UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**P166 short course for Geneva-based delegates**

# Financing development

## External flows of financial capital to developing countries and their cost

**28 September 2026**

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UN trade & development UNCTAD

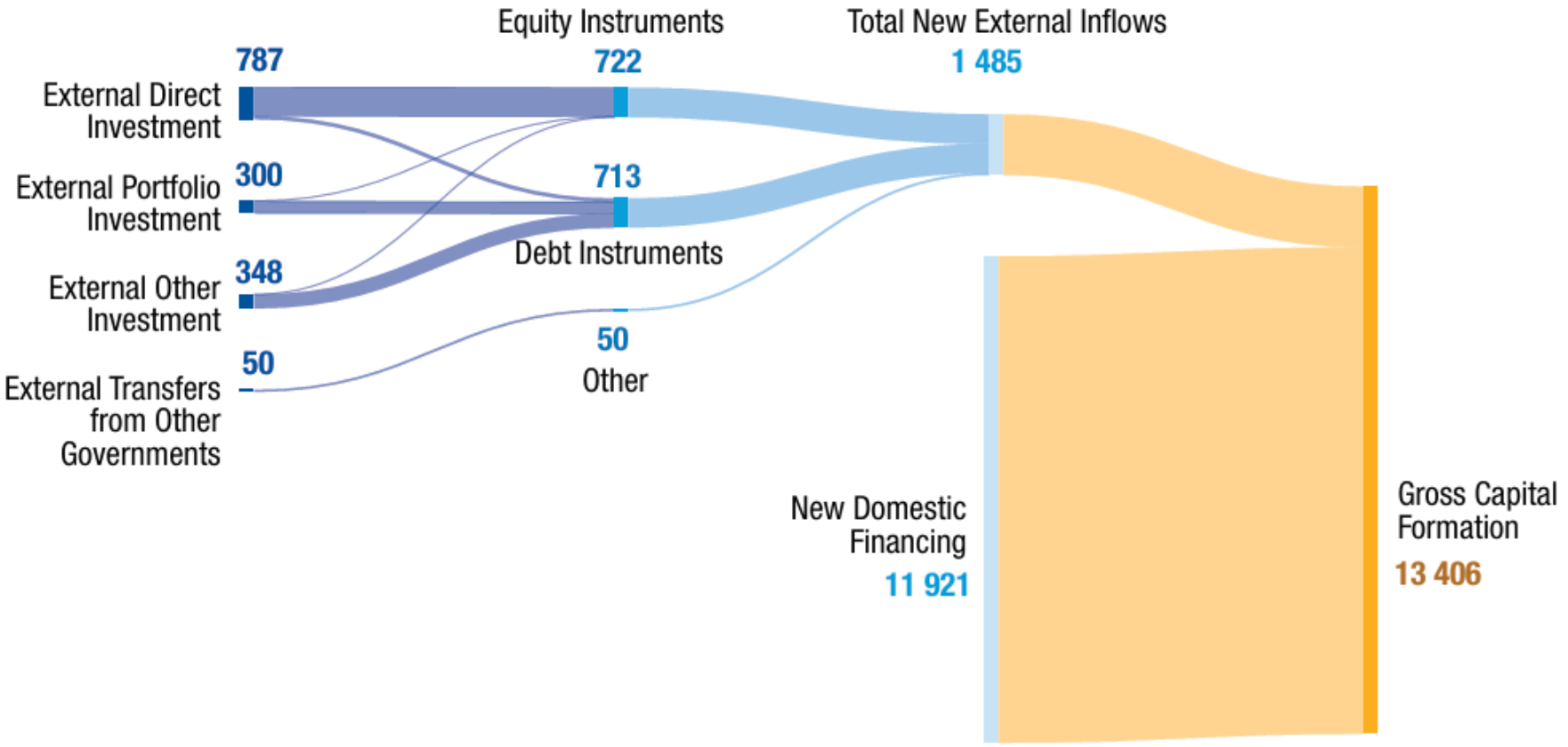
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1. Scale, cost and volatility of external financing flows
2. The development impact of high interest costs
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# Mapping external financing flows

