PACT FOR PROSPERITY, PEOPLE AND THE PLANET

CETEX

Regulatory Barriers to Investment in Emerging Markets and Developing Economies

A report by the 4P Eminent Persons Group (EPG) on Barriers to Investment in Emerging Markets and Developing Economies (EMDEs)



The Pact for Prosperity, People and the Planet (4P) is a multilateral platform bringing together 73 countries and partners from international organisations, development banks, civil society, the private sector and philanthropy to advance a fairer, more effective international financial system. Launched in Paris in 2023, the 4P works to ensure that no country has to choose between fighting poverty and protecting the planet. It translates political ambition into concrete action through country-led coalitions on debt, private capital mobilisation and new sources of finance.

The 4P Eminent Persons Group (EPG) on Barriers to Investment in Emerging Market and Developing Economies (EMDEs) was launched by France and South Africa at the Fourth International Conference on Financing for Development (FfD4), in Seville in 2025. It brings together six eminent figures: **Christian Déséglise**, Former Group Head of Sustainable Infrastructure and Innovation at HSBC; Professor at Columbia University; Co-leader of the FAST-Infra initiative, **Sonja Gibbs**, Managing Director, Global Markets and Policy, Institute of International Finance, **Luiz Awazu Pereira da Silva**, Former Deputy General Manager, Bank for International Settlements, **Liliana Rojas-Suarez**, Director of the Latin America Initiative; Senior fellow, Center for Global Development, **Vera Songwe**, Chairperson and Founder, Liquidity and Sustainability Facility; Senior Non-Resident Fellow Brookings, Global Economy and Development, and **José Viñals**, Co-Chair, UN-GISD Alliance; Chairman of Council, London School of Economics and Political Science (LSE); Former Group Chairman, Standard Chartered.

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Foreword

Development finance is at a critical juncture. Investment needs in infrastructure, energy, national security, employment, resilience and essential services are growing rapidly just when public fiscal space is shrinking, official development assistance is declining and many developing countries are facing high levels of debt.

No single source of financing will be sufficient to meet the needs of the development agenda. By 2035, emerging market and developing economies, excluding the People's Republic of China, will need to mobilise approximately **USD 3.2 trillion annually** to meet their development and climate needs.[1]

Domestic resources, better investor relations, public and concessional financing, multilateral and national development banks, debt treatment, innovative instruments and private capital mobilisation must be reconsidered as mutually complementary levers.

Africa starkly illustrates the gap between potential, needs and financing. The continent holds approximately **60% of the world's solar resources**, yet still receives only a small share of global investment in clean energy.[2] Turning this potential into growth, jobs, energy access and energy self-sufficiency requires mobilising all available resources differently and addressing the interlinked barriers that continue to increase the cost or constraint of investment in emerging market and developing economies.

This is precisely the purpose of the **Pact for Prosperity, People and the Planet – the 4P**. Born out of the Summit for a New Global Financing Pact held in Paris in 2023, under the impetus of Emmanuel Macron, Mia Mottley and William Ruto, the 4P today brings together **73 countries**

from all regions of the world and across all income levels, as well as multilateral and national financial institutions and philanthropic foundations, for a common ambition: a fairer, more effective international financial architecture that is better suited to the challenges of the 21st century.[3] To that end, the partners aim to enable countries to mobilise more resources and better instruments to finance their development and address the impacts of climate change.

The 4P's approach also reflects a new way of putting multilateralism into practice. In the face of growing fragmentation of the international system, the 4P seeks to move beyond traditional North-South divides and enable **coalitions of countries and stakeholders in development finance** to work together on specific challenges. These coalitions are guided by a common objective: to develop pragmatic, technically credible and politically viable solutions. To that end, rather than creating new structures or institutions, we wish to better connect countries' priorities, available expertise and the forums where decisions can be made and efforts anchored.

The 4P therefore works across several complementary fronts – from debt to private capital mobilisation and new sources of financing. It seeks to embed these ambitions in relevant international processes, particularly the G7, the G20 and international negotiations on financing for development and climate action.

The work of the **4P Eminent Persons Group (EPG) on Barriers to Investment in Emerging Market and Developing Economies**, launched by France and South Africa in Seville in 2025 at the Fourth International Conference on Financing for Development (FfD4), is fully aligned with this approach. Private capital mobilisation is neither a silver bullet nor an end in itself. It is rather one of the available levers that can complement public and concessional resources.

We therefore entrusted the EPG with a clear mandate: to bring new evidence and objective, action-oriented analysis to a complex debate on how the international financial system assesses and accounts for risk and the cost of capital; and to identify pragmatic responses that could improve private capital mobilisation where it can contribute to development.

This report does not call into question the prudential frameworks adopted following the global financial crisis, which have strengthened the resilience of the financial system. It raises a more targeted, forward-looking question: **when risk is reduced in an effective manner, is that reduction adequately recognised? Do existing rules and practices sufficiently reflect the actual risks of investments in emerging market and developing economies?**

The proposed recommendations follow this approach: improving the recognition of instruments such as guarantees that genuinely mitigate risk, strengthening consistency in the implementation of existing frameworks, making better use of available data, and maintaining a structured dialogue among countries, regulators, development institutions and investors.

The publication of this report is therefore not an end point. Rather, it marks the beginning of

a new phase. The role of the 4P will be to continue connecting analysis with action, bringing together coalitions that can advance the solutions identified, and embedding this work in the key international processes where it can deliver results.

This is our vision of multilateralism for the 21st century: more inclusive, multi-stakeholder and action-oriented, capable of bringing together countries with different realities to work towards concrete solutions in the service of prosperity, people and the planet.



Moussa Faki Mahamat

Special Envoy of the Pact for Prosperity, People and the Planet (4P)



[1] Bhattacharya et al. (2025), *Delivering an integrated climate finance agenda in support of the Baku to Belém Roadmap to 1.3T*, Fourth Report of the Independent High-Level Expert Group on Climate Finance, Grantham Research Institute, London School of Economics and Political Science, https://www.lse.ac.uk/granthaminstitute/publication/delivering-an-integrated-climate-finance-agenda-in-support-of-the-baku-to-belem-roadmap-to-1-3t/.

[2] IEA (2024), *Clean Energy Investment for Development in Africa* and *World Energy Investment 2024*, IEA, Paris, https://www.iea.org/reports/clean-energy-investment-for-development-in-africa/executive-summary.

[3] Pact for Prosperity, People and the Planet (4P), *Our Mission,* https://www.pact-prosperity-people-planet.org/content/dam/4P/en/our-work/New%204P%20brochure.pdf/_jcr_content/renditions/original.media_file.download_attachment.file/New%204P%20brochure.pdf.

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The views and recommendations presented in the report remain those of the 4P EPG and should not be understood as representing the positions of the organisations or individuals consulted during its preparation.

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Executive Summary

By 2035, emerging market and developing economies (EMDEs) other than the People's Republic of China will need around USD 3.2 trillion in climate and development investment each year, of which some 40% would have to come from external sources and roughly half of that from private finance. While overall financing for EMDEs has grown, cross-border financing flows have not kept pace, especially in higher-risk countries below investment grade. Cross-border financing for new infrastructure in higher-risk countries was lower in 2018-2025 than in 2005-2010 in real terms, even as gross infrastructure finance activity in those countries doubled. During that time, commercial banks took part in fewer than a third of new project finance deals in the highest-risk countries, down from four-fifths. In renewable energy, the pattern is the same. Between 2011-2017 and 2018-2024, the share of debt of cross-border commercial banks to large renewable projects in the highest-risk destinations fell from 22% to 8% between 2011-2017 and 2018-2024, even as the market tripled.

Rationale and aim

While recognising broader barriers constrain investment in EMDEs, momentum has built internationally to better understand and assess the impact of prudential regulation set after the 2008 global financial crisis on investment in EMDEs. In June 2025, the Pact for Prosperity, People and the Planet (4P) Eminent Persons Group on Barriers to Investment in Emerging Markets and Developing Economies (EPG) was launched at the United Nations Fourth International Conference on Financing for Development (FfD4) in Seville. It sought to examine whether, and how, prudential frameworks may be unintentionally constraining investment flows to EMDEs.

This report, prepared by the 4P EPG, summarises the key findings from the above inquiry. It asks whether the prudential rules under which banks operate, namely the Basel III international regulatory framework for banks, may have unintentionally constrained cross-border bank financing for capital-intensive infrastructure projects in EMDEs. It does not question the objectives of Basel III, which has contributed significantly to the resilience of the global financial system. Rather, it asks two narrower questions. First, did the design and national implementation of selected standards change the volume and composition of cross-border bank finance for EMDE infrastructure, such as renewable power projects, in ways not intended? Second, is the treatment of these exposures, with and without risk mitigation from multilateral development banks (MDBs), development finance institutions (DFIs) and other sources, commensurate with their realised risk?

Findings

Four analyses prepared in the context of this report, using different data and methods, point the same way. Cross-border bank finance for new infrastructure in higher-risk countries fell, and the fall coincides with Basel III implementation in lenders' home jurisdictions. As Basel III standards entered into force in a lender's jurisdiction, its lending to higher-risk destinations fell relative to lower-risk ones. This finding is confirmed by new empirical analysis of renewable energy project finance. Each additional Basel III standard in force in a lender's home jurisdiction is associated with about a third less cross-border bank debt to large renewable projects in below-investment-grade EMDEs, relative to investment-grade ones. With all four in force, the reduction is around 58% in relative terms compared to less risky destinations. The change is concentrated where long maturities, large loans and high country-risk meet; it tracks destination credit risk, not EMDE status.

Equity finance for the same projects shows no comparable change. Over the period analysed, official lenders increasingly financed higher-risk projects without commercial banks alongside them, while joint financing declined. The data record who financed the projects that closed; they cannot show whether private finance would otherwise have been available, and they largely predate the recent shift in MDB and DFI strategies towards mobilisation. The evidence reinforces the importance of those efforts, and of the instruments and data that support crowding-in.

Non-bank lenders did not step in; and bond markets substitute only for the few large EMDEs with market access, mostly for existing assets. A further constraint lies with national development banks (NDBs). They could fill part of the gap but are rated and risk-weighted as extensions of their sovereigns regardless of their own performance.

These findings carry caveats

The evidence is directional rather than definitive as Basel III was one of several drivers over the period. As Basel III standards were phased in within a few years of one another, the analyses cannot attribute the change to any single rule; they can only establish correlation.

Basel III was intended to increase risk sensitiveness of the framework, albeit without disproportionate effects on cross-border finance or investment in long-term resilience. Whether the treatment of EMDE infrastructure is proportionate to its risk cannot yet be judged. For example, the available performance data show that project finance defaults more often in EMDEs than in advanced economies, driven by country-risk events, albeit with similar recoveries. Credit enhancement narrows the gap. However, lower expected losses do not by themselves establish that capital requirements are overly risk sensitive. This is because prudential capital also covers unexpected loss, and no dataset matches realised losses to the financing patterns documented here. The findings are nonetheless consistent across the four analyses, and sufficient to act on in the areas where action does not depend on settling the open question.

Recommendations

The report provides non-prescriptive recommendations to international standard setters, domestic regulators and supervisors, international forums, credit rating agencies and private sector to adjust the technical implementation of prudential regulation without reopening Basel III, e.g. through technical guidance or supervisory dialogue. They address the narrow but consequential space between measured and realised risk. They are consistent with the financial stability objective of the Basel Framework.

Recommendations are prioritised and ordered below – from short-term, practical options and engagement to longer-term analytical and institutional work.

Short-term recommendations:

At the international level, the Basel Committee on Banking Supervision (BCBS) can:

- Update the list of MDB guarantee providers eligible for 0% risk weight, and assess further candidacies of MDBs and DFIs for the 0% risk weight.
- Clarify that standard guarantee exclusions with remote triggers do not breach the unconditionality requirement.
- Give proportionate recognition to political risk insurance.
- Publish clearer criteria for high-quality project finance and for the transition from the pre-operational to the operational phase.

The Basel Committee can implement the above recommendations without amending Basel III through Frequently Asked Questions used to ensure consistent interpretation of the Basel Framework. The BCBS can also convene voluntary, international dialogue among domestic supervisors to exchange on (i) the recognition of guarantees; (ii) political risk insurance and green/transition finance; (iii) the use of national discretion; and (iv) the treatment of NDBs. It would then review the emerging evidence. It can pursue this dialogue in collaboration with the OECD and coalitions such as the Network for Greening the Financial System, academia and industry associations.

At the domestic level:

- National regulators could review their implementation of the eligible-MDB list, the treatment of preferred creditor status in internal models and the recognition of NDB guarantees.
- Home and host supervisors could apply the guarantee criteria consistently and open a dedicated dialogue in supervisory colleges that includes EMDE authorities.

At the multilateral level:

- The Financial Stability Board could take up the cross-border effects of Basel III implementation on EMDE finance in its evaluation work, as a follow-up to its 2018 evaluation.
- The G20 could mandate a reconciled data exercise on realised defaults, recoveries and pricing across the existing sources to underpin any further risk-based guidance.
- The OECD could convene workshops with supervisors, MDBs/DFIs, lenders and guarantee/insurance providers to review actual contracts against recognition criteria. A time-bound transaction pilot could then measure capital recognition, all-in pricing, and tenor and private finance mobilised, as well as claims and payout times.

Longer-term recommendations:

Over the longer term, and calibrated on the reconciled performance dataset from the G20 exercise above, standard setters can:

- Consider infrastructure as a distinct asset class with risk weights that fall as projects de-risk; give explicit recognition to MDB and DFI co-financed lending, including A/B loan structures; introduce a graded risk-weight band for highly rated MDBs and DFIs that do not meet the 0% criteria; and resolve the prudential treatment of NDBs and the sovereign ceiling on their ratings.

Credit rating agencies can:

- Review how guarantees, preferred creditor status and MDB participation enter project and issuer ratings, and rate NDBs on stand-alone strength.
- Review sovereign rating methodologies for symmetry and evidence: back-test ratings against realised defaults and recoveries; disclose the effect of qualitative overlays and missing data; and assess procyclicality, so that ratings reflect actual risk in EMDEs and advanced economies alike, rather than giving preferential treatment to either.

MDB shareholders and evaluators can:

- Assess crowding-in and system-level outcomes of public development banks alongside own-account volumes. Over the period analysed, official lending to higher-risk projects rose while joint financing with commercial banks fell. Thus, mobilisation outcomes,

rather than lending volumes, are the measure of whether current approaches are closing the gap.

Market participants can:

- Contribute loan-level performance data, review internal limits and mandates that are more conservative than the rules, and reflect verified risk reduction in pricing.

1. Introduction

Achieving global development and climate goals requires mobilisation of capital from both public and private sources in emerging market and developing economies (EMDEs). However, EMDEs face a large investment gap compounded by debt pressures. This chapter introduces key questions related to the international financial architecture and the prudential rules under which banks operate. In particular, it asks whether rules put in place following the global financial crisis in 2008 – the Basel frameworks – have inadvertently constrained the potential for cross-border finance for infrastructure and clean energy in EMDEs. It also suggests that international investors are increasingly recognising the need for capital in EMDEs as a significant investment opportunity.

Emerging market and developing economies (EMDEs)[1] face an investment gap for development and climate goals that public finance cannot close alone, and private capital is not flowing to them at the scale required. Many barriers explain this gap,

[1] EMDE is used throughout as a convenient label, but it groups economies with different macroeconomic, institutional and climate-risk profiles; treating them as a single asset class is itself one source of the gap between perceived and realised risk examined by this report.

including in EMDEs' own enabling environments. This report focuses on the international financial architecture and the prudential rules under which banks operate. It asks two questions. Have these rules, as designed and implemented after the global financial crisis, unintentionally constrained cross-border finance for infrastructure and clean energy in EMDEs? Does their treatment of these exposures accurately reflect the risks involved? The analysis and recommendations were prepared for the Eminent Persons Group (EPG) of the Pact for Prosperity, People and the Planet (4P), to inform the policy of regulators, standard setters and finance ministries.

Achieving global development and climate goals, as well as energy security, energy access and affordability, economic competitiveness and financial stability, job creation and just transition goals, requires mobilising capital from public and private sources in EMDEs. While public finance remains crucial, increasing private finance flows for climate and development is critical in EMDEs and advanced economies alike. This is especially true given tight fiscal space and public budget constraints, as well as sovereign debt sustainability issues. Finance and investment are needed to decarbonise all sectors of the economy and the energy system transition remains one that offers the greatest system-wide benefits.

The scale of the investment gap is well known. Overall, EMDEs will need around USD 5.5 trillion annually by 2030 and USD 7.5 trillion by 2035 to deliver on their development priorities (Bhattacharya et al., 2025[1]), up from a spending level of USD 2.2 trillion in 2026 (IEA, 2026[2]). In the energy sector, across all EMDEs, annual clean energy investment needs to more than triple to deliver on energy and developmental objectives, moving from around USD 900 billion in 2023 to almost USD 3 trillion by 2035 based on IEA modelling (IEA, 2024[3]). Setting aside the People's Republic of China (hereafter "China"), the increase is steeper still: from around USD 280 billion in 2023 to USD 1.8 trillion by 2035 (IEA, 2024[3]). The latest estimates put clean energy investment in EMDEs at around USD 440 billion in 2026, roughly 20% of the global total (IEA, 2026[2]). Across climate-related investment more broadly, EMDEs other than China are estimated to need USD 2.4 trillion a year by 2030, rising to USD 3.2 trillion by 2035, of which USD 1.3 trillion annually would have to come from external sources (Bhattacharya et al., 2025[1]). External flows stood at around USD 190 billion in 2022, less than 15% of that requirement; external private finance, at under USD 40 billion, would need to rise more than fifteenfold. Although these estimates vary by scenario and scope, they consistently imply a several-fold increase in current flows. Around 40% of the USD 3.2 trillion would need to come from external sources, roughly half of it private (Bhattacharya et al., 2025[1]).

Cross-border flows have not kept pace with the investment need. Public finance has grown following reform of efforts by multilateral development banks (MDBs): MDB climate finance to low- and middle-income economies rose by 21% in 2025 to a record USD 103 billion, double its level of five years earlier (EIB, 2026[4]), although multilateral finance would still need to at least triple from its 2022 level by 2035. Private cross-border finance remains far short of what is required. Aggregate cross-border bank credit to EMDEs has expanded in recent quarters.

However, growth has been concentrated in a few regions, notably Africa and the Middle East and emerging Europe (BIS, 2026[5]). For its part, cross-border financing for new infrastructure in higher-risk countries averaged around USD 70 billion a year in 2018-2025. This was below its level in 2005-2010 in real terms, even as gross infrastructure finance activity in those countries doubled (Section 3.2).

The need for capital to deliver productive infrastructure in EMDEs is a significant investment opportunity. The countries that need investment in infrastructure are where demand for energy, transport, water, health and education infrastructure is growing the fastest. Falling equipment costs have made solar and wind cheaper than new coal and gas for the great majority of new projects. However, the cost of capital for clean energy projects in EMDEs remains at least twice that in advanced economies. Consequently, much of this cost advantage is not passed through to project economics (IEA, 2024[3]). A substantial volume of investment would therefore be viable if the constraints on bankability, several of which lie on the financing side, were addressed. This report explores such barriers.

International investors are increasingly recognising the compelling business case for investing in the energy and broader sustainability transition in EMDEs (OECD, 2025[6]). Global clean energy investment continues to rise, reaching USD 2.2 trillion in 2026 (IEA, 2026[2]). The sharp fall in the cost of solar power and the growth of manufacturing capacity give EMDEs the opportunity to meet rising energy demand without building the inefficient and polluting systems of the past, and to attract a growing share of that investment in doing so. The mismatch between resource and finance is starkest in Africa, which has 60% of the world's best solar resources (IEA, 2024[3]) but accounts for only around 2% of global clean energy investment in 2026 (IEA, 2026[2]). The gap reflects financing conditions rather than resource quality: on the financing terms available in high-income countries, 97% of Africa's solar potential would be competitive with benchmark-levelised costs; at the costs of capital actually faced by African projects, that share falls to 16% (Hatton et al., 2026[7]). Investment to address the linked climate, biodiversity and pollution crises, including delivery on international commitments, is this century's principal opportunity to reignite growth, consolidate past gains in poverty reduction and advance the Sustainable Development Goals (OECD, 2025[6]).

Delivering finance for development and climate investment in EMDEs is a necessity to tackle the global challenges. The costs of inaction are not tenable. The summer of 2026 brought the joint warmest July on record globally; exceptional wildfires across western Europe and Canada; severe monsoon flooding in Bangladesh; flash floods in Afghanistan and Kyrgyzstan; and the evacuation of 700 000 people in China after Typhoon Noul (WMO, 2026[8]). Events of this kind fall hardest on countries with the least fiscal capacity to address them and absorb the cost, and each one adds to the cost of the adaptation and resilience investment that EMDEs must make alongside the energy transition. The Independent High-Level Expert Group on Climate Finance (IHLEG) estimates that adaptation and resilience alone will require around USD 400 billion a year in EMDEs other than China by 2035, and loss and damage a

further USD 350 billion (Bhattacharya et al., 2025[1]). Every year of delay raises those figures and narrows the window in which investments support risk reduction. Climate investment is a matter of developmental goals but also of global financial and economic stability. From a prudential perspective, this link merits attention because climate and development investment can affect the resilience of the real economy and the financial system exposed to it. Consequently, there is an urgent need to ensure that prudential treatment accurately reflects underlying risk and recognises genuine risk mitigation. For example, where the treatment of resilient infrastructure or effective risk mitigation by MDBs and development finance institutions (DFIs) is not adequately risk sensitive, capital allocation decisions may be distorted in ways that can also weaken economic and financial resilience.

