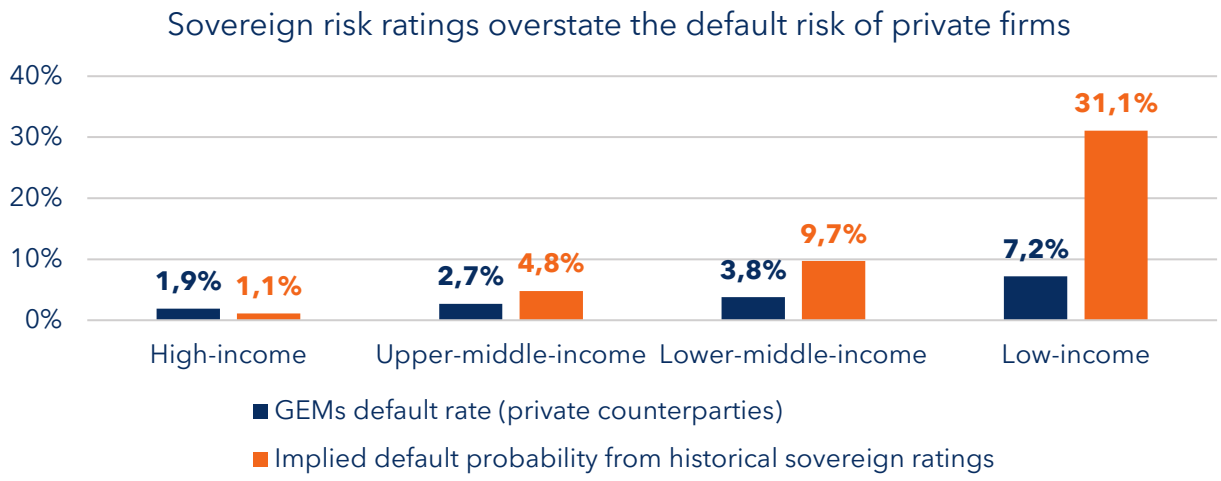


The role of MDBs and DFIs in reducing credit risk

The low default rates observed in GEMs data are closely tied to the unique position and long experience of MDBs and DFIs in emerging markets. These institutions benefit from preferred creditor status, strong backing from shareholder governments, in house expertise built over time, and long-standing relationships with local counterparts, all of which contribute to enhanced creditworthiness. Their disciplined approach to due diligence, careful structuring of transactions, and commitment to long-term engagement, especially during periods of distress further reduce risk. Rather than exiting early, MDBs often work through non-performing loans to recover value. Private investors can tap into these risk mitigants by co-investing with MDBs and DFIs through platforms such as the ILX Fund.

Piercing the Sovereign Ceiling

GEMs data highlights another critical insight for institutional investors: EMDEs sovereign credit ratings significantly overstate the default risk of private projects structured by MDBs/DFIs. The below GEMs data shows that actual default rates for MDBs/DFIs-backed private counterparties are consistently and substantially lower than the implied default probabilities derived from sovereign ratings. This is especially true for low-income countries where the actual default rate is 7.2% versus an implied default probability of 31.1%. This discrepancy clearly demonstrates that sovereign ceilings do not accurately reflect project-level credit quality. In fact, ILX has often argued that well-structured projects can achieve ratings that pierce sovereign limits, when supported by strong structuring, project specific collateral, strong parent support, and MDBs/DFIs risk mitigation.

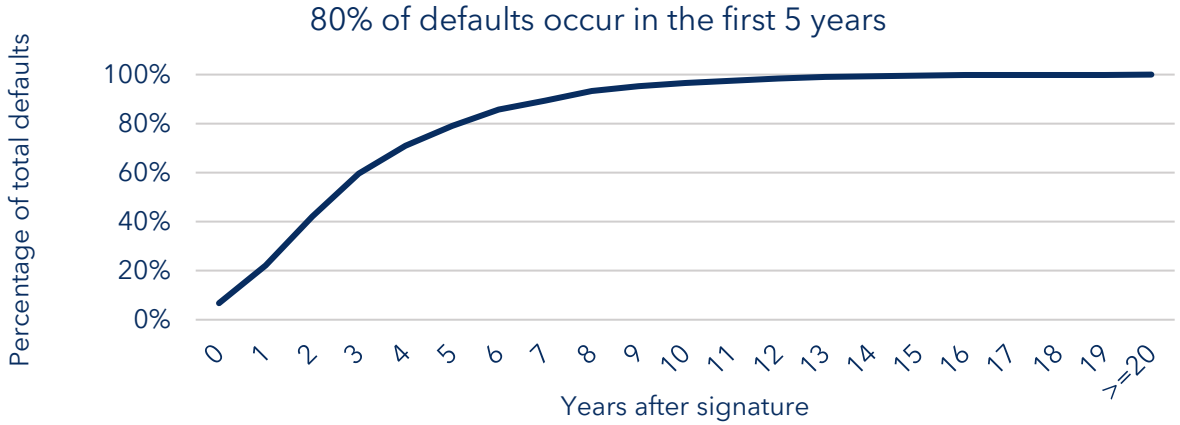


Source: Proprietary research from the GEMs consortium on the income classification. Note this classification may differ in other organizations.

