

# The Data Transparency Imperative

*On the need to build a coordinated dataset on emerging-market risk*

*Discussion paper by the Investor Leadership Network*

2015 seems much longer ago than it really was. The world feels like a very different place compared with the, perhaps naïve, enthusiasm that accompanied the adoption of the Paris Agreement and the Sustainable Development Goals.

But what has remained constant is the emerging market financing gap. The billions never became trillions and investment flows remain a small fraction of what is required to make the kind of progress dreamed of back in 2015.

Some progress has been made. Notably, over a period of roughly three years starting with the Glasgow CoP, a series of policy papers leveraging the best thinking from the private and philanthropic sectors put forward a series of recommendations on how to mobilize capital, particularly private institutional capital, at scale.

Among these recommendations was a call for greater transparency on transactions in emerging markets, starting with the Global Emerging Markets Database or GEMs. These repeated calls have had an impact, including last autumn's release of statistics on default and recovery rates on over 15,000 transactions with over 10,000 private counterparties across 169 countries from 1994 to 2004 aggregated at the regional, country and GICS sector level.

The headline findings are quite taking. The average default rate on private-sector lending was 3.54 percent and the average recovery rate was 72.9 percent, figures that are roughly identical to those from advanced economies<sup>1</sup>. Neither the required rates of return for capital nor global prudential regulations and credit rating assessments reflect this reality, and the lingering perceptions of inflated risk compared to actual risk continues to suppress the pool of potential investors.

## Limitations of GEMs

As powerful as these findings are, the GEMs data will not be sufficient to drive down the cost of capital, for credit rating agencies and prudential regulators to make material recalibrations to their risk framework, or to whet the appetite of institutional investors for emerging market assets. This is

---

<sup>1</sup> See the GEMs Consortium recent report on private lending from 1994 to 2024 available here: <https://www.gemsriskdatabase.org/recent-publications/>

not a criticism of the GEMs consortium but a reflection of the structural limitations of the data it possesses.

First, the 15,000+ transactions described by GEMs come exclusively from the lending experiences of the consortium's MDBs and DFIs whose operational milieu differs materially from those of commercial banks, private credit funds, insurance company portfolios or export credit agencies.

It is thought that the universe of relevant private sector transactions is in the range of 60,000 to 120,000, four to eight times the size of the GEMs sample and with characteristics more aligned with commercial interests.

In addition, the transactions within GEMs tend to skew towards debt, leaving equity transactions comparatively under-analyzed, an important gap particularly for infrastructure investment.<sup>2</sup>

Finally, though last autumn's release by GEMs represented a significant step forward with respect to disaggregation, credit rating agencies and prudential regulators will require greater granularity and transaction-level data before considering significant changes to their existing methodologies.

What is needed is a coordinated global effort that bring this universe of privately held transaction-level data into a common analytical framework that protects contributor confidentiality, whose output is calibrated to the needs of the relevant decision-makers, whose findings and data is published and made publicly available, and that enjoys political credibility.

### What Data Transparency Seeks to Accomplish

Such an effort will not be easy, requiring equal doses of concerted coordination across a diverse set of actors, analytical rigour and political will. But the following paragraphs seek to make the case that the potential payoffs would be worthy of the invested sweat and toil.

#### 1. Bending Perceptions towards Reality – Lowering the Cost of Capital through more accurate Risk Pricing

That the perceived risk of investing in emerging markets far exceed the actual risk has been a common refrain for most of the past ten years. Slowly, the emergence of hard data is bearing this out.

The default rates on private-sector lending reported through the GEMs database discussed above demonstrate a level of performance broadly similar to that of B-rated corporate borrowers in

---

<sup>2</sup> One notable exception was a recent paper by Anusha Chari, Peter Blair Henry, Yanru Lee and Paolo Mauro that examined 266 equity investments in core infrastructure made by the IFC between 1961 and 2020 and showed that these investments in aggregate earned an average excess return of 1.98 percentage points per year over the S&P 500 – available here: <https://www.nber.org/papers/w34537>

advanced economies. Similar findings have been reported through the Moody's Analytics Data Alliance Project Finance Data Consortium which suggest that infrastructure and other project finance debt performance has not been systematically lower in emerging markets and that, perhaps counterintuitively, the default rates on infrastructure finance in Africa are among the lowest in the world.<sup>3</sup>

This has real costs, both with respect to the excess interest expenses imposed on emerging market borrowers who have obtained financing as well as to foregone investment opportunities where the hurdle imposed by inflated risk premia are determinative of the viability of a given project.

A 2023 study by UNDP attempted to quantify such costs and arrived at a figure of approximately \$74.5 billion for Africa alone.<sup>4</sup> In a similar vein, Standard and Poor's has indicated that by incorporating the GEMs data from last autumn in their MDB portfolio risk assessment, an estimated \$600 to \$800 billion in additional lending capacity could be made available. To quote a recent paper by the Center for Global Development, 'this extraordinary result underscores why data transparency is so important'.<sup>5</sup>

## 2. Overcoming Prudential Barriers to Emerging Market Investment

The largest pools of investable capital globally are held by institutional investors such as banks, insurance companies and pension funds, with their collective assets under management running into the hundreds of trillions of dollars. Considerable efforts have been made to channel more of this capital towards investments into emerging markets through a variety of tools such as blended finance and related innovative instruments. These efforts have to date met with only modest success.

One of the primary reasons accounting for these somewhat disappointing results pertain to the complex set of capital, liquidity and funding charge provisions prescribed by the patchwork of national, regional and international prudential regulations such as the Basel III and Solvency II frameworks. Though intended to promote financial stability, their cumulative effect has been to raise the regulatory cost of holding emerging market assets to levels well above what the actual realized experience would seem to justify, thereby rendering such investment opportunities relatively burdensome and unattractive.