The investment challenge is compounded by debt pressures in EMDEs themselves. Public debt in developing countries reached USD 31 trillion in 2024, having grown twice as fast as in advanced economies since 2010. Net interest payments rose 10% in a year to USD 921 billion, and a record 61 developing countries now spend 10% or more of government revenue on interest (UNCTAD, 2025[9]). Refinancing risk is concentrated in low-income and high-risk countries, where more than half of outstanding debt falls due by 2027, and the number of EMDEs at very high risk of debt distress or in default is at a ten-year high. Restructuring has become more complex, reflecting larger volumes of defaulted debt and a far broader creditor base (Montague, Raiser and Lee, 2024[10]; OECD, 2025[11]). This creates a double bind for climate investment. Of the USD 3.2 trillion a year needed in EMDEs other than China by 2035, around USD 1.15 trillion is expected from domestic public budgets (Bhattacharya et al., 2025[1]). Where fiscal space is this tight, more of the burden shifts to external finance, yet the same fiscal stress weakens sovereign ratings and, through the sovereign ceiling, raises the cost of capital for every borrower in the country. Sovereign ratings and country risk feed directly into the risk weights and limits that prudential rules apply to regulated lenders. Consequently, this is also where the international regulatory framework enters (Chapter 2), and why any such constraints would bind most tightly where fiscal space is thinnest.

There is no shortage of globally available capital. Global institutional investors manage assets in excess of USD 150 trillion (Bhattacharya et al., 2025[1]). Those domiciled in OECD and G20 countries could, under their own regulations, allocate up to USD 11.4 trillion to infrastructure; as of 2019, they held only USD 1.04 trillion in infrastructure assets, of which USD 314 billion was green, most of it in OECD Member countries (OECD, 2020[12]). Global banks intermediate a further large but declining share of cross-border infrastructure finance. Only a small fraction of savings reaches EMDEs; a smaller fraction reaches infrastructure there. Almost none reaches low-carbon infrastructure in the countries where the need is greatest and where each dollar invested displaces the most emissions (Hatton et al., 2026[7]). The IHLEG identifies three systemic constraints on cross-border finance to EMDEs: inadequate global financial safety nets; rating-agency methodologies; and the unintended impacts of prudential regulation. Between the capital and the projects sits a chain of intermediaries, rules and risk assessments, and it is along that chain that this report looks for the factors causing blockages.

This report focuses on prudential rules under which banks operate, as implemented in the advanced-economy jurisdictions from which most cross-border lenders to EMDE infrastructure originate. Bankability can be considerably affected by prudential regulation through financing cost, tenor and the recognition of risk mitigation. Risk-based prudential rules prescribe how EMDE exposures are to be assessed and any credit risk mitigation recognised. Where they use simplified proxies to assess exposures in EMDEs, they may inadvertently overestimate the risks associated with those assets. When they do not recognise the guarantees, blended finance and other risk sharing that national or multinational development banks and donors provide, they may blunt the very instruments designed to reduce risk. Where liquidity and funding rules bear on long-dated assets, they may constrain the local market development that would reduce risk over time.

Prudential rules are not the only barriers, nor necessarily the most significant. On the demand side, the shortage of bankable projects, weak offtakers, currency and convertibility risk, gaps in transmission and planning, and policy uncertainty affect investment regardless of prudential rules. On the supply side, structural factors constrain investments in EMDEs, where local financial markets remain shallow, and internationally (where the cost and availability of cross-border finance reflect macroeconomic, currency and governance risks). Scarce project-level data, credit rating methodologies and the sovereign ceiling amplify perceptions of risk.

Public development banks sit at the intersection of the demand, intermediation and supply sides. Through country platforms, public development banks can connect project preparation and aggregation with domestic funding, guarantees and financing partners. This enables the advance of pipeline construction alongside the removal of regulatory obstacles. Their catalytic effect will remain limited, however, where prudential treatment, rating methodologies or fragmented standards prevent recognition of risk reduction from translating into lower capital charges, lower financing costs or greater investor mobilisation. Reforms to public development finance and to the wider financial architecture should therefore be treated as mutually reinforcing.

The reforms introduced after the global financial crisis of 2008 have made the banking system more resilient. Led by the Basel Committee on Banking Supervision (BCBS) under the political mandate of the G20, the post-2008 rules built on Basel II and culminated in the Basel III Framework for banks: a comprehensive strengthening of capital, liquidity, funding and bank governance requirements. This report does not question those objectives, either in advanced economies or in EMDEs. It asks two narrower questions. First, looking back, did the design of selected Basel III standards and their implementation by national authorities unintentionally change the volume, cost and tenor of bank finance for infrastructure and renewable energy in EMDEs? Second, looking forward, should the capital, liquidity and funding treatment of such exposures, with and without risk mitigation of MDBs, DFIs or other sources, be calibrated in a way proportionate to the realised risk? The two questions are related but distinct: even if Basel III were not the main cause of past declines in EMDE lending, a treatment that overstates risk

would still merit correction, while the size of any past effect indicates how much a recalibration could change future flows.

The prudential frameworks that this report examines were introduced for compelling reasons, and this report supports their objectives. Much of the post-crisis reform increased the risk sensitiveness of the framework through standardised risk weights, the output floor and constraints on internal models. In this way, banks could no longer understate risk through their own assessments. However, standardised measures rely on proxies, sovereign ratings and country-risk classifications, benchmarked on advanced-economy exposures. This, in turn, raises two questions. Do specific elements of the frameworks, such as the standardised risk weights for project finance or the liquidity treatment of long-dated exposures, and their national implementation, reflect the actual risk of these exposures? Did they have consequences for cross-border finance beyond what the frameworks were designed to achieve?

Ample literature on the unintended consequences of Basel frameworks on global capital links higher minimum capital requirements, standardised risk weights, the sovereign ceiling, liquidity coverage ratio and net stable funding ratio to reduced, shorter-tenor and more expensive cross-border lending to EMDEs. This literature cautions that the evidence is heterogeneous and that effects are often concentrated in particular banks, exposures and stress periods rather than visible in the aggregate (see Chapter 2). Three elements of the prudential frameworks are where the concern is most specific:

- **Treatment of project finance exposures**. Where projects are unrated, or banks may not use external ratings, project loans carry a risk weight of 130% in the pre-operational phase and 100% thereafter (80% for high-quality exposures), comparable to lower-quality corporate debt. Where projects are rated, they rarely rate above the host sovereign. There is little dispute about the pre-operational weight. The open question is whether a 100% weight for the whole operating life reflects actual risk, given that the available performance data, drawn largely from MDB-supported lending, indicate that default risk declines as projects mature (Risk Control and MOBILIST, 2023[13]; Moody's Ratings, 2026[14]).
- **Treatment of risk mitigation instruments**. Prudential rules only partly recognise when MDBs and DFIs have shared risk through partial credit guarantees and political risk insurance, or first-loss cover. The standardised approach recognises eligible guarantees in proportion to the share covered, subject to conditions on timeliness, unconditionality and the status of the guarantor. Partial, first-loss and risk-specific cover is often not recognised or, where it creates tranching, falls under the securitisation framework with substantially higher risk weights. Because the output floor sets a bank's internal-model capital at no less than 72.5% of the standardised figure once fully phased in, this treatment increasingly binds for large banks using internal models as well. Consequently, the risk sharing these instruments provide may not flow through to the capital held against the exposure.

- **Cross-jurisdictional divergences**. Basel local implementation may add further gold-plating (setting standards higher than the Basel Framework) or restrict some of the credit mitigation provisions foreseen at global level. A further complexity may arise, with disincentivising impact on cross-border investment. In such cases, an EMDE project is governed by both home jurisdiction rules (where the international bank is headquartered) and the local host jurisdiction framework (including with regard to the same exposure). Such differences may both under- and overestimate the risks (and opportunities) linked to a specific investment. Variation in national implementation is not in itself a barrier, however, and may account for some of the unintended consequences.

The report pays particular attention to infrastructure, renewable energy and transition-related investment but treats them as leading applications of a broader issue facing EMDEs: the structural underallocation of private capital to EMDEs. Prudential rules can constrain renewable energy finance in ways not matched by differences in underlying risk. In such cases, they also constrain financing for transport, water and social infrastructure because they operate on the financing structure rather than on the underlying asset. Wind and solar projects have high upfront capital costs and low operating costs. Consequently, their competitiveness depends more on the cost of capital than that of fossil-fuel generation. Indeed, financing costs can account for up to 78% of the levelised cost of electricity in lower- and middle-income countries against 37-39% in high-income countries. Therefore, prudential rules that raise the cost of capital bear on clean energy first and hardest (Hatton et al., 2026[7]).

EMDEs are heterogenous in both actual and perceived risk levels. EMDEs face materially different constraints on market access depending on their level of development and the availability of collateral (Pereira da Silva, 2025[15]). Middle-income countries rated as above investment grade (BB+) enjoy stronger market access, but it is still fragile and highly exposed to global volatility. Middle-income countries rated below investment grade are frequently excluded from institutional investment mandates altogether. They rely mainly on domestic sources of capital and, for cross-border private finance, on blended vehicles and guarantees. Low-income countries with natural-resource collateral obtain some market access but remain vulnerable to commodity cycles. For their part, low-income countries without such collateral have effectively no market access and rely on concessional or philanthropic finance. As a result, the same regulatory or market friction bears differently on each group: a capital charge that merely raises the price of finance for an investment-grade sovereign can foreclose market access entirely for one with a sub-investment grade. The analysis presented in this report, where possible and relevant, recalls this differentiated situation to make tailored observations.

The question of unintended consequences of prudential rules is not new, but the demand for an answer has grown sharply in the past three years. The Financial Stability Board examined the effects of the post-crisis reforms on infrastructure finance in 2018, before most of the measures were fully implemented. It found limited evidence of an effect, while noting that EMDEs were more exposed to the reforms and that any effect would take years to appear

(FSB, 2018[16]). Surveys of banks and EMDE regulators in the following year reported a widespread view that the reforms had reduced long-term foreign funding for infrastructure (Beck and Rojas-Suarez, 2019[17]). Since then, the issue has moved from the technical literature to the leaders' agenda. The 4P, endorsed at the Summit for a New Global Financing Pact in June 2023, is now supported by more than 70 countries across all income levels and regions. Of its four principles, the fourth is that private finance must be mobilised at far greater scale. Under that principle, the 4P EPG has taken up the question of regulatory barriers to which this report contributes. The G20 Independent Expert Group on strengthening MDBs and the roadmap of the Brazilian G20 presidency for bigger, better and more effective MDBs placed the recognition of guarantees and the mobilisation of private capital at the centre of MDB reform (G20 IEG, 2023[18]; G20, 2024[19]). The Fourth International Conference on Financing for Development in Seville in July 2025 and the fourth report of the Independent High-Level Expert Group on Climate Finance both identified the unintended effects of prudential regulation, alongside rating-agency methodologies, as systemic constraints on cross-border finance to EMDEs (Bhattacharya et al., 2025[1]). Industry bodies have made the same case in operational terms, proposing targeted clarifications to the treatment of guarantees and project finance (Green Guarantee Group, 2025[20]; ICC, 2025[21]; IIF, 2025[22]). For their part, public development banks have set out how the frameworks bear on their own mandates and on their ability to mobilise private co-finance (Hammond et al., 2026[23]).

2. Prudential regulation and EMDE investments: The transmission channels

This chapter presents the origins and main features of the Basel Framework, a risk-based regulatory framework put in place following the global economic crisis in 2008. It examines the aim of Basel III to establish a regime that can manage cross-border bank supervision to prevent spillovers from banking crises. To that end, it looks at four transmission channels for prudential regulation and investments in emerging market and developing economies – credit risk identification and mitigation, liquidity rules and market risk – and how they interact and reinforce each other. The chapter ends with a review of how the Basel III Framework permits banks to recognise guarantees as credit risk mitigants.

This report is focussed on the prudential rules applicable to internationally active banks under the Basel Framework. Banks are central because of how infrastructure is typically financed. In the pre-operational and early operating phases – when risks are highest and lender expertise in structuring, due diligence and monitoring matters most – projects are financed mainly by bank loans. In most emerging market and developing economies (EMDEs), banks also help bring projects to a bankable position in the first place; institutional investors rarely finance a new power plant or grid directly.

Once a project is operating with a track record, its debt can, in deeper markets, be refinanced in bond markets or sold to insurers, pension funds and asset managers. Each project can be then governed by a combination of rules depending on the institutions involved: solvency regimes for insurers, fiduciary and prudential constraints for pension funds; and mandate and market-conduct rules for asset managers. These rulebooks also differ with the domicile of the institution.

The overlap of the rules matters in two ways. Bank regulation influences whether projects are financed in the first place. A capital or eligibility rule that raises the cost of the construction-phase loan can disincentivise a project before it reaches the stage at which other investors would take it on. Moreover, because different intermediaries hold the exposure at different stages, regulatory effects are sequential rather than cumulative. Thus, a single project is not assessed through every lens at once but must pass each in turn.

Regulatory barriers are one component of a broader agenda affecting EMDE investments. The chapter outlines how rules related to credit risk, market risk and liquidity may affect cost and supply of credit in emerging markets. It also discusses how cross-border financial governance and the differentiation of emerging markets under the prudential rules may, without prejudice to financial stability goals, affect global capital flows. This analytical framework situates regulatory barriers as one component of a broader agenda around risk pricing, data and market behaviour. The aim is to elucidate the mechanisms through which the design of global prudential rules may lead to unintended consequences, before turning to the empirical analysis in Chapter 3.

Frictions in global investment flows, especially investments in emerging markets, do not arise in the context of a single constraint and prudential regulation is one factor among several. On the supply side, these factors are thin local capital markets, data gaps and currency fluctuations, as well as non-prudential regulatory factors (e.g. related to anti-money laundering, in advanced economies). On the intermediation side is the limited and ineffective use of blended finance and credit risk mitigation instruments. On the demand side, there is a shortage of bankable pipelines and gaps in the domestic enabling environment of EMDEs.

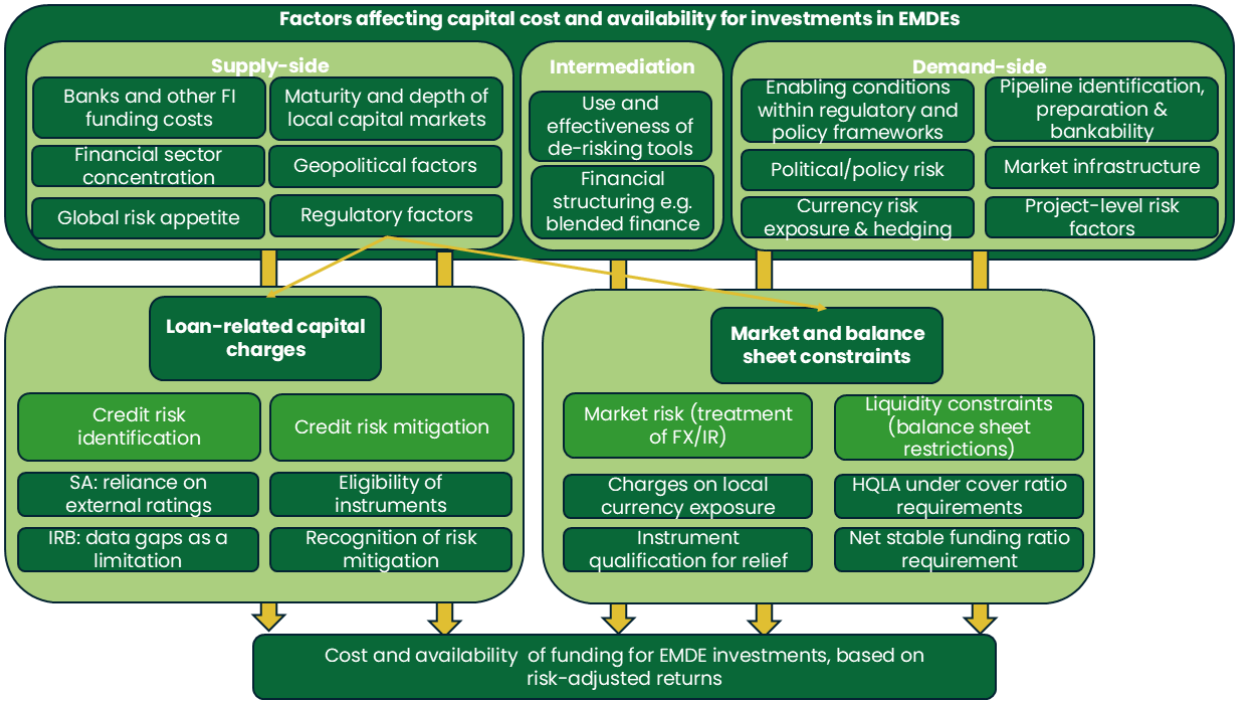
Rules may affect decisions along a financial intermediation chain that runs from global savings to final investments. The chapter focuses on the banking sector where prudential rules affect cost and availability of funding for EMDE investments. They do this both through rules bearing on the capital charges related to individual loans (e.g. treatment of project finance, [non]recognition of mitigation measures) and those that affect broader balance sheet and market dynamics (e.g. rules relating to trading-book equity exposures or liquidity rules).

Banks play a structural role in financing the economy in EMDEs. Beyond lending, banks screen, structure and monitor projects. They also carry out the due diligence that establishes whether a project is bankable; design the security package and covenants that make it financeable; and monitor performance through construction and early operation, when most

problems arise. This value is largest where projects are novel or markets are thin, which is the case for much clean energy infrastructure in EMDEs, and it is not easily replaced if banks withdraw. Through their trading desks, banks make markets in EMDE securities and provide the interest rate and currency derivatives on which other investors depend. As one example of their impact, a rule constraining the trading book removes capacity from parts of the chain well beyond bank lending.

A small set of advanced-economy banking systems accounts for a large share of EMDE cross-border claims (Claessens, 2017[24]). Reforms adopted in a handful of creditor jurisdictions can have outsized effects in EMDEs. Consequently, when the balance-sheet capacity or risk appetite of these systems contracts – whether because of a regulatory change or a shift in strategy – the reduction in credit for new projects is sustained and borrowers have few alternative creditors. This structural dimension of how banking shapes, and amplifies, the effect of prudential rules on EMDE access to finance is a key context in which findings should be read.

Figure 2.1. Transmission channels of prudential regulation



Note: FX/IR = foreign exchange/interest rate; HQLA = high-quality liquid assets; IRB = Internal Ratings-Based approach.

2.1. Origins and main features of the Basel framework

The Basel Committee on Banking Supervision (BCBS) is the cornerstone of global financial regulation. Established just under half a century ago in the aftermath of a cross-border banking crisis, the BCBS aims to develop rules to support a safe and sound global financial system. Rules for bank capital and liquidity requirements have significantly evolved over the past 50 years, reaching a significant level of granularity in the aftermath of the global financial crisis. The development of rules has been accompanied by concern about differentiated impact on specific asset classes (such as infrastructure finance) and geographies (such as emerging markets). However, only in recent years – pending progressive implementation of Basel III in advanced-economy jurisdictions – have intuitions regarding unintended consequences of the framework begun to be empirically explored.

The Basel Framework is a risk-based regulatory framework built around three main pillars (Box 2.1). Pillar 1 sets requirements for identification, assessment and mitigation of specific categories of risk (credit, market, operational), with the respective implications for minimum capital that the bank should hold against such exposures. Two mechanisms for calculation of capital requirements are set: the standardised approach that relies on set formulae; and the Internal Ratings-Based approach, which defers to institution-specific models mobilising credit ratings in particular. The rules for capital requirements differentiate between different types of financing, such as loans and project finance, to determine the appropriate capital charges. Pillar 2 covers institution-specific processes related to capital adequacy calculation and idiosyncratic supervisory assessments of banks' overall risk profile. Pillar 3 reinforces the regime with market-based disciplining via mandatory disclosures. In addition to the micro-prudential framework (focussed on individual institutions), a set of requirements targets systemic risk through macroprudential requirements (e.g. related to countercyclical buffer).

The global financial crisis was a major turning point in financial regulation with the agreement of the Basel III international regulatory framework for banks in 2010. The scale of the interconnectedness of the banking system; the fiscal and financial stability repercussions of bank failures; and sudden stops in global capital flows have all led to a significant refinement of the framework, including with regard to capital, liquidity and governance requirements. These are the standards examined further in Chapter 3. namely the risk-based capital framework, the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) and the countercyclical capital buffer (CCyB) (see Box 2.1).

Box 2.1. The Basel III minimum capital and liquidity rules standards examined

Basel III, agreed in 2010 and completed in 2017, strengthened the quantity and quality of bank capital, introduced the first international liquidity standards and added buffers against the credit cycle. This paper examines four standards from the 2010 package. The risk-based capital framework (RBC) sets minimum capital as a share of risk-weighted assets, with weights that rise with the assessed credit risk of each exposure. Banks calculate weights either under the standardised approach (using supervisory tables keyed to external ratings or exposure categories) or under the Internal Ratings-Based approach (using their own estimates of default probability subject to supervisory approval). The liquidity coverage ratio (LCR) requires banks to hold high-quality liquid assets sufficient to cover net cash outflows over a 30-day stress scenario. The net stable funding ratio (NSFR) requires assets with residual maturity beyond one year to be funded by liabilities judged stable over the same horizon, such as capital, long-term debt and retail deposits. It penalises the funding of long-dated loans with short-term wholesale money. The countercyclical capital buffer (CCyB) is an additional capital requirement that national authorities may set between zero and 2.5% of risk-weighted assets when they judge credit growth excessive. Entry into force of the regime does not itself impose a buffer; most jurisdictions have held the rate at zero for most of the period. The 2017 completion revised the standardised approaches, and constrained the use of internal models. Notably, it introduced an output floor requiring risk-weighted assets calculated under internal models to be no lower than 72.5% of the standardised calculation. These later reforms are not examined here; implementation began from 2023 and remains incomplete.

