



EMDE | INVESTOR
TASKFORCE

CREDIT RATING AGENCY METHODOLOGY MAPPING & DIAGNOSTIC



A PRACTICAL GUIDE TO CRA METHODOLOGY APPLICATION
ACROSS EMDE TRANSACTION STRUCTURES
JUNE 2026



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Acknowledgements and Disclaimers

This report was authored by Michael Wilkins, Visiting Senior Fellow, Blended Finance Lab at the [Centre for Economic Transition Expertise \(CETEx\)](#), London School of Economics. He was assisted by Reika Hayakawa Taura. The author would like to thank the following for their help in reviewing the report: Regina Vasarais, Ana Maria Camelo Vega, Stephen Varma, Robert Probyn, Jake Harper, Neeha Mujeeb, Jemima Prior, Catherine Clark, Simon Cooke, Hazel Taylor-Tangen, Daisy Streatfeild and various other members of the EMDE Investor Taskforce and the Credit Rating Agency (CRA) workstream.

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EXECUTIVE SUMMARY

This report aims to improve transparency and understanding of how credit rating agencies (CRAs) assess certain transaction types in Emerging Markets and Developing Economies (EMDEs), with the objective of supporting more effective engagement between investors, sponsors, and rating agencies. It maps how existing CRA methodologies are applied across different transaction types and highlights how current approaches reflect risk-mitigating and credit-enhancing features such as guarantees within blended finance structures.

Below are the key takeaways:

- Blended finance structures, including first-loss capital, subordinated tranches, paid-in capital, political risk insurance and liquidity facilities, can strengthen the risk-return profile of transactions; however, their rating benefit depends on the extent to which they provide clearly demonstrable loss absorption, risk transfer or debt-service support under the applicable CRA methodology.
- Fund-based vehicles, including alternative investment funds and closed-end funds, are typically assessed by CRAs with reference to leverage, asset quality, NAV resilience, liquidity, funding stability, diversification, and the strength of shareholder or investor support.
- Structured finance instruments, including securitisations, CLO/CDO-type vehicles and tranching portfolios, are generally assessed on the basis of portfolio credit quality, default and recovery assumptions, diversification, subordination, overcollateralisation, liquidity support, and cash flow waterfalls.
- Project finance and infrastructure transactions are typically assessed with reference to construction and operating risk, revenue stability, contractual protections, offtaker creditworthiness, debt structure, downside-case cash flows, political and regulatory risk, and currency or convertibility risk.
- MDB/DFI-related and other credit-enhancing features may benefit from shareholder support, preferred creditor status, guarantees, or other forms of credit enhancement; however, the rating impact depends on the strength, enforceability, scope, and timeliness of such support.

This report draws on a methodology mapping exercise undertaken by the EMDE Investor Taskforce across the three major global credit rating agencies: S&P Global Ratings (S&P), Moody's and Fitch. By clarifying how ratings are determined in practice, this report seeks to demystify the analytical process and provide enhanced transparency with the help of a decision tree on how transactions can be presented to align more effectively with CRA frameworks which may apply layers of multiple assessment methodologies. It identifies key drivers of rating outcomes – such as sovereign risk, diversification, liquidity, and credit enhancement – and explains how these factors are interpreted across methodologies. Ultimately, it emphasises the value of greater transparency, clearer articulation of relevant methodological considerations, and timely engagement with CRAs to support well-informed dialogue about rating analysis and its key drivers. By doing so, it aims to support more consistent risk assessment, better recognition of de-risking features, and increased mobilisation of private capital into EMDEs.

About this report and the Taskforce

The Emerging Markets and Developing Economies (EMDE) Investor Taskforce is an industry-led initiative convened by the Minister of State for International Development and the Economic Secretary to the Treasury. The Taskforce brings together public and private sector stakeholders to develop practical solutions that will support institutional investors in pursuing investment opportunities in EMDEs to help deliver economic growth and tackle climate change.

This report has been developed as part of the Taskforce's workstream on CRAs. It does not provide structuring advice, investment advice or rating opinions. It aims to help market participants understand how factors such as sovereign risk, diversification, liquidity, asset quality, shareholder support and credit enhancement may affect rating outcomes.



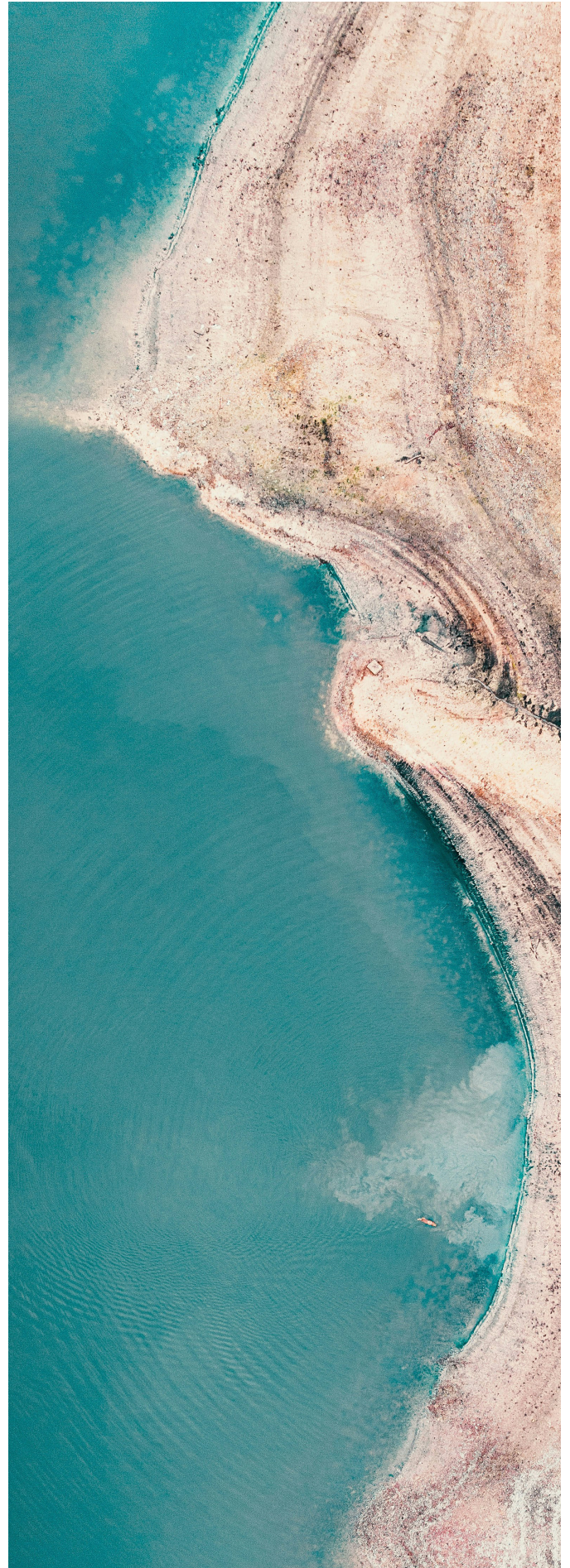
Method and Approach

The mapping reviews publicly available CRA methodologies, rating criteria, credit opinions and rating actions relevant to EMDE transactions together with publicly available information and stakeholder discussions within the Taskforce. It examines how existing frameworks are applied across different transaction types, including fund-based vehicles, alternative investment funds, closed-end funds, structured finance transactions, CLO/CDO-type structures, project finance, infrastructure assets, MDB/DFI-type institutions and guarantee-supported transactions.

The report also incorporates insights from observed transaction experience and selected case studies to illustrate how rating methodologies operate in practice. These case studies are used to identify recurring rating drivers, such as capital adequacy, liquidity, portfolio diversification, sovereign-related constraints, legal enforceability of guarantees, loss-absorption capacity and shareholder or member support.

Terminology on EMDE used in this report

The report uses the term EMDE throughout. Broadly speaking the investment industry classifies these countries in a different way to the typical classification used by the OECD or the World Bank. Within investment, EMDEs are typically broken into emerging markets and developing or frontier markets. The report uses the terminology 'emerging market'¹ and 'frontier market'² for ease of understanding for the investment sector, which should be considered as aligning with the MSCI Emerging Markets and Frontier Markets Indices which collectively spans 66 countries, with 24 classified as emerging and 42 as frontier. This classification, while useful for assessing initial allocations to EMDE by UK asset owners, is not comprehensive and does not cover the full scope of the EMDEs requiring climate finance.





INTRODUCTION

Against the backdrop of declining Official Development Assistance (ODA), there is an increasing need to mobilise private capital at scale to support investment in EMDEs. Private capital mobilisation is no longer a complementary objective, but a critical requirement to bridge the financing gap in development sectors including infrastructure, climate, energy and so on.

The EMDE Investor Taskforce's work in 2025 identified a wide range of views among asset owners, asset managers and other key stakeholders regarding the role of credit ratings within the investment chain in EMDEs. Credit ratings, especially those from the three large global agencies S&P, Moody's, and Fitch, play a key role as they provide independent evaluations on the creditworthiness of an investment through risk analysis of multiple factors. A credit rating has become a shared benchmark that potential stakeholders look to when they consider their participation in an investment opportunity.

The CRA workstream has developed perspectives on how existing credit rating frameworks capture the risk-mitigating features typically found in EMDE transactions and blended finance structures such as guarantees and other forms of credit support. Building on these findings, the focus is on strengthening the analytical understanding of how different types of EMDE transactions and products are assessed under current credit rating methodologies. The aim is to identify the critical factors of methodology application by the agencies that might warrant closer observation. It seeks to facilitate engagement between investors and CRAs to enhance transparency and consistency in how risk is evaluated in practice.

It is also acknowledged that credit ratings given to investments and transactions in EMDEs can be significantly influenced by sovereign (or country) risk. Factors such as political instability, economic volatility, and limited fiscal capacity contribute to the elevated sovereign risk in many EMDEs. As of today, sovereign risk is often viewed as too high for most mainstream investors, impeding capital allocation. Out of 140 developing countries, only 10% are rated Investment Grade (BBB- or above), 13% rated BB and 76% rated B or lower; making the median sovereign risk B⁻³.

The underpinning premise of this workstream is that a more shared understanding of risk can have tangible impacts on real-world EMDE investments and transactions. In particular, it can support more effective structuring, improve the recognition of risk-mitigating features, and ultimately contribute to greater mobilisation of private capital.

EMDE Transactions & CRA Relevance

Credit ratings play a key role as one of the most powerful tools to facilitate private investment. While institutional investors – such as pension funds and insurance companies – are required to perform their own due diligence when making an investment decision, they also use credit ratings as a standardised, independent assessment of risk when making their resource allocation decisions. As such, the ability of EMDE transactions to obtain investment grade (IG) ratings is often a key determinant of their investability.

CRAs operate as independent and objective evaluators. They assess the creditworthiness of transactions based on their methodologies, focusing on factors such as asset quality, structural resilience, sovereign risk exposure, and the availability and effectiveness of credit enhancement mechanisms.

A key challenge identified by the EMDE Investor Taskforce is that market perceptions of risk can differ from observed performance, particularly where data is limited or structures are complex. In some cases, constraints on data availability and conservative stress assumptions may contribute to outcomes that stakeholders perceive as not fully capturing certain risk-mitigating features; this report discusses those features and the evidence typically considered in the analytical process.

Differences between market participants' risk expectations and credit rating outcomes can affect investor eligibility and appetite, particularly where mandates or regulations reference investment-grade thresholds. This report therefore focuses on explaining key analytical considerations and typical constraints so that stakeholders can engage efficiently and provide relevant information for the rating process.



CRAs' Current Approaches to Transactions in EMDEs

CRAs evaluate EMDE transactions using existing asset class or global methodologies rather than any specifically dedicated to EMDE or blended finance transactions. As a result, similar transactions have been classified and assessed under different methodological lenses depending on the CRA which has provided the rating. Therefore, stakeholders may find it useful to understand which analytical framework, or combination of frameworks, are likely to be applied and the main factors that are typically considered in the assessment.