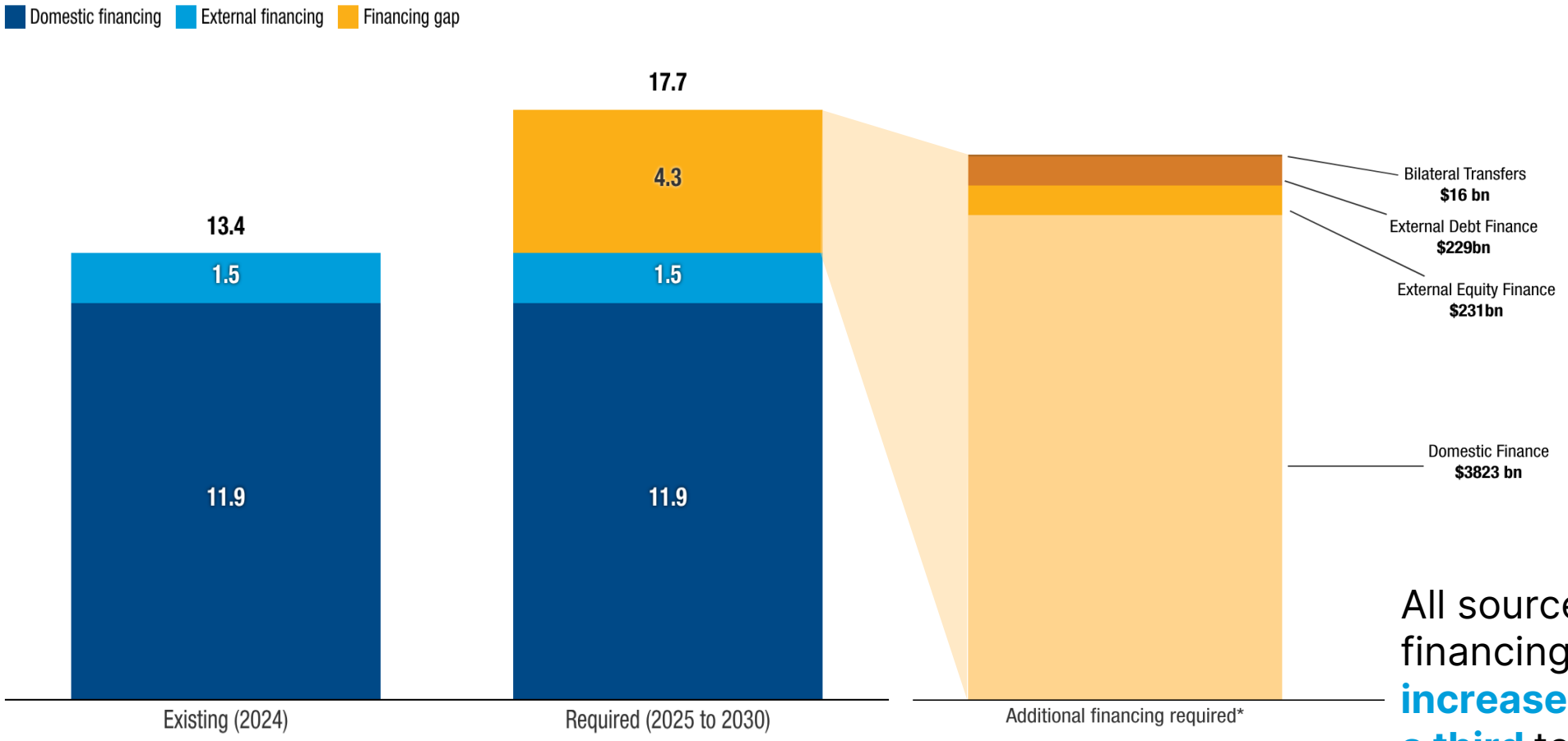
Sources of gross capital formation financing in developing countries in 2024
(Billions of dollars)




Source: UNCTAD calculations based on IMF and World Bank data

# Closing the SDG financing gap

Implications of closing the annual financing gap from external and domestic financing sources (Trillions of dollars)