Table 2.1. Basel III pillars

Pillar 1 Minimum Capital Requirements	**Pillar 2** Supervisory Review Process	**Pillar 3** Market Discipline
Additional/refined capital basis • Minimum common equity and capital conservation buffer • Quality and level of capital • Standardised approaches for credit, market and operational risk • Internal models constraints • Revised output floor • Leverage ratio • Securitisations **Macroprudential tools** • Countercyclical buffers	**Supervision (Dialogue)** • Firm-wide corporate governance • Managing risk concentrations • Alignment of long-term incentives • Sound compensation practices • Supervisory colleges • Capital (Internal Capital Adequacy Assessment Process) • Firm-wide risk management • Valuation practice, stress tests, Supervisory Review Evaluation Process	**Additional/enhanced disclosure** • Risk management – Market – Credit – Operational • Regulatory capital components • Detailed reconciliation of capital • Regulatory capital ratios
Liquidity rules • Liquidity coverage ratio (LCR) • Net stable funding ratio (NSFR)		

Source: Adapted from BIS (2017[25]), *Basel III: Finalising Post-crisis Reforms*; https://www.bis.org/publications/201712-standards-basel-iii-finalising-post-crisis-reforms.pdf; BIS (2026[26]), *The Basel Framework, Basel Committee on Banking Supervision*, . https://www.bis.org/committees/bcbs/basel-framework/basel-framework.pdf.

The Basel Framework is a non-binding global standard. Once agreed by the members, the provisions of the Basel Framework must be implemented locally to become binding. More than 100 countries implement BCBS standards, including the 28 member jurisdictions. There is, in fact, much heterogeneity in how Basel III rules are implemented and applied. Implementation is itself shaped by industry lobbying, cross-border flow considerations and domestic politics. Consequently, the same standard is adopted with materially different stringency across jurisdictions (Jones and Zeitz, 2017[27]), and those differences correlate with cross-border bank claims (Cerutti, Claessens and Laeven, 2017[28]). For example, with regard to EMDE and infrastructure-specific investments, local implementation varies as regards scope supervisory discretion, treatment of MDBs or emerging market jurisdictions (e.g. uses of OECD Country Risk Classification [CRC] or supervisory slotting) and local gold-plating (setting standards higher than the Basel Framework).

Divergent approaches to Basel III make it more challenging to assess transmission channels. Several jurisdictions have gold-plated or delayed implementation of key components of Basel III, such as the output floor. Others have jurisdiction-specific add-ons to reflect local financial stability and other public policy objectives. Such divergence complicates assessment of transmission channels. At the same time, the fraught discussion around implementation, including impact on cost and availability of capital across relevant jurisdictions, draws attention to the extent to which financial institutions consider these rules consequential.

The evolving nature of global risks requires regular calibration of the prudential framework. Growing risks such as climate change, natural disasters and degradation, and cyber risks, as well as the rising spectre of geopolitical unrest and global fragmentation, represent a fundamental challenge to global stability. Without prejudice to the global-level playing field and the evolution of the Basel rulebook, these risks may require local calibration in rule implementation to support financial system resilience.

2.2. Cross-border dimension of the Basel framework

The Basel Framework's key objective is to establish a regime for cross-border bank supervision and prevent spillovers from banking crises. The joint set of rules is intended to support a level playing field and a cross-border regime of home-host supervision. As a result, different forms of financing (loans, project finance, bonds) are affected by a different combination of home- and host- country prudential rules depending on where and how the transaction is recorded. The same transaction can be subject to two sets of rules, where both local and consolidated-level rules apply.

Prudential rules reach cross-border EMDE finance through the balance sheets of a small number of internationally active banks, and they apply to those banks at the consolidated level. The framework applies to a banking group on a consolidated basis.

However, the treatment of an EMDE exposure is determined largely by the home jurisdiction's implementation of the standard, not only by regulatory conditions in the destination country. While local supervisors retain discretion and host-country rules apply to locally incorporated subsidiaries, the consolidated capital, liquidity and funding requirements that govern the cross-border exposure are determined at the level of the parent.

Prudential rules have spillover effects, but the transmission is complex and contingent on banks' balance-sheet conditions and business models. The literature has studied the impact of prudential rules on cross-border transactions from a theoretical and empirical level (Buch and Goldberg, 2017[29]; Cerutti, Claessens and Laeven, 2017[28]; Ameli et al., 2021[30]). This literature generally confirms that policy adopted in the home jurisdiction of an internationally active bank changes its incentives to lend and make markets abroad. Conversely, policy adopted in the destination jurisdiction alters local credit conditions and the relative role of foreign banks (Avdjiev et al., 2017[31]). Here, the way the Basel rule was implemented matters (Anginer et al., 2019[32]). National implementation, often prioritising domestic financial stability without considerations for cross-border spillovers, can even reintroduce differentiation the Basel text had removed, or leave it uneven. The United States, for example, applies the OECD CRC as a mandatory layer. However, the Standardised Credit Risk Assessment Approach (SCRA) is in force earlier in some jurisdictions and only later in others.

Across asset classes and risk requirements, the Basel Framework differentiates directly and indirectly between emerging and advanced-economy exposures. Rules for direct differentiation related to market risk (in trading book) distinguish among risk profiles depending on currency and advanced/emerging economy categorisation. Such differentiations are limited, especially following changes to the OECD classification under credit risk rules. Nevertheless, they provide evidence of the heuristics differentiating the riskiness between advanced and emerging economies. Indirect differentiation is more pervasive. It arises where Basel rules have a differentiated impact due to differences in structural and institutional features between EMDEs and advanced economies. Provisions written without EMDEs in mind bear more heavily on EMDE exposures because of features of those markets rather than any explicit geographic term. Examples include the SCRA; the supervisory slotting categories for specialised lending; and the treatment of foreign exchange positions.

Such differentiated impact is observable in five cases. First, EMDE public financing markets are structurally underdeveloped. Fewer entities carry an external rating, so exposures default to the blunter, more conservative treatment reserved for unrated names; finer, rating-based gradations are unavailable. Furthermore, the cost of obtaining a rating is relatively higher than in advanced economies. Second, the derisking role of public financial institutions, which play a relatively larger role in EMDEs, is limited to a handful of international financial institutions. It does not recognise the derisking role of national development banks, which do not benefit from 0% risk-weighted assets as MDBs do. Third, the Basel rulebook is built around legal

institutional features of advanced economies. For example, the Internal Ratings-Based approach relies on credible collateral values; legal certainty; and rating or slotting methodologies calibrated on data-rich advanced-economy portfolios. Consequently, the more flexible modelled treatment is less readily available for EMDE exposures, which are pushed back onto the standardised approach. Fourth, the granularity of the rules – i.e. the number of distinct requirements a single exposure must satisfy – falls unevenly. This happens because the data and modelling capacity needed to reach the more favourable treatments are scarcer for EMDEs. Finally, EMDE financial systems face sources of instability the framework does not fully address, such as commodity dependence, foreign exchange volatility and shallow domestic capital markets. Consequently, requirements calibrated to advanced-economy conditions can be at once ill-fitting. Indeed, where supervisors gold-plate them to build investor confidence, they are more stringent than the minimum (Jones and Zeitz, 2017[27]; Rojas-Suarez, 2025[33]; DeMenno, forthcoming[34]).

Local implementation in EMDEs matters. Many EMDEs have been particularly diligent in implementing the Basel Framework, not least because both the International Monetary Fund and credit rating agencies pay relatively more attention to faithful implementation than in the case of advanced economies (Jones and Zeitz, 2017[27]). For example, many EMDEs gold-plate the Basel III recommendations by setting stricter or more conservative requirements than the baseline standards set by the BCBS. As a result, rigid implementation raises the cost of the exposures EMDEs most need. At the same time, they offer only limited protection against the risks they actually face. Some recognition of the differentiated effect of the rules has been built into the Basel standard itself. These foresee proportionality and flexibility provisions for EMDEs (e.g. related to liquidity rules or threshold sizes for small and medium-sized enterprises). However, these calibrations apply at national jurisdiction level. As such, they do not address the unintended consequences at cross-border and consolidated level, which is the focus of this report.

Different pools of capital reach EMDEs under different rulebooks, and each filters EMDE exposure in its own way. Insurers invest under solvency regimes that calibrate capital charges to an asset's risk category and liquidity profile. They reserve their most favourable "qualifying infrastructure" treatment for assets meeting criteria effectively designed around OECD or European Environment Agency characteristics. In this way, EMDE infrastructure is treated as ordinary corporate debt despite comparable or better performance – a gap one study quantifies as capital of about 13% against a ten-year unrated non-OECD infrastructure loan where roughly 4% would be risk-appropriate (Risk Control, 2020[35]). Pension funds invest under a prudent person standard that steers portfolios towards liquid, regulated market, investment-grade assets without prohibiting EMDE exposure outright. Sovereign wealth funds are constrained less by capital rules than by mandates that benchmark against liquid indices; they commonly restrict holdings to investment grade. Credit rating agencies underpin all of these, because the sovereign ceiling that caps most EMDE ratings below investment grade feeds simultaneously into bank risk weights, insurer charges and investor mandates (Griffith-

Jones and Kraemer, 2021[36]; UN DESA, 2022[37]). This report concentrates on banks because they intermediate the largest share of cross-border infrastructure finance and because the transmission from a banking rule to a financing outcome can be traced provision by provision.

Box 2.2. Summary of literature on regulatory barriers to EMDE investment

The literature review available for this report reviews the grey and academic literature on how prudential regulation shapes financial flows to emerging market and developing economies (EMDEs), supplementing the report's own empirical evidence. The implications of tighter capital requirements under Basel III on cross-border flows and foreign lending to EMDEs have been raised as a consistent concern. Many sources have discussed the implications of capital requirements under Basel III on flows towards EMDEs, highlighting that overall flows have not recovered to the scales pre-GFC (Jones, 2014[38]; Figuet, Humblot and Lahet, 2015[39]; Berrospide et al., 2016[40]; Kammourieh and Devie, 2025[41]). Drawing on a semi-structured search of 185 studies, it observes that the debate is dominated by research from advanced economies and that EMDEs have historically had limited engagement in Basel standard-setting – a "core and periphery" pattern that shapes which questions are asked.

On the Basel III Framework itself, the literature links higher minimum capital requirements, standardised risk weights, the sovereign ceiling, liquidity coverage ratio and net stable funding ratio to reduced, shorter-tenor and more expensive cross-border lending to EMDEs. At the same time, it cautions that the evidence is heterogeneous. Furthermore, effects are often concentrated in particular banks, exposures and stress periods rather than visible in the aggregate. It also documents the weak recognition of guarantees, blended finance and de-risking of multilateral development banks, as well as trading-book charges on EMDE equities that realised risk does not appear to support.

Prudential rule implementation in EMDEs raises further concerns: rules built on advanced-economy proxies; supervisory gold-plating (setting standards higher than the baseline Basel III recommendations); financial stability risks Basel does not address; cross-border spillovers; and the displacement of activity towards non-banks. Sector-specific sections find project finance infrastructure (130/100% risk weights), small and medium-sized enterprises (85/75%) and trade finance (credit conversion factor raised to 100%) penalised beyond what performance data imply.

2.3. How prudential rules may affect EMDE project bankability

Risk-based regulation shapes bankability of investments. The rules of prudential regulation are intended to support banks' prudent assessment of risks and opportunities related to an investment. A project is bankable under certain conditions: its risk-adjusted return is adequate; the risk-return profile meets investors' criteria and risk appetite; its risks are allocated to parties able to bear them; instruments of appropriate tenor and structure are

available; and lenders are both willing and able to hold the resulting exposure. As illustrated in Figure 2.1, prudential regulation at the transaction level shapes the capital and liquidity charges attributed to an individual transaction, and therefore the spread it must charge and the return it must earn to proceed. This is the level at which a project's own characteristics, such as its tenor, currency, rating and current phase, are translated into a price or spread. At market level, rules covering equities or liquidity rules shape the balance-sheet constraints of individual banks and secondary markets. This places constraints on the local capital-market deepening, which in turn reinforces the relatively higher risk perception in emerging markets (Ameli et al., 2021[30]).

Credit risk identification sets the cost of capital. The most direct channel runs from risk weights to pricing. This is the issue most banks identify first, both for the asset class and for the treatment of credit risk mitigants. Under the standardised approach, unrated project finance attracts a 130% weight in the pre-operational phase and 100% once operational, falling to 80% for high-quality operational projects (CRE20.51). Consequently, capital is most expensive during the construction phase in which many EMDE projects sit and in which the risk of non-completion is concentrated. This schedule assumes risk rises with time, even though infrastructure risk typically falls once a project is operating (ICC, 2025[21]). Under the Internal Ratings-Based approach, the maturity adjustment raises capital with effective maturity, bounded between one and five years (CRE31.4). In this way, long-dated finance attracts the highest relative capital cost even where credit quality is unchanged. Models are typically unavailable for the low-default, hard-to-model exposures that higher-risk EMDE infrastructure represents. In such cases, supervisory slotting becomes the fall-back. It maps exposures to five categories with fixed weights up to 250% and weights political, legal and country risk explicitly (CRE33). Each exposure raises the capital a bank is required to hold in different ways, and hence the spread it has to charge, against exactly the exposures EMDE infrastructure generates. Which regime applies is itself consequential: a bank able to use internal models for both default probability and loss may carry a weight close to 100% on an exposure that a slotting approach would push towards 250%. Consequently, the same EMDE project is priced differently according to the data available to the lender. With EMDE exposures data-poor, they are more likely the ones most often pushed onto the more conservative credit risk treatment.

The credit risk mitigation rules decide whether measures taken by banks translate into relief from capital and liquidity requirements. The Basel Framework provides for a variety of risk mitigation measures, including guarantees, insurance and blended finance structures. The structural features of EMDEs play a key role in driving higher capital charges. As a result, risk mitigation measures are key to improving EMDE project bankability as they can target those specific types of concerns, such as by leveraging the credibility of MDBs. However, the instruments most used in EMDE clean energy are the ones most likely to fail the framework's

tests, as Box 2.3 sets out. Two further points matter for this report. First, national development banks are, in most emerging jurisdictions, treated as commercial banks. This means they are bound by a conservative risk management framework that does not reflect their public functions and time horizons (BCBS, 2023[42]; CETEx, forthcoming[43]). Second, the tests are applied by national supervisors, whose reading of the risk mitigation eligibility criteria, in particular timeliness and unconditionality, varies across jurisdictions. Regulators and market participants consulted for this report identify this inconsistency, rather than the criteria themselves, as the more tractable problem.

Liquidity rules reduce the demand for EMDE products and the size of the balance sheet that can hold them. The LCR definition of high-quality liquid assets rarely admits EMDE sovereign, bank or corporate paper (LCR30). Corporate bonds can count only within the Level 2A and 2B sub-limits. Further, they must carry a high investment-grade rating (at least AA- for Level 2A, and no lower than BBB- for Level 2B) and trade in deep, active markets with a proven record as a reliable source of liquidity in stress; most EMDE corporate issues fail on both counts. The exclusion could thin the incentive of banks to hold EMDE paper and, in turn, the depth of demand for it. This creates a self-reinforcing dynamic, since instruments banks will not hold for liquidity stay illiquid. In some EMDEs, this dynamic pushes banks towards domestic government paper and deepens the bank-sovereign nexus. Under the NSFR, holding EMDE corporate debt likewise consumes stable funding. Both ratios are computed on a consolidated, home-jurisdiction basis. Therefore, alternative liquidity approaches designed for jurisdictions short of qualifying assets do not travel up to relieve the consolidated ratio of the parent group, which remains bound by home-jurisdiction eligibility rules (FSB, 2012[44]). This rule is meant to accommodate local conditions that the internationally active banks carrying most EMDE exposure cannot use in practice.

Market risk rules constrain the depth of the markets on which bankability ultimately rests. A project financed today often is refinanced, hedged or sold tomorrow. The capacity to do so depends on banks' dealer and market-making function, which is priced by the trading-book rules. The standardised Fundamental Review of the Trading Book approach sets higher risk weights on emerging market than advanced-economy equities (MAR21.72). Moreover, the standardised Credited Valuation Adjustment Framework replicates the distinction for the equity component of counterparty-risk adjustment (MAR50.72). Under the treatment of interest-rate and foreign-exchange risk, a list of liquid currencies receives a risk-weight reduction that off-list currencies do not (MAR21.44; MAR21.87-21.88). In this way, EMDE currencies excluded from the list attract higher trading-book capital. This thins dealer market-making in EMDE equities, local currency bonds and foreign exchange, which results in shallower secondary markets and scarcer hedging. This, in turn, raises the cost of local currency financing that would otherwise reduce EMDEs' reliance on hard currency issuance (and therefore foreign exchange risk). Credit risk and liquidity channels, which look only at the banking book, do not capture this dimension of bankability.

These channels interact and can reinforce one another. The same exposure is priced by the credit risk rules, funded under the liquidity rules, and – once hedged or traded – charged under the market risk rules; a mitigant that fails the credit risk mitigation tests leaves all of these at their gross level at once. A single long-dated, foreign-currency EMDE project loan illustrates the compounding: a high standardised or slotting weight raises its capital; a high stable funding factor raises its funding; the currency hedge that makes it viable attracts a trading-book charge; and the guarantee meant to de-risk it is not recognised.

Box 2.3. The recognition of guarantees under Basel III

The Basel III international regulatory framework permits banks using a standardised approach to recognise guarantees in the calculation of capital requirements through substitution. The covered portion of an exposure takes the risk weight of the guarantor, and the uncovered portion retains the risk weight of the underlying obligor. Relief therefore depends jointly on three elements:

Eligibility of the instrument: A guarantee must represent a direct claim on the protection provider; it must be explicitly referenced to specific exposures, so that the extent of cover is clearly defined and incontrovertible; it must be irrevocable and unconditional, with no clause permitting the provider to cancel cover, change the agreed maturity or increase its effective cost as the credit quality of the exposure deteriorates; and no clause outside the bank's control can prevent timely payout. On default, the bank must be able to pursue the guarantor in a timely manner for any amount outstanding, without first having to take legal action against the counterparty. Further, the guarantee must cover all types of payment the counterparty is expected to make, with principal-only cover treated as partial.

Eligibility of the guarantor: Recognition is confined to a defined range of providers. These include sovereign entities, certain supranational institutions, public sector entities, multilateral development banks, other banks, securities firms and other prudentially regulated financial institutions, provided they carry a lower risk weight than the counterparty. In some jurisdictions, externally rated corporate entities or entities meeting a defined investment-grade standard are also eligible. For this last category, and for guarantors that are parents, subsidiaries or affiliates of the obligor, recognition additionally requires that the provider's creditworthiness not be positively correlated with the risk of the exposures it guarantees.

Implications for risk mitigation instruments in EMDE project finance: Instruments common in blended finance structures can fail these tests on several margins. Partial cover is recognised only proportionally; the remainder is treated as unsecured. Where a guarantee has a materiality threshold below which the provider does not pay, the exposure below it is treated as retained first loss and risk-weighted at 1 250%, equivalent to a capital deduction. Where protection is tranched, as with a concessional first-loss tranche, the securitisation standard applies instead of substitution. The instrument then gives no simple capital relief on the senior exposure. Conditionality in payout can breach the unconditionality and timeliness requirements. War or nuclear exclusions and claims procedures that precede payment are outside the bank's control and may prevent timely payout, even where the carved-out events are remote. Where the guarantor is ineligible or carries

no lower risk weight than the obligor, substitution gives no relief at all.

Source: OECD (forthcoming[45]), *Empirical Analysis on Renewable Energy Investments: Possible Unintended Consequences of Financial Regulation.*

3. New empirical evidence

This chapter presents the empirical evidence from background analysis on whether and through which channels the implementation of prudential regulation might be associated with changes in finance for infrastructure and renewable energy investment in emerging market and developing economies. It highlights evidence from four analyses that use different data and methods, complemented by findings in recent literature. Drawing on this research, it asks empirical questions about whether financing has shifted away from higher-risk destinations; the margins through which bank finance has adjusted; whether other finance has replaced bank finance; and whether prudential treatment is commensurate with realised risk.

Key findings

- **Several lines of evidence, prepared in the context of this report, using different data and methods, point in the same direction: cross-border bank finance for new infrastructure in higher-risk destinations was lower**, and more sensitive to destination-country credit risk, in the years following the Basel III implementation than before. The pattern is concentrated rather than general: it appears most strongly where long tenor, large exposure and high country risk coincide.
- **The timing of the retreat lines up with Basel III implementation in lenders' home jurisdictions**. As more standards entered into force in a lender's jurisdiction, its lending to higher-risk destinations fell relative to lower-risk ones in the renewable energy evidence; the shift begins shortly before formal effective dates, consistent with announcement effects and the long lead times of infrastructure deals, and strengthens in the years after.
- **The change is concentrated in debt for large projects**. Equity finance for the same projects shows no comparable change, which is consistent with a regulatory effect on lenders rather than a general fall in investor demand. One implication of debt falling while equity remains unchanged is a lower share of debt in the financing of projects in higher-risk destinations, i.e. lower leverage. In infrastructure finance overall, fewer banks take part in deals in higher-risk countries. Specifically, for renewable energy projects, banks have less interest in large projects and more in small ones.
- **Over the period analysed, official lenders increasingly financed higher-risk projects without commercial banks alongside them,** while joint financing declined; non-bank debt did not fill the gap in infrastructure financing in general and renewable energy specifically; bond markets provided a complementary channel only for the subset of EMDEs with market access.
- **The evidence is suggestive but not fully conclusive**. Basel III is one of several factors operating over the same period; its standards were phased in within a few years of one another, and more data on default and loan-loss rates are needed to assess definitively whether prudential treatment is commensurate with risk.

This chapter presents the empirical evidence from background analysis prepared for this report on whether and through which channels the implementation of prudential regulation might be associated with changes in finance for infrastructure and renewable energy investment in emerging market and developing economies (EMDEs). It addresses the two questions set out in the introduction. Did Basel III implementation change the volume, cost and tenor of cross-border bank finance to these sectors in unintended ways? As far as the data allow conclusions, is the prudential treatment of these exposures commensurate with their realised risk? The tests generally ask whether the supply of cross-border financing

changed after implementation of specific Basel III standards. It examines this supply across a panel of lender and destination jurisdictions and around jurisdiction-specific implementation dates. In so doing, it controls for the demand for infrastructure finance and for other developments over the same period. Box 3.1 describes the data, identification strategy and limitations. The results are suggestive rather than definitive. They are described as associations except where the identification strategy supports a stronger reading.