Typical EMDE transaction instruments and features are outlined below, together with the methodological approaches used by CRAs.

It is important to examine how credit rating methodologies are applied across different transaction types, consider structural and methodological features that may affect rating analysis, and discuss where additional disclosure or evidence could help stakeholders understand differences between market perceptions and observed performance.

By doing so, this report aims to provide practical guidance on how to navigate existing credit rating frameworks more effectively.

Figure 1: Common EMDE investment structures and definitions

Instrument	Definition
Fund	Refers to an investment vehicle that pools capital from investors and deploys the capital into a portfolio of assets according to a defined investment mandate.
Alternative Investment Fund (AIF)	A vehicle that invests in non-traditional or less liquid assets, such as private credit, infrastructure debt, private equity, EMDE-focused loans and other private-market exposures.
Closed End Fund (CEF)	A fund with a finite life or defined investment period, where investors commit capital for a specific period and the vehicle gradually winds down as assets mature, prepay and are sold.
Structured Finance	A financing structure in which repayment to investors depends primarily on a defined pool of financial assets and legally specified cash flow waterfall, rather than on creditworthiness of an operating company and fund manager.
Project Finance	A non or limited-recourse financing structure in which debt is repaid primarily from the cash flow of a specific project or group of closely related project assets.
Collateralised Loan Obligation (CLO) / Collateralised Debt Obligation (CDO)	CLO is a structured finance transaction backed primarily by a portfolio of loans. CDO is a structured finance transaction backed by a portfolio of debt obligations or debt-like exposures.
Credit Linked Note (CLN)	A security issued by a financial institution or special purpose vehicle (SPV), but unlike a traditional bond, its cash flows are linked to the credit performance of a specific reference entity or pool of entities, such as a corporation or sovereign borrower.
Guarantee	A credit enhancing instrument where a third party undertakes to cover some or all the payment obligations, losses or specified risks associated with the underlying exposure. The credit quality of the guarantor may replace that of the underlying guaranteed exposure.
Multilateral Lending Institution (MLI)	A multilateral lending institution (including multilateral development banks (MDBs)) is a financial institution established by government institutions to provide financial assistance to developing countries. MLIs typically offer loans, credits, and grants for various projects, often with specific conditions tied to economic reforms or project implementation.



1. Fund-based vehicles are typically assessed under fund or balance sheet-based methodologies. For example, **S&P** may apply its Alternative Investment Fund (AIF) framework, focusing on stressed leverage, risk position, funding and liquidity, and jurisdictional risk, while **Moody's** applies approaches such as closed-end fund or its methodology for rating multilateral development banks (MDBs) and other supranational entities, emphasising asset coverage, liquidity, and shareholder support. **Fitch** similarly assesses closed-end alternative investment funds by focusing on the quality and liquidity of underlying assets, leverage, NAV stability, diversification, manager track record, investor base and cash flow waterfall.
2. Transactions with structures achieving asset isolation and insolvency remoteness of the issuing entity are typically assessed using structured finance methodologies, including CDO/CLO modelling. **S&P** uses a credit model to determine the cumulative expected default rate of a given portfolio of exposures, which is compared to the maximum amount of defaults the security can withstand under various cash flow stresses. **Moody's** applies expected loss-based approaches combining default distributions and cash flow modelling. In both cases, diversification, recovery assumptions, and structural protections are key drivers. **Fitch** also applies portfolio credit modelling to CDO and CLO-type structures, focusing on default probability, recovery assumptions, asset correlation, concentration risk, diversification, tranche seniority and structural protections. Across the CRAs, diversification, recovery assumption, subordination, overcollateralisation, liquidity support and cash flow waterfall are key drivers.
3. Project finance and infrastructure transactions are assessed based on construction risk, operating risk, revenue stability, counterparty quality, debt structure and financial resilience. For **S&P**, ratings typically reflect the asset's standalone cash flow stability and debt coverage ratios, the strength of its security and transaction structure, counterparty dependencies, government support and sovereign constraints.
4. Sovereign risk, country ceiling and transfer and convertibility (T&C) risk remain cross-cutting considerations. For **S&P**, sovereign default risk and T&C risk may constrain structured finance ratings between two to six notches above the sovereign rating for exposures in a single jurisdiction, while in multi-jurisdiction portfolios there may be no limitation on the maximum potential rating. For **Moody's**, country ceilings capture undiversifiable risks, either local currency or foreign currency risks. The distinction matters in EMDE transactions because foreign currency ratings may be more directly exposed to T&C and hard-currency availability risks, particularly where assets generate local currency cash flows, but liabilities are denominated in foreign currency. Moreover, specific criteria are defined about how sovereign ratings affect other ratings, codifying in what conditions a fundamental rating can be above the sovereign rating. For **Fitch**, the country ceiling is treated separately from the sovereign rating. It mainly captures T&C risk, and private-sector foreign currency ratings are not automatically limited by the sovereign rating.
5. Guarantee-supported transactions are assessed through credit substitution and/or credit enhancement methodologies. All three CRAs' criteria have considerations for guarantees to be unconditional and irrevocable, timely, and sufficiently comprehensive to shift credit risk from the underlying obligor to the guarantor. Where these conditions are met, ratings may align more closely with the guarantor's credit profile. **Fitch** also assesses the credit quality of the guarantor, legal enforceability, scope of coverage and timeliness of payment. Under published criteria, a full, unconditional, irrevocable and timely payment guarantee from a highly rated MDB, insurer, sovereign or financial institution may support higher ratings than would otherwise be indicated, including through substitution for part of the underlying credit risk where requirements are met. However, partial guarantees, political risk insurance or guarantees covering only selected risks do not fully replace the underlying project or asset risk. **Fitch's** approach is particularly clear in the context of credit linked notes, where the rating may be driven by the credit quality of the relevant risk-presenting entities, including guarantors, provided that the guarantee sufficiently covers principal, interest, claim processes and timely payment mechanics.



Issues & Constraining Factors

There are several cross-cutting issues and constraining factors which can affect EMDE rating outcomes. The main areas discussed below are sovereign-related risks, the recognition of credit enhancement and de-risking features, data limitations, concentration and correlation risks, and liquidity and funding constraints.

1. The most significant constraint for geographically concentrated exposures is sovereign risk and the separate but related country risk, including T&C risk. These factors often constrain ratings regardless of the strength of the underlying assets.
2. A second key constraint is that some de-risking features, especially in blended finance structures, may be treated differently across methodologies and may not provide the level of notching or uplift that some stakeholders expect. Guarantees are generally assessed as credit enhancements when they are enforceable, comprehensive, and timely, and stronger guarantees are more likely to support credit substitution under the applicable criteria. Partial guarantees or protections with narrower coverage may provide more limited uplift, depending on residual risks and terms.
3. Third, data limitations and track record issues hinder accurate risk assessment. EMDE assets often lack long-term default and recovery data, leading CRAs to apply lower recovery assumptions than those in developed markets or ultimately not include recovery prospects in the rating outcome.
4. Fourth, concentration and correlation risks are more pronounced in EMDE portfolios, where diversification across sectors and geographies may be limited. This increases modelled default risk, particularly in structured finance approaches. Across the CRAs, diversification is considered as a key rating driver. Limited diversification across countries, sectors, currencies or obligors can increase modelled default risk and reduce the benefit of structural protections.

5. Finally, liquidity and funding constraints, especially for fund structures, can further limit ratings, as reliance on concentrated or less stable funding sources is viewed negatively. This is especially relevant for fund and MLI-type methodologies. S&P, Moody's and Fitch all consider liquidity, funding strength, leverage and asset quality. For EMDE-linked funds, country concentration, valuation transparency, T&C risk and credit enhancement may also affect debt-service capacity. For project finance, uncertainty of funding during construction and insufficient liquidity in operations, especially if there is refinancing risk, can result in material rating caps for S&P.

Collectively, these elements have typically led to ratings for EMDE transactions being limited to below investment grade, notwithstanding sponsors' assessment of strong underlying fundamentals within the transactions.



Figure 2: CRAs' Approaches Comparison and Constraints & Implications⁴

Topic	S&P's Approach	Moody's Approach	Fitch's Approach	Observations on Constraints & Implications
Sovereign Ceiling	Potential limits on the maximum potential rating from sovereign rating, T&C risk, stress tests.	Strong focus on country ceiling	Strong focus on country ceiling which reflects T&C risk	<ul style="list-style-type: none"> Sovereign constraints are a key consideration
MLIs	Focus on enterprise risk profile (policy importance and governance and management expertise) + financial risk profile (capital adequacy and funding and liquidity) + extraordinary shareholder support.	Focus on capital, liquidity, and shareholder support	Focus on solvency, liquidity, shareholder/member support and preferred creditor status	<ul style="list-style-type: none"> Support for MLI/DFI differs across CRAs Asset quality and concentration remain important factors that can constrain ratings
AIF	The SACP is based on an assessment of stressed leverage, risk position, funding, liquidity, jurisdictional risk, track record and investment performance, risk management, and transparency and complexity. Geographic concentration may limit the maximum potential rating.	-	Focus on NAV resilience, asset quality, valuation, diversification and liquidity	<ul style="list-style-type: none"> EMDE funds face rating constraints reflecting perceived risk considerations
Structured Finance	The analytic framework considers the credit quality of the securitised assets, legal and regulatory risks, payment structure and cash flow mechanics, operational and administrative risks, and counterparty risk. Single-jurisdiction portfolio ratings may be constrained two to six notches above the sovereign, while diversified multijurisdiction portfolios may have no constraints.	Focus on portfolio characteristics, transaction's structure features, legal structure and operational risks.	Focus on credit enhancement, legal structure and counterparty risk.	<ul style="list-style-type: none"> Recognition for well-structured transactions differs across CRAs Sovereign risk remains a key constraint across CRAs



Topic	S&P's Approach	Moody's Approach	Fitch's Approach	Observations on Constraints & Implications
CDO Modelling	Credit model that uses Monte Carlo simulation and correlation assumptions to estimate asset default assumptions. Cash flow model that applies stresses to determine the maximum amount of defaults the security can withstand without missing interest or principal.	Monte Carlo modelling approach (assets); and cash flow model (liabilities).	Portfolio credit model approach; default probability, recovery assumptions, correlation, concentration and tranche subordination.	<ul style="list-style-type: none"> • Diversification is a key analytical input in portfolio credit modelling • EMDE assets are generally assessed with higher risk considerations across the CRAs
CEF (Funds)	Refer to the above.	Clear model: asset coverage + cash flow + leverage	Asset coverage, NAV volatility, leverage and liquidity	<ul style="list-style-type: none"> • CRAs set out criteria and information considerations relevant to fund structures • Illiquidity and higher leverage are typically considered in assessments of funds' resilience under stress
CLO	Refer to CDO Modelling above. The credit model considers the obligor ratings, industries, and tenor, while the cash flow model considers the payment priority, asset spreads, liability spreads, and recovery rates.	Default distribution & recovery assumptions (assets) + cash flow modelling (liabilities)	Portfolio credit quality, recovery rates, concentration	<ul style="list-style-type: none"> • Focus on a transparent and structured framework • EMDE loans face high default assumptions
Guarantees	Considers several features to assess if the guarantee qualifies for rating substitution, or liquidity support, including being unconditional and the timeliness of payment.	First demand, unconditional, irrevocable and timely.	Guarantor strength, enforceability, coverage scope and timely-payment mechanics; unconditional, irrevocable, timely and comprehensive credit-linked notes tend to be strongly evaluated.	<ul style="list-style-type: none"> • The extent of rating impact from guarantees depends on legal terms, scope, timeliness and counterparty strength under the applicable criteria • Partial or conditional guarantees may lead to more limited uplift given the rating typically reflects probability of default (PD) with some limited benefit for reduced loss in the event of default.