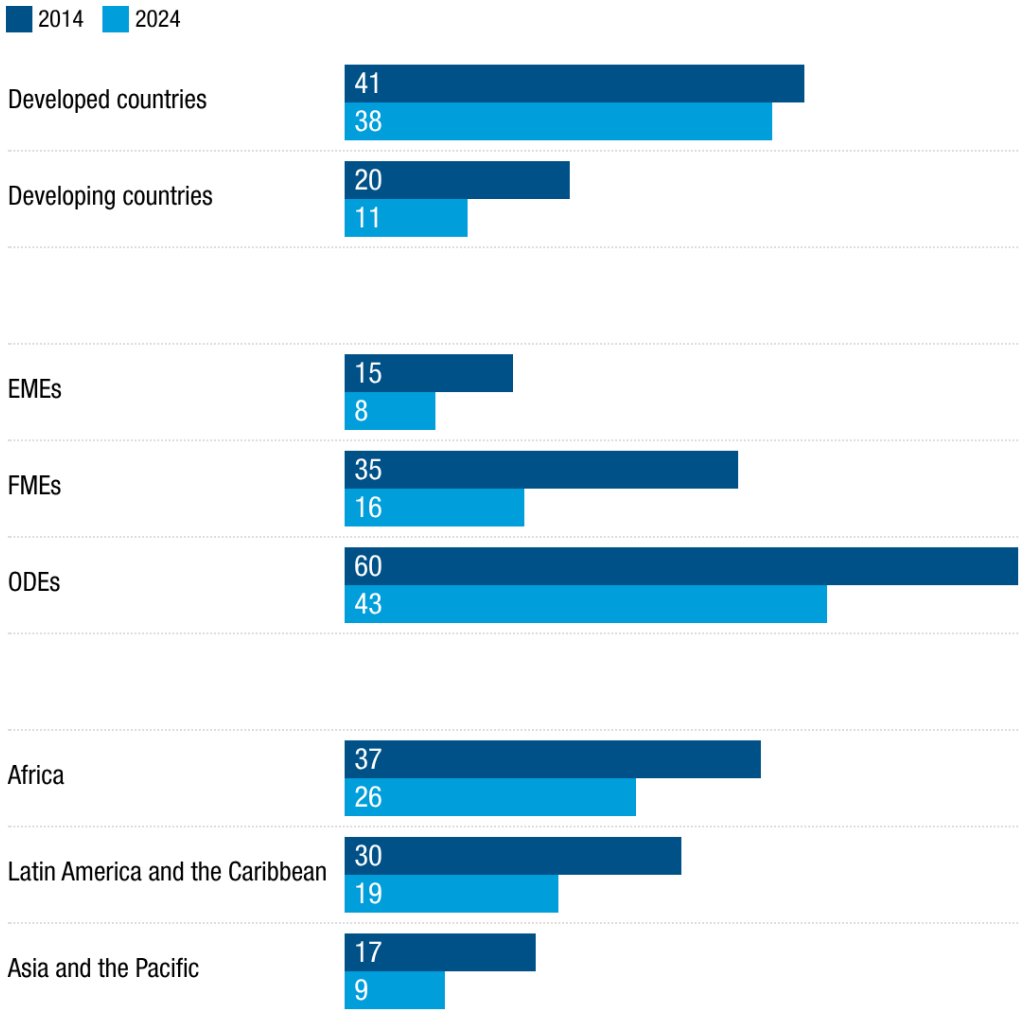



All sources of financing need to **increase by around a third** to close the gap

Source: UNCTAD calculations based on IMF and World Bank data

# External finance's contribution has shrunk

External financing from non-residents as a share of gross capital formation (Per cent)