3.1. Evidence and empirical questions

The evidence comes mainly from four analyses prepared in the context of this report, using different data and methods, complemented by recent literature (Table 3.1).

Table 3.1. Evidence bases used in this section

Evidence base	Data	Method	Question
Cross-border infrastructure finance	IJGlobal deal- and tranche-level records, 2005-2025; cross-border primary financing of new assets; project vs. corporate finance; commercial banks, official lenders, bond markets	Comparison of financing volumes, lender composition and tenor across borrower-country risk groups (OECD country risk classifications) and panel regression across pre- and post-Basel III windows	Is cross-border primary infrastructure finance to higher-risk destinations associated with Basel III implementation?
Renewable energy project finance	Project-financier records, 2004-2026, ~170 destination markets; cross-border primary financing of new assets; commercial banks, official lenders, bond markets and sponsor equity financing	Comparison of financing volumes and bank participation; panel regressions at country-year and project-financier level, with indicators for whether each Basel III standard was in force in the financier's jurisdiction, and destination, financier and time fixed effects; interactions separate destination risk, project size and instrument	Is Basel III implementation associated with lower cross-border lending for renewable energy, and for which projects and destinations?
Bank claims and bond issuance	Bilateral BIS international claims; issuer-quarter GSS+ bond data; matched to Basel III implementation in financier and destination jurisdictions	Panel regressions of bilateral claims and issuance on implementation indicators, with lender, borrower and time fixed effects	Is Basel III implementation associated with weaker bank lending to EMDEs, and with offsetting bond issuance?
National development banks	Case studies of BNDES (Brazil), DBSA (South Africa) and PT SMI/PT IIF (Indonesia), three large NDBs in upper-middle-income countries	Qualitative: review of statutes, prudential treatment and financial statements	How are NDB debt instruments treated under global and national prudential frameworks?

Note: BNDES = Brazilian Development Bank; DBSA = Development Bank of Southern Africa; EMDEs = emerging market and developing economies; GSS+ = green, sustainability and sustainability-linked bonds; NDBs = national development banks; PT SMI/PT IIF = PT Sarana Multi Infrastruktur.

Source: Based on Claessens, Klingebiel and Pastrone (forthcoming[46]), *Cross-Border Infrastructure Finance for EMDEs: Patterns, Drivers and Regulatory Barriers*; Demski, Feyertag and Smoleńska (forthcoming[47]), *The Impacts of Basel III Implementation on External Finance Flows to EMDE Regions;* OECD (forthcoming[45]), *Empirical Analysis on Renewable Energy Investments: Possible Unintended Consequences of Financial Regulation*; Case studies of BNDES (Brazil), DBSA (South Africa) and PT SMI/PT IIF (Indonesia), three large NDBs in upper-middle-income countries.

The report also draws on recent peer-reviewed and policy literature on the cost of, and access to, capital for clean energy in EMDEs. The most directly relevant report is Hatton et al. (2026[7]), which estimates country- and technology-specific costs of capital for solar and wind in 176 countries and traces their effect on the cost of electricity and on avoided emissions. It does not examine prudential regulation. It has value here for two reasons: it quantifies the cost-of-capital penalty that clean energy projects in EMDEs carry; and it identifies the sovereign credit rating, rather than project characteristics, as its principal driver. That finding bears directly on the rules: under the standardised approach, risk weights for project finance in unrated or lower-rated countries were driven by sovereign ratings and country risk classifications through the sovereign ceiling. Consequently, the framework's design would predict a cost-of-capital penalty that tracked the sovereign rather than the project.

Box 3.1. Data, designs and limitations

Evidence bases. Cross-border infrastructure finance uses IJGlobal deal- and tranche-level records for 2005-2025, covering syndicated transactions with identifiable lenders, mostly above USD 50 million; smaller deals and budget-funded infrastructure are not captured. Primary financing (new or expanded assets) is separated from gross activity, which also counts refinancing and acquisitions. As such, it records the same asset each time it changes hands. Renewable energy project finance uses BNEF records for 52 480 renewable energy projects in EMDEs, 2003-2025, matched to financiers through Orbis. Large projects exceed 30 MW. Bank claims and bond issuance use quarterly BIS international claims by creditor and destination country and issuer-quarter data on GSS+. NDBs draw on case studies of BNDES, DBSA and PT SMI/PT IIF – three large NDBs in upper-middle-income countries.

Instruments and providers. Bank debt and non-bank debt are classified by data providers; bond-market finance and GSS+ bond issuance are classified by instrument. Bonds are outside the Basel Framework; non-bank lenders may hold loans or bonds.

Country groups. Destinations are grouped by credit risk, the proxy used by the rules themselves. The infrastructure analysis uses the OECD Country Risk Classification (CRC 0-2 lower-risk, CRC 3-7 higher-risk); the renewable energy analysis uses a below-investment-grade sovereign rating, with the CRC as a check. The groups overlap with EMDE status but are not identical: the People's Republic of China, Malaysia and Türkiye sit in CRC 0-2; India in CRC 3; most low-income countries sit in CRC 4-6; and CRC 7 includes countries affected by war, sanctions or temporary debt distress.

Periods and dates. Descriptive comparisons use three windows, 2005-2010, 2011-2017 and

2018-2025, approximating before, during and after the phasing-in of Basel III; this is coarse, since standards entered into force at different dates in different jurisdictions. The regressions use the actual entry-into-force date in each lender's jurisdiction from the Basel Committee's RCAP records: risk-based capital, LCR, NSFR and the G-SIB surcharge in the infrastructure analysis (19 RCAP jurisdictions, extended to 56); risk-based capital, LCR, NSFR and the countercyclical buffer in the clean energy analysis (35 jurisdictions).

Designs. The infrastructure analysis compares volumes, lender composition and tenor across risk groups and windows. It relates the number of standards in force at deal close to lender participation, with borrower-country and year fixed effects. The renewable energy analysis estimates Poisson regressions at lender-destination-year level for the value of cross-border finance by type (lender, destination and year fixed effects; destination macroeconomic controls; lender's own implementation date) and at project level for cross-border bank participation among projects reaching financial close (common phase-in dates). The bank-claims analysis estimates panel regressions of bilateral claims and GSS+ issuance on implementation in the creditor and destination country fixed effects.

Limitations. The estimates are associations, not causal effects. In each analysis, three of the four standards entered into force within a few years. Consequently, individual standards cannot be separated from one another or from conditions common to the period: post-crisis balance-sheet repair; the exit of European banks from project finance; global liquidity; EMDE stress episodes; the pandemic; and the tightening of other post-crisis rules on governance, risk management and financial crime. The estimates do not control for changes in EMDE risk profiles and in environmental and social requirements. The transaction data observe only deals that closed; tenor and recourse are not recorded at loan level.

BNDES = Brazilian Development Bank; BNEF = Bloomberg NDEF; DBSA = Development Bank of Southern Africa; EMDEs = emerging market and developing economies; GSS+ = green, sustainability and sustainability-linked bonds; LCR = liquidity coverage ratio; NDBs = national development banks; NSFR = net stable funding ratio; PT SMI/PT IIF = PT Sarana Multi Infrastruktur; RCAP = Regulatory Consistency Assessment Programme.

Source: Based on Claessens, Klingebiel and Pastrone (forthcoming[46]), *Cross-Border Infrastructure Finance for EMDEs: Patterns, Drivers and Regulatory Barriers*; Demski, Feyertag and Smoleńska (forthcoming[47]), *The Impacts of Basel III Implementation on External Finance Flows to EMDE Regions;* OECD (forthcoming[45]), *Empirical Analysis on Renewable Energy Investments: Possible Unintended Consequences of Financial Regulation*; Case studies of BNDES (Brazil), DBSA (South Africa) and PT SMI/PT IIF (Indonesia), three large NDBs in upper-middle-income countries.

Empirical questions

The analysis asks four questions: (i) whether financing has shifted away from higher-risk destinations; (ii) whether adjustment occurs through financier participation, commitment size, tenor or lack of project participation; (iii) whether official finance, non-bank lenders or capital

markets filled the gap left by bank finance over the period; and (iv) whether observed risk pricing and prudential treatment appear proportionate with realised credit performance. These questions will be answered through an empirical comparison of all findings. Four distinctions are used throughout the sections:

Primary and gross financing. Primary financing pays for new infrastructure or the expansion of existing assets. Gross financing also includes refinancing, acquisitions and other transactions involving assets that already exist.

Participation of banks and how much they lend. The former identifies whether a bank is among the lenders; the latter looks at how much the bank lends once it is among the lenders.

Mobilisation and substitution. Official finance mobilises private capital when it helps bring commercial lenders into a transaction, and the degree of mobilisation is measured by the ratio of private to official finance in the deal. Official finance is described here as substituting for private capital where public lenders finance projects from which commercial lenders are absent. The data record who financed projects that closed; they cannot show whether commercial lenders would otherwise have participated.

Jurisdiction for testing of rules. Creditor-country implementation refers to the Basel III rules in force in the home jurisdiction of the cross-border bank, and is the main regulatory channel examined. Destination-country implementation refers to the rules in force in the jurisdiction receiving the claims or issuing the debt, and is used to test whether domestic lenders substitute for foreign banks.

3.2. Has financing shifted away from higher-risk destinations?

The pattern appears first in aggregate cross-border bank lending, before narrowing to infrastructure and clean energy. Demski, Feyertag and Smoleńska (forthcoming[47]) use BIS data on the international claims of each creditor-country banking system on each destination country, quarter by quarter. They then link them to the dates on which the liquidity coverage radio (LCR), the net stable funding ratio (NSFR) and the risk-based capital framework came into force in the creditor country and in the destination country. The analysis captures everything a country's banks lend abroad (not only infrastructure) and in all instruments (not only sustainability-labelled ones). Consequently, it cannot see individual projects or sectors.

When a creditor country implemented a Basel III standard, its banks' lending abroad grew more slowly, and the slowdown was larger for EMDE destinations. After the LCR, the NSFR or the risk-based capital framework took effect, quarterly growth in international claims was around 1.3-1.6% lower for all destinations and around 1.6-3.0% lower for EMDEs. Because these are differences in quarterly growth, they accumulate over time into a substantially lower level of claims.

Implementation in the destination country itself points the other way. Where an EMDE adopted a Basel III standard, particularly the LCR, the claims of foreign banks on it grew

faster – by several percentage points a quarter. The two results together carry a distributional message. Prudential upgrading by an EMDE appears to attract foreign bank lending, while prudential tightening in advanced economies appears to reduce it. This is the cross-border spillover of home-jurisdiction rules described in Chapter 2.

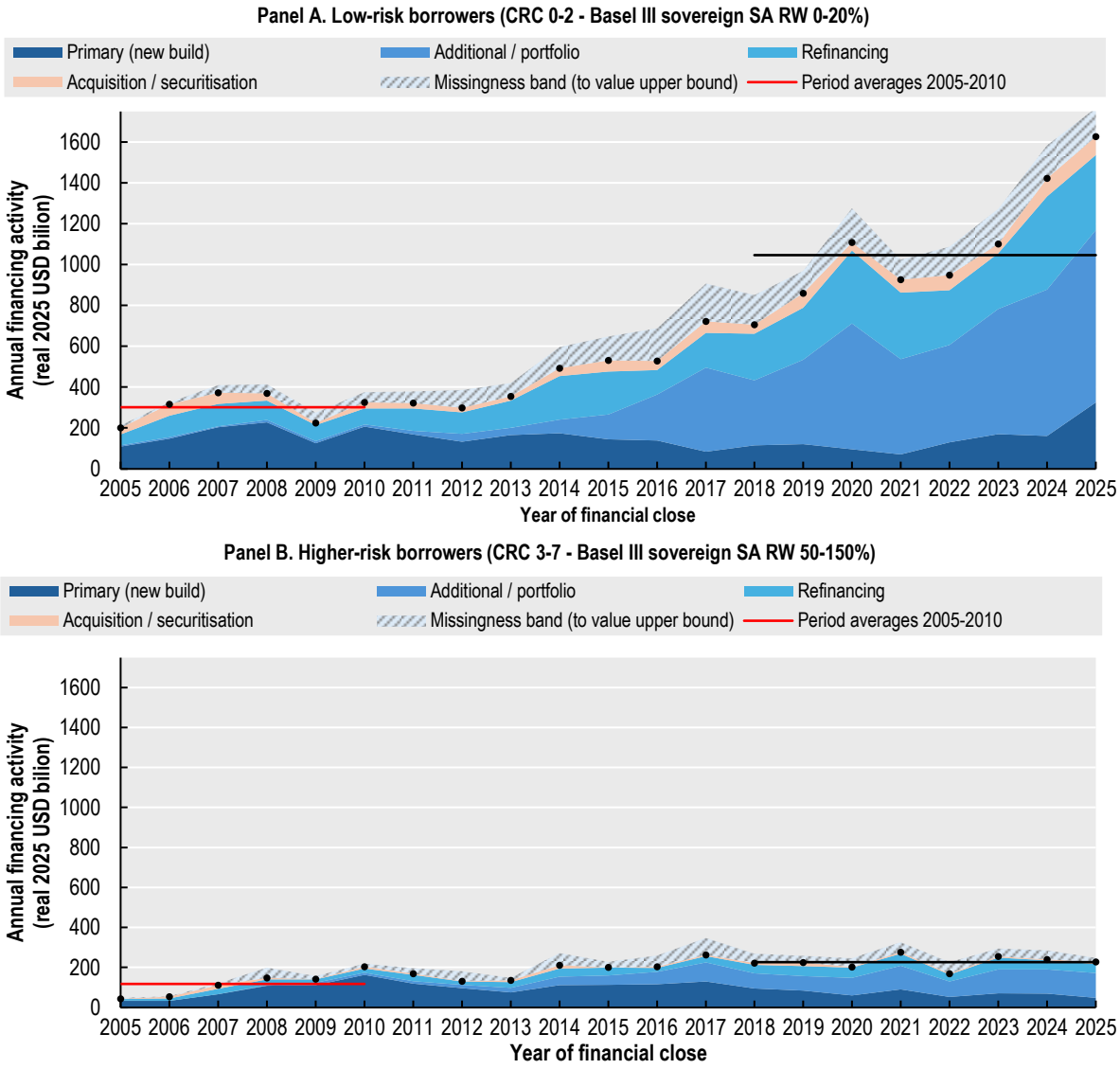
Not all creditor banking systems respond alike. Consistent with earlier evidence on prudential spillovers from the International Banking Research Network, larger banking systems and those with less liquid balance sheets cut foreign lending more after implementation (Buch and Goldberg, 2017[29]). Better-capitalised systems reduce it less, consistent with banks that entered the reform period with strong buffers being able to comply without retrenching abroad. Banking groups that fund affiliates internally were generally better able to sustain foreign lending, but not to EMDEs: under the NSFR, internal funding channels appear to have moved resources away from higher-risk, less liquid destinations. These results measure aggregate flows and cannot say where within a banking system the adjustment took place.

Growth in infrastructure finance since 2016 has not meant more finance for new assets in higher-risk EMDEs.

From 2016, the infrastructure finance market has grown strongly, but most of that growth has financed assets that already exist, especially in advanced economies. For EMDEs, the picture changes entirely once primary financing, which pays for new or expanded assets, is separated from refinancing, acquisitions and follow-on facilities (Claessens, Klingebiel and Pastrone, forthcoming[46]). The comparison is between three windows, 2005-2010, 2011-2017 and 2018-2025, which approximate the periods before, during and after the phasing-in of the main Basel III standards. This is a coarse approximation, since individual standards entered into force at different dates in different jurisdictions, and the standard-by-standard analysis in Chapter 3. uses the actual implementation dates (see Box 3.1).

Gross infrastructure finance activity has expanded in all country-risk groups but far more in the lowest-risk group. In countries rated 0 to 2 on the OECD Country Risk Classification (CRC) (see Box 3.2), average annual activity in real 2025 USD more than tripled, from around USD 305 billion in 2005-2010 to USD 1.1 trillion in 2018-2025. In higher-risk countries (CRC 3 to 7), it roughly doubled, from USD 116 billion to USD 227 billion (See Figure 3.1).

Figure 3.1. Gross infrastructure financing by purpose type and borrower-country risk



Note: Gross infrastructure financing includes primary financing, refinancing, additional and portfolio facilities, acquisitions and securitisations. It measures transaction activity rather than additions to the capital stock and may count the same asset more than once. Stacked areas show reported transaction debt (a lower-bound measure); acquisition and securitisation financing is understated because reported debt is available for only ~9-25% of those transactions. Annual values in billions of constant 2025 US dollars (US CPI-U, 2025 base = 324.0).
Source: Claessens, Klingebiel and Pastrone (forthcoming[46]), *Cross-Border Infrastructure Finance for EMDEs: Patterns, Drivers and Regulatory Barriers*.

Box 3.2. Reading the OECD Country Risk Classification

The OECD Country Risk Classification (CRC) grades countries from 0 (negligible risk) to 7 (highest risk). Countries are graded according to the likelihood that they will service their external debt, including transfer and convertibility risk, and political risk. It is set by country-risk experts from the export credit agencies of OECD Members, reviewed at least annually and published after each meeting. It is a country-level measure: it does not assess the risk of any project, sponsor or financing structure.

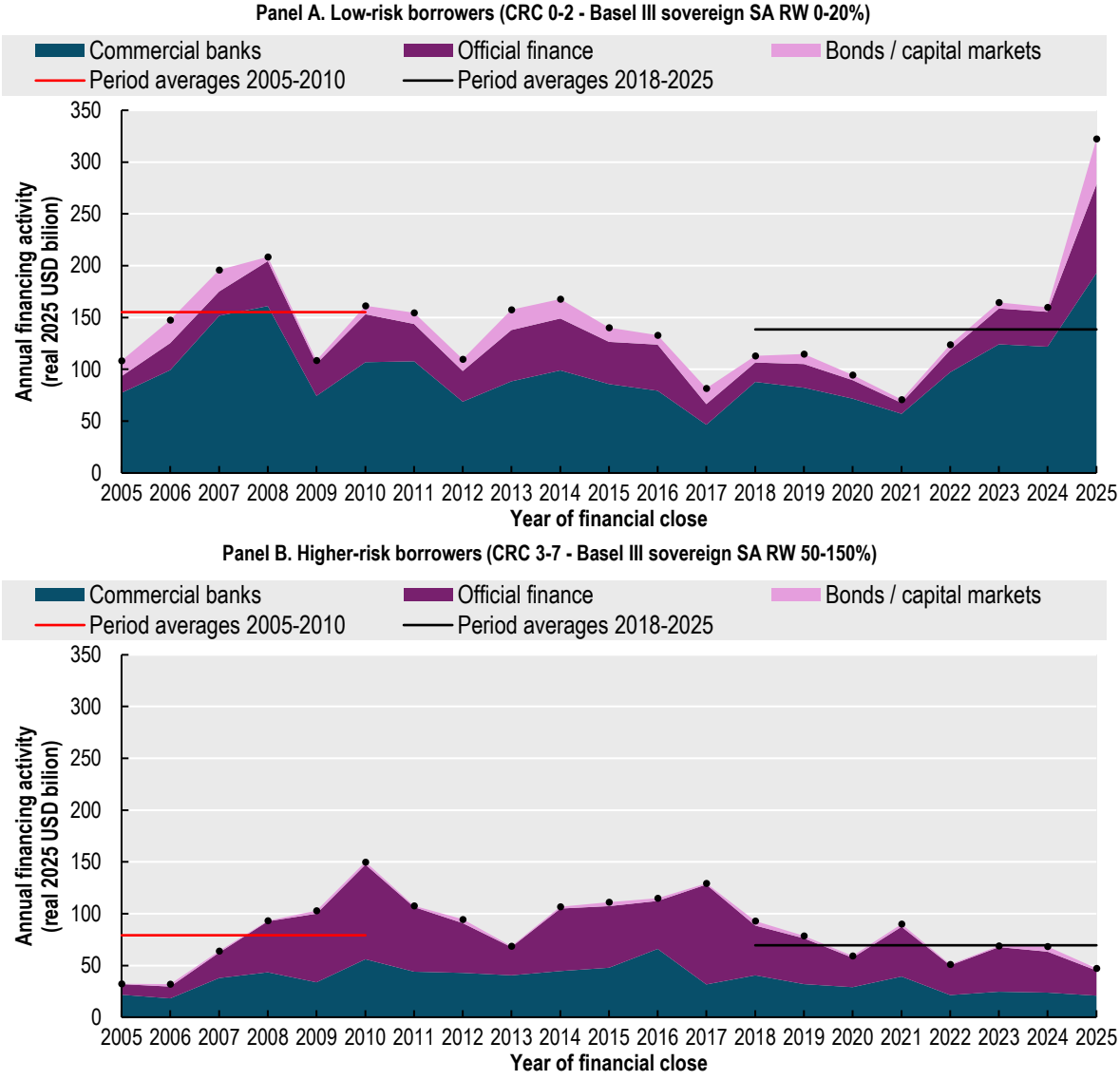
Two features make it a useful yardstick for this report. It is available consistently and over time, so each transaction can be graded by the classification in force on the date it closed. Further, it is prudentially relevant: the Basel-standardised approach allows supervisors to use country risk scores of export credit agencies when risk-weighting sovereign exposures. CRC 0 to 1, 2, 3, 4 to 6, and 7 map to sovereign risk weights of 0%, 20%, 50%, 100% and 150%. This mapping does not determine the risk weight on a project loan, but it orders how banks and supervisors see the country in which the project sits [CD2.1].