Time to default: most defaults occur within one year

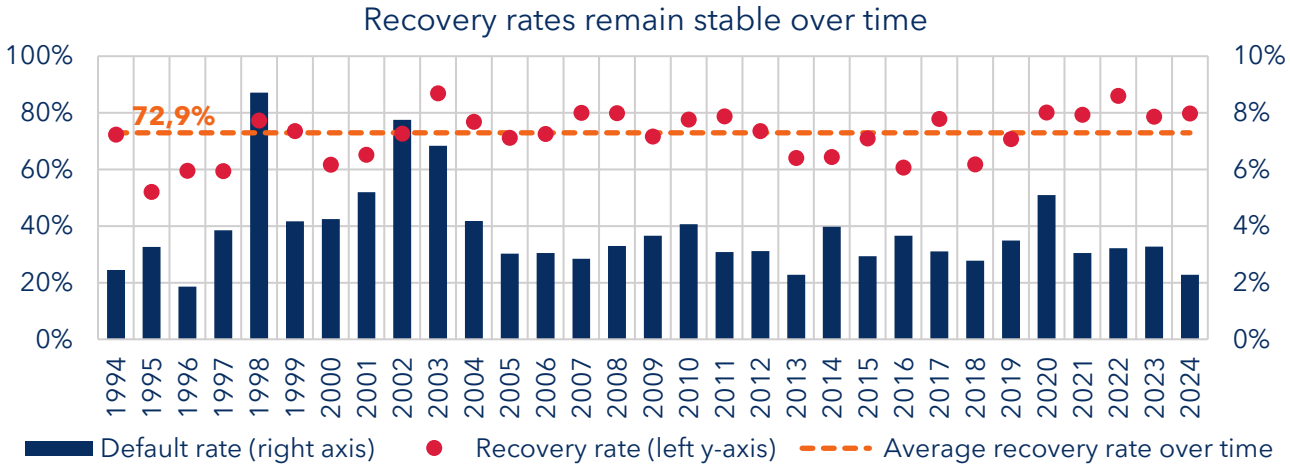
GEMs discloses that 22% of defaults in MDB-backed loans occur within the year of contract signature, then rises sharply to 60% within 3 years and 80% within 5 years.

The early period often marks the critical transition from project approval to project implementation. Project risks tend to crystallize early, during the initial operational ramp-up as experienced in all such projects, not just MDB-backed ones. This is when most financial, operational, or governance issues might appear and place the borrower in a default situation. Of note, borrowers with weaker internal ratings are disproportionately represented in these early defaults, as their elevated risk profiles most likely tend to manifest soon after the loan is signed, which shows the importance of choosing a well-structured project.



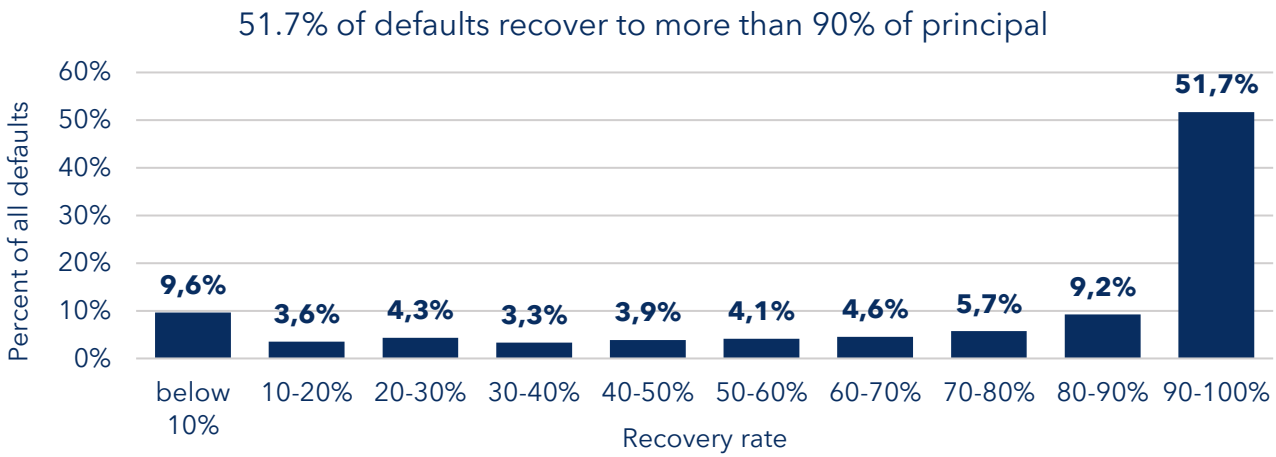
High recovery rates

GEMs data shows that recovery rates of MDB-backed loans remain robust over time. While default rates spike during crises, the recovery rates do not decline during the same periods. The contracts have an average recovery rate of 72.9%, with a median of 91.1%.