Guidance on How to Navigate the Ratings Process⁵

Based on observed transaction experience, the following considerations may help stakeholders communicate transaction features clearly against existing CRA criteria and understand how different analytical frameworks may be applied.

1. First, it is important to identify which CRA analytical framework(s) are most likely to be relevant for the transaction and to describe the structure in a way that is consistent with the information typically assessed under those frameworks. Depending on the transaction structure, this may include a fund or closed-end fund framework, structured finance framework, CLO/CDO or securitisation framework, project finance framework, MLI/MDB/DFI-type framework, or guarantee / credit enhancement framework. Each framework places emphasis on different factors, such as asset coverage, leverage, liquidity, portfolio diversification, recovery assumptions, subordination, cash flow waterfalls, sovereign risk, project cash flows, shareholder support or the legal strength of guarantees. Complex or hybrid structures may require additional explanation and supporting documentation so that relevant features are understood within the applicable criteria.
2. Second, it is helpful to consider early how sovereign-related factors may be relevant to the analysis and to be prepared to explain mitigants and supporting evidence. The appropriate mitigants will be transaction-specific and should be considered by the relevant parties and their advisers. These may include the use of offshore SPVs, hard currency cash flows, and liquidity reserving mechanisms, as well as political risk mitigation tools to reduce exposure to T&C and sovereign default risks. It is also worth understanding the difference between local and foreign currency credit ratings. A foreign currency rating, which is more typical for EMDE cross-border transactions, includes transfer and other risks related to sovereign actions that may directly affect access to the foreign exchange needed for timely servicing of the rated obligation. Transfer and other direct sovereign risks addressed in such ratings include the likelihood of foreign exchange controls and the imposition of other restrictions on the repayment of foreign debt.⁶
3. Third, diversification and portfolio construction are often important considerations, particularly for structured transactions. Increasing the number of obligors, sectors, and jurisdictions can reduce correlation risk and may improve model outputs, depending on the applicable criteria and assumptions. For CLO/CDO-type, securitisation and tranching portfolio structures, diversification, recovery assumptions, subordination, overcollateralisation, liquidity support and cash flow waterfalls are typically assessed as key drivers across structured finance methodologies.
4. Fourth, liquidity management and funding diversification are typically important considerations, especially for fund-based structures and project finance transactions, especially if exposed to construction risk and/or refinancing risk. Access to stable funding sources and the presence of high-quality anchor investors may support stronger assessments under some approaches. Transparency about asset coverage, leverage, liquidity, investor and/or shareholder support, NAV stability, valuation transparency, paid-in capital, subordinated classes and any reserve accounts or credit enhancement features will support accurate credit analysis.
5. Finally, early engagement with CRAs can help stakeholders understand information needs, timelines, and the scope of the applicable criteria, and can support efficient exchange of factual information. Any engagement should be consistent with CRA policies and regulatory requirements. This engagement could help clarify which methodology is likely to apply, which rating constraints may be most relevant, and how guarantees, political risk insurance, subordinated capital, paid-in capital, cash flow waterfalls and other de-risking features will be assessed.

To support consistent application of the considerations outlined above, a decision tree is provided on [page 16](#). By following the branches, stakeholders can identify key aspects of a transaction – such as potential sovereign stress, recovery characteristics and portfolio diversification – that are commonly relevant to discussions of methodology application. It is worth noting that while better communication by sponsors can help address some of the challenges in obtaining the desired rating outcome, some of the constraints are structural in nature and may require additional analysis based on relevant evidence and data to resolve them over the longer term.



Credit Ratings for Blended Finance Vehicles – Experience to Date

Despite the issues and constraining factors discussed above, stakeholders continue to explore ways to make EMDE transactions more accessible to a wider investor base and to mobilise private capital at scale. In this context, blended finance is often discussed as one tool among others, as it may combine concessional capital, guarantees and other risk-mitigating features that can affect the risk-return characteristics of EMDE transactions.

While credit ratings can play a critical role in bridging the gap between perceived and actual risks in emerging markets, rating blended finance structures is inherently complex. Key difficulties stem from the structural features of blended finance itself, including multi-layered capital stacks and the interaction between concessional and commercial tranches, which can be difficult to capture within conventional rating methodologies. Certain de-risking mechanisms (such as guarantees, insurance and subordinated tranches) may be treated differently across rating approaches depending on legal terms, scope of coverage, structural features, and the evidence available to demonstrate risk transfer or loss-absorption. In some cases, stakeholders may need to provide additional detail to support how such features operate under stress. For instance, a structured closed-end fund may share characteristics with CLOs, such as multiple capital layers, paid-in capital, subordinated classes, and senior protection. Yet, when using a fund-based or corporate-style methodology, more emphasis may be placed on governance, shareholder backing, funding diversity, and liquidity. This means that features like paid-in capital, subordination, or limited asset-liability mismatches may not always receive enough recognition for the protection they provide. In addition, limited data availability and track record in EMDEs further constrain the ability of CRAs to assess risk with confidence.

When it comes to obtaining a credit rating, fund managers typically adopt one of three approaches: (1) rating the entire fund, (2) rating individual projects, or (3) rating only the senior tranche, each presenting trade-offs depending on the structure and asset class. Case studies illustrate both successes and limitations.

The Emerging Africa and Asia Infrastructure Fund (EAAIF)⁷ is an example of a blended finance fund that obtained a credit rating for the entire fund. EAAIF is managed by Ninety One and forms part of the Private Infrastructure Development Group (PIDG). Moody's assigned the fund an IG A2 issuer rating (stable outlook), supported by its strong capital position, diversified loan portfolio, robust liquidity, and backing from highly rated shareholders linked to PIDG. This approach provides investors with a clear external assessment of the fund's overall credit strength. However, its limitation is that this approach may only work where the fund has sufficient scale, diversification, liquidity and strong shareholder support to offset the weaker credit quality of EMDE assets.

ImpactA⁸ took a different approach by assessing each individual infrastructure project before investment, rather than seeking a rating for the entire fund. Its internal rating framework was designed to be closely aligned with Moody's methodology and was developed with support from Legal & General. This approach allows detailed credit analysis at the project level, which is useful for infrastructure assets with identifiable cash flows, risks, counterparties and contractual structures. Nevertheless, the approach may be less suitable for funds investing in a large number of smaller assets, such as SMEs or microfinance loans, where individual credit analysis is more difficult and available data may be limited.

Furthermore, Mirova⁹ sought a rating for the most senior tranche of its blended finance structure, rather than rating the entire fund or each project. A senior-tranche rating may be relevant for some institutional investors where mandates reference specific rating categories and where the senior tranche benefits from structural protections. However, as noted above, rating agencies may not fully recognise some blended finance protections, such as subordinated capital, guarantees or tranche structures, particularly where these features are complex or conditional. Mirova ultimately decided not to obtain a rating for its most senior tranche illustrating challenges that can arise where credit enhancement features are not deemed effective risk mitigants under existing CRA methodologies.

In contrast to the challenges seen in the Mirova case, the Global Gender-Smart Fund S.A., SICAV-SIF (GGSF) obtained a first-time A3 issuer rating from Moody's in 2026¹⁰. GGSF provides financing to underserved women, women entrepreneurs and women-owned or women-led micro-SMEs in developing markets



through local financial institutions. The rating was supported by its multi-layered capital structure, including junior and senior shares and subordinated notes, with subordinated capital required to exceed 60% of total assets. This structure provides loss-absorption capacity for senior noteholders, while liquidity, geographical diversification, currency hedging and public/DFI shareholders were also cited as supporting factors. This case illustrates how blended finance features may be reflected in rating analysis when they are documented and assessed under the applicable criteria.

The use of securitization technology has also been used to provide credit enhancement that supports higher rating outcomes, such as through repackaging partially guaranteed exposures. The Ecuador Social Bond S.à r.l. (Series 2020)¹¹ is an example of a repackaging rated by S&P where the underlying exposure is a social bond issued by the Republic of Ecuador and partially guaranteed by the Inter-American Development Bank (IDB). The issuance proceeds will be used to fund the development of affordable housing in Ecuador through loans that will be available at participating financial institutions to first-time buyers meeting certain conditions. The creditworthiness of the underlying social bond was assessed by at the same level as other unsecured sovereign debt obligations and is linked to the rating of Ecuador. However, through credit tranching the exposure into senior class A and subordinated class B notes via the repack, the class A notes are fully supported by cash flows from the partial guarantee from IDB if it is required to be called upon. Thus, the rating on class A is weak-linked to the rating on the IDB (rated AAA), whilst the rating on class B reflects the rating on the social bond (rated B-).

These successes and challenges carry important implications for scaling blended finance. Firstly, stronger and earlier engagement with CRAs is critical for ensuring that fund structures are aligned with rating frameworks. Secondly, structuring choices and the documentation of credit enhancement features can influence how those features are assessed under applicable criteria. For example, stakeholders may wish to understand how different forms of credit support are typically evaluated (including legal enforceability, scope, and timeliness) and to provide clear, factual information relevant to the CRA's analytical framework. Finally, improving transparency and availability of credit performance data, not just from DFIs and MDBs but also from private markets, is essential to reducing the gap between perceived and actual risks.

The first and second point above are reinforced by Moody's in a recent report stating that blended finance structures may fall under different rating methodologies¹². Depending on their structure, they may be assessed under MDB / supranational, closed-end fund, or structured finance /CLO methodologies. The choice of framework depends on factors such as the number and type of public-sector risk capital providers, the permanence or tenor of the vehicle, the legal structure, and whether portfolio assets have been transferred to a bankruptcy-remote SPV (See Figure 9 in the Appendix for Moody's analysis on key considerations for determining the most appropriate methodology). In particular, junior or first-loss capital is an important source of credit protection, but it does not by itself determine the rating outcome. Structured finance approaches place greater emphasis on asset-level data, eligibility criteria, cash flow waterfalls and legally enforceable structural protections, while MDB or fund-based approaches may also consider shareholder support, governance, liquidity, funding stability and the permanence of concessional capital. Separately, B-loan structures may also be relevant in some EMDE transactions as a participation mechanism alongside MDBs/DFIs. While they are not credit enhancement instruments and may not directly contribute to rating uplift, they can provide an additional route for private investors to participate in MDB/DFI-led transactions.

Based on the observations and implications above, it is preferable that blended finance structures are described and documented in ways intended to facilitate assessment under applicable rating methodologies. Clearer articulation of the terms and operation of subordinated capital, paid-in capital, guarantees and other credit enhancement features may assist stakeholders in explaining how these elements function, alongside any limitations, within the relevant analytical framework. Further examples for blended vehicles that have successfully obtained an investment-grade credit rating, such as AgDevCo, Africa Local Currency Bond Fund, FIEMEX, and Global Climate Partnership Fund, can be found in the Annex.



Rated Note Feeders as a Potential Capital Mobilisation Wrapper

In an effort to make blended finance structures more accessible to institutional investors, feeder rated notes, or rated note feeders (RNFs), may offer one potential wrapper for translating private market exposures into a rated debt format and supporting private capital mobilisation. RNFs are fund-finance structures that transform LP exposure to private credit or private equity funds into rated debt instruments. A feeder vehicle or SPV issues rated notes to institutional investors and invests the proceeds into a master fund, allowing investors, particularly insurers, to access private market strategies through a debt format rather than direct LP equity exposure. These structures can improve capital efficiency for regulated investors and provide fund managers with an additional fundraising channel. Specialist rating agencies, alongside major CRAs, have been active in assessing these instruments. The credit risk of RNFs remains fundamentally linked to the underlying fund assets, the use of leverage, the robustness of payment waterfalls, liquidity support, asset-liability matching, investment guidelines and the manager's track record.