The classification does not coincide with development status. High-income OECD and Euro-area economies are not reviewed and are treated here as low risk (CRC 0 to 2). That group also includes the People's Republic of China, Malaysia and the Gulf states, on the strength of their creditworthiness. India, Indonesia, Mexico and the Philippines sit at CRC 3. Most low-income countries fall in CRC 4 to 6, and CRC 7 contains both countries of very high underlying credit risk and countries affected by war, sanctions or temporary debt-servicing difficulties. This is why Chapter 4 distinguishes throughout between a country's credit risk and its status as an emerging market or developing economy.

Source: *OECD Country Risk Classification*, https://www.oecd.org/en/topics/country-risk-classification.html.

Primary financing did not grow at all in either country-risk group between 2005-2010 and 2018-2025. Average annual cross-border financing for new infrastructure fell from around USD 155 billion to USD 145 billion in lower-risk countries (CRC 0-2), and from USD 79 billion to USD 70 billion in higher-risk countries (CRC 3-7). In lower-risk countries, the share of gross activity going to new assets fell from 56% in 2005-2010 to 14% in 2018-2025. The remainder was successive rounds of refinancing, acquisition and additional facilities around operating assets with predictable cash flows (see Figure 3.2). Primary financing in advanced economies has picked up in recent years, which is the recovery many observers have in mind. However, it has not extended to higher-risk EMDEs.

Figure 3.2. Primary international finance debt volumes by source of funds and borrower-country risk



Note: Corporate finance transactions, refinancing, additional facilities, acquisitions, equity and sponsor tranches are excluded. Funding sources are mutually exclusive and classified at the tranche level as commercial banks, official finance, or bonds and capital-market instruments. Official finance includes multilateral and national development banks, export credit agencies, other public finance institutions and state-directed banks reclassified as official lenders. Where several lenders share a tranche, its value is split equally among them (1/n), so no amount is double-counted. Annual primary international finance debt by funding source, in billions of constant 2025 US dollars (US CPI-U, 2025 base = 324.0); deals assigned to CRC risk tiers at financial-close date.
Source: Claessens, Klingebiel and Pastrone (forthcoming[46]), *Cross-Border Infrastructure Finance for EMDEs: Patterns, Drivers and Regulatory Barriers*.

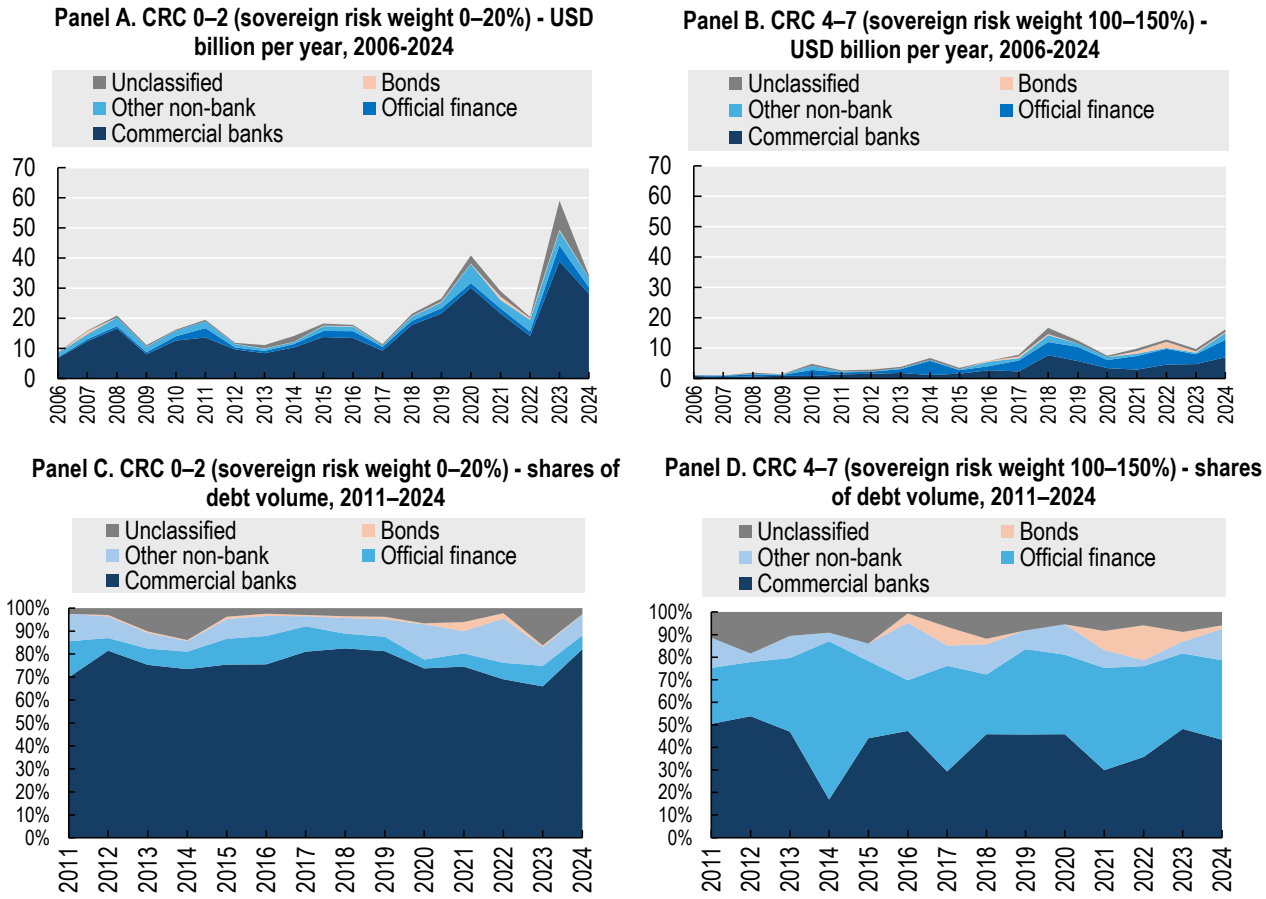
The growth in corporate finance and bonds did not reach new projects in higher-risk countries. Corporate finance is lending to a sponsor's balance sheet, with recourse to the sponsor and treated as an ordinary corporate exposure. Corporate finance is therefore available mainly to large, better-rated sponsors, and its growth says little about the financing of stand-alone projects in higher-risk countries.[2] New-build financing remained almost entirely structured as project finance, at 93% in lower-risk countries in 2018-2025. Corporate finance grew mainly in lower-risk countries and in refinancing and acquisition markets. In the highest-risk countries, primary corporate finance fell to close to zero. Bond issuance linked to infrastructure in CRC 3 to 7 countries totalled USD 620 billion over 2005-2025. Three countries – Brazil, Mexico and India – accounted for 57% of the total volume. Around 94% was linked to refinancing, acquisitions or other transactions on existing assets rather than to new construction. This concentration mirrors a broader pattern documented by Kammourieh and Devie (2025[41])[3] for EMDE external debt securities across all sectors: issuance is skewed towards upper-middle-income countries and, within each region, towards a handful of larger economies (Brazil and Mexico in Latin America; Türkiye in the Middle East; South Africa and Nigeria in Africa), while low-income countries remain almost entirely reliant on bank lending.

The renewable energy evidence points the same way. Large, long-dated renewable energy projects rely on cross-border bank debt. Where that debt is not available, domestic long-term debt is often limited OECD (forthcoming[45]).

[2] Different from corporate finance, project finance is non-recourse lending to a special-purpose vehicle, repaid from the project's own cash flows and treated under the Basel specialised-lending rules.

[3] Their classification by income group differs from the CRC-based grouping used here, and their data are not infrastructure-specific. Therefore, the comparison is indicative rather than direct; but both point to bond-market access being confined to a small number of larger, better-rated borrowers.

Figure 3.3. Primary clean energy project debt by funding source and borrower-country risk weight, excluding small energy projects



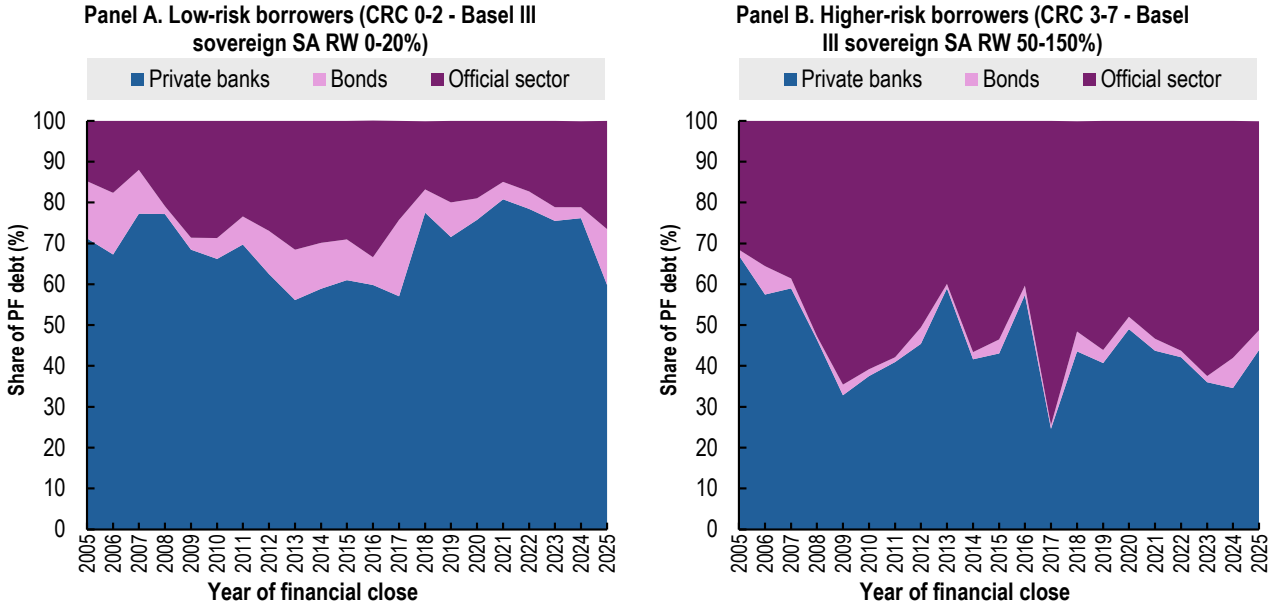
Note: Lender-weighted value of debt for primary financings of new-build clean energy projects above 30 MW, by year of financial close. Debt provider rows only (lead debt providers and other lenders); equity financing is excluded. Values allocate each project's transaction value equally across its debt providers and therefore include the equity component of project value; they are lender-weighted proxies, not measured loan amounts. Commercial banks are entities excluding official lenders; official finance comprises multilateral and national development banks, development finance institutions and export credit agencies; bonds are project bond tranches, whoever holds them; other non-bank covers insurers, funds, leasing and finance companies and corporate lenders; unclassified are debt providers not matched to an entity type. Destinations are grouped by the OECD Country Risk Classification; classification is contemporaneous. The People's Republic of China is excluded. Shares are shown from 2011, as earlier years in the higher bands rest on few projects. 2025 is omitted as incomplete.
Source: OECD (forthcoming[45]), *Empirical Analysis on Renewable Energy Investments: Possible Unintended Consequences of Financial Regulation.*

3.3. Through which margins has bank finance adjusted?

In infrastructure finance overall, bank participation declines as borrower-country risk increases; banks take part in fewer deals, but those that remain do not lend less.

Commercial banks remain the main source of new project finance in lower-risk countries, but in higher-risk countries official lenders[4] have taken their place. Comparing the windows before and after the phasing-in of Basel III, in CRC 0 to 2 countries, banks took part in nine of ten primary project finance deals in both 2005 to 2010 and 2018 to 2025, and provided about 70% of the debt. In CRC 7 countries in 2018 to 2025, banks took part in 32% of deals, down from 78% in 2005 to 2010, and provided 29% of the debt, down from 60%. Official lenders took part in 84% of deals and provided 69% of the debt (Claessens, Klingebiel and Pastrone, forthcoming[46]). The timing is suggestive of an effect of Basel III implementation, but the comparison of windows is not formal evidence of one.

Figure 3.4. Composition of primary international finance debt by funding source and borrower-country risk



Note: The sample comprises project finance and non-concessional finance primary deals. Corporate finance and non-primary transactions are excluded. Shares are computed at the tranche level, with co-financed tranches apportioned 1/n across lenders; state-directed banks reclassified as official. Period-average shares are pooled (dollar-weighted): total attributed debt for the source over the period divided by total debt over the period, not an average of the annual percentages.

[4] Official lenders include multilateral and bilateral development banks, export credit agencies and other government-backed providers of credit.

Source: Claessens, Klingebiel and Pastrone (forthcoming[46]), *Cross-border Infrastructure Finance for EMDEs: Patterns, Drivers and Regulatory Barriers*.

In infrastructure finance overall, **the change over time reflects a decline in bank participation, rather than a reduction in the amount that banks lend once they participate**. In CRC 4 to 6 countries, the share of deals that include a commercial bank fell from 78% to 47%. In lower-risk countries, the financing mix was broadly stable. The retreat was common to banks from every major lender region. Banks in the United States, for example, allocated 23% of their project finance lending to CRC 3 to 7 countries in 2005-2010 and 7% in 2018-2025.

The gap widens once deal characteristics and borrower-country composition are held constant. In regressions with borrower-country fixed effects, the estimated bank share of project debt in CRC 7 countries in 2018 to 2025 was around 37 percentage points lower than in CRC 0 to 2 countries, and around 33 percentage points lower for CRC 4 to 6. Both gaps were larger than in earlier periods. The results shows that the pull-back operates through participation rather than through smaller commitments by banks that remain.

The timing of the retreat lines up with Basel III implementation in lenders' home jurisdictions. The analysis counts how many of four Basel III rules (risk-based capital, the LCR, the NSFR and the surcharge for global systemically important banks) were in force in each lender's jurisdiction on the date a deal closed. As more rules came into force, lenders' participation shifted towards lower-risk borrowers: it grew for CRC 0 to 3 countries and was lowest, or fell outright, for CRC 4 to 7. The pattern holds with a simple indicator of whether any Basel III rule was in force, and in a wider sample of 56 lender countries. The shift begins anticipating each rule's formal effective date, as would be expected if banks adjust when a rule is announced rather than when it takes effect, and because infrastructure deals close long after they are structured. The association grows rather than fades in the years after adoption. The steep fall in bank lending to higher-risk countries between the 2005-2007 peak and 2009-2010 predates Basel III and reflects the end of the pre-crisis lending boom and the global financial crisis. The rule-count regressions include year effects. Consequently, this common decline does not drive the estimated association, which is identified from differences in implementation timing across lender jurisdictions.

Loan maturities moved in opposite directions in the two country groups. In lower-risk countries, average bank tenors shortened by three to five years between the two periods. In higher-risk countries, they lengthened by two to five years; this was most likely because renewable energy projects, which carry longer tenors, made up a growing share of deals there. Maturity data are therefore not evidence of a general shortening of bank lending to higher-risk countries.

Pricing and cancellations move in the same direction as participation. Among USD bank loan tranches, the spread premium that CRC 4 to 6 borrowers pay over CRC 0 to 2 borrowers

rose from around 40 basis points in 2005-2010 to around 120 basis points in 2018-2025. Announced primary project finance deals in CRC 3 and CRC 7 countries were about two and two-and-a-half percentage points more likely to be cancelled than deals in CRC 0 to 2 countries in 2018 to 2025. Conversely, in 2005-2010 cancellation rates were, if anything, higher in the lowest-risk tier. These are descriptive gradients across risk tiers, not effects of country risk itself: pricing data cover only about one-fifth of tranches, skewed towards large syndicated USD facilities, and the CRC 7 cells are small (Claessens, Klingebiel and Pastrone, forthcoming[46]).

The evidence does not isolate any single Basel III rule, because many of the rules it tests were announced and subsequently implemented over a short period. Of the four first-phase standards examined, three took effect in most lender jurisdictions between 2013 and 2016: the bulk of the risk-based capital framework was in force in 25 of the 27 jurisdictions reporting to the Basel Committee by 2014; the LCR in 25 of 27 in 2015; and the G-SIB surcharge in 12 of the 19 jurisdictions hosting such banks in 2016. Only the NSFR was phased in over a period long enough – 2017 to 2024 – to give real variation in timing across jurisdictions (Table 3.2). Moreover, the analysis does not differentiate the intensity of implementation of the relevant rules, nor jurisdictional deviations from the Basel Framework.

Table 3.2. Basel III adoption timing across 19 RCAP jurisdictions, by standard

Standard	Adoption window	Spread	Modal year (share of jurisdictions)	Pattern
Risk-based capital	2013-2018	5 years	2013 (68%)	13 jurisdictions in 2013; 17 in 2013-2014 (89%)
Liquidity coverage ratio	2015-2018	3 years	2015 (89%)	17 in 2015 exactly; nearly a single-year event
Net stable funding ratio	2017-2024	7 years	2018 (47%)	Seven-year spread; the only standard with real variation in timing
G-SIB surcharge	2013-2019	6 years	2016 (74%)	14 in 2016; some spread over 2013-2015

Source: Claessens, Klingebiel and Pastrone (forthcoming[46]), *Cross-border Infrastructure Finance for EMDEs: Patterns, Drivers and Regulatory Barriers*.

The later 2017 completion of Basel III, whose implementation is staggered across the European Union, United Kingdom and United States, is tested in the cross-border infrastructure analysis for 2017-2025. The four standards are also not the whole of Basel III. The leverage ratio, large exposure limits and the output floor are not tested. For many large international banks, the binding constraint on capital has been supervisory stress testing (Pillar 2) rather than Pillar 1 requirements. The four rules were chosen because they have dated, jurisdiction-specific entry-into-force records, whereas stress tests are a recurrent

exercise. Basel III appears to be one of several factors contributing to the retreat.

In renewable energy projects, the change is concentrated in large, long-dated bank loans to countries with higher credit risk. Banks remain present but lend less to large projects and more to small ones, while equity financing is unchanged.

Renewable energy project finance shows the same pull-back, and locates it more precisely. The analysis compares cross-border lending to EMDE destinations rated below investment grade with lending to investment-grade EMDEs, before Basel III standards entered into force in the lender's home jurisdiction. It does so first lender by lender (using each lender's own implementation date) and then project by project (asking whether a cross-border bank was among the lenders of projects that reached financial close).

Bank debt to large projects in higher-risk countries was substantially lower after the standards took effect. For large renewable projects in below-investment-grade destinations, cross-border bank debt was around 57-71% lower, relative to investment-grade destinations, in the years after. Each additional standard in force in the lender's home jurisdiction is associated with about a third less cross-border bank debt to large projects in below-investment-grade destinations, relative to investment-grade ones. With all four standards in force, the reduction is around 58%. The two figures come from separate specifications, a count of standards in force and an indicator for full implementation, and both condense the standard-by-standard results above rather than adding to them (OECD, forthcoming[45]). The NSFR is the standard whose national implementation dates vary most across lenders, so its result is the one least likely to reflect conditions common to all lenders in the same years. The countercyclical capital buffer date marks the entry into force of the buffer regime rather than activation of a positive buffer rate, which varied widely across jurisdictions and over time. Its dates also coincide closely across lenders, so its estimate is the least well identified of the four. A country-level check using common phase-in dates gives the same ordering (see Figure 3.5).