To illustrate, a given emerging infrastructure project finance loan financed by one or more international banks would in general be assessed a 100% risk weight under the Basel framework, irrespective of whether the loan was secured by infrastructure assets, supported by a contractual

---

<sup>3</sup> <https://www.gihub.org/infrastructure-monitor/insights/infrastructure-debt-default-rates-by-region/>

<sup>4</sup> <https://www.undp.org/africa/publications/lowering-cost-borrowing-africa-role-sovereign-credit-ratings>

<sup>5</sup> <https://www.cgdev.org/publication/gems-and-600-800-billion-dollar-data-dividend>

revenue stream, or occurred as part of a blended finance structure to mitigate risk. The risk weight for pre-operational finance is even higher at 130%.

Similarly constraining are the imposed liquidity requirements. Loans to non-financial corporates with a residual maturity of greater than one year (thus, essentially all project finance) are assessed a Required Stable Funding Factor of 85% - that is, a bank is required to hold or balance 85 cents of every dollar of private finance with 'stable funding' for as long as the loan remains on its balance sheet – a tremendous disincentive, particularly for banks whose deposit funding tends to be short-dated. And there are additional punitive elements, such as elevated credit valuation adjustment charges on any currency and interest-rate hedges which negatively impact the bank's leverage ratio.

There are similar constraints imposed by the Solvency II framework governing the European insurance sector. With respect to debt, the spread risk sub-module applies a duration-weighted shock factor that, for unrated long-dated bonds and loans which constitute the principal form of emerging market infrastructure finance, can exceed 30 percent of principal value. A carve out introduced in 2016 reducing this charge by up to 30 percent for qualifying assets is limited in application to projects located within OECD member states.

On the equity side, holdings outside of the OECD as well as unlisted and alternative holdings are subject to 49 percent shock factor compared with 39 percent for equity within OECD member states.

The overall effect is a capital penalty of 10 to 27 percentage points between equivalent emerging market and OECD assets, which as the Independent High Level Expert Group on Climate Finance argued in its third report, represents a punitive geographic rather than risk-based criterion that penalizes investments in non-OECD countries through higher costs.<sup>6</sup>

It is much more difficult to generalize for the case of pension funds as each individual fund is subject to specific regulations and guidelines promulgated at various regional, national and sub-national levels, but in broad strokes many face an assortment of binding or informal constraints on the amount of emerging-market and/or unlisted exposure they can hold and differing interpretations of the execution of their fiduciary duty.

The regulatory bodies that govern these frameworks each have their own process and procedures for recalibrating their respective guidelines. But what is commonly true is that they require a rigorous body of evidence to enable them to enact substantial changes to their policy frameworks. Bringing in the universe of privately held transaction-level data into a common analytical framework would represent a quantum leap towards constructing the required evidentiary base.

---

<sup>6</sup> <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/11/Raising-ambition-and-accelerating-delivery-of-climate-finance-Third-IHLEG-report.pdf>

### 3. Harvesting Potential Portfolio Efficiency Benefits

Two years ago, on the margins of these very spring meetings, the Rockefeller Foundation and the Investor Leadership Network, in partnership with the US Treasury and with the former co-chair of the Glasgow Financial Alliance for Net Zero (and current Prime Minister of Canada Mark Carney) convened a first-of-its-kind gathering.

This meeting brought together the Chief Investment Officers and Chief Risk Officers of several major banks, pension funds, asset owners and asset managers, a vital constituency that has often been overlooked and neglected in the broader private capital mobilization effort. One of the clear takeaways from that discussion was the need, indeed the burden, for the development and climate finance community to better learn how to speak the language of investment and risk. This final element draws inspiration from those lessons.

It also draws on the frequent observation made by many asset managers with significant holdings in emerging markets – that the returns generated by these holdings, particularly for infrastructure debt and equity – tend to have low levels of correlation with the returns of advanced economy assets.

That infrastructure in general tends to have low (though potentially increasing) correlation with public markets, performs well during macroeconomic downturns, and can serve as a hedge against inflation is widely understood and explains to a large extent its growing popularity among portfolio managers.

Whether emerging market infrastructure in particular, however, exhibits low levels of correlation with advanced economy returns is much less generally accepted, largely due to the lack of robust, widely available data supporting such claims.

A concerted effort to demonstrate such a relationship, if proven statistically significant, could strengthen efforts of increasing institutional investor appetite for emerging market assets. It would do so in a manner that speaks to investment and risk committees where they are – not by appealing to moral imperatives but by offering tools to improve the risk-adjusted returns and overall efficiency of their portfolios to the advantage of their beneficiaries.

#### A Call to Action

The steady release of statistics by the GEMs consortium has established proof of concept - making available transaction-level data can facilitate a more accurate assessment of emerging market risk.

But the inherent nature of the GEMs data has its limitations and by itself remains insufficient to build the sufficiently robust evidentiary base required to catalyze a significant repricing of emerging market risk and spur the development of fit-for-purpose risk management policy frameworks, capital allocation decisions, and ultimately better investment and development outcomes.



To achieve these broader objectives, it will be necessary to harness the considerable trove of privately-held transaction-level data and subject it to rigorous analysis.

It is hoped that, through this convening organized by the Rockefeller Foundation, Investor Leadership Network, ODI Global, and Findev Canada, the seeds for such a data transparency initiative, building on related efforts such as the Hamburg Data Alliance and the Emerging Market and Developing Economies Task Force, can be sewn.