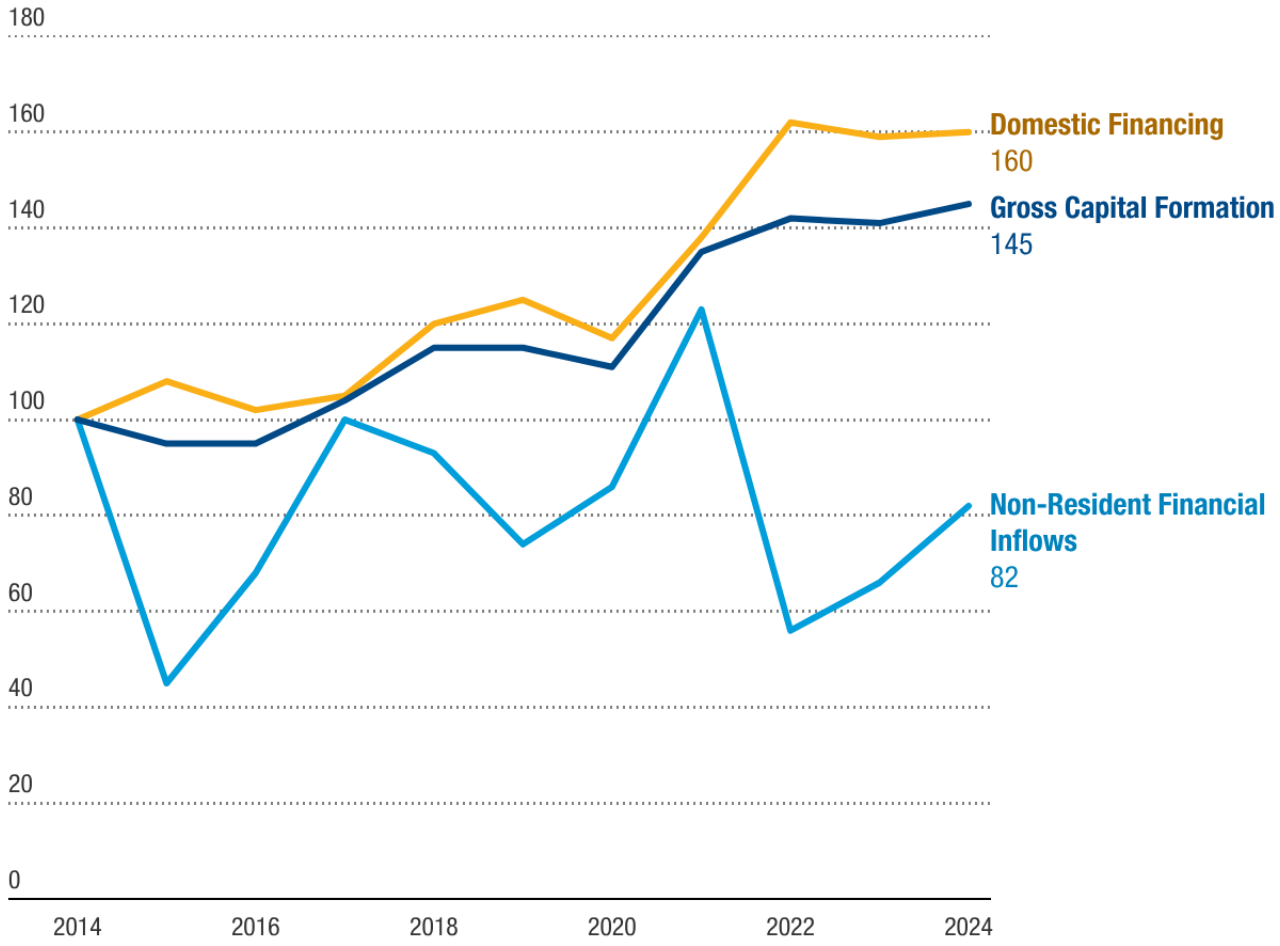



- External financing's share of gross capital formation **decreased significantly in all developing country groups** between 2014 and 2024
- For all developing countries, it **almost halved** and in Africa its contribution **declined by 11 percentage points**.
- Over the same period, the contribution in developed countries declined marginally by 3 percentage points. Non-resident inflows to developed countries was equivalent to 38% of their gross capital formation in 2024.