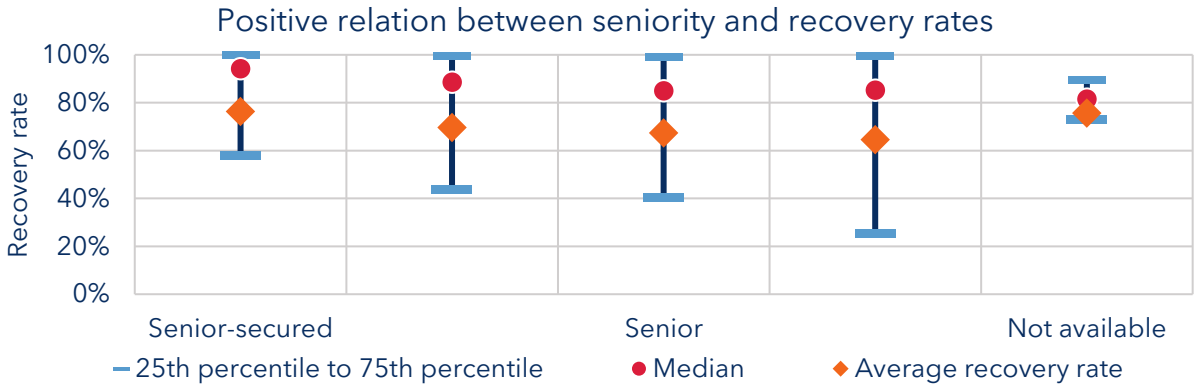
Looking at new data on recovery distribution, GEMs shows that 52% of defaulted contracts recover 90% to 100% of principal and only 10% recover less than 10%. This distribution reflects the effectiveness of MDBs' client knowledge, deep structuring expertise, conservative lending practices, collaborative resolution strategies and long-term engagement with private borrowers. On the other hand, recoveries in public markets are on average much lower, even in developed countries. Looking at the past 20 years for example, recovery rates in GEMs average 73%, EMDEs Corporate Bonds 36%, High Yield

Bonds 46% and Leverage Loans 62% *(all data based on JP Morgan Emerging Market Credit Report, JP Morgan Default Monitor*).

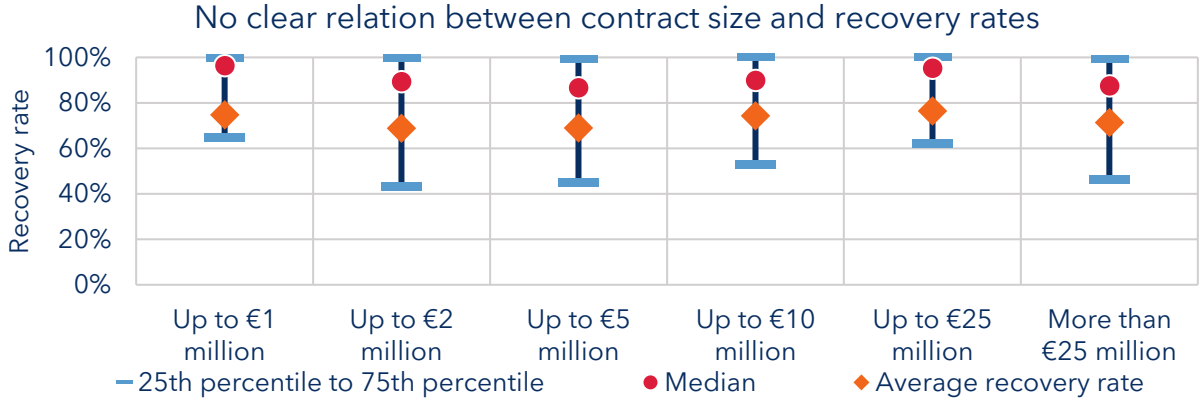


Which projects have stronger credit performance

When looking at recovery rates by seniority of the loans, the data shows that senior-secured loans have a high recovery rate average of 76.3% and median of 94.2%. This shows that these loans have a strong collateral backing. Overall, the data confirms a positive relation between seniority and recovery rates.

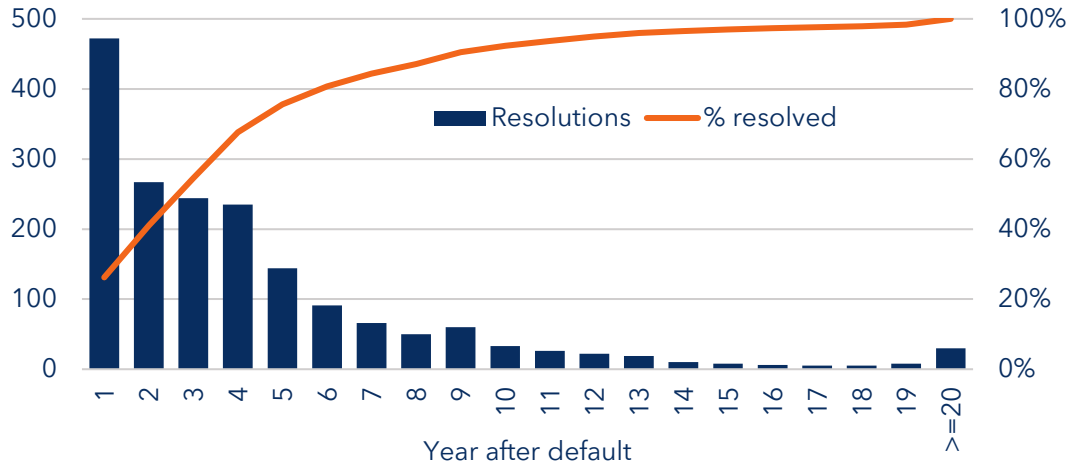


A breakdown of recovery rates per size of the contract tells us that there is no clear relation between contract size and recovery.