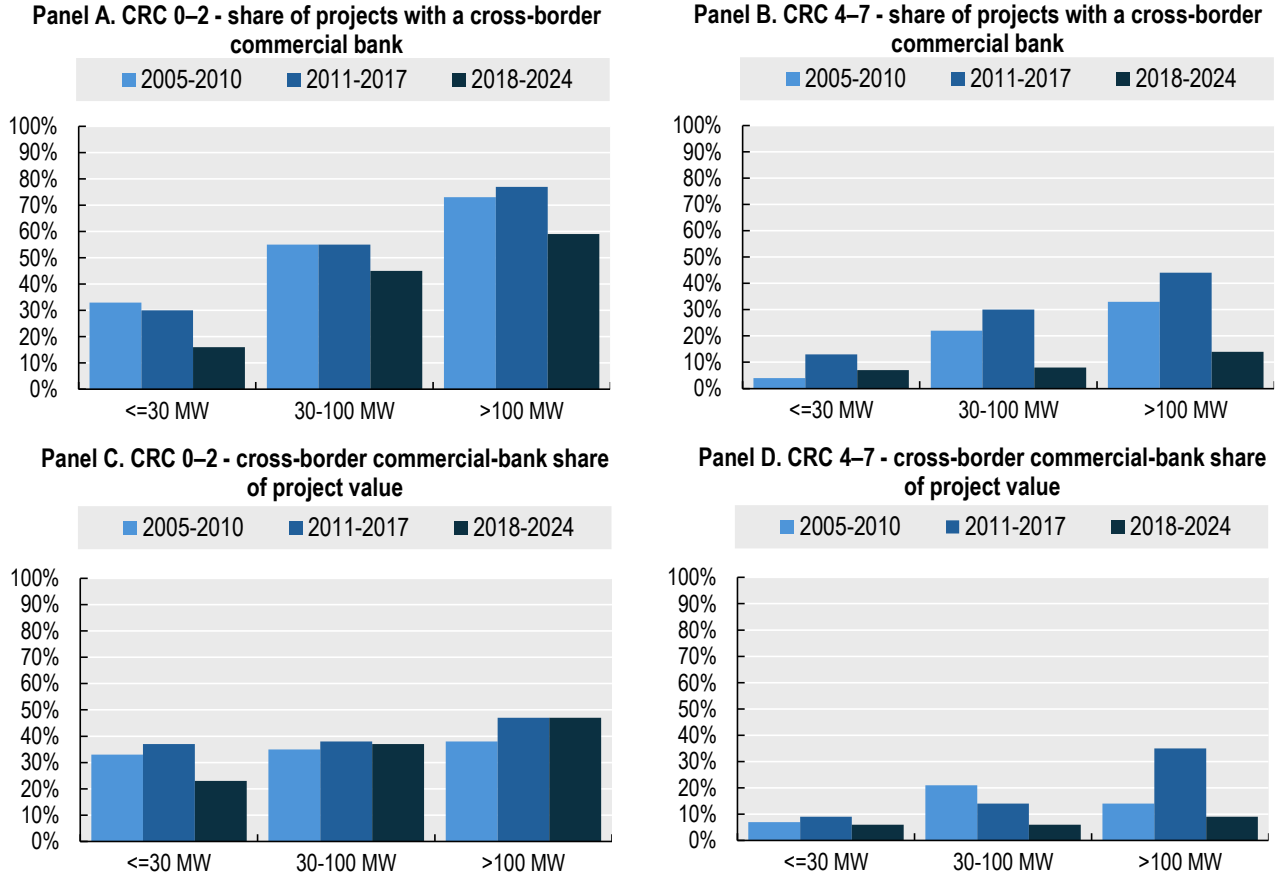
Table 3.3. Headline estimates: cross-border finance to large projects in higher-risk EMDEs after implementation, relative to low-risk EMDEs

Treatment	Bank debt, value	Equity, value	Non-bank debt, value	Bank participation
Per additional standard in force	**−33%*** (0.00)**	**−8% (0.33)**	**−30%*** (0.00)**	**−11% (0.19)**
All four standards in force	**−58%* (0.08)**	**−3% (0.91)**	**−50%** (0.02)**	**−39%** (0.05)**
Liquidity Coverage Ratio	−60%** (0.03)	−22% (0.34)	−54%** (0.03)	−8% (0.81)
Net Stable Funding Ratio	−59%* (0.06)	−18% (0.47)	−65%*** (0.01)	−39%** (0.05)
Risk-based capital framework	−57%** (0.03)	−24% (0.22)	−68%*** (0.00)	−19% (0.62)

Note: Cells show the implied proportional change, exp(β) − 1, where β is the Poisson pseudo-maximum-likelihood coefficient on the interaction of the standard with below-investment-grade destination status; p-values in parentheses; ***, **, * denote significance at the 1%, 5% and 10% level, respectively. Lender-level analysis: the outcome is the value of cross-border finance of the given type from lenders in a jurisdiction to large (above 30 MW) projects in a destination and year; treatment is dated to entry into force in the lender's own jurisdiction, with the uninteracted implementation indicator included. The per-standard count (0 to 4) and the all-four indicator are separate specifications that summarise the standard-by-standard rows rather than adding to them. Lender, destination and year fixed effects and destination macroeconomic controls; standard errors clustered by lender–destination pair. EMDE destinations excluding the People's Republic of China.
Source: OECD (forthcoming[45]). Empirical Analysis on Renewable Energy Investments: Possible Unintended Consequences of Financial Regulation.

Smaller projects in the same countries tell the opposite story. Bank debt to small and medium-sized renewable projects in below-investment-grade destinations was higher, not lower, between 2018 and 2024. Cross-border bank lending to higher-risk countries is therefore concentrated in smaller projects rather than absent. Table 3.4 shows the contrast project by project: after each of the four standards, the probability that a cross-border bank was among the lenders of a small project in a below-investment-grade destination was markedly higher (OECD, forthcoming[45]). Size here refers to the project, not to individual lenders' tranches, so the result is not an artefact of larger syndicates taking smaller tickets. This is consistent with the way the standards work. Smaller projects carry shorter maturities and smaller single exposures. They are more often backed by a corporate balance sheet than financed on a non-recourse basis. Consequently, they draw less on the long-term funding and capital that the standards price most heavily. The capital charge is proportional to exposure, but the stable funding requirement and large exposure limits bind on tenor and size.

Figure 3.5. Cross-border commercial bank participation in clean energy projects by size class and borrower-country risk weight



Note: Primary financings of new-build renewable energy projects by year of financial close, grouped by installed capacity and by the OECD Country Risk Classification; classification is contemporaneous. A cross-border commercial bank is a debt provider in the bank perimeter, excluding official lenders, headquartered outside the destination country. Participation (top row) is the share of projects with at least one such lender. The value share (bottom row) allocates each project's transaction value equally across its debt providers and sums the amounts attributed to cross-border commercial banks. Therefore, it is a lender-weighted proxy that includes the equity component of project value, not a measured loan amount. Period values are volume-weighted averages. Project counts per cell range from 15 (CRC 4-7 above 100 MW, 2005-2010) to 3 133 (CRC 3 up to 30 MW, 2011-2017); cells for CRC 4-7 above 100 MW rest on 15, 34 and 356 projects in the three periods, respectively. The People's Republic of China is excluded. 2025 is omitted as incomplete.

Source: OECD (forthcoming[45]), *Empirical Analysis on Renewable Energy Investments: Possible Unintended Consequences of Financial Regulation.*

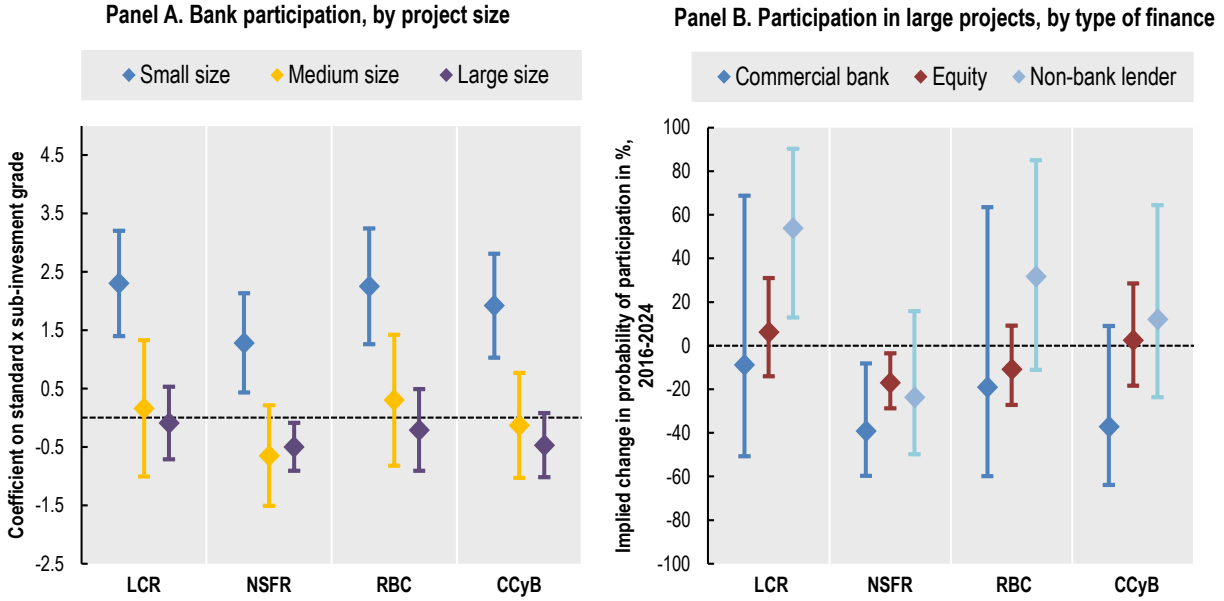
Table 3.4. Cross-border bank participation in projects reaching financial close, by project size

Standard	Small (=15 MW)	Medium (15-30 MW)	Large (>30 MW)
LCR	+2.30*** (0.00)	+0.16 (0.82)	-0.09 (0.81)
NSFR	+1.28** (0.01)	-0.65 (0.22)	-0.50** (0.05)
RBC	+2.25*** (0.00)	+0.30 (0.66)	-0.21 (0.62)

Note: LCR = liquidity coverage ratio; NSFR = net stable funding ratio; RBC = risk-based capital framework. Poisson-pseudo-maximum-likelihood coefficients, using each lender's own implementation date; lender, destination and year fixed effects. All specifications include destination and year fixed effects and destination macroeconomic controls; standard errors are clustered by destination. p-values in parentheses; ***, **, * denote significance at the 1%, 5% and 10% level, respectively. Observations and destination clusters: 381 and 25 for bank debt, 416 and 26 for equity, 370 and 26 for non-bank debt.
Source: OECD (forthcoming[45]), *Empirical Analysis on Renewable Energy Investments: Possible Unintended Consequences of Financial Regulation.*

The data do not record tenor or recourse for each loan, so the mechanism is not tested directly. One piece of descriptive evidence points the same way: within large projects, debt shifted away from term loans – the instrument most exposed to the stable funding requirement at long tenors – towards shorter-tenor facilities. For small projects, the instrument mix shows no such shift. Most small projects carry no recorded project debt at all, which is consistent with being financed from sponsors' balance sheets rather than through the long-dated syndicated loans the standards make costly. Growth in small-scale and distributed solar over the same years would also raise small-project lending for reasons unrelated to regulation; year effects absorb the part of that growth common to all destinations, but not any part concentrated in higher-risk ones. Thus, the small-project result should be read as showing where cross-border bank lending is concentrated rather than as a further effect of the standards.

Figure 3.6. Estimated change in the probability of cross-border participation in projects reaching financial close, project-level estimates



Note: CCyb = countercyclical capital buffer; LCR = liquidity coverage ratio; NSFR = net stable funding ratio; RBC = risk-based capital framework. Panel A shows the coefficient on the interaction of each standard with risk destination status for the presence of at least one cross-border bank among a project's debt providers, by project size bucket. Panel B converts the large-project coefficients to implied percentage changes in the probability of participation for cross-border banks, equity sponsors and non-bank lenders. Markers are point estimates; bars are 90% confidence intervals from standard errors clustered by destination. Poisson-pseudo-maximum-likelihood with destination, year and sector fixed effects, the logarithm of installed capacity and destination macroeconomic controls.
Source: OECD (forthcoming[45]), *Empirical Analysis on Renewable Energy Investments: Possible Unintended Consequences of Financial Regulation.*

Most of the change is in how much banks lend, not in whether they take part. Among large projects that reached financial close, the probability that a cross-border bank was among the lenders was around 40% lower after the NSFR took effect, with no measurable change for the other three standards. Participation therefore fell here too, as in the infrastructure-wide evidence above. However, the adjustment is located on a different margin: the value lent fell far more than the probability of taking part. The difference is consistent with the two samples. IJGlobal covers large syndicated transactions across all infrastructure, where a bank's choice is whether to join. The renewable energy sample includes many smaller projects, where the choice is how much to commit, and conditions on projects that reached financial close.

The pattern tracks destination credit risk, not EMDE status. Two definitions of a higher-risk destination are used: sovereign rating as below-investment-grade (the baseline); and the OECD CRC (categories 4 to 7 against 0 to 2). The association appears under both and is larger under the CR. Every below-investment-grade destination in the sample is an EMDE, so the analysis cannot separate credit risk from EMDE status for high-risk countries. Instead, it shows

that reduction is concentrated in the EMDEs with elevated credit risk (which is where capital requirements rise) rather than across EMDEs as a group.

The change is mainly confined to debt. Cross-border equity financing for the same projects shows no association with Basel standards application. Debt and equity are complements, so this is a comparison rather than a placebo. However, a general loss of appetite for these markets would be expected to depress both, and it did not. Cross-border non-bank debt to large projects was also 54-68% lower after each standard, and about 30% lower per additional standard in force. Consequently, other lenders did not step in. The single indication of change is a rise in non-bank participation in projects that closed after all four took effect.

Three limits apply to these results. First, three of the four standards came into force within a few years of each other. Consequently, as noted above, the estimates cannot separate the individual standards from one another or from financing conditions at the time; the cumulative index is a summary that does not attempt to separate standards. Second, the estimates are not as precise as their standard errors suggest. Reassigning higher-risk status across destinations at random produces associations as large as the observed ones in between one draw in five and one in two. Third, once regional demand paths are absorbed, only the cumulative index and the buffer remain statistically significant. An alternative design that weights each destination by its pre-2012 exposure to lenders that had implemented points in the same direction as three of the four standards on 25 destinations. The data cover only projects that reached financial close, so projects that were never financed are not observed. As throughout this chapter, the results are associations rather than causal effects.

3.4. Has other finance filled the bank gap?

Over the period analysed, official lenders increasingly financed higher-risk projects without commercial banks alongside them, while non-bank debt fell with bank debt. Bond markets substitute only for EMDEs with market access.

In higher-risk countries, the share of primary project finance deals financed by official lenders alone rose across the period, while the share financed jointly with commercial banks fell. Official lenders here are MDBs and NDBs, bilateral development finance institutions (DFIs), export credit agencies and other public financial institutions, as distinct from commercial banks and bond investors. Among primary project finance deals in CRC 3 to 7 countries, the share financed jointly by commercial banks and official lenders fell from 46% in 2005 2010 to 21% in 2018 2025, while the share financed by official lenders alone rose from 22% to 46% (Claessens, Klingebiel and Pastrone, forthcoming[46]). The share of higher-risk deals with any commercial bank present fell from about three-quarters to under half (see Table 3.4).

Table 3.5. Banks' total share of primary project finance debt, by borrower-country risk and period

	Deal share (% of deals with participation)		Volume share (% of debt $)	
CRC tier / period	Bank 05–10 → 18–25	Official 05–10 → 18–25	Bank 05–10 → 18–25	Official 05–10 → 18–25
CRC 0-2	93.8% → 89.0%	18.7% → 26.9%	70.3% → 69.8%	22.3% → 23.1%
CRC 3	68.0% → 63.4%	78.0% → 59.3%	34.4% → 38.7%	63.5% → 59.8%
CRC 4-6	77.8% → 46.5%	57.2% → 65.1%	56.5% → 44.6%	41.1% → 50.3%
CRC 7	78.2% → 31.8%	47.3% → 83.6%	60.0% → 29.3%	38.4% → 68.5%

Note: A higher CRC corresponds to a higher-risk category. The unit of observation is the primary project finance (PF) transaction at financial close; the sample comprises PF and non-concessional finance deals. Cells for CRC 7 and, in the earliest period, the intermediate tiers contain relatively few transactions and should be read as indicative; the robust features are the cross-tier level difference and the decline in commercial bank shares in the higher-risk tiers. As banks and officials can both participate, deal shares do not add to 100%. Volume shares split co-financed tranches 1/n across lenders; state-directed banks meeting the dual test are counted as official in both measures. Period-average shares are pooled (dollar-weighted): total attributed debt for the source over the period divided by total debt over the period, not an average of the annual percentages.
Source: Claessens, Klingebiel and Pastrone (forthcoming[46]), *Cross-border Infrastructure Finance for EMDEs: Patterns, Drivers and Regulatory Barriers*.

Where banks and official lenders still finance a project together, banks have not reduced their share. Within jointly financed deals, the bank share of debt rose slightly – from 44% to 52% by volume. The change is therefore in how many projects attract both types of lender, not in how much banks contribute when they do. Banks and official lenders increasingly finance different transactions. One purpose of official participation is to share risk so that commercial lenders join. Over the windows compared, the data show fewer such jointly financed deals in the countries where it matters most. Whether the more recent emphasis on mobilisation in MDB and DFI strategies has changed this cannot yet be seen in financial-close data. The evidence shows less of that happening in the countries where it matters most. Two cautions apply. First, the deals that retain both lender types are a shrinking and selected group. Bond markets, which are not directly regulated by the Basel Framework, have taken up only part of the slack, and only for some borrowers. Second, the bond evidence covers GSS+ issuance only, not all bonds (Demski, Feyertag and Smoleńska, forthcoming[47]). EMDEs whose creditor banks were more exposed to LCR implementation shifted towards GSS+ issuance, in volume and as a share of their international debt, relative to less exposed EMDEs. The NSFR shows the same association where external financing pressures were high. The introduction of risk-based capital requirements showed no robust association with issuance.

Because the comparison is between more and less exposed EMDEs in the same years, the general growth of GSS+ markets, including in advanced economies, does not account for it. The comparison is available only to the subset of EMDEs with capital-market access, and Section 4.2 shows how narrow that subset is for infrastructure: bond issuance in higher-risk countries is concentrated in a few large economies and overwhelmingly finances existing

assets. Greater exposure to creditor-side reforms is associated with more GSS+ issuance in some EMDEs. However, this does not imply that total external finance or new infrastructure investment is restored. These results are read as consistent with partial substitution rather than as causal estimates.

3.5. Is prudential treatment commensurate with realised risk?

Whether prudential treatment is commensurate with how these loans actually perform cannot yet be established, although the available evidence suggests that realised risks are not much worse than in advanced economies. This is the question the evidence can least answer, and the one that decides how the rest of this chapter should be read. Lower bank participation and smaller exposures are what the rules intend if defaults and losses in those countries are correspondingly higher; they indicate that treatment overstates risk if they are not. None of the datasets used in Sections 3.2 to 3.4 records how the loans in them performed (Claessens, Klingebiel and Pastrone, forthcoming[46]).

What is known about performance comes from pooled data held by MDBs, by consortia of commercial lenders and by rating agencies. These data do not show that EMDE infrastructure loans are unusually risky. The Global Emerging Markets Risk Database (GEMs), for example, pools the default and recovery experience of MDBs and DFIs over several decades. It covers lending originated or supported by MDBs and DFIs, with their origination standards, monitoring and preferred creditor protections. Therefore, its comparison with commercially financed advanced-economy infrastructure is not like-for-like and probably flatters EMDE performance. It shows probabilities of default and recovery rates broadly similar to, or better than, those reported by rating agencies for advanced-economy infrastructure. The match is closest for upper-middle-income countries. In low-income countries, defaults are higher, but recoveries are also higher. Consequently, losses given default are lower, although the high recoveries partly reflect the preferred creditor treatment MDBs enjoy and would not transfer to commercial lenders.

The most relevant commercial-lender evidence is Moody's study of project finance bank loans. This study pools the default and recovery experience of a consortium of commercial banks rather than MDBs, and allows a like-for-like comparison across jurisdictions. They show that project finance defaults more often in emerging markets than in advanced economies, at a ten-year cumulative rate of 7.8% against 3.7%. More than a third of emerging market defaults stem from country-risk events such as expropriation, capital controls and currency depreciation. However, ultimate recoveries are the same, at around 77% in both groups, so the difference lies in default frequency rather than loss severity (GEMs Consortium, 2026[48]; IIF, 2026[49]; Moody's Ratings, 2026[14]).

Revenue structure matters as much as location. Infrastructure debt with availability-based or regulated revenues had a five-year cumulative default rate of 0.7% over 1995-2023. This was set against 5.4% for infrastructure exposed to demand or price risk, a difference that holds

across income groups (World Bank, 2025[50]). Credit enhancement narrows the country gap: within the GEMs portfolio, exposures supported by guarantees or insurance recorded lower default rates (2.4% vs. 3.4%) and higher recoveries (78% vs. 70%) than unsupported exposures (Moody's Ratings, 2026[14]).

Bank-pooled data from the Global Credit Data consortium point in the same direction, and are the one source matched to the country-risk tiers and periods used in this chapter. For project finance loans in CRC 4 to 7 countries, the average observed annual default rate fell from 2.7% in 2011-2017 to 1.1% in 2018-2025, against 0.7% for CRC 0 to 2 countries in the latter period. Average observed loss given default rates on infrastructure project finance in CRC 4 to 7 countries was 11% to 19%. This was within the range observed for CRC 0 to 2 countries (13% to 21%), although workouts took longer, at around four to five years against about two. These figures rest on small samples (14 to 38 loans in the higher-risk tiers); several cells are empty where coverage was too thin to meet confidentiality rules; and the sample may be tilted towards better projects and towards loans backed by official guarantees or co-financing. With those caveats, they point in the same direction as GEMs and Moody's, and realised losses in higher-risk countries are not much worse than in lower-risk ones (Claessens, Klingebiel and Pastrone, forthcoming[46]). IFC's own equity stakes in EMDE infrastructure earned returns at least matching public equity benchmarks on average over six decades. Although the 2010-2020 cohort underperformed, the evidence covers equity rather than debt, and the portfolio is subject to the same selection as GEMs (Chari, Henry and Mauro, 2025[58]). A review of these sources for MOBILIST finds the risk of infrastructure finance in low-income countries lower than its prudential treatment would suggest (Risk Control and MOBILIST, 2023[13]).

Taken together, the data suggest three conclusions about EMDE project finance. First, EMDE project finance carries higher country-related default risk than advanced-economy projects. Second, this risk is substantially mitigable through contract structure and through instruments the prudential framework recognises only partially. Finally, expected losses, given recoveries of this order, are modest relative to the loss severity the standardised treatment assumes.

Furthermore, forthcoming CETEx analysis of GEMs private lending data shows substantial heterogeneity beneath portfolio averages. In a reconstructed country-level sample, approximately half of sub-Saharan Africa's higher default rate reflects its borrower-country income composition, while the remainder reflects higher default rates within comparable income groups. South Asia exhibits offsetting composition and within-region effects that leave its aggregate rate close to the portfolio average. These findings reinforce the need to complement broad country and regional classifications with more differentiated evidence on lending performance (Gimenes et al., forthcoming[51]).

Prudential treatment is calibrated on the assumption that project risk rises with country risk, and the data cannot yet test that assumption. For the low-default, hard-to-model

exposures that higher-risk EMDE infrastructure represents, a bank cannot usually model a project's default probability. In such cases, it must use the supervisory slotting approach, whose criteria weight political, legal and country risk explicitly and which can reach a risk weight of 250%. A bank that can model both default probability and loss carries a weight of around 99% for the same exposure. Which treatment a bank applies is therefore itself a function of available data.

The cost-of-capital penalty that EMDE projects carry is set largely by the sovereign rating, not by the project. Commercial financing terms for renewable energy in low- and middle-income countries are around two to three times the averages in high-income countries, at nominal costs of capital ranging from 6% to over 30% against a high-income average of about 7% (Hatton et al., 2026[7]). According to the same study, the higher cost of capital adds around USD 26 per MWh to the levelised cost of solar power and USD 24 per MWh to onshore wind, an increase of 37% to 38%. This raises the share of the levelised cost attributable to financing to as much as 78%, against 33% to 36% on high-income terms. The increase is driven almost entirely by country risk premiums, which are derived from sovereign credit ratings and applied to projects through the sovereign ceiling.