Fitch anchors feeder fund debt ratings in expected asset quality and cash flow analysis, supplemented by qualitative adjustments for leverage, manager capability and legal structure, and expects many ratings to fall in the 'A' category or lower. S&P similarly emphasises structural protections, liquidity buffers, maturity matching and alignment between the feeder and master fund. Moody's broader work on fund finance reflects similar concerns around the growing complexity of private credit structures. Recent commentary in the media¹³ has highlighted further risks: potential regulatory capital arbitrage, growing use by smaller managers with limited track records, reduced transparency and look-through, higher leverage, possible PIK exposure, and reliance on future or hypothetical portfolios rather than asset-level diligence. These risks suggest that RNFs can support private capital mobilisation only where ratings are accompanied by strong disclosure, conservative structuring and robust asset-level risk analysis.

Decision Tree

Building on the credit rating methodologies discussed in earlier sections, the decision tree below is intended to help stakeholders identify which CRA methodologies may be most relevant when assessing EMDE transactions. By working through a series of Yes/No questions, users can highlight the analytical areas most likely to require attention, including sovereign risk, fund structures, portfolio diversification, structured finance features, project finance characteristics, and credit-enhancement mechanisms.

The decision tree is a practical guide rather than an exhaustive or definitive framework. The methodologies it highlights should not be considered in isolation, as the applicable methodology will depend on the specific structure, documentation, asset profile, and risk mitigants of the transaction. EMDE and blended finance transactions may also span multiple analytical frameworks, including fund-based, structured finance, project finance, MDB/DFI-related, and guarantee-related approaches. The decision tree should therefore be read alongside the broader methodology mapping set out in this report.



Figure 3: Decision Tree







APPENDIX – CRA METHODOLOGIES

CRAs' Approaches

This Appendix examines how the three CRAs: S&P Global Ratings, Moody's and Fitch Ratings, assess major EMDE transaction types under their existing methodologies. It also summarises, at a high level, how the agencies' rating scales correspond to each other. Although rating symbols differ, the scales are broadly comparable in terms of relative credit quality, from investment grade to high yield or default-level ratings. This distinction is relevant for EMDE transactions because some investors' mandates, regulations or internal policies reference rating categories and thresholds.

Figure 4: Comparison of the three CRAs' ratings definitions

MOODY'S	S&P	FITCH	DESCRIPTIONS	GRADE
Aaa	AAA	AAA	Highest credit quality, minimum credit risk	 INVESTMENT
Aa	AA	AA	Very high credit quality, very low credit risk	
A	A	A	High credit quality, low credit risk	
Baa	BBB	BBB	Good credit quality, moderate credit risk	
Ba	BB	BB	Issuer faces adverse conditions and uncertainty, substantial credit risk	 HIGH YIELD (or "Junk")
B	B	B	High credit risk, issuer able to meet financial commitments	
Caa	CCC	CCC	Vulnerable and default likely	
Ca	CC	CC	Issuer is highly vulnerable or near default	
C	C	C	Lower ratings, issuer in default	
	D	RD	Lower ratings, issuer in default	
		D	Lower ratings, issuer in default	

Source. Compiled by Convergence from Fitch, Moody's, S&P and OECD ECA ratings, 2025.
 Note: Fitch's descriptions are slightly different at the high yield levels.



S&P GLOBAL RATINGS' APPROACH FOR RATING EMDE TRANSACTIONS

1. Sovereign Rating Criteria and Rating Above The Sovereign

S&P's sovereign rating methodology assesses a government's ability and willingness to meet its financial obligations to commercial creditors, using a structured framework built on five key pillars: institutional, economic, external, fiscal, and monetary factors. These pillars collectively capture both a country's structural strength and its capacity to withstand shocks.

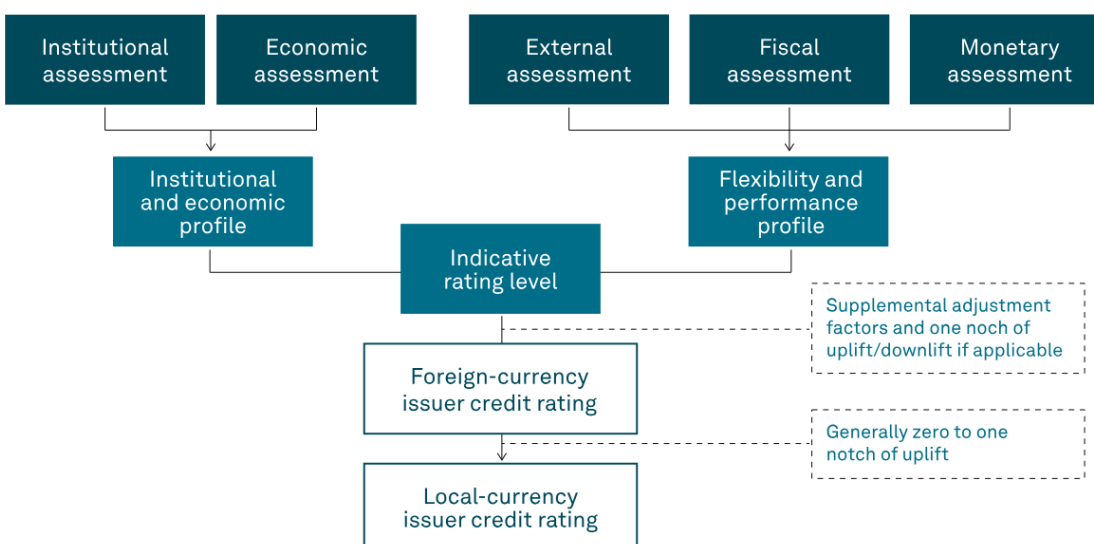
The institutional and economic assessments reflect the long-term foundations of creditworthiness, including governance quality, policy effectiveness, income levels, growth prospects, and economic resilience. In parallel, the external, fiscal, and monetary assessments evaluate a sovereign's ability to manage vulnerabilities – such as foreign currency needs, public debt sustainability, and macroeconomic stability – particularly under stress scenarios.

These five components are aggregated into two broader profiles – institutional and economic strength, and flexibility and performance – whose combination determines an indicative rating level. The final rating is then derived by applying limited qualitative adjustments (typically within one notch), ensuring that the outcome reflects both a systematic framework and expert judgment.

The sovereign rating typically represents the highest credit quality across sectors in a developed or developing market. However, an entity or issue can be rated above the sovereign foreign currency rating if there is an appreciable likelihood that it would not default even if the sovereign were to default. For example, structured finance securities with underlying exposures in a single-jurisdiction can generally be rated between two to six notches above the sovereign rating, while in multijurisdiction portfolios there may be no limitation on the maximum potential rating, assuming the portfolio is sufficiently diversified across countries. Across the corporate, financial services, and project finance sectors, an entity or structure can be rated up to four notches above the relevant sovereign if it passes a hypothetical sovereign foreign currency default stress test.

Transfer and convertibility (T&C) risk is also considered in the analysis, which speaks to the likelihood that a sovereign will limit the ability of a non-sovereign to access the foreign exchange necessary to meet the nonsovereign's debt service obligations, which can often constrain ratings.

Figure 5: S&P's Sovereign Issuer Credit Rating Framework



Source: S&P Global webpage "How We Rating Emerging and Frontier Markets".



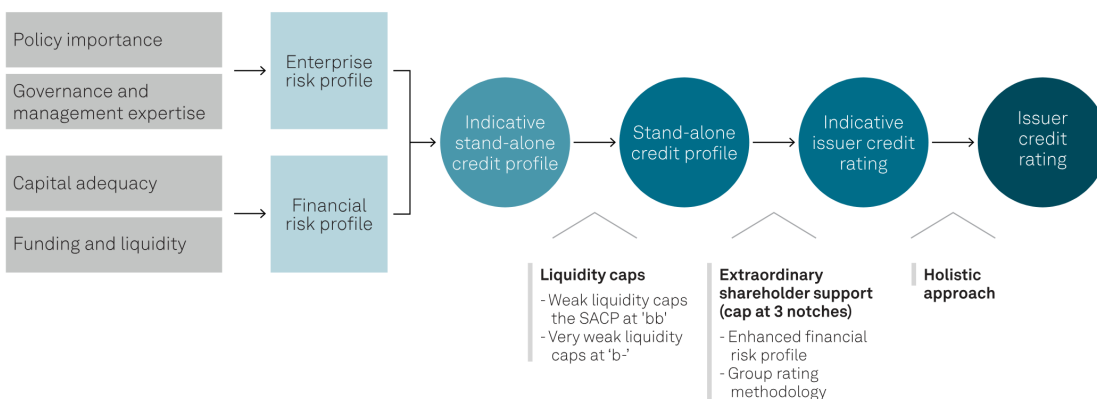
2. Multilateral Lending Institutions (MLIs)

S&P's rating methodology for MLIs (including MDBs) is anchored in the stand-alone credit profile (SACP), derived from two core components: the enterprise risk profile (ERP) and the financial risk profile (FRP). The ERP assesses an institution's relative strength within the global MLI sector based on policy importance and governance and management expertise, while the FRP evaluates financial strength through capital adequacy and funding and liquidity. These four factors together determine the institution's intrinsic creditworthiness.

Policy importance reflects the institution's public mandate, shareholder support, and preferred creditor treatment (PCT), while governance focuses on ownership structure, risk management, and management effectiveness. Financially, capital adequacy is assessed using the RAC framework (which evaluates whether an institution's capital base is sufficient relative to the risks embedded in its assets) with qualitative adjustments, and funding and liquidity capture market access, funding stability, and resilience under stress.

The final issuer credit rating (ICR) is derived by adjusting the SACP for extraordinary shareholder support, particularly callable capital. This support depends on shareholders' ability and willingness to contribute and is typically capped (e.g., up to three notches). The final rating therefore reflects both intrinsic strength and the reliability of external support.

Figure 6: S&P's MLI Criteria Framework



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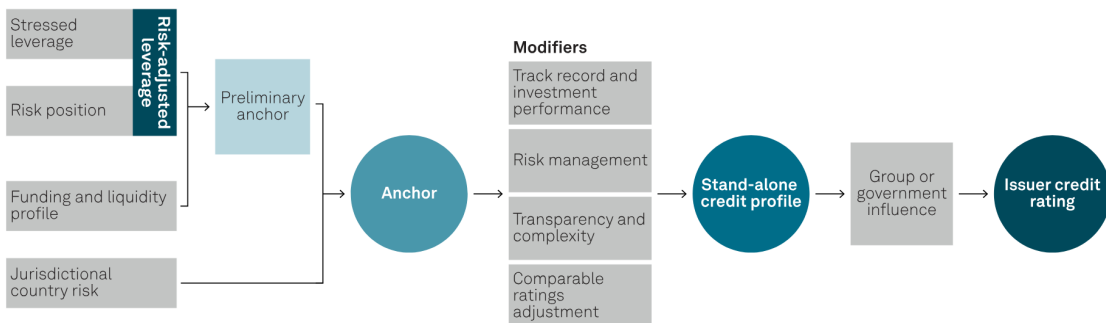


3. Alternative Investment Fund (AIF)

The rating criteria for alternative investment funds (AIFs) are centred on the SACP, which is assessed using a forward-looking, multi-factor framework. The key rating factors include stressed leverage, risk position, funding, liquidity, jurisdictional risk, track record and investment performance, risk management, and transparency and complexity. These factors collectively capture the creditworthiness of a fund based on its investment strategy, asset profile, and funding structure.

The rating process begins by combining risk-adjusted leverage (stressed leverage adjusted for risk position) with funding and liquidity to derive a preliminary anchor, which is then adjusted for jurisdictional risk. This anchor is further modified by qualitative factors – such as performance track record, risk management, and transparency – to determine the SACP. Finally, the ICR is derived by incorporating potential external support from a group or government.