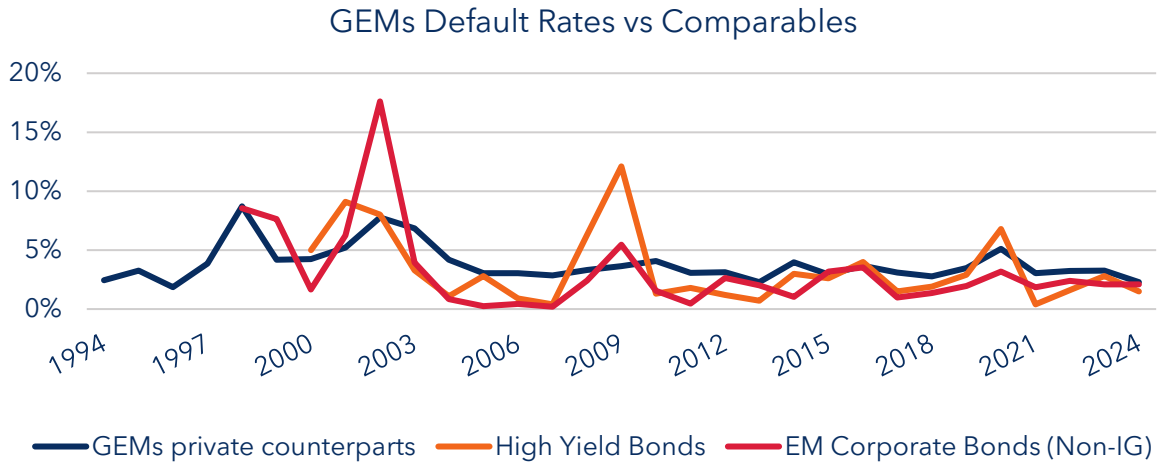
Timing of recovery

Timing of recovery is also crucial. According to the GEMs dataset, 55% of defaulted contracts are resolved within 3 years and 76% within 5 years of the default event. This is much higher than developed market and demonstrate the effectiveness of long-term engagement and structured resolution strategies. It is our experience that MDBs actively pursue resolution through collaborative restructuring and maintenance of engagement with the borrower well beyond the initial default. This long-term approach ensures that even complex defaults can be gradually resolved.



Emerging Market recovery rates outperform some Developed Market benchmarks

Although Emerging Market corporates are not investment grade, their risk profile is often more favourable than that of many high-yield borrowers in developed economies. GEMs data reveal that private-sector lending in EMDE exhibits comparable default rates and higher recovery rates relative to typical high-yield and loan instruments in advanced markets:



Period 2005-2024

Long-Term Average (2005-2024)	Default Rate	Recovery Rate	Credit Loss Rate
MDB/DFI-Loans (GEMs data)	3.3%	73%	0.83%
EM Corporate Bonds (JPM Data)[1,2]	1.4%	36%	0.90%
High Yield Bonds (JPM Data)[3,4]	2.8%	46%	1.53%
Leveraged Loans (JPM Data) [5,6]	2.6%	62%	0.99%
S&P B Rating[7]	3.2%	NA	
Moody's B3 Rating[8]	3.8%	NA	

While EM Corporate Bonds have a low default rate of 1.4%, their recovery rate averages just 36%. High-Yield Bonds and Leveraged Loans fare slightly better, with recovery rates of 46% and 62%, respectively. Moreover, loans to private firms in the GEMs portfolio perform comparably to non-investment grade borrowers in advanced economies. For instance, companies rated B by S&P or B3 by Moody's show default rates of 3.2% and 3.8%, respectively, close to GEMs' average of 3.3%. However, the significantly higher recovery rates in GEMs lending make it a more attractive risk-adjusted investment.

Global shocks and regional realities: What GEMs reveals

Emerging Markets credit risk shows low correlation with Developed Markets

Contrary to common assumptions, EMDEs credit risk does not move in lockstep with developed market benchmarks. IFC highlights the diversification benefits of including EMDEs development finance assets in global portfolios. According to GEMs data, default rates in EMDEs show only moderate correlation with developed market high-yield benchmarks, 0.46 with S&P B-rated firms and 0.33 with Moody's B3-rated firms[9]. This suggests that EM defaults follow distinct patterns, particularly during periods of global economic stress, underscoring the importance of region-specific risk assessments.

Resilience through global crises

Historical data from GEMs demonstrates that emerging markets have weathered global and regional crises with notable resilience. The highest default rate in the dataset occurred in 1998 (8.71%), driven by the Asian Financial Crisis. Other stress periods, such as the 2001–

[1] JPM: Emerging Markets Corporate Strategy: Carry into the fall - Sept 2025 For default rates from 2014 till 2024.
[2] JPM: Emerging Markets Corporate Strategy: Macro headwinds continue to blow, but corporate standalone fundamentals and technicals resilient. - Sept 2018. For default rates from 2000 till 2013.
[3] JPM: Emerging Markets Corporate Strategy: Carry into the fall - Sept 2025 For default rates from 2014 till 2024.
[4] JPM: Emerging Markets Corporate Strategy: Macro headwinds continue to blow, but corporate standalone fundamentals and technicals resilient. - Sept 2018. For default rates from 2000 till 2013.
[5] JPM Default Monitor Page 17. - 02 Sept 2025
[6] Long Term Average: 25 yr average - JPM Default Monitor - 02 Sept 2025
[7] B by Standard & Poor's (S&P): a grade rating indicating an issuer with current adequate capacity to meet financial commitments but more vulnerable to adverse business, financial and economic conditions
[8] B3 by Moody's: a speculative-grade rating indicating high credit risk and significant uncertainty about the issuer's ability to meet its obligations
[9] Based on 2023 data from *Reassessing Risk in Emerging Market Lending: Insights from GEMs Consortium Statistics* (2024)

2003 global slowdown, the 2008 Global Financial Crisis, and the 2020 COVID-19 pandemic, also saw more elevated defaults, but EM default rates remained relatively contained.