Source: UNCTAD calculations based on IMF and World Bank data

# External finance has been lagging behind

Relative trends in gross capital formation and external and domestic financing in developing countries
(Index: 2014 = 100)

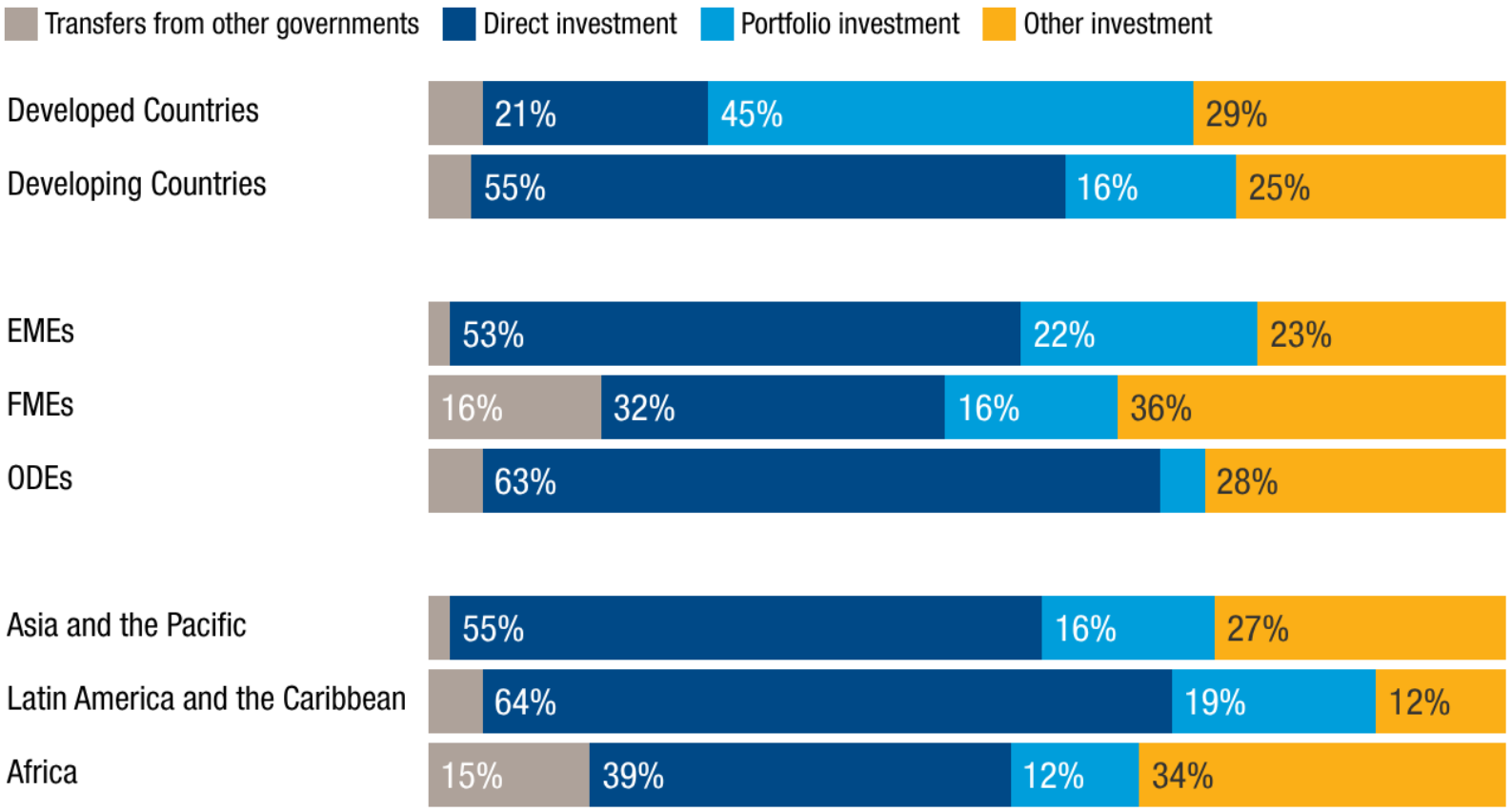



- All developing country groups experienced **significant declines** in the contribution of external financing to gross capital formation.
- External non-resident flows are subject to **significant volatility**, due primarily to the swings in portfolio and other investment flows.
- Domestic financing has been **flat since 2022** and gross capital formation growth has slowed.