Figure 7: S&P's AIF Ratings Framework



Source. S&P Global ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

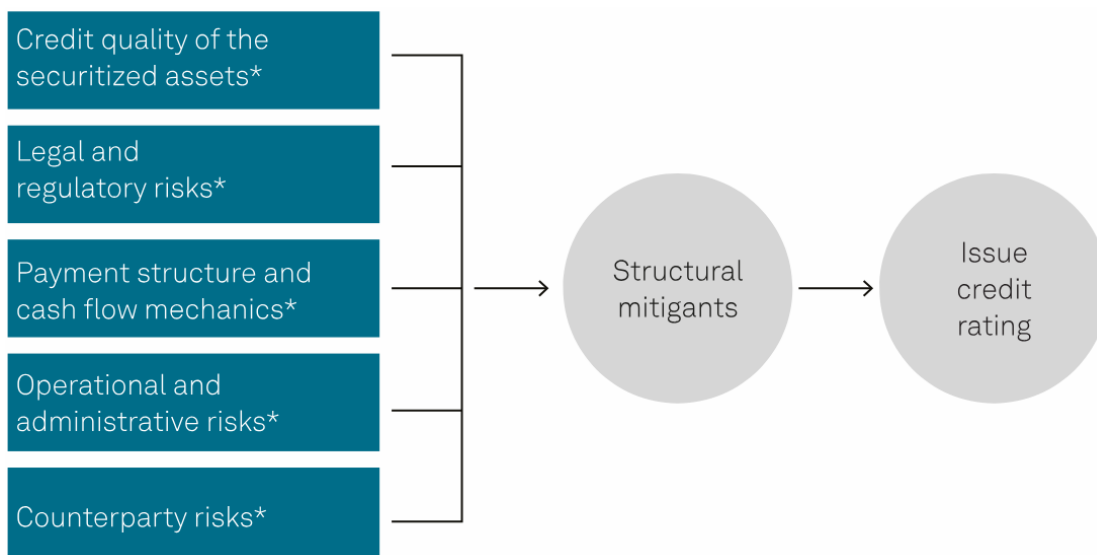


4. Structured finance

The analytic framework for structured finance securitisation ratings includes five key areas: Credit quality of the securitised assets, legal and regulatory risks, payment structure and cash flow mechanics, operational and administrative risks, and counterparty risk. In many securitisation transactions, a key step in analysing the credit quality of the securitised assets is estimating the level of expected losses, which are then stressed under various economic scenarios depending on the applicable rating level. The analysis of legal and regulatory risks focuses primarily on the degree to which a securitisation structure isolates the securitised assets from the bankruptcy or insolvency risk of entities that participate in the transaction. The payment structure analysis may involve both assessing the documentation for a security and testing the cash flows using quantitative models. In both cases, the objective is to assess whether the cash flow from the securitised assets would be sufficient, at the applicable rating levels, to make timely payments of interest and ultimate payment of principal to the related securities, after taking account of available credit enhancement and allowing for transaction expenses, such as servicing and trustee fees. Operational risk analysis focuses on key transaction parties, such as the servicer, to determine whether they are capable of managing a securitisation over its life, while counterparty risk focuses on third-party obligations to either hold assets or make financial payments that may affect the creditworthiness of structured finance instruments.

Ultimately, the final rating is the lower of the rating derived from asset-specific analysis and the rating constrained by sovereign-related considerations.

Figure 8: S&P's Structured Finance Rating Framework



Source. S&P Global Ratings.



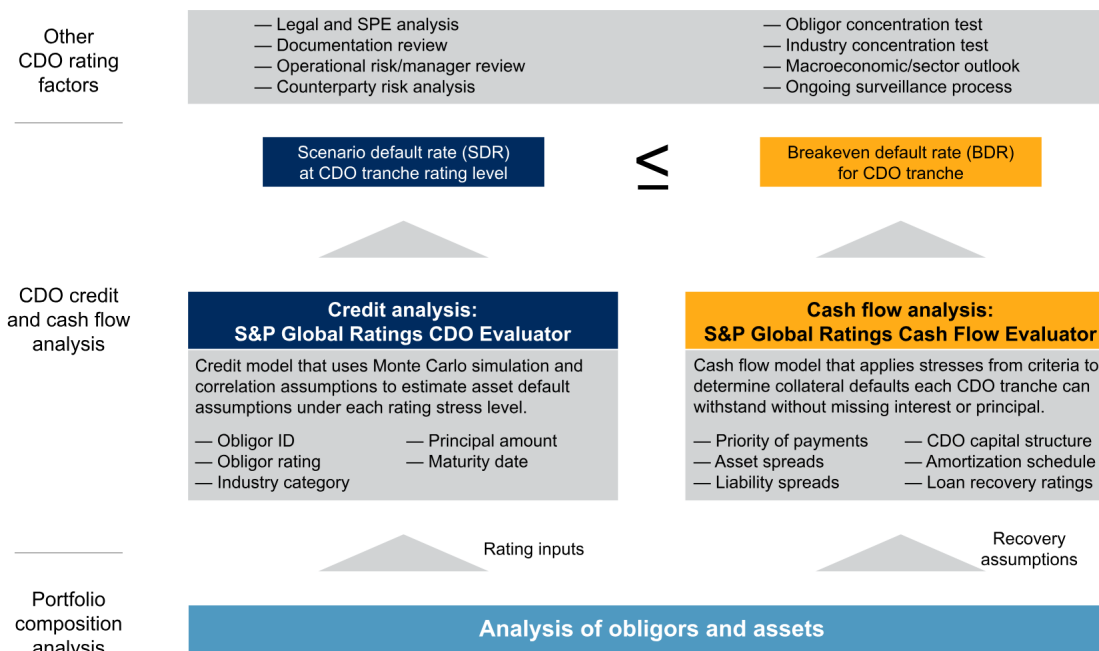
5. CLO/CDO Modelling (Including project finance securitisation)

CLO/CDO ratings are determined through a combination of portfolio credit risk analysis and cash flow analysis. First, S&P uses a stochastic model to estimate the scenario default rate (SDR) of the asset pool under rating-specific stress scenarios. SDR is driven by asset default rates, based on credit quality and tenor, and by correlations reflecting industry and geographic concentration.

Second, cash flow analysis determines the break-even default rate (BDR), which represents the maximum level of defaults a tranche can withstand while still meeting its obligations. A tranche can achieve a given rating if its BDR is at least equal to the SDR under the corresponding stress scenario.

Finally, additional quantitative and qualitative tests, such as concentration risk, subordination, structural features, and counterparty risks, are applied, and the most constraining outcome among these analyses determines the final rating.

Figure 9: S&P's CLO and CDO Rating Framework



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6. Guarantees

S&P considers a full guarantee that meets certain conditions to qualify for “rating substitution” as a form of credit enhancement – meaning the evaluation of creditworthiness is shifted from the primary obligor to that of the guarantor. This requires the guarantee to be strong enough that investors rely primarily on the guarantor’s creditworthiness.

To qualify, the guarantee must be a guarantee of payment (not collection), ensuring the guarantor pays amounts due on time without requiring prior recovery efforts. It must also be unconditional, irrevocable, and legally enforceable, with the guarantor waiving typical defenses such as set-off or counterclaims. The guarantee should generally cover full principal and interest, clearly designate investors as beneficiaries, and limit the guarantor’s ability to terminate or amend it.

S&P also considers structural factors such as the ranking of the guarantee, which determines whether the rating aligns with the guarantor’s senior or subordinated obligations. The guarantor’s own credit quality is central, and in multi-guarantor structures, the weakest guarantor may constrain the rating. For sovereign guarantees, S&P additionally assesses willingness to pay.

For partial guarantees, since they are not structured to ensure timely payment of principal and interest in full, S&P does not view them in the same fashion as full guarantees. However, partial guarantees do reflect some level of ongoing support, and the possibility of potential future support, from guarantors. If it is determined that the party providing the partial guarantee were likely to provide future support that did improve the creditworthiness of the issue or issuer, it may be reflected through group ratings analysis or government-related entity analysis, as appropriate. Similarly, some value may be provided for partial guarantees in structured finance or project finance transactions if they support and enhance future cash flows and/or provide liquidity.

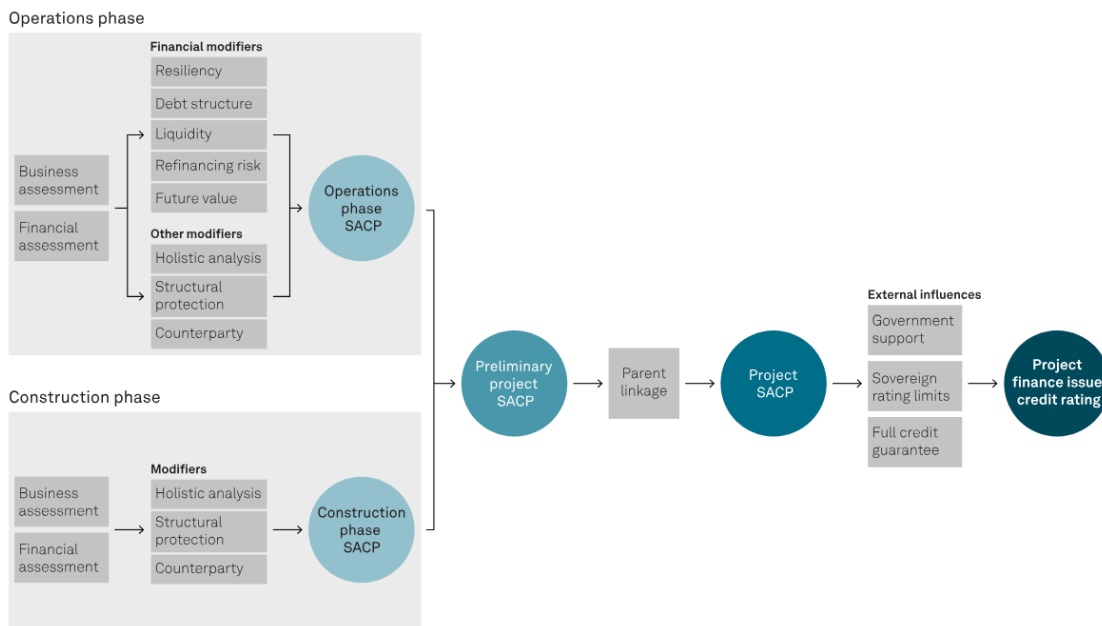
7. Project Finance

S&P’s project finance methodology offers a framework for assessing the credit quality of limited-purpose entities established to develop, own, and operate the underlying capital-intensive assets. The approach is anchored in evaluating the project’s ability to generate stable and predictable cash flows sufficient to meet debt obligations over the project life (project’s stand-alone credit profile or SACP). We also analyse the extent to which the transaction’s structural features isolate the project from the financial and operational risks of the sponsors (parent linkage) and ensure that lenders rely primarily on the project’s credit quality for debt repayment (structural protection).

The main risk factors influencing the project’s credit quality (or SACP) include construction risk, operating risk and counterparty risk. Construction risk refers to the possibility of delays or cost overruns before the project becomes operational. Operating risk involves the ongoing performance and maintenance of the asset, as well as the asset’s exposure to fluctuating demand or prices for the project’s output. Counterparty risk evaluates the reliability of entities such as off-takers, suppliers, and contractors. Embedded in those is impact of country-specific risks—such as political, regulatory, and currency risks – and how they can influence the project’s issue credit rating (external influences).”



Figure 10: S&P's Project Finance Criteria Framework



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8. Examples of Credit Rated Transactions & Rationales

AgDevCo Ltd. – S&P ‘A-’ Issuer Credit Rating, Stable Outlook¹⁴

Applied methodology: Multilateral Lending Institutions & Supranational

AgDevCo is a specialist investor in African agriculture, providing long-term debt and equity to farming and agri-processing businesses across Sub-Saharan Africa. As of April 2026, it managed a portfolio of 38 active investments across ten countries, with assets under management of approximately USD390 million.