For instance, during the 2008 crisis, EM defaults were only 3.30%, lower than those observed in developed market high-yield benchmarks.

Year	GEMs EM Private Lending	High Yield Bonds[10]	EM Corporate Bonds (Non-IG)	Macro-economic reason
1998	8.71%	1.60%	8.60%	Asian financial crisis
1999	4.17%	4.15%	7.62%	Asian financial crisis
2001	5.20%	9.10%	6.30%	Global slowdown, Dot-com Bubble and the 9/11 attacks
2002	7.76%	8.00%	17.60%	Argentina's default and to contagion across Latin America
2003	6.83%	3.30%	4.00%	Continued EM stress post-Argentina crisis
2008	3.30%	6.30%	2.40%	Global Financial Crisis
2009	3.65%	12.10%	5.50%	Global Financial Crisis
2020	5.09%	6.80%	3.20%	COVID-19 pandemic, global recession

Counterintuitive Geography of Recovery: Regional and Income Group Performance

GEMs data also reveals important variations across regions and income groups:

World Bank Region	Average Default Rate	Average Recovery Rate	Median Recovery Rate
East Asia & Pacific	3.89%	70.7%	89.2%
Europe & Central Asia	2.74%	72.2%	86.5%
Latin America & Caribbean	2.91%	67.9%	83.9%
Middle East & North Africa	3.39%	71.7%	93.2%
South Asia	3.28%	72.1%	93.9%
Sub-Saharan Africa	6.05%	78.4%	97.8%

Sub-Saharan Africa recorded the highest default rate (6.05%), but also the highest recovery rate (78.4%), reflecting both elevated risk, conservative structuring and strong resolution capacity.

Historical income group	Average Default Rate	Average Recovery Rate	Median Recovery Rate
High income	1.89%	57.6%	62.3%
Upper middle income	2.68%	73.3%	89.2%
Lower middle income	3.79%	73.8%	91.8%
Low income	7.19%	75.9%	96.7%

[10] Data prior to 2000: Defaults & Returns on High Yield Bonds: Analysis Through 1999 and Default Outlook for 2000-2002

Low-income countries showed higher default rates (7.19%), yet achieved recovery rates of 75.9%, significantly outperforming high-income countries, which had lower default rates but a recovery rate of just 57.6%. This high recovery rate in low-income countries, can likely be explained by the fact that defaulting on MDBs' obligations damages their future access to development finance, especially during crises when commercial capital markets are closed.

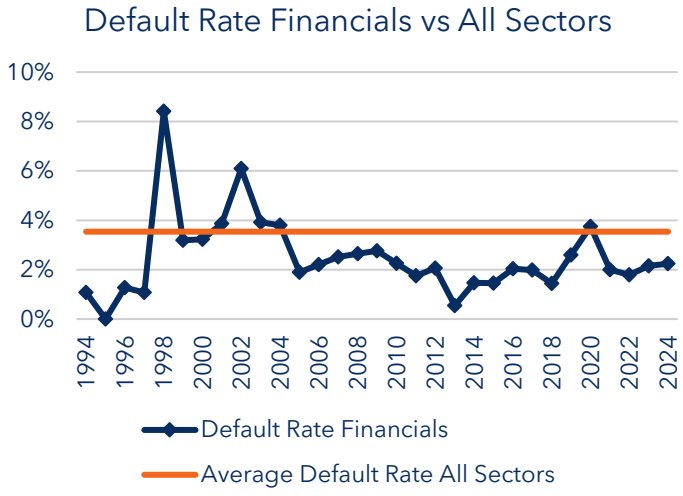
Sector Insights: Consistent strength across Emerging Market lending

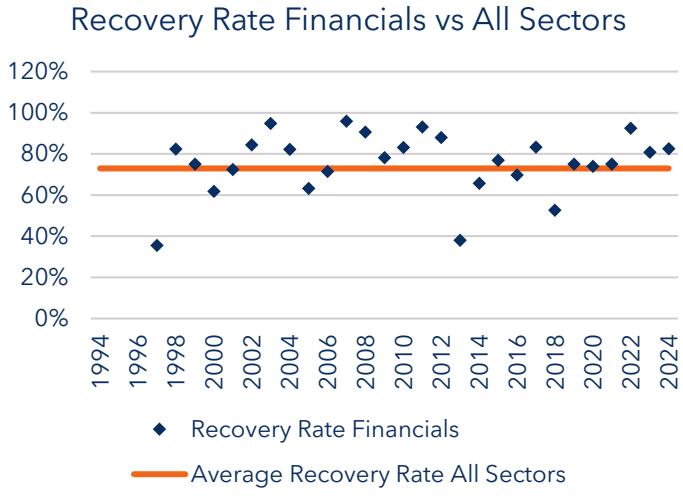
MDBs/DFIs portfolios tend to have large exposure to three sectors, Financials, Utilities (which includes Renewables also disaggregated below) and Industrials.