Chapter 4 explores two related issues. Can a transaction be rated above the sovereign and, if so, under what conditions (e.g. guarantees, offtake arrangements or offshore payment structures)? How could such structuring be recognised in prudential treatment without further refinements to the sovereign ceiling itself?

Realised default rates on private lending in EMDEs, including infrastructure, are substantially lower than those implied by sovereign ratings (GEMs Consortium, 2026[48]; Risk Control and MOBILIST, 2023[13]). These lower rates point to the same gap between priced risk and realised risk that the prudential evidence in this chapter cannot yet close. Part of the explanation may be specific to energy: power assets are critical to the economy and rarely allowed to default outright. Further, many are developed by large domestic or international sponsors with their own balance sheets. It would require an additional 5 000 GW of renewable energy capacity in EMDEs to reach the target of tripling of global renewables capacity in these countries by 2030. If this capacity building was financed on current terms rather than high-income terms, the annual cost would be around USD 245 billion higher for solar and USD 329 billion higher for wind (Hatton et al., 2026[7]).

The available performance data carry limits of their own. Loss definitions are not all on a Basel basis. The average observed annual default rates are point-in-time rather than cumulative. Samples are small, particularly for the highest-risk countries. Moreover, only the Global Credit Data extract reported by Claessens, Klingebiel and Pastrone (forthcoming[46]) might be broken down by country-risk category and period in a way that can be set against the financing data in this chapter, and its coverage of the higher-risk tiers is thin. Overall coverage is spread across IJGlobal, the World Bank's Private Participation in Infrastructure database, GEMs, Global Credit Data and rating-agency studies, with no reconciled extract

across them. Such an extract would be a public good, and is achievable with modest effort by international institutions if there is political support for it.

The conclusion is a data recommendation rather than a finding. The evidence in this chapter shows where bank finance has withdrawn. Whether that withdrawal reflects risk correctly cannot be judged until performance data and financing data can be set side by side. That gap is taken up in Chapter 4.

3.6. National development banks

NDBs have become more important sources of long-term finance in a number of large EMDEs. These NDBs include the three studied here, where pension funds are small; commercial banks lend short; and local bond markets are shallow. Elsewhere, capital markets or MDBs play that role, and many NDBs are too small, and prudential and rating frameworks do not reflect how they perform.

Are NDBs themselves subject to Basel-based regulation, and which national authorities decide? CETEx case studies of BNDES (Brazil), DBSA (South Africa) and PT SMI and PT IIF (Indonesia) find that all three are treated under national implementation broadly as commercial banks (CETEx, forthcoming[43]). In contrast, several advanced-economy development banks, including KfW (Germany), CDP (Italy), CDC (United Kingdom) and JBIC (Japan), are exempt from the Basel standards in their own jurisdictions.

Three provisions weigh most on NDBs. Limits on large single exposures constrain institutions whose mandate concentrates them in infrastructure. As noted, project finance and long-term assets attract high risk weights in Basel III. Finally, equity positions, which NDBs use to take first-loss or early-stage risk, carry risk weights of 100-1 250%, against 0% for exposures to the MDBs on the Basel Committee's list.

How other banks risk-weight their exposures to an NDB depends on counterparty classification rather than on whether the NDB is regulated. Exposures to MDBs on the Basel Committee's list carry 0%; exposures to an NDB with an explicit sovereign guarantee, such as KfW, carry the sovereign's weight; exposures to NDBs without an explicit sovereign guarantee are treated as public sector entities or corporates. The asymmetry is that an advanced-economy development bank financing a project in an EMDE can carry a lower capital charge in a co-lender's books than the domestic NDB alongside it. There is a case for applying Basel-based standards to NDBs, since comparable disclosure and risk management discipline support their access to capital markets. However, the question is whether the calibration fits institutions whose mandates concentrate risk by design.

Their credit ratings track the sovereign rather than their own performance. The rating of BNDES has moved with Brazil's rating throughout, and PT SMI's rating has been identical to Indonesia's since it was first rated. Yet the non-performing loan ratio for BNDES was 0.01-0.14% between 2010 and 2015 against a system average of around 3%; PT SMI's non-

performing loan ratio has only recently exceeded 1%; and DBSA's rating has stayed within its target range except during the pandemic. The cause is not a Basel rule. The framework imposes no sovereign floor on these exposures. Rather, it is rating methodologies that apply a sovereign ceiling and treat NDBs as extensions of the state, even where they raise funds on capital markets rather than from the budget. Since ratings feed into risk weights, borrowing costs for NDBs, and the capital that counterparties must hold against them, reflect the sovereign's fiscal position rather than the NDB's balance sheet.

The two findings connect. Where cross-border banks step back from higher-risk countries, NDBs with the scale and governance to do so are well placed to fill the gap and to bring banks back in through co-financing and guarantees. However, their capacity to do so is reduced when their own cost of capital is set by the sovereign's rating and their guarantees and equity carry full capital charges in the hands of their partner banks. Three case studies cannot establish how general this is, and national supervisors retain discretion over how NDBs are treated. Still, the evidence is strong enough to explore the question in Chapter 4.

Box 3.3. Qualitative evidence from engagement with stakeholders

The empirical findings were discussed with practitioners and regulators through a closed-door roundtable**,** a joint OECD-CETEx survey of banks, development finance institutions, asset managers and insurers**,** and bilateral consultations**.** Given the size and composition of the sample, these are practitioner and supervisory views, reported without attribution; they did not inform the empirical conclusions of this chapter.

Three positions were widely shared:

First, prudential requirements are only one factor among several in cross-border lending decisions and rarely the decisive one. Other factors rank higher, including political and regulatory uncertainty, offtaker creditworthiness, the shortage of bankable projects, currency convertibility and sovereign risk. Where a prudential channel was identified, it was the credit risk treatment of infrastructure and project finance: standardised risk weights that are high and flat over the life of an asset whose risk falls after construction; and risk mitigation bought through guarantees or political risk insurance that is not always recognised in capital treatment, with first-loss cover treated as if it ranked equally.

Second, the practical priorities most often identified were consistent recognition of guarantees and risk mitigation, including standardised templates that meet Basel eligibility criteria and an updated list of eligible providers; supervisory guidance on national discretion and gold-plating; and better data on project performance, defaults and recoveries.

Third, views on the evidence diverged in a way that mirrors this report's own caution. Supervisory participants asked for a more robust evidence base before concluding that regulation has constrained lending. They also noted that lower exposure to higher-risk borrowers is what more risk-sensitive rules intend. For their part, market participants asked why targeted clarifications already proposed by industry bodies have not been taken up. They also questioned whether a shift from bank to market-based finance is realistic in EMDEs where banks are often the only lenders that can bring a first-of-a-kind project to close.

Source: Closed-door roundtable in Basel on 1 July 2026, convened by the OECD, the Centre for Economic Transition Expertise (CETEx) and the Council on Economic Policies under the Chatham House rule, with around 50 senior representatives of standard-setting bodies, central banks, supervisors, multilateral development banks, commercial banks, industry associations and rating agencies; joint OECD–CETEx survey of banks, development finance institutions, asset managers and insurers, disseminated through the International Chamber of Commerce between June and September 2026, with 27 responses from institutions headquartered in 17 countries, 8 of them subject to Basel III and 4 to Solvency II.

4. Conclusions, recommendations and the way forward

The final chapter provides conclusions and recommendations based on evidence from the four bases developed for this report. In its conclusions about the impact of the prudential framework introduced after the financial crisis, it stresses that evidence establishes association rather than causation. Nevertheless, it argues the directional evidence points towards the value of technical guidance and adjustments. To that end, the chapter offers recommendations that centre on recognising risk mitigation that genuinely transfers credit risk; aligning the treatment of specialised and long-tenor lending with how project risk behaves; limiting the introduction of standards that surpass the Basel Framework and avoiding inconsistent implementation; reconsidering the treatment of national development banks; and building the reconciled performance data that any evidence-based recalibration would require.

4.1. Conclusions

Four different analyses suggest the Basel rules have influenced the availability of finance in emerging market jurisdictions. This report set out to establish whether, where and through which channels, prudential regulation is associated with less finance available for infrastructure and renewable energy investment in emerging market and developing

economies (EMDEs). The findings shed new light on this question, following the implementation, for the most part, of the Basel Framework in capital-exporting jurisdictions. Transaction-level analysis of cross-border infrastructure finance (Claessens, Klingebiel and Pastrone, forthcoming[46]), project-level analysis of cross-border renewable energy finance (OECD, forthcoming[45]), aggregate analysis of bilateral bank claims and sustainable bond issuance (Demski, Feyertag and Smoleńska, forthcoming[47]), institutional case studies of national development banks (NDBs) (CETEx, forthcoming[43]) and the structured consultation all point the same way. Together, they suggest that cross-border bank finance for new infrastructure in higher-risk destinations was lower, and more sensitive to destination-country credit risk, in the years following the Basel III agreement than before. Furthermore, the timing of that retreat lines up with the framework's implementation in lenders' home jurisdictions. That four analyses built on different sources and methods, together with practitioner testimony, converge on the same pattern, suggests that Basel rules have been consequential for the availability of finance in emerging market jurisdictions.

New evidence analysed confirms that financing has shifted from destinations that the framework considers as high risk. Gross infrastructure finance activity expanded in all country-risk groups after 2016 but far more in the safest: average annual activity in countries rated 0 to 2 on the OECD Country Risk Classification more than tripled, while in higher-risk countries it roughly doubled (Claessens, Klingebiel and Pastrone, forthcoming[46]). Primary financing for new assets did not grow at all, and in lower-risk countries the share of activity to new assets fell from 56% to 14%, the remainder being successive refinancing and acquisition of operating assets. In the highest-risk countries, commercial banks took part in around eight in ten primary project finance deals in 2005 to 2010 and around three in ten in 2018 to 2025, while the share of deals financed by official lenders rose. The same association appears when the lens widens from infrastructure to all cross-border bank lending. Where a creditor country implemented the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) or the risk-based capital framework, quarterly growth in its banks' international claims was around 1.6 to 3.0 percentage points lower for EMDE destinations. These differences accumulate into a substantially lower level of lending over time (Demski, Feyertag and Smoleńska, forthcoming[47]).

Analysed evidence bases suggests the channel through which adjustment occurs. The channel for adjustment is confined to debt: cross-border equity financing for the same projects shows no comparable movement. This was expected since bank prudential rules do not apply to equity investors and the Basel provisions related to market risk have largely not yet been implemented. The regulatory impact appears concentrated where long maturities, large exposures and high country risk meet. In broad infrastructure finance, the retreat runs through participation, with banks declining to join higher-risk deals rather than lending less once they are in them. In clean energy, it runs through commitment size, with cross-border bank debt to large renewable projects in below-investment-grade destinations around 57-71% lower after the NSFR, the risk-based capital framework and the countercyclical buffer took

effect. At the same time, lending to smaller projects in the same countries rose (OECD, forthcoming[45]). Prices moved in the same direction: the spread premium paid by middle-risk borrowers over the lowest-risk tier roughly trebled between the two periods, and higher-risk deals became somewhat more likely to be cancelled (Claessens, Klingebiel and Pastrone, forthcoming[46]). This shape is consistent with a prudential channel operating through funding and capital costs, and is harder to reconcile with a general loss of appetite for EMDE projects.

As regards substitution effects, the evidence shows reduced co-financing rather than proven displacement. Over the period analysed, public lenders increasingly financed higher-risk projects without commercial banks alongside them, while joint financing declined. Among primary project finance deals in higher-risk countries, the share financed by official lenders alone rose from around a fifth to nearly half, while the share financed jointly by banks and official lenders fell (Claessens, Klingebiel and Pastrone, forthcoming[46]). This indicates less contemporaneous commercial bank co-financing. It may also reflect the role of public lenders in sustaining investment where private finance is constrained, which is part of their mandate alongside mobilisation. Establishing substitution in the strict sense would require evidence of the private financing that would have been available in their absence, which the data do not provide. The data also largely predate the recent reorientation of MDB and DFI strategies towards mobilisation, whose effects on financial-close data will take time to appear.

Over the period analysed, one purpose of official participation – sharing risk so that commercial lenders join – was achieved less often in the countries where it matters most. Non-bank lenders have not filled the gap in renewable energy project finance, where cross-border non-bank debt to large projects was itself lower after each standard. Sustainable bonds have expanded for EMDE issuers whose creditor banks were more exposed to the liquidity reforms, consistent with partial substitution towards market-based finance (Demski, Feyertag and Smoleńska, forthcoming[47]). However, capital-market access is confined to a few large economies and finances mainly existing assets. The capacity of NDBs to fill the gap has been constrained by treatment that ties their cost of capital to the sovereign's rating and applies full capital charges to the guarantees and equity through which they would draw commercial lenders in.

The above finding also has implications for how the performance of public development banks is assessed. Where official lending rises while commercial bank participation falls, as it did over the period analysed, higher public finance volumes alone do not show whether mobilisation improved. Evaluation should therefore distinguish additionality and crowding-in from own-account lending, and extend beyond mobilisation at financial close to system-level outcomes, in line with the direction MDB reform has already taken. This would show whether guarantees and co-financing structures lower financing costs, broaden the investor base, deepen local markets, and enable subsequent transactions to proceed with less public support, and whether public intervention changes the risk-return proposition sufficiently for commercial lenders to participate on a sustained basis.

Further work is needed on whether prudential treatment is commensurate with how these loans actually perform. The withdrawal of bank finance from higher-risk countries is appropriate if defaults and losses there are correspondingly higher, and a problem if they are not. What is known about performance, from the pooled data of MDBs in the Global Emerging Markets Risk (GEMs) database and from a few private sources, does not show that EMDE infrastructure is as risky as the differentiated prudential treatment would suggest. Data pooled by multilateral development banks (MDBs) and development finance institutions (DFIs) show default probabilities and recoveries in EMDE infrastructure broadly similar to, or better than, those reported for advanced-economy infrastructure, and losses given default in low-income countries are lower because recoveries are higher; that portfolio, however, benefits from MDB origination standards and preferred-creditor status. For commercial project finance, defaults are roughly twice as frequent in emerging markets as in advanced economies (7.8% against 3.7% over ten years), while recoveries are comparable (IIF, 2026[49]; Moody's Ratings, 2026[14]). However, none of the new evidence bases used in this report records how the loans in them performed. Moreover, prudential treatment is itself sensitive to data availability: a bank that cannot model a project's default probability must fall back on the supervisory slotting approach, which weights political, legal and country risk explicitly and can reach a risk weight of 250%, against around 99% for the same exposure modelled in full.

Whether the pricing and treatment documented here reflect risk accurately, or a wider uncertainty premium over risk that has not materialised, cannot be separated without default, loss and pricing data matched at the level of the same transactions. The interpretation should also account, where data permit, for changes in underlying EMDE risk characteristics over the period studied. Improvements or deterioration in sovereign creditworthiness, macroeconomic stability, institutional quality, financial integrity frameworks, market depth and other country-risk indicators may affect both investor risk perceptions and financing outcomes independently of prudential implementation. Testing these developments alongside the regulatory timeline would help distinguish changes in underlying risk from changes in how that risk is measured and priced.

The findings suggest a distributional effect of prudential regulation away from new assets in the countries where credit risk is perceived as highest and the infrastructure gap is widest. Because the same regulatory or market friction bears differently on each type of EMDE, the effect is uneven: a capital charge that merely raises the price of finance for an investment-grade sovereign can foreclose market access altogether for a sub-investment-grade one. This is precisely where blended vehicles and guarantees are most needed and least effective under current recognition rules. The pattern also tracks measured credit risk rather than EMDE status as such. This suggests an issue in how risk is measured and priced, not a blanket aversion to developing markets. For climate and development policy, the distributional consequence matters as much as the aggregate volume. Barriers that raise the cost of capital most sharply in higher-risk and climate-vulnerable EMDEs can prevent investment in

resilience, energy access and productive infrastructure, even where those investments have strong development benefits.

Addressing the identified barriers is part of making country-led climate and development strategies financeable, not a separate financial-sector agenda. The remaining disconnect may arise from several mutually reinforcing mechanisms rather than from EMDE status itself. These mechanisms comprise sovereign rating ceilings, limited project-level and default data, a higher prevalence of unrated exposures, investor mandates tied to investment-grade ratings, thin secondary markets and limited institutional capacity to assess less familiar EMDE risks. Such mechanisms should be treated as hypotheses requiring further evidence where the report's datasets cannot identify their relative contribution.

Three caveats set the limits of the analysis, as they do throughout the report. First, the analysis considers only rules that exist, and so cannot capture cases where the absence of a provision is itself the barrier. Second, its results are associations between the timing of implementation and financing patterns, not proof of causation, since the reforms were phased in alongside post-crisis balance-sheet repair and other developments. Finally, the analysis does not question the financial stability rationale of the frameworks, asking only whether their implementation has had unintended distributional effects on EMDE finance.

Taken together, these findings provide a basis for a structured implementation dialogue in 2027 and beyond. Such a dialogue could bring together governments, regulators and supervisors, international standard setters, MDBs, DFIs and NDBs, market participants, credit rating agencies and data providers. Through the 4P and its Eminent Persons Group (EPG) on Barriers to Investment in EMDEs, this dialogue can help carry mature issues into the appropriate technical and political channels. In this way, it would build on the 2026 G7 Presidency in France and feed into the United Kingdom 2027 G20 Presidency and the Korea 2028 G20 Presidency, while further evidence is developed where questions remain open.

4.2. Recommendations

The report provides non-prescriptive recommendations to international standard setters, domestic regulators and supervisors, international forums, credit rating agencies and private sector to adjust the technical implementation of prudential regulation without reopening Basel III, e.g. through technical guidance or supervisory dialogue. Recommendations address the narrow but consequential space between measured and realised risk. They are consistent with the financial stability purpose of Basel III. Industry proposals cover similar ground: the IIF, for the UK EMDE Investor Taskforce, sets out recommendations on the treatment of A/B loans, political risk insurance, infrastructure risk weights, DFI exposures and insurer participation in MDB co-financing structures (IIF, 2026[52]). As presented in Table 4.1, the recommendations target specific elements of the prudential framework regarding how risk is identified and mitigated, as well as broader balance sheet and market-related concerns that constrain market deepening. Recommendations are

prioritised and ordered below from short-term and practical options to what requires longer-term analytical and institutional work and engagement.

Short-term recommendations:

At the international level, the Basel Committee on Banking Supervision (BCBS) can:

- Update the list of MDB guarantee providers eligible for 0% risk weight, and assess further candidacies of MDBs and DFIs for the 0% risk weight.
- Clarify that standard guarantee exclusions with remote triggers do not breach the unconditionality requirement.
- Give proportionate recognition to political risk insurance.
- Publish clearer criteria for high-quality project finance and for the transition from the pre-operational to the operational phase.

The Basel Committee can implement the above recommendations without amending Basel III through Frequently Asked Questions used to ensure consistent interpretation of the Basel Framework. The BCBS can also convene voluntary, international dialogue among domestic supervisors to exchange on (i) the recognition of guarantees; (ii) political risk insurance and green/transition finance; (iii) the use of national discretion; and (iv) the treatment of NDBs. It would then review the emerging evidence. It can pursue this dialogue in collaboration with the OECD and coalitions such as the Network for Greening the Financial System, academia and industry associations.

At the domestic level:

- National regulators could review their implementation of the eligible-MDB list, the treatment of preferred creditor status in internal models and the recognition of NDB guarantees.
- Home and host supervisors could apply the guarantee criteria consistently and open a dedicated dialogue in supervisory colleges that includes EMDE authorities.

At the multilateral level:

- The Financial Stability Board could take up the cross-border effects of Basel III implementation on EMDE finance in its evaluation work, as a follow-up to its 2018 evaluation.
- The G20 could mandate a reconciled data exercise on realised defaults, recoveries and pricing across the existing sources to underpin any further risk-based guidance.
- The OECD could convene workshops with supervisors, MDBs/DFIs, lenders and guarantee/insurance providers to review actual contracts against recognition criteria. A time-bound transaction pilot could then measure capital recognition, all-in pricing, and tenor and private finance mobilised, as well as claims and payout times.

Longer-term recommendations:

Over the longer term, and calibrated on the reconciled performance dataset from the G20 exercise above, standard setters can:

- Consider infrastructure as a distinct asset class with risk weights that fall as projects de-risk; give explicit recognition to MDB and DFI co-financed lending, including A/B loan structures; introduce a graded risk-weight band for highly rated MDBs and DFIs that do not meet the 0% criteria; and resolve the prudential treatment of NDBs and the sovereign ceiling on their ratings.

Credit rating agencies can:

- Review how guarantees, preferred creditor status and MDB participation enter project and issuer ratings, and rate NDBs on stand-alone strength.
- Review sovereign rating methodologies for symmetry and evidence: back-test ratings against realised defaults and recoveries; disclose the effect of qualitative overlays and missing data; and assess procyclicality, so that ratings reflect actual risk in EMDEs and advanced economies alike, rather than giving preferential treatment to either.

MDB shareholders and evaluators can:

- Assess crowding-in and system-level outcomes of public development banks alongside own-account volumes. Over the period analysed, official lending to higher-risk projects rose while joint financing with commercial banks fell, so mobilisation outcomes, rather than lending volumes, are the measure of whether current approaches are closing the gap.

Market participants can:

- Contribute loan-level performance data, review internal limits and mandates that are more conservative than the rules, and reflect verified risk reduction in pricing.