S&P Global Ratings assigned AgDevCo an ‘A-’ long-term issuer credit rating with a stable outlook. The rating reflects AgDevCo’s capitalisation and liquidity coverage, supported by first-loss equity from the UK government, as well as its management team, asset quality, governance standards and shareholders, including BII, Norfund and Swedfund.

The case illustrates how certain structural features and sources of support may be reflected in rating analysis for development-focused investment vehicles, and how these considerations can be relevant for investor understanding of credit risk in EMDE contexts.

FIEMEX: Project Finance in Mexico¹⁵

Applied methodology: Project Finance

FIEMEX is a Mexico-based special purpose trust holding a portfolio of 13 power generation assets acquired from Iberdrola, comprising approximately 8.5GW of installed capacity.

The notes are senior secured by the power plants, related real estate, equipment and project cash flows, with a waterfall structure allocating revenues to debt service, reserves and operating or capital expenditures. S&P assigned a BBB rating to FIEMEX’s senior secured notes, despite a project stand-alone credit profile of bb+, reflecting its assessment of extremely high government support through FONADIN and the strategic importance of the assets to Mexico’s power sector.

The case illustrates how EMDE project finance ratings can be shaped by the interaction of project cash flows, security structure, government-related support and sovereign rating constraints.



MOODY'S APPROACH FOR RATING EMDE TRANSACTIONS

1. Sovereign Rating Criteria and Sovereign Ceiling

Moody's sovereign rating methodology assesses a government's capacity and willingness to honour debt obligations through a framework focusing on four main pillars: Economic Strength, Institutional & Governance Strength, Fiscal Strength, and Susceptibility to Event Risk. Economic Strength measures the scale and diversity of the economy, growth prospects and competitiveness of the country. Institutional and Governance Strength evaluate policy effectiveness, transparency, institutional strength and the rule of law. Fiscal Strength analyses government debt burden, debt affordability and debt structure. Lastly, Susceptibility to Event Risk assesses risks to the rating from political stability, banking sector distress or sudden capital outflows.

Moody's assigns country ceilings that capture undiversifiable risk and constrain the highest possible ratings in a country which in general constrain structured finance transactions. Moreover, for fundamental issuers (e.g. Corporates), Moody's reviews the characteristics of an issuer that are most important in deciding whether its ratings are constrained at the level of the sovereign bond rating, or one, two or more notches above the sovereign given inextricable linkages to the government or elements of sovereign risk, separate from country risk ceilings.

Figure 11: Moody's Sovereign Issuer Credit Rating Framework

Factor	Sub-factor	Sub-factor Weighting	Metric / Sub-sub-factor	Metric / Sub-sub-factor Weighting
ECONOMIC STRENGTH	Growth Dynamics	35%	Average Real GDP Growth	25%
			MAD Volatility in Real GDP Growth	10%
	Scale of the Economy	30%	Nominal GDP (US\$ bn)	30%
	National Income	35%	GDP per Capita (PPP, Int. USD)	35%
	Adjustment to Factor Score	0 to 9 notches	Other	
INSTITUTIONS AND GOVERNANCE STRENGTH	Quality of Institutions	40%	Quality of Legislative and Executive Institutions	20%
			Strength of Civil Society and the Judiciary	20%
	Policy Effectiveness	60%	Fiscal Policy Effectiveness	30%
			Monetary and Macroeconomic Policy Effectiveness	30%
	Adjustments to Factor Score	0 to 3 notches	Government Default History and Track Record of Arrears	
	0 to 3 notches	Other		
FISCAL STRENGTH	Debt Burden	50%	General Government Debt / GDP	25%
			General Government Debt / Revenue	25%
	Debt Affordability	50%	General Government Interest Payments / Revenue	25%
			General Government Interest Payments / GDP	25%
	Adjustments to Factor Score	0 to 6 notches	Debt Trend	Historical Change in Debt Burden
				Expected Change in Debt Burden
				General Government Foreign Currency Debt / GDP
			Other Non-Financial Public Sector Debt / GDP	
	0 to 3 notches	Government Financial Assets including Sovereign Wealth Funds / GDP		
		Other		
SUSCEPTIBILITY TO EVENT RISK	Political Risk	Minimum Function	Domestic Political and Geopolitical Risk	
	Government Liquidity Risk	Minimum Function	Ease of Access to Funding	
			0 to 2 Scoring Categories	Adjustment to Sub-factor Score High Refinancing Risk
	Banking Sector Risk	Minimum Function	Risk of Banking Sector Credit Event (BSCE)	
			0 to 2 Scoring Categories	Total Domestic Bank Assets / GDP
		0 to 2 Scoring Categories	Adjustments to Sub-factor Score	
	External Vulnerability Risk	Minimum Function	External Vulnerability Risk	
Adjustments to Factor Score	0 to 2 Scoring Categories	Adjustments to Sub-factor Score		

Source: Moody's webpage "Sovereign Methodology Overview".



2. Multilateral Development Banks (MDBs)

The credit rating of MDBs is primarily determined by three core factors: capital adequacy, liquidity and funding, and strength of member support. The capital adequacy and liquidity and funding factors carry equal weight in Moody's preliminary assessment of "intrinsic financial strength (IFS)." Moody's can apply adjustments to this score due to its assessment of qualitative factors related to the operating environment and quality of management. These adjustments are combined with the preliminary IFS assessment to result in the adjusted IFS outcome. The third factor – strength of member support – which can provide notching uplift to this outcome, results in the scorecard-indicated outcome.

The Capital adequacy factor reflects the institution's capacity to absorb losses and is assessed through a risk-based framework, notably the leverage ratio, which compares Moody's assessment of usable equity to assets (which includes development assets and treasury assets rated A3 and lower). The capital adequacy factor also includes an assessment of the credit quality of the development assets – which can be adjusted due to qualitative factors such as preferred creditor status, and diversification of assets – and asset performance. The Liquidity and funding factor evaluates the institution's ability to meet short-term obligations – with liquid assets assessed against 18 months' net cash flows – and access stable, diversified funding sources, particularly through international capital markets and institutional investors.

The third factor, strength of member support, captures shareholders' ability and willingness to support the entity. This includes an assessment of their weighted average credit quality, the availability of callable capital or other contractual backing, and Moody's assessment of the likelihood of non-contractually obliged support, based on its track record and qualitative factors such as the importance of the entity's mandate to the shareholders. In addition, Moody's incorporates qualitative adjustments such as governance, operating environment, and risk management practices, as well as the impact of credit enhancements, preferred creditor status, and portfolio concentration. Together, these elements determine the overall intrinsic financial strength and the final assigned rating.

3. Closed-end Funds Methodology (closed-end funds, project finance, structured finance are included)

The primary rating driver in the Closed-End Fund methodology is Asset Coverage, which carries the largest weight in the scorecard, 70% for cash flow funds. For cash flow funds, where assets are typically illiquid, the assessment relies on leverage relative to portfolio size, reflecting the funds' dependence on recurring cash flows to meet their obligations. Asset Coverage is informed by several formal sub factors, including the Asset Profile (credit quality, liquidity, and diversification), as well as sector and issuer concentration, which can amplify losses under stress.

Fixed Charge Coverage is the second key component (15% weight for cash flow funds) and evaluates the fund's ability to service interest, and other financing costs from the assets' cash flows. The third core factor is Financial Policy (15% weight), which assesses leverage discipline, risk appetite, investment and liquidity management practices, and the fund's track record of compliance with regulatory and self-imposed limits.

The scorecard indicated outcome can then be adjusted through notching and qualitative overlays, including business profile and investment manager quality, market and regulatory conditions, structural features, and other considerations, leading to the final assigned rating. This methodology can be used to rate different liability tranches through a notching mechanism, based on the structural features of the tranches.

4. CDO Modelling (including CLOs)

Moody's Corporate Synthetic CDOs (CSOs) applies to securitisations backed by a portfolio of bonds and/or loans. This methodology is an expected loss-based framework designed to assess the credit risk of each liability tranche issued by a securitisation vehicle.

Moody's estimates the EL using two core analytical components: (i) a loss distribution, which models the portfolio wide-loss behaviour, and (ii) a cash flow model that allocates interest and principal through the transaction's priorities of payments.



In its credit analysis, Moody's would consider the characteristics of each underlying asset, including default probability, recovery rate, pairwise loan-by-loan correlation and average life of each individual asset. Moody's applies a Monte Carlo simulation framework to model the collateral loss distribution. The correlation assumption considers factors including the credit quality of individual assets, as well as industry concentration and geographic distribution.

The cash flow analysis incorporates the transaction's structural features, including the priority of payments, coverage tests and interest rate assumptions. By weighting tranche level outcomes by their probability, Moody's calculates an expected loss for each tranche, Moody's derives an expected loss measure and maps it against idealised loss benchmarks to determine the appropriate rating. In addition to the quantitative analysis, qualitative considerations – such as legal structure, documentation robustness, and the experience and governance of the collateral manager – are also taken into account in the final rating decision.

5. Guarantees

To achieve full credit substitution – the replacement of the credit quality of the underlying obligor with that of the guarantor – the nine characteristics of strong guarantee agreements as set out in Annex E of the *Guarantees, Letters of Credit and Other Forms of Credit Substitution Methodology* must be fulfilled. The characteristics of the guarantee include that it is irrevocable and unconditional and promises the full and timely payment of the underlying obligation, amongst others. This is the case for BB Blue Financing DAC.

In cases where not all characteristics of strong guarantees are fulfilled, Moody's will still utilise the Credit Substitution Methodology but will generally not give full uplift to the guarantor's rating. Examples include where there is currency risk between the currency of the guarantee and currency of the underlying obligation – such as ENERGO-PRO a.s. and CRRH W Afr Impct Afrd Hous Tr 22 which are both notched down by one rating level against the rating of the US International Development Finance Corporation, whose guarantees are subject to a USD-denominated cap. Moody's assessment will factor in the likelihood that the obligations currency appreciates above the USD cap.

Other examples include the use of Political Risk Insurance policies which protect against the nonpayment of arbitral awards and denial of justice only, but not the full guarantee of interest and principal – such as Central Storage Safety Project Trust and Platinum Securities Cayman SPC Ltd which are both notched down by two rating levels against the rating of the US DFC. Moody's assessment will factor in whether the obligor has sufficient liquidity or debt service deferral mechanisms to endure the time taken to conclude the arbitration process.

In all of the above, Moody's does not opine on the underlying credit quality of the obligor.

As set out in *Assessing the Impact of Sovereign Credit Quality on Other Ratings*, external credit enhancement may allow an obligor to be rated higher than would otherwise be the case using the underlying methodology. For example, ELZ Finance S.A. funds a PPP hospital in Turkiye which is rated under the *Operational Privately Financed Public Infrastructure (PFI/PPP/P3) Projects* methodology and would be constrained by the offtaker's credit quality. However, the transaction benefits from external Political Risk Insurance and subordinated liquidity facilities, allowing the transaction to be rated above the offtaker.