Sector (GICS)	Default Rate (avg)	Recovery Rate (avg)	Median Recovery rate
Financials	2.3%	79.1%	96.8%
Utilities	3.0%	72.0%	84.4%
Industrials	3.6%	65.6%	84.7%
Consumer Staples	5.3%	69.5%	88.3%
Consumer Discretionary	6.0%	68.8%	87.5%
Materials	4.5%	72.8%	91.7%
Energy	3.6%	65.6%	84.7%
Health Care	6.0%	73.1%	88.4%
All Sectors	**3.5%**	**72.9%**	**91.1%**

Financials (36% of GEMs loan portfolio in terms of total number of counterparts)

The largest sector in the GEMs show the lowest default rate at 2.26% and a high recovery rate of 79.1%. Financial institutions in EMDEs tend to be well-diversified, locally embedded, and subject to strong regulatory oversight. MDB/DFI-backed lending further enhances resilience through preferred creditor treatment, conservative structuring, and active monitoring

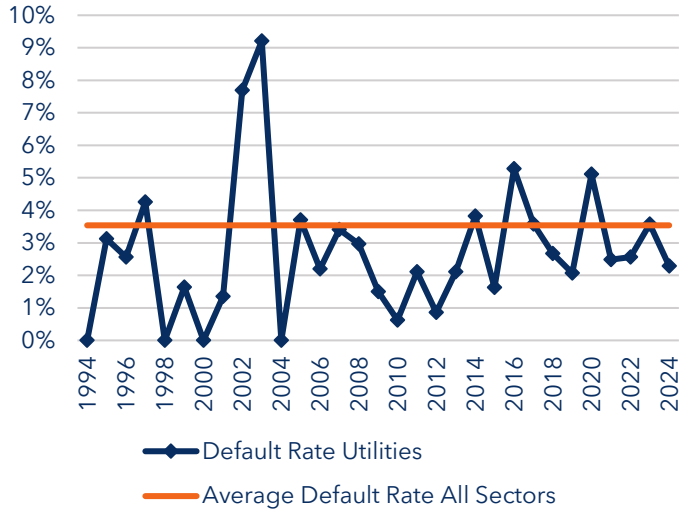




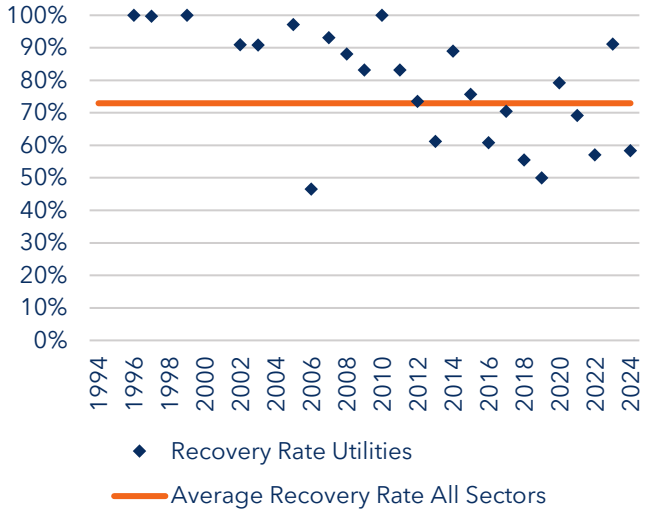
Utilities (13% of GEMs loan portfolio in terms of total number of counterparts)

The utilities sector has a default rate of 2.95% and a recovery rate of 72%, slightly below financials but still robust.

Default Rate Utilities vs All Sectors



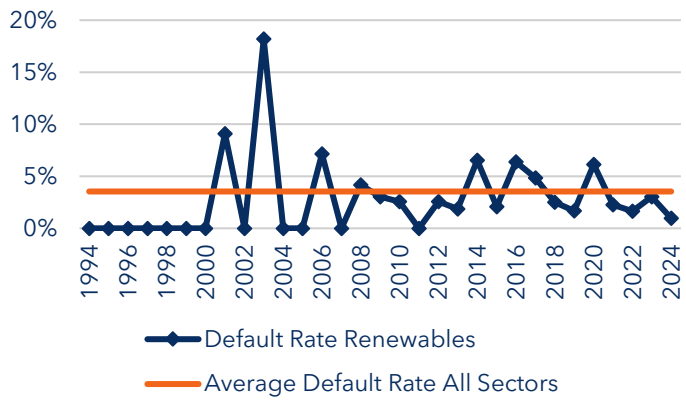
Recovery Rate Utilities vs All Sectors



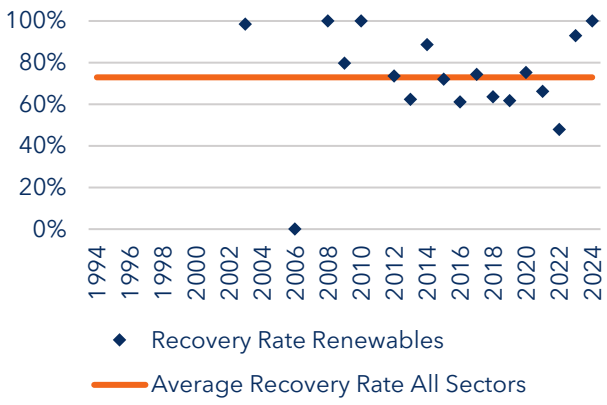
Renewables (sub-set of Utilities)