Source: UNCTAD calculations based on IMF and World Bank data

# Direct investment has mattered more to developing countries

Average composition of external non-resident financial flows to countries from 2014 to 2024 (Per cent)

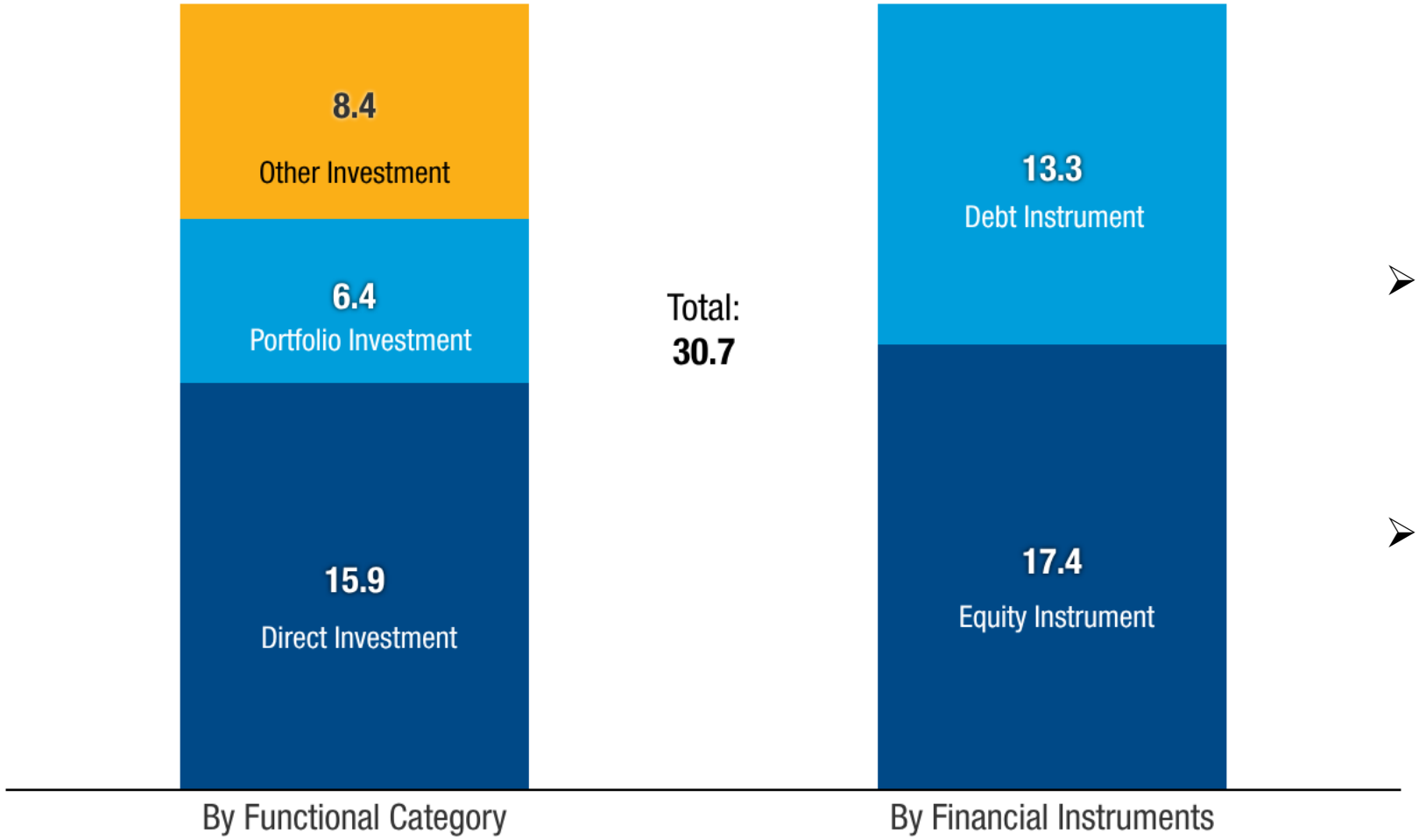



- Developing countries were much **more dependent on direct investment** inflows.
- Fewer functional stock exchanges and debt security issues **reduced the contribution of portfolio investment** inflows.
- Africa was relatively **more dependent on transfers from other governments and other investment inflows** (mostly loans)