6. Examples of Credit Rated Transactions & The Rationales

African Local Currency Bond Fund (ALCB Fund)¹⁶

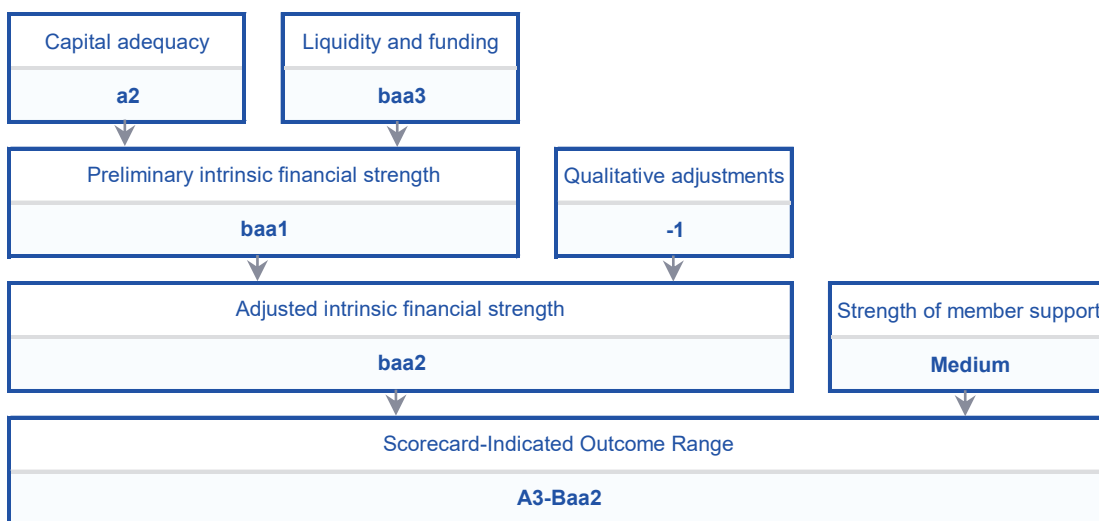
Applied methodology: MDBs & Supranational

The African Local Currency Bond Fund, ALCB Fund is a pan-African investment fund established by KfW and the German government in 2012 to support the development of local-currency corporate bond markets in Africa. The fund invests in local-currency bonds issued by African companies and financial institutions, often acting as an anchor investor to help mobilise other local institutional investors.



Moody's assigns a Baa1 rating to the ALCB Fund based on three main factors. First, a capital adequacy score of a2, supported by low leverage and solid asset performance, although constrained by the weak credit quality of development assets. Second, a liquidity and funding score of baa3, where adequate liquidity buffers are partly offset by limited funding diversification. The preliminary IFS score is adjusted to reflect the challenging operating environment in which ALCB operates, to arrive at the adjusted IFS. The final rating is determined after incorporating the strength of member support factor score of "medium", reflecting the strong shareholder base and track record of equity injections from its main shareholder, KfW, as well as no contractually obliged callable capital. Overall, the rating reflects a balance between strengths, such as low leverage, prudent risk management and strong shareholder backing, and constraints, including weak asset quality and concentrated funding sources.

Figure 12: Evaluation of ALCB Funds Credit Profile



Source. Moody's Ratings.



Global Climate Partnership Fund (GCPF)¹⁷

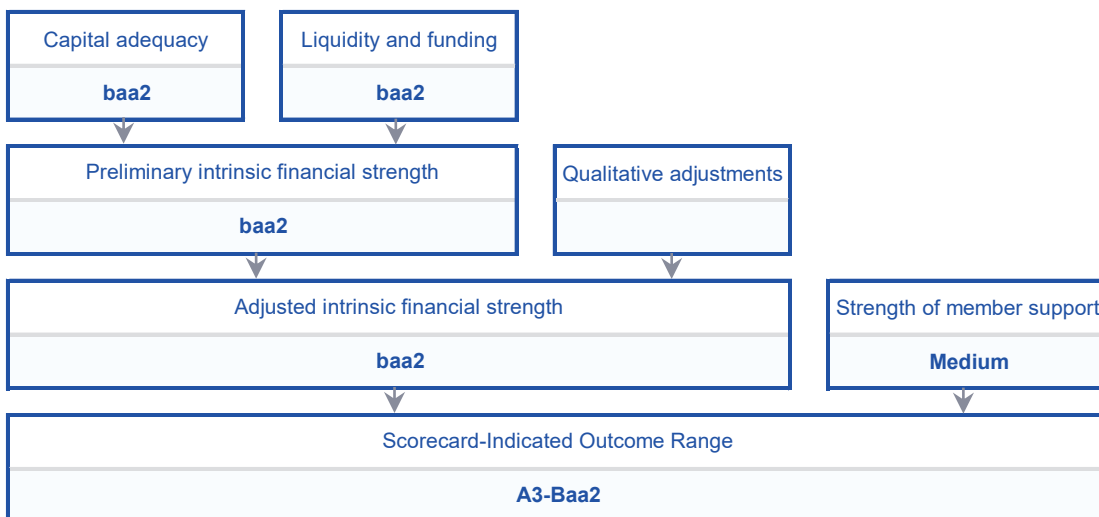
Applied methodology: MDBs & Supranational

The Global Climate Partnership Fund, GCPF is a Luxembourg-based closed-ended climate finance fund established in 2009 by the German government and KfW as a public-private partnership. It provides financing for energy efficiency and renewable energy projects in emerging and developing economies, mainly through local financial institutions that on-lend to households, SMEs and project developers

Moody's assigns an A3 rating to GCPF based on three key factors. First, a capital adequacy score of baa2, supported by moderate leverage and a diversified lending portfolio, but constrained by the inherently low credit quality of development assets in emerging markets. Second, a liquidity and funding score of baa2, reflecting an adequate base of liquid assets, strong liquidity management, and a diversified and reliable investor base. These scores are combined to arrive at the preliminary IFS score, and there are no qualitative adjustments applied to arrive at the adjusted IFS.

The last factor, strength of member support, is assessed as "medium", reflecting the presence and continued backing of highly rated public-sector and DFI/MDB shareholders. Overall, the A3 rating reflects a balance between strengths – such as moderate leverage, strong shareholder backing, a well-diversified loan portfolio and sound liquidity and funding profile – and constraints, including low asset credit quality and structural features of its capital base.

Figure 13: Evaluation of GCPF's credit profile



Source. Moody's Ratings.



7. Key considerations for determining the most appropriate methodology for rating blended finance transactions

When accessing credit risks related to blended finance vehicles, certain characteristics of the financing structure is considered to determine methodologies that are applied and evaluated. Moody's has recently considered MDB, CEF or CLO methodologies to rate blended finance vehicles.

Figure 14: Key considerations for determining methodology

Key considerations for determining the most appropriate methodology for guiding credit assessment

	MDB methodology	CEF methodology	CLO methodology
Set-up as permanent entity or with long lead time for junior equity to exit	✓		
Limited time frame with no refinancing risk		✓	✓
Several public-sector providers of junior equity	✓		
Set-up as bankruptcy remote structure			✓
Portfolio assets transferred to SPV (true sale or participation)			✓
Overall credit risk assessment reliant on granular asset-level analysis		✓	✓
Shareholder support consideration	✓		
Examples	Global Gender-Smart Fund Africa Local Currency Bond Fund Global Climate Partnership Fund		IFC emerging market loan securitization

Source. Moody's Ratings; Full name: IFC Emerging Markets Securitization 2025-1, Ltd.



FITCH'S RATING APPROACH FOR EMDE ISSUERS & TRANSACTIONS

This section provides a high-level summary prepared by the EMDE Investor Taskforce with respect to Fitch's credit rating approach to EMDE issuers and transactions as at the date of this report. For a full understanding of Fitch's credit rating approach, including which rating criteria may apply given different circumstances and considerations, readers should refer to [fitchratings.com/criteria](https://www.fitchratings.com/criteria) which is the exclusive source for all of Fitch's current credit rating criteria.

1. Sovereign Rating Criteria and Country Ceiling

Fitch's sovereign rating framework combines a quantitative Sovereign Rating Model (SRM) with a Qualitative Overlay (QO), to adjust for factors not fully reflected in the SRM output. The SRM and QO assesses structural features, macroeconomic performance and policy credibility, public finances and external finances. For EMDE transactions, the sovereign rating is relevant not only as a measure of the government's own default risk, but also because it informs the broader country-risk environment in which private-sector transactions operate.

The Country Ceiling is distinct from the sovereign rating. It reflects Fitch's view of transfer and convertibility risk, namely the risk that sovereign authorities impose capital or exchange controls that prevent the domestic private sector from converting local currency into foreign currency or transferring funds to non-resident creditors. As a result, foreign-currency ratings of corporates, financial institutions, project finance vehicles or structured finance transactions may be constrained by the applicable Country Ceiling, although Fitch does not mechanically cap all private-sector ratings at the sovereign rating.

2. MLI rating criteria

For multilateral institutions (including MDBs), credit ratings are mainly driven by the institution's capital adequacy, liquidity position, risks (including credit risks and risk management framework), business profile and operating environment (including the policy mandate), and shareholder support. Rating agencies also consider the strength and creditworthiness of member countries, the likelihood of callable capital being honoured, the institution's preferred creditor status, and its track record of maintaining strong liquidity and conservative financial policies. For EMDE-focused MLIs, the key question is whether exposures to higher-risk countries are sufficiently mitigated by capital buffers, portfolio diversification, strong governance, and reliable member support.

Figure 15: Fitch's Sovereign Rating Framework

Sovereign Ratings Framework: The Process



Source: Fitch's webpage "Rating Criteria Sovereigns".



3. AIF methodology (closed-end funds)

For closed-end funds, ratings focus on the quality and liquidity of underlying assets, fund leverage, asset coverage relative to rated obligations, portfolio diversification, and manager capabilities. Ratings are primarily driven by overcollateralisation (OC) tests, in which stressed discount factors are applied to portfolio assets to assess whether their realisable value sufficiently covers rated obligations. Agencies assess whether the fund can maintain adequate asset coverage under stressed scenarios, including declines in portfolio asset market values and reduced market liquidity. In EMDE-linked funds, additional attention is paid to country concentration – with higher discount factors applied to emerging market assets – and to the liquidity and depth of the markets in which the portfolio trades.

4. CDO modelling

For CDOs and CLO-type structures, ratings are determined through portfolio credit modelling, focusing on default probability, recovery assumptions, asset correlation, concentration risk, diversification, tranche seniority, and structural protections. The rating analysis tests how much portfolio loss each tranche can withstand under different stress scenarios, taking into account subordination, overcollateralisation, interest coverage, reinvestment rules, cash flow timing mechanisms, and the cash flow waterfall. For EMDE assets, country risk, country ceilings, transfer and convertibility risk, and lower recovery assumptions (reflecting jurisdictional recovery prospects) can materially affect assumptions and therefore the achievable tranche ratings.

5. Project finance

Project finance ratings assess the probability of default of an issuer and are typically assigned to debt issuances but may also be assigned to issuers. The ratings do not specifically factor in recoveries but are based on the expectation of a robust security package typical for project finance transactions. The ratings are driven by the project's completion risk for projects in construction, operation risk, revenue risk, counterparty quality, infrastructure development and renewal risk, debt structure, and financial strength and resilience. Key financial metrics include DSCR, LLCR and leverage.

Fitch considers key structural features such as reserve accounts, positive and negative covenants including limitation on indebtedness, M&A, business purpose and lock-up and default triggers. Important analytical considerations include amortisation profile, refinancing risk, contractual protections, and downside-case cash flows. Fitch's analytical approach does not differ across political or geographical boundaries, but country-level factors can affect ratings. These include political and regulatory risk, the dependability of the legal regime, counterparty creditworthiness, currency mismatch, transfer and convertibility risk, and sovereign-related risks. These can create rating constraints in EMDE transactions. Strong contracts, offshore accounts, guarantees, comprehensive insurance coverage, and robust security packages can help mitigate these risks.

6. Guarantees

For guaranteed transactions, the rating impact depends on the credit quality of the guarantor, the legal enforceability of the guarantee, the scope of coverage, and the timeliness of payment. A full, unconditional, irrevocable, and timely payment guarantee from a highly rated MDB, insurer, sovereign, or financial institution can significantly enhance the rating, potentially substituting for part of the underlying credit risk. However, partial guarantees, political risk insurance, or guarantees covering only selected risks do not fully replace the underlying project or asset risk. Rating agencies therefore assess exactly which risks are covered, what remains uncovered, and whether the guarantee effectively mitigates sovereign, transfer, counterparty, default risk or any other risk borne by the issuer.