Renewables are part of the Utilities GICS sector definition. However, given the importance of the energy transition, we have decided to isolate the data from the rest of the Utility sector. Renewable energy projects exhibit a default rate of 3.05% and a recovery rate of 70%, aligning closely with developed market infrastructure debt. These projects are typically supported by long-term power purchase agreements (PPAs), government backing, and strong collateral structures. These factors not only enhance recovery prospects but also make them attractive to ESG-focused investors.

Default Rate Renewables vs All Sectors



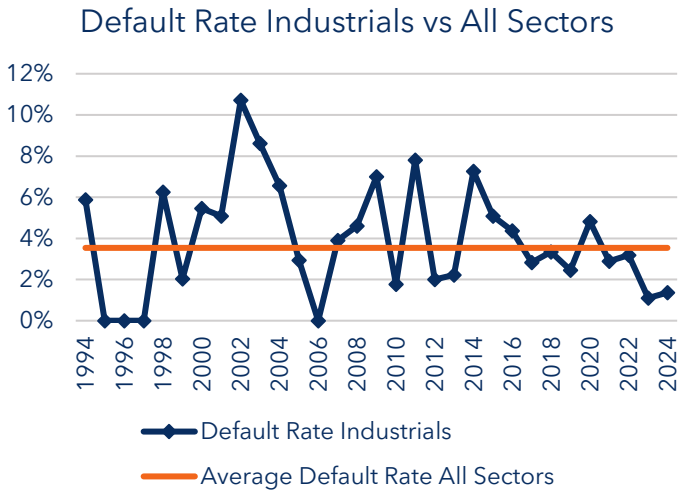
Recovery Rate Renewables vs All Sectors

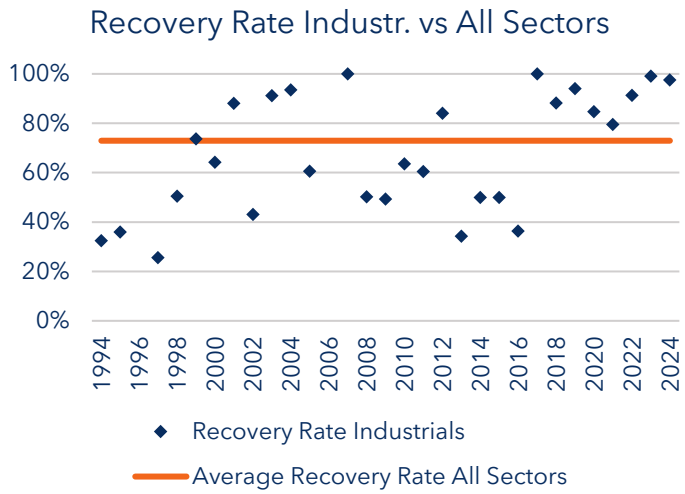


Analysis of the renewable private lending data demonstrates a compelling risk-return profile for investors. Over the 1994–2024 period, the average default rate for renewables stands at approximately 3.05%, which is notably lower than the average for non-financial institutions and broadly in line with infrastructure lending. Recovery rates are robust, with an average of nearly 70%, and indicating that losses in the event of default are typically limited. The sector's resilience is further underscored by the relatively short time to default. These characteristics, combined with the sector's alignment to global sustainability goals, position renewables as an attractive asset class for institutional investors seeking both impact and stable long-term returns.

Industrials (8% of GEMs loan portfolio in terms of total number of counterparts)

With a default rate of 3.62% and recovery rate of 65.6%, industrials perform below financials and utilities sectors but remain moderately well. Diversification across sub-sectors and MDB/DFI involvement improve structuring and recovery outcomes. Even in default, industrial assets often retain value through repurposing, resale, or refinancing.



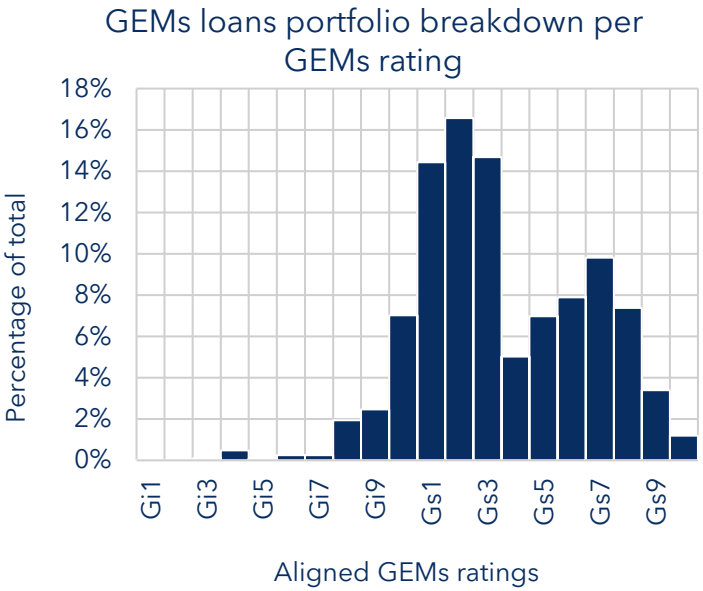


Even in higher-risk areas like consumer discretionary, default rates remain below 6%, with recovery rates averaging 68.8%, still outperforming many developed market benchmarks.