Table 4.1. Summary of recommendations

Institution	1. Risk identification	2. Risk mitigation	3. Balance-sheet constraints
International standard setters BCBS, FSB, IOSCO, IAIS; G20 as convenor	Guidance on consistent Basel III implementation and on when national discretion is warranted (e.g. on high-quality project finance). G20 invites the Basel Committee and FSB, with MDBs (GEMs) and BIS statistical expertise, to run a data exercise on realised defaults, recoveries and pricing (reconciled IJGlobal / PPI / GEMs / Global Credit Data extract). Guidance that MDB	Guidance on timeliness and unconditionality (CRE22.71); support more consistent CRM interpretation across jurisdictions. Guidance recognises borrower-level mitigants (hedges, offtake, sponsor support, construction penalties) in the SA and in slotting. Analysis, using GEMs and non-GEMs MDB/DFI data, of the risk reduction from MDB co-financing and A/B loans; then guidance on preferred creditor status in internal models; longer term, a	Consider LCR interaction with thin EMDE markets, including a wider range of eligible liquid assets.

	candidacies for 0% RW are assessed against the existing Basel criteria; explore expanded treatment of NDBs. Longer term: infrastructure as a distinct asset class calibrated on realised performance; recognise that project risk falls after construction. Longer term: risk weights that fall as projects de-risk, in the SA and the IRB approach, including the linear maturity adjustment (CRE31.6) (GFANZ 2026 B3; GFANZ 2024 s3.4).	capital advantage or an "MDB/DFI-supported infrastructure lending" asset class. Lower RW band (e.g. 10%) for AA/A-rated MDBs/DFIs; periodic (3-5 year) review of the eligibility list; an approach for unrated subsidiaries.	
National regulators Rule-makers in home and EMDE host jurisdictions; finance ministries	Support consistent national implementation within the flexibility the Basel standards allow; limit gold-plating. Align SA treatment of specialised and long-tenor lending with project-phase risk.	Expand recognition of credit and political risk insurance. NDBs: revisit national treatment, recognise the risk transfer in NDB guarantees (full CCF today) and address the sovereign ceiling link to their RW; keep disclosure and sound risk management; not an exemption. Adopt the full BCBS list of 0% RW MDBs (national lists lag the BCBS list; the EU includes AIIB under Article 117(2) CRR, the US does not), and allow internal-model banks to reflect preferred creditor status where evidence supports. Where external ratings are barred for regulatory use, make sure MDB mitigation of convertibility and transfer risk still has effect.	Explore dedicated treatment of sustainable debt exposures.
Supervisors Home supervisors of cross-border groups; host supervisors	Use discretion in calibration and enforcement to reduce unintended cross-border effects. Provide wider access to performance data so more exposures are modelled or slotted on evidence, with projects assessed over their full time horizon. Exchange best practices under current rules among individual authorities to reduce barriers.	Apply timeliness and unconditionality criteria consistently across jurisdictions; recognise PRI; support standardised guarantee templates that meet Basel III criteria; collaborate across jurisdictions on guarantee recognition. Provide guidance permitting banks to factor MDB preferred creditor status into internal models and to treat the A/B structure as equivalent to MDB lending. Confirm that guarantees can count in banks' country-risk limits.	Host supervisors: targeted interventions that offset unintended effects of the rulebook on local markets.

Market participants Banks, insurers, pension funds, guarantee providers, asset managers	Disclose non-proprietary project-loan performance data and contribute to the pooled exercise, with explicit governance, confidentiality and data-ownership terms. Test whether internal country limits, mandates and local analytical capacity bind alongside prudential rules.	Use standardised guarantee templates that meet risk mitigation eligibility. Take part in review and pilot; lenders and insurers reflect verified risk reduction in underwriting and pricing. Where supervisors permit, assess remote exclusion clauses on a documented, probability basis rather than disallowing the guarantee automatically.	Review internal country-risk limit policies that ignore guarantees, and investor mandates or limits that bar non-investment-grade assets even where guarantees or MDB support lift project risk.
Credit rating agencies (CRAs) and IOSCO/ national CRA supervisors who oversee them	Assess how much of the capital charge on EMDE project finance reflects the sovereign rating rather than the project, and whether the OECD CRC tracks realised performance. (IOSCO, G20 and national CRA supervisors request methodology reviews within 12-24 months, with annexes on sovereign ceilings, guarantees, climate risk and advanced-economy fiscal risk).	Test whether guarantees, insurance and MDB participation are reflected in project and issuer ratings; on that basis recognise MDB guarantees, preferred creditor status, PRI and FX hedging and reduce mechanistic sovereign ceilings. Reflect that preferred creditor status lets rated private transactions pierce the country ceiling.	Rate NDBs on stand-alone strength rather than defaulting to the sovereign rating. Engage in structured PDB-CRA-supervisor dialogue on stand-alone strength, sovereign dependence, callable capital, preferred creditor status and external guarantees.
MDBs (and NDBs/PDBs) Multilateral, national and public development banks	Expand timely disclosure of non-proprietary project-loan performance data (GEMs). Release more granular GEMs data, including A/B and co-lending performance, and bring non-GEMs MDBs/DFIs into the data (GFANZ 2026 B2; GFANZ 2024 s2.4).	Put forward candidacies for 0% RW, assessed against existing criteria and standardised guarantee templates; expand the prudential effect of co-financing and guarantee structures. Scale guarantee issuance (World Bank Guarantee Platform, PSILab, standard documentation); de-risk pre-operational and new projects and co-finance with banks. Provide guarantee contract innovations: document A/B and co-lending structures so banks can model preferred creditor status; engage regularly with standard setters on product design.	NDBs: let implementation reflect mandate, ownership, portfolio, risk mitigation role and performance, without weakening safeguards. Balance NDB mandates against the benefits of standardised disclosure.

Note: AIIB = Asian Infrastructure Investment Bank; BCBS = Basel Committee on Banking Supervision; CCF = credit conversion factor; CRM = credit risk mitigation; FSB = Financial Stability Board; FX = foreign exchange; GEMS = Global Emerging Markets Risk Database; IAIS = International Association of Insurance Supervisors; IOSCO = International Organization of Securities Commissions; IRB = Internal Ratings-Based; PRI = Political Risk Insurance; RW = risk weights; SA = standardised approach.

4.3. Areas for further analysis

The most important area for additional work relates to further collection and investigation of performance data. A reconciled dataset that matches realised default, recovery and pricing experience to the financing patterns documented in this report would allow the central question of whether prudential treatment is proportionate to risk to be tested directly rather than inferred. Such a process, broken down by country-risk category and period, should draw together IJGlobal, the World Bank's Private Participation in Infrastructure database, GEMs, Global Credit Data consortium and rating-agency studies. The performance data that exist carry limits of their own: loss definitions are not following the Basel Framework; the average observed annual default rates are point-in-time rather than cumulative; and samples are small for the highest-risk countries. Further work on reconciling the data would be a public good, achievable with modest effort by the international institutions if there is political support; the roundtable's suggestion that the G20 ask the Financial Stability Board to run a dedicated data exercise offers one route to it. At the same time, prudential rules are intended to ensure sufficient capital and liquidity and forward-looking risk management for unexpected losses, including those arising in the context of climate change.

Several further questions merit dedicated studies. Participants reported that first-loss guarantees are often treated as if they ranked on an equal footing, which removes most of their capital benefit. They also noted that prudential assessments may continue to weigh sovereign, country and currency risk, even where those risks have been materially reduced by MDB participation or insurance. Finally, they reiterated that a list of quick fixes proposed by industry two years earlier has not been acted upon. The panel and event-study designs that the new implementation timing data make possible are the natural next step. These would allow the associations identified here to be probed for robustness across individual standards, lender jurisdictions and destination markets, and brought closer to a causal interpretation of regulatory barriers. Further work should also test alternative explanations for limited growth in EMDE financing. In particular, it should distinguish insufficient public risk sharing from limitations in investors' own capacity, incentives and local analytical presence to assess EMDE risks. This matters because additional guarantees will not necessarily mobilise capital if institutional mandates, information gaps, internal country limits or analytical capacity remain binding constraints. Related research should examine how underlying EMDE risk profiles evolved over the study period and whether observed pricing adjusted when measurable fundamentals improved.

Green and sustainable bonds warrant closer examination as a substitution channel. The evidence shows that EMDEs whose creditor banks were more exposed to LCR and NSFR implementation issued more green, social, sustainability and sustainability-linked (GSS+) bonds, in volume and as a share of their international issuance, consistent with partial substitution towards market-based finance (Demski, Feyertag and Smoleńska, forthcoming[47]). That channel is open only to the subset of EMDEs with capital-market access,

however. For its part, infrastructure-linked bond issuance in higher-risk countries has been concentrated in a few large economies (Brazil, Mexico and India) and has overwhelmingly financed existing rather than new assets.

Several questions follow. Can the market be broadened to a wider set of issuers, and in particular to the sub-investment-grade sovereigns that most need external finance? Can the market be directed towards primary financing for new low-carbon assets rather than the refinancing of operating ones? Will any pricing advantage for green issuance be large and durable enough to offset the barriers documented? How does the prudential treatment of these instruments, on both the issuing and the holding side, interact with their capacity to replace retreating bank finance? As regards the latter point, climate finance may not necessarily have lower-risk profiles than "traditional" finance (Noss, Songwe and Yon, 2024[53]). However, the governance features – including increased transparency and accountability – addresses some of the specific EMDE institutional constraints that appear to warrant a differentiated prudential treatment under the Basel Framework. Furthermore, the role of blended structures and guarantees in relation to green bonds bears directly on the size of the investment gap that credit risk mitigation and regulatory reform would otherwise have to fill. From a development finance perspective, substitution across financing channels should therefore be assessed not only by aggregate issuance volumes, but also by whether alternative channels finance additional new investment, broaden access to higher-risk countries and projects, and reduce rather than reproduce existing constraints on the cost and availability of capital.

Two parts of the intermediation chain this report could only touch deserve dedicated analysis. First, through the trading-book and market-making channel, the prudential treatment of thinly traded EMDE sovereign and corporate paper can withdraw dealer capacity from the wider market and raise the cost of the hedging on which other investors depend; this is not captured by the transaction-level datasets used here and would require its own data and design. Furthermore, the related Basel provisions have been divergently implemented across jurisdictions. The second part relates to the set of actor-specific constraints on insurers, pension funds and sovereign wealth funds, whose regulatory and mandate-based treatment shapes the long-term capital that banks alone cannot supply, and for which EMDE-specific allocation data remain sparse. In both cases, the question is the same one raised by the banking evidence: whether the treatment of EMDE exposures is calibrated on their performance or on generic assumptions and biases.

A further area is a dedicated assessment of credit rating methodologies for clean energy projects in EMDEs, especially of the mechanisms by which sovereign credit standing constrains the ratings assigned to sub-sovereign and corporate borrowers. Since these ratings enter prudential risk weights directly, they affect the cost of capital in the destinations most affected. In plain terms, such work would test how far the ceiling that a country's own rating places on the ratings of projects within it drives the cost of financing them. Sovereign

ratings for many EMDEs rest on thin data and a large judgemental component (UNDP, 2023[54]). Rating horizons are too short to score resilience investment as anything but a fiscal cost, and ratings show no response to climate risk even though markets price it (UN DESA, 2022[37]). Further, sovereign-derived country risk premiums explain almost all of the cost-of-capital gap between renewable projects in low- and middle-income countries and in high-income countries (Hatton et al., 2026[7]).

Four questions follow from the need for a dedicated assessment of credit rating methodologies for clean energy projects in EMDEs. How much of the capital charged against EMDE project finance reflects the sovereign rating rather than the project? Are guarantees, insurance and MDB participation reflected in project and issuer ratings? Would modular or long-horizon sovereign ratings, as proposed in the policy literature, let investors separate the sovereign factors that bear on a project from those that do not? (UN DESA, 2022[37]; Hatton and Sachs, 2025[55]). Would the OECD country-risk classification used for sovereign risk weights track the realised performance of project exposures in the same countries? None requires a change to the Basel Framework. Their effect would come through the ratings the framework consumes.

Finally, the treatment of NDBs and its interaction with rating methodologies is a compact but consequential agenda in its own right. The case studies show NDBs rated as extensions of the sovereign despite loan performance that is often markedly better than the domestic banking system. Consequently, their cost of capital, and the capital their counterparties must hold against them, reflects the sovereign's fiscal position rather than the institution's balance sheet. Because ratings feed into risk weights, the intersection of credit rating sovereign ceilings and the framework's own conventions can cap an NDB's rating and its regulatory treatment simultaneously through the same sovereign constraint. Is this a general conclusion beyond the three institutions examined? What supervisory or methodological change would let NDBs perform the countercyclical, crowding-in role for which they are best placed? These are questions that this report can only pose. However, the central finding – that cross-border bank finance has withdrawn from precisely the higher-risk, long-dated, capital-intensive projects on which the renewable energy transition in EMDEs depends – is robust enough to warrant all of this further work. Equally, the recognition of risk mitigation, supervisory discretion and data can be placed at the centre of the agenda that follows. Further research should consequently examine whether NDBs receive proportionate prudential and ratings treatment, but also whether reforms change real-economy financing outcomes: the cost and tenor of capital; the participation of commercial lenders; the development of local markets and pipelines; and countries' ability to finance transition and resilience priorities. This would provide a practical bridge from institutional and regulatory reform to country-level evidence of impact.

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Annex A. The recognition of guarantees under the Basel framework: Eligibility conditions and the range of eligible guarantors

Basel-named supranational institutions and multilateral development banks eligible for a 0% risk weight

Table A.1 identifies the supranational institutions expressly named in the Basel Framework as potentially receiving a 0% risk weight, and the multilateral development banks (MDBs) eligible for a 0% risk weight under CRE20.14. Where one of these institutions provides an eligible guarantee and the operational requirements in A.2 are satisfied, the protected portion of the exposure may receive the risk weight applicable to the institution. Inclusion in the table does not, however, establish that the institution offers a relevant guarantee instrument. Nor does it establish that a particular guarantee satisfies the conditions for regulatory recognition.

Table A.1. Basel-named supranational institutions eligible for a 0% risk weight, whose 0% treatment may support guarantee recognition subject to CRE22

Institution	Abbreviation	Basel reference	Basel risk weight
Bank for International Settlements	BIS	CRE20.10	0%
International Monetary Fund	IMF	CRE20.10	0%
European Central Bank	ECB	CRE20.10	0%
European Union	EU	CRE20.10	0%
European Stability Mechanism	ESM	CRE20.10	0%
European Financial Stability Facility	EFSF	CRE20.10	0%

Note: External ratings should be reported as of a common observation date and should refer to the legal entity assuming the guarantee obligation. "NR" indicates that no public rating from the relevant agency has been identified. The ratings are included for descriptive purposes and are not, by themselves, the legal basis for the 0% risk weight. The institutions in Panel A receive their treatment because they are expressly identified in CRE20.10. For the multilateral development banks in Panel B, the Basel eligibility criteria in CRE20.14 include very high-quality long-term issuer ratings, a majority of an MDB's external ratings being AAA, together with further conditions on shareholder structure and paid-in capital; an MDB must satisfy the AAA criterion at the time of application. Once included, it may remain eligible following a downgrade provided that its rating does not fall below AA−. The rating criterion reproduced here is one of several eligibility conditions, and is not the sole test.
Source: BIS Basel Framework, CRE20.10, CRE20.14 and CRE22.76, version effective 1 January 2023.

Table A.2. Multilateral development banks eligible for a 0% risk weight, whose 0% treatment may support guarantee recognition subject to CRE22

Institution	Abbreviation	Basel reference	Basel risk weight
International Bank for Reconstruction and Development	IBRD	CRE20.14, fn 8	0%
International Finance Corporation	IFC	CRE20.14, fn 8	0%
Multilateral Investment Guarantee Agency	MIGA	CRE20.14, fn 8	0%
International Development Association	IDA	CRE20.14, fn 8	0%
Asian Development Bank	ADB	CRE20.14, fn 8	0%
African Development Bank	AfDB	CRE20.14, fn 8	0%
European Bank for Reconstruction and Development	EBRD	CRE20.14, fn 8	0%
Inter-American Development Bank	IDB	CRE20.14, fn 8	0%
European Investment Bank	EIB	CRE20.14, fn 8	0%
European Investment Fund	EIF	CRE20.14, fn 8	0%
Nordic Investment Bank	NIB	CRE20.14, fn 8	0%
Caribbean Development Bank	CDB	CRE20.14, fn 8	0%
Islamic Development Bank	IsDB	CRE20.14, fn 8	0%
Council of Europe Development Bank	CEB	CRE20.14, fn 8	0%
International Finance Facility for Immunisation	IFFIm	CRE20.14, fn 8	0%
Asian Infrastructure Investment Bank	AIIB	CRE20.14, fn 8	0%

Note: External ratings should be reported as of a common observation date and should refer to the legal entity assuming the guarantee obligation. "NR" indicates that no public rating from the relevant agency has been identified. The ratings are included for descriptive purposes and are not, by themselves, the legal basis for the 0% risk weight. The institutions in Panel A receive their treatment because they are expressly identified in CRE20.10. For the multilateral development banks in Panel B, the Basel eligibility criteria in CRE20.14 include very high-quality long-term issuer ratings, a majority of an MDB's external ratings being AAA, together with further conditions on shareholder structure and paid-in capital; an MDB must satisfy the AAA criterion at the time of application. Once included, it may remain eligible following a downgrade provided that its rating does not fall below AA−. The rating criterion reproduced here is one of several eligibility conditions, and is not the sole test.
Source: BIS Basel Framework, CRE20.10, CRE20.14 and CRE22.76, version effective 1 January 2023.

The table is not an exhaustive list of eligible guarantee providers under CRE22.76. In particular, the Basel Framework does not publish corresponding named lists of eligible sovereigns, public sector entities, banks, securities firms, prudentially regulated financial institutions, or externally rated and investment-grade entities. Providers falling within those categories must be identified and assessed individually under the applicable national implementation of the standardised approach.

Nor should the external rating of a listed institution be interpreted as a rating of every guarantee it issues. Unless a rating agency has assigned a rating to the particular guarantee or guaranteed obligation, the appropriate formulation is that an institution with the stated issuer rating has provided the guarantee. Regulatory recognition remains dependent on the terms of the individual instrument, including its directness, irrevocability, unconditionality, coverage, maturity, currency and payment provisions, and on the provider having a lower applicable risk weight than the underlying counterparty.

Under CRE20.14, an MDB applying for inclusion must have a majority of its external ratings at AAA at the time of application, while a listed MDB keeps its 0% treatment unless its rating falls below AA−. On current ratings, one unlisted institution meets the AAA test: IDB Invest, the private-sector arm of the IDB Group, rated AAA by S&P (since June 2026) and Fitch and Aa1 by Moody's. The short-term recommendation in Table 4.1 to assess further candidacies against the existing criteria would, on present ratings, reach IDB Invest; the longer-term option of a graded risk-weight band for AA-rated MDBs and DFIs is what would reach the others (CAF, 2026[56]; GRaFF, 2026[57]).

Treatment of partial cover, materiality thresholds and currency mismatches

Where losses are shared between the bank and the guarantor, capital relief is afforded proportionally: the protected portion receives the treatment applicable to eligible guarantees and the remainder is treated as unsecured (CRE22.80). Materiality thresholds on payments, below which the protection provider is exempt from payment in the event of loss, are treated as equivalent to retained first-loss positions. Further, the portion of the exposure below the threshold must be risk-weighted at 1 250% by the bank purchasing the protection (CRE22.79). Where the protection is denominated in a currency different from that of the exposure, the protected amount is reduced by a supervisory haircut of 8% for a holding period of ten business days, scaled with the frequency of revaluation (CRE22.82 and CRE22.83).

Sovereign counter-guarantees (CRE22.84)

An exposure may be covered by a guarantee that is indirectly counter-guaranteed by a sovereign. Such an exposure may be treated as covered by a sovereign guarantee provided several conditions are met. The sovereign counter-guarantee must cover all credit risk elements of the exposure; both the original guarantee and the counter-guarantee must meet all operational requirements for guarantees, except that the counter-guarantee need not be direct and explicit to the original exposure; and the supervisor must be satisfied that the cover is robust and that no historical evidence suggests the coverage of the counter-guarantee to be less than effectively equivalent to a direct sovereign guarantee. This provision governs whether guarantee arrangements counter-guaranteed by a sovereign, including certain national and multilateral blended finance structures, achieve sovereign risk-weight treatment.



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The **4P Eminent Persons Group (4P EPG) on Barriers to Investment in Emerging Market and Developing Economies (EMDEs)** was launched by France and South Africa at the Fourth International Conference on Financing for Development in Seville in 2025. Bringing together six eminent figures whose experience spans financial regulation, central banking, development finance, private finance, academia and international institutions, the Group was given an evidence-led mandate: to examine whether aspects of the international financial architecture may unintentionally constrain private investment in EMDEs, and to identify practical responses.

Its work focuses on **prudential frameworks and their implementation**, while recognising both their essential role in safeguarding financial stability and the many other factors that shape investment in EMDEs. The objective is not to reopen Basel III, but rather to assess whether risk and genuine risk mitigation are being recognised as accurately and consistently as possible. In so doing, it analyses whether targeted improvements in implementation, guidance and evidence could help.

This report brings together existing research, new empirical analysis and extensive consultation with regulators, standard setters and market participants. To that end, it aims to **bring greater structure and continuity to an already active international conversation**: clarify where the evidence is converging; distinguish what can move into implementation from what still requires further analysis; and help define the roles of the different actors involved.

The report is therefore a starting point for the next phase of the EPG's work. Through the 4P, the Group will continue to engage the wider private capital mobilisation ecosystem through technical, thematic and regional dialogue. This ecosystem includes governments and finance ministries, regulators and supervisors, international standard setters, multilateral and national development banks and development financial institutions, commercial banks and institutional investors, credit rating agencies, data providers and research partners. The ambition is to connect this work to the international processes where decisions can be taken, building on **France's G7 Presidency in 2026, the UK's G20 Presidency in 2027 and continuity into Korea's G20 Presidency in 2028**, alongside other relevant international decision-making processes.