Source: UNCTAD calculations based on IMF and World Bank data

# Financial flows give rise to stocks of liabilities

The composition of accumulated stocks of external liabilities of developing countries in 2024
(Trillions of dollars)

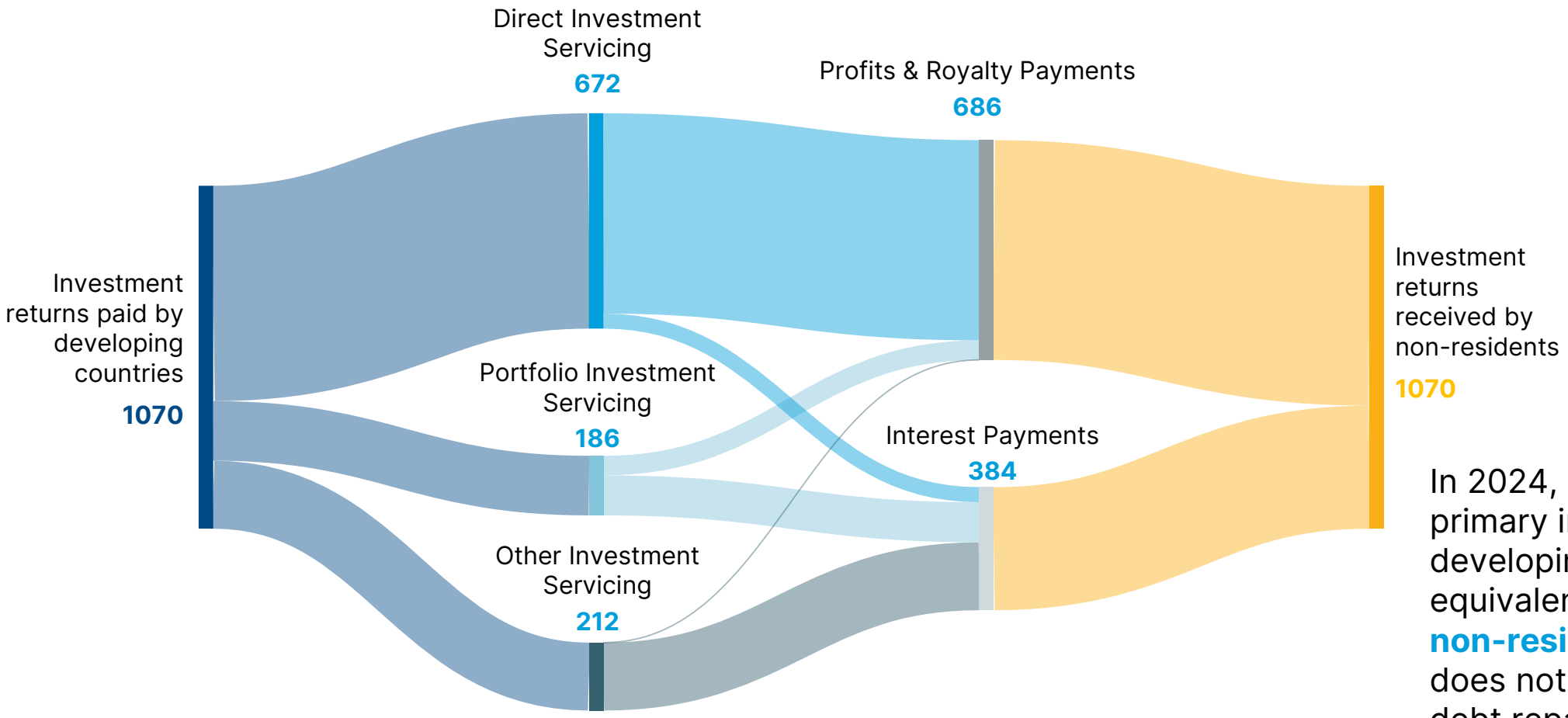



*Source:* UNCTAD calculations based on IMF data.