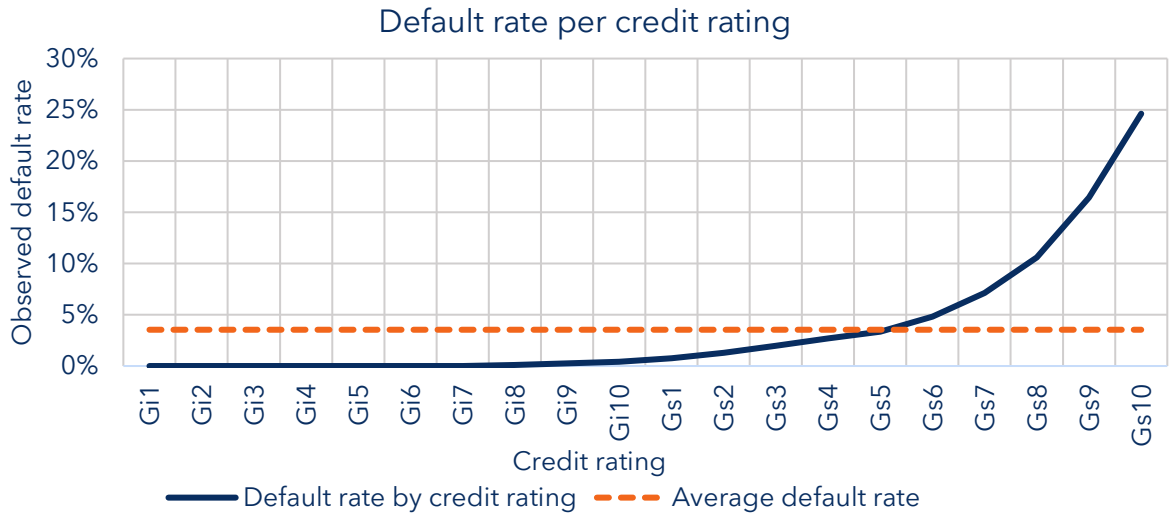
Default Rates per Credit Rating

The GEMs dataset uses a proprietary master scale with 20 grades (Gi1–Gi10, Gs1–Gs10), mapped from banks' internal ratings. Each rating notch has an associated ex-ante default probability.

GEMs rating	Probability of default	GEMs rating	Probability of default
Gi1	0.0001%	Gs1	0.8169%
Gi2	0.0006%	Gs2	1.3445%
Gi3	0.0014%	Gs3	2.0626%
Gi4	0.0030%	Gs4	2.7432%
Gi5	0.0058%	Gs5	3.4840%
Gi6	0.0109%	Gs6	4.6082%
Gi7	0.0256%	Gs7	7.0004%
Gi8	0.0842%	Gs8	9.4600%
Gi9	0.2161%	Gs9	15.4600%
Gi10	0.4506%	Gs10	25.4600%



Within the lower half of the rating scale, the data shows that approximately 50% of borrowers fall into the upper part (Gs1–Gs3) and approximately 30% are in middle (Gs5–Gs8). Yet most defaults in year 1 occur in very risky projects. GI1 to Gs5 observed defaults within 1 year is below average default rates. One-year default rates increase steadily as credit ratings deteriorate, with a rise beginning at GEMs rating level Gs6 and peaking at Gs10. This steep increase as credit quality deteriorates underscores the importance of ILX credit discipline: investments in higher-rated credits historically experience minimal defaults (even if located in low rated credit Sovereigns), while exposure to lower-rated projects carries a substantially higher risk of loss.



Conclusion

Despite persistent concerns surrounding credit risk in emerging markets, data from GEMS reveals a more resilient and attractive investment landscape than commonly perceived. Recovery rates in EMDEs often exceed some of high yield borrowers in developed markets, especially when MDBs and DFIs are involved, challenging long-held assumptions about risk. EMDEs private lending has demonstrated greater stability, even during periods of global financial stress. Many developed market benchmarks have experienced sharper default spikes, while EMDEs portfolios have shown recovery performance and lower volatility.

Regional and income-level trends add important nuance to the risk narrative. Low-income countries and regions like Sub-Saharan Africa show highest default rates but also highest recovery performance, underscoring the importance of local context and resolution capacity in assessing creditworthiness.

Finally, EMDEs assets offer diversification benefits, as they tend to be less correlated with traditional developed market instruments. This makes them a strategic addition to global portfolios not just for impact, but for performance, presenting a compelling case for increased investment in these markets.

Sources

**All data used in this report is sourced from the GEMs 2024 Default and Recovery Statistics dataset, unless mentioned otherwise.*

Global Emerging Markets Risk Database Consortium. (2025, October 7). *Default and recovery statistics: Private lending 1994-2024 (GEMs report) [PDF].* https://www.gemsriskdatabase.org/wp-content/uploads/2025/10/GEMs-Presentation-Private-2025.pdf

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