Fitch's approach to guarantees is particularly clear in the context of credit-linked notes (CLNs). Under Fitch's Single- and Multi-Name Credit-Linked Notes Rating Criteria, the rating of a CLN is primarily driven by the credit quality of the relevant risk-presenting entities (RPEs), including reference entities, qualified investments, swap counterparties and guarantors. When a CLN benefits from an unconditional and irrevocable guarantee, it may be assigned a pass-through rating linked to the guarantor, provided that the guarantee sufficiently covers the outstanding principal, interest due on the notes and interest accrued during any waiting period, and any make-whole amount or prepayment premium where applicable, and that the claim process and disbursement timing are satisfactory.



7. Examples of Credit Rated Transactions & Rationales

Autopistas del Nordeste and MIGA Guarantee¹⁸

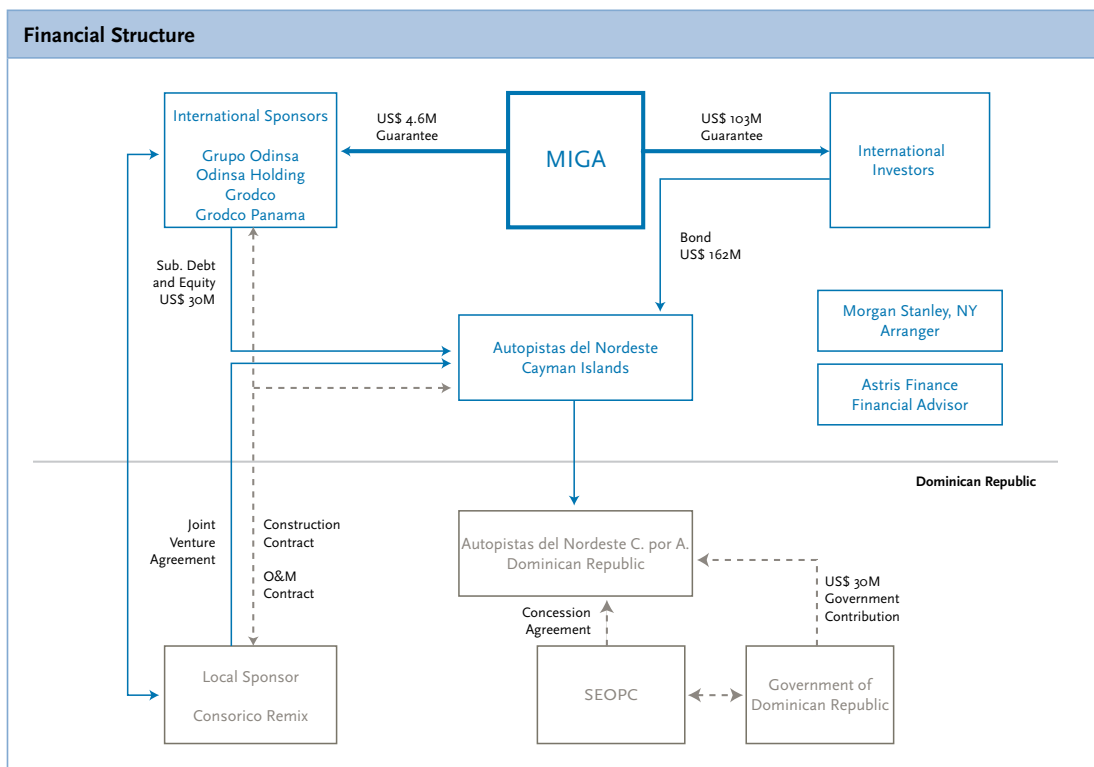
Applied methodologies: Project Finance and Guarantees

A toll road project in the Dominican Republic, structured as a public-private partnership to finance, build, operate and maintain a highway linking Santo Domingo with the country's northeastern peninsula. The project was designed to reduce travel distance and time between Santo Domingo and the northeast, improving regional connectivity, tourism access, agribusiness logistics and broader economic activity.

The project was financed partly through the capital markets. Autopistas del Nordeste ("AdN") issued senior secured notes through a Cayman Islands vehicle, with Morgan Stanley involved in launching the bond issue. MIGA provided USD 107.6 million in political risk insurance, covering key non-commercial risks such as transfer restrictions and breach of contract. Fitch's rating on AdN's was constrained by Fitch's assessment of the credit quality of the Minister of Public Works and Communications' MRG grantor obligation, which is commensurate with that of the Dominican Republic's sovereign (BB-/Negative).

The case demonstrates how MDB-backed guarantees can, possibly, mitigate sovereign and transfer risks, strengthen investor confidence, and improve the credit profile of EMDE infrastructure debt. In the specific example the involvement of MIGA might arguably incentivise the government to treat the MRG obligation as a senior expenditure.

Figure 16: Financial structure of Autopistas del Nordeste and MIGA Guarantee



Source: World Bank Group's webpage "MIGA: improving project profiles to get investments going – the case of Dominican toll road (English)".



MS&ME Compartment Series 565 Notes and Guarantor Support¹⁹

Applied Methodologies: Credit Linked Notes (CLN) and Guarantees

MS&ME Compartment Series 565 Notes is a CLN transaction issued by Micro, Small & Medium Enterprises (MS&ME) Bonds S.A., acting on behalf of its Compartment Series 565. The notes are structured as a structured finance transaction and are due in November 2030. Fitch assigned the notes a final "AA-sf" rating with a Stable Outlook.

For the CLN transaction, Fitch identified the credit quality of the guarantor as the key rating driver. Under Fitch's CLN methodology, the rating is primarily driven by the credit quality of the relevant risk-presenting entities, including reference entities, qualified investments, swap counterparties and guarantors.

This case demonstrates how a strong and legally robust guarantee, in this case from GuarantCo, can materially influence the rating outcome of a structured finance transaction. It shows that, where the guarantor is highly rated and the guarantee is sufficiently comprehensive and timely, the transaction rating can be driven more by the guarantor's credit profile (AA- Stable) than by the standalone risk of the underlying exposure. For EMDE transactions, this highlights the importance of guarantee design, enforceability, coverage scope and timely-payment mechanics in improving credit rating outcomes.



GLOSSARY

Term	Definition
Alternative Investment Fund (AIF)	A fund investing in non-traditional assets, such as private credit, infrastructure, private equity or real assets.
Anchor Investor	A significant early investor whose participation can strengthen market confidence and support fundraising.
Blended Finance	The use of concessional or public capital to mobilise private capital by improving the risk-return profile of transactions.
Callable Capital	Capital that shareholders or members commit to provide if called upon, often relevant to MDB credit analysis.
Capital Stack	The hierarchy of capital in a transaction, including senior debt, mezzanine debt, junior debt, equity and first-loss capital.
Closed-End Fund (CEF)	A fund with a fixed capital structure and limited redemption rights, typically investing over a defined life.
Collateralised Debt Obligation (CDO)	A structured finance instrument backed by a pool of debt assets, such as bonds, loans or other credit exposures.
Collateralised Loan Obligation (CLO)	A structured finance instrument backed by a portfolio of loans, with cash flows allocated across different tranches.
Concessional Capital	Capital provided on below-market terms, often by public or philanthropic actors, to absorb risk or improve transaction viability.
Correlation Risk	The risk that multiple assets in a portfolio deteriorate or default at the same time due to shared risk factors.
Country Ceiling	A rating constraint reflecting the maximum rating that certain issuers or transactions in a country may achieve, based on country-level risks.
Credit Enhancement	A mechanism that improves the credit quality of a transaction or instrument, such as guarantees, subordination, reserve accounts or overcollateralisation.
Credit Rating	An assessment of the likelihood that an issuer or instrument will meet its financial obligations in full and on time.
Credit Rating Agency (CRA)	An independent institution that provides opinions on the creditworthiness of entities, financial instruments or transactions.
Credit-Linked Note (CLN)	A debt instrument whose repayment is linked to the credit performance of a reference entity or portfolio.
Debt Service Coverage Ratio (DSCR)	A ratio measuring project cash flow available to meet debt service obligations.
De-risking	The use of financial, legal or structural tools to reduce risks borne by investors.
Development Finance Institution (DFI)	A public or publicly backed institution that provides finance to support development, private sector growth or climate objectives.
Emerging Markets and Developing Economies (EMDEs)	Countries classified as emerging, developing or frontier markets, often associated with higher sovereign, currency, political and data-related risks.
Expected Loss (EL)	The probability-weighted estimate of credit loss, typically combining probability of default and loss severity.
First-Loss Capital	Capital that absorbs initial losses in a transaction, often used to protect senior investors.
Guarantee	A commitment by a third party to cover certain payment obligations or losses if the primary obligor fails to perform.
Hard Currency Cash Flow	Cash flow denominated in widely traded currencies such as USD, EUR or GBP.
Investment Grade (IG)	A rating category generally considered suitable for institutional investors, typically BBB-/Baa3 or above.
Issuer Credit Rating (ICR)	A rating that reflects the overall creditworthiness of an issuer rather than a specific instrument.
Legal Enforceability	The degree to which contractual rights, guarantees or security arrangements can be legally upheld and enforced.



Loan Life Coverage Ratio (LLCR)	A ratio measuring the present value of cash flows over the loan life relative to outstanding debt.
Loss Given Default (LGD)	The portion of exposure expected to be lost after default, net of recoveries.
Multilateral Development Bank (MDB)	A development finance institution owned by multiple governments, providing financing and support for development objectives.
Multilateral Financial Institution (MFI)	A financial institution supported by multiple sovereign members, often assessed based on capital adequacy, liquidity and member support.
NAV Stability	The degree to which a fund's net asset value remains resilient under market or credit stress.
Net Asset Value (NAV)	The value of a fund's assets minus its liabilities.
Notching	The adjustment of a rating upward or downward from a reference rating to reflect specific risks or protections.
Offtaker	A party that purchases the output or service of a project, such as electricity, water or infrastructure capacity.
Overcollateralisation	A credit enhancement mechanism where the value of underlying assets exceeds the amount of issued debt.
Paid-in Capital	Capital that has already been contributed and is available to absorb losses.
Partial Guarantee	A guarantee that covers only part of the payment obligation, loss amount or risk exposure.
Perceived Risk	Market participants' subjective assessment of risk, which may differ from observed performance data.
Political Risk Insurance (PRI)	Insurance that protects investors or lenders against specified political risks, such as expropriation, transfer restrictions, political violence or breach of contract.
Preferred Creditor Status (PCS)	The expectation that certain creditors, often MDBs, will receive preferential repayment treatment from borrowers.
Private Capital Mobilisation	The process of attracting private investment into development, climate, infrastructure or other EMDE-related transactions.
Probability of Default (PD)	The likelihood that an obligor or asset will default over a specified period.
Project Finance	Financing where debt repayment depends primarily on the cash flows of a specific project rather than the sponsor's balance sheet.
Rated Note Feeder	A fund-finance structure where a feeder fund issues rated debt instruments to investors and invests the proceeds into an underlying fund.
Rating Uplift	An improvement in rating outcome due to support, credit enhancement, diversification or structural protections.
Recovery Rate	The percentage of exposure expected to be recovered after default.
Securitisation	The process of transferring assets into a vehicle that issues securities backed by the cash flows of those assets.
Sovereign Risk	Risk arising from a country's political, economic, fiscal or institutional conditions, which may affect the credit quality of transactions within that jurisdiction.
Special Purpose Vehicle (SPV)	A legal entity created for a specific transaction, often used to isolate assets and liabilities.
Stand-Alone Credit Profile (SACP)	An assessment of an entity's creditworthiness before considering extraordinary external support.
Structured Finance	A financing technique that uses pooled assets, cash flow waterfalls, credit enhancement and tranching to create instruments with different risk-return profiles.
Subordinated Tranche	A tranche that ranks below senior obligations and provides credit protection to more senior investors.
Subordination	A structural feature where one class of investors absorbs losses or receives payments after another class.
Transfer and Convertibility Risk (T&C Risk)	The risk that local currency cannot be converted into foreign currency or transferred out of the country to meet external obligations.



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