- Developing countries had external liabilities totaling almost $31 trillion at the end of 2024.
- 57% of these liabilities were in the form of equities and 43% was debt

# Stocks of liabilities need to be serviced

Primary income payments from developing countries in 2024
(Billions of dollars)

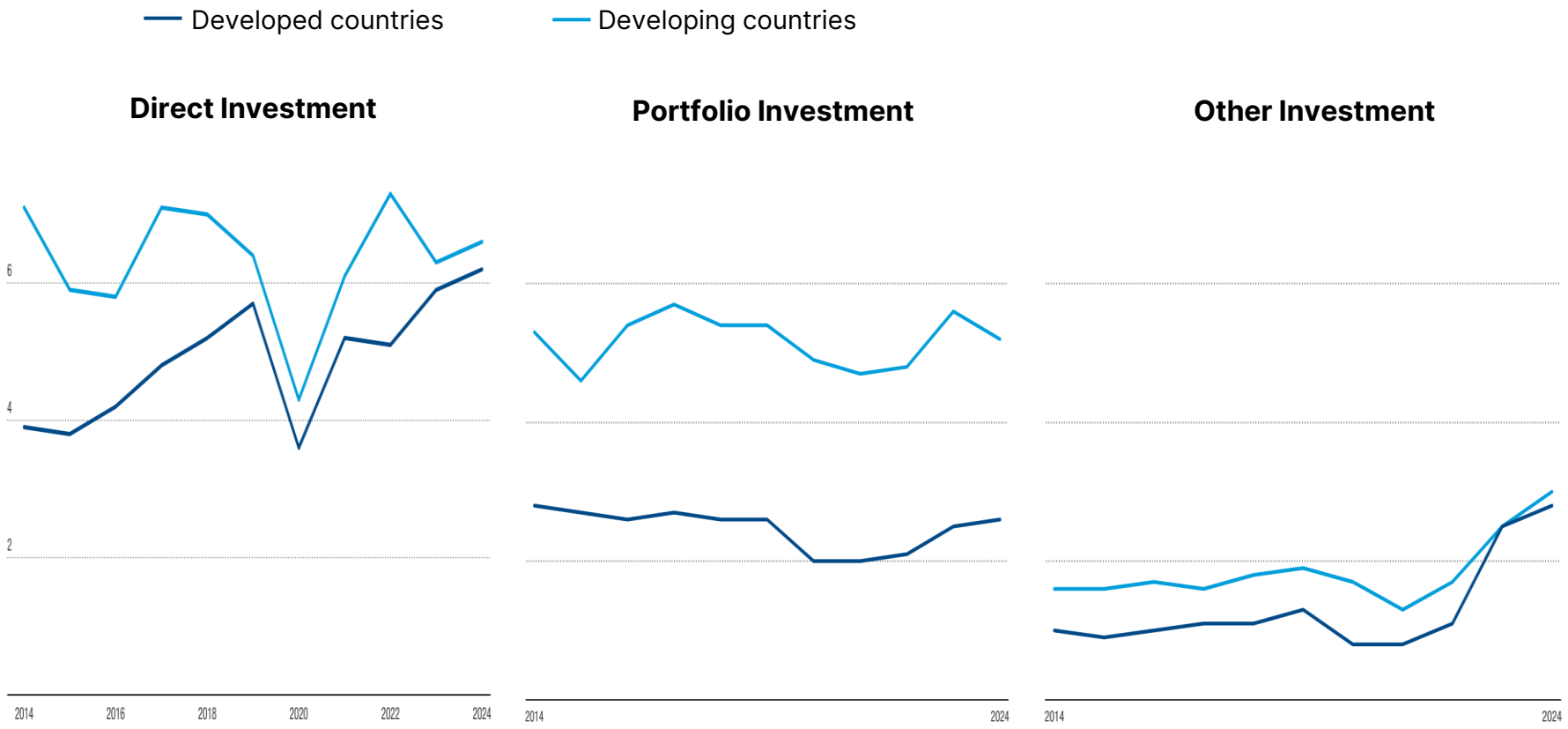



Source: UNCTAD calculations based on IMF data

In 2024, payments of primary income by developing countries were equivalent to **72% of new non-resident inflows**. This does not include principal debt repayments and some illicit financial flows.

# Not all finance costs the same: developing & developed countries

Median costs of servicing direct, portfolio and other investment in developed and developing countries
(Per cent per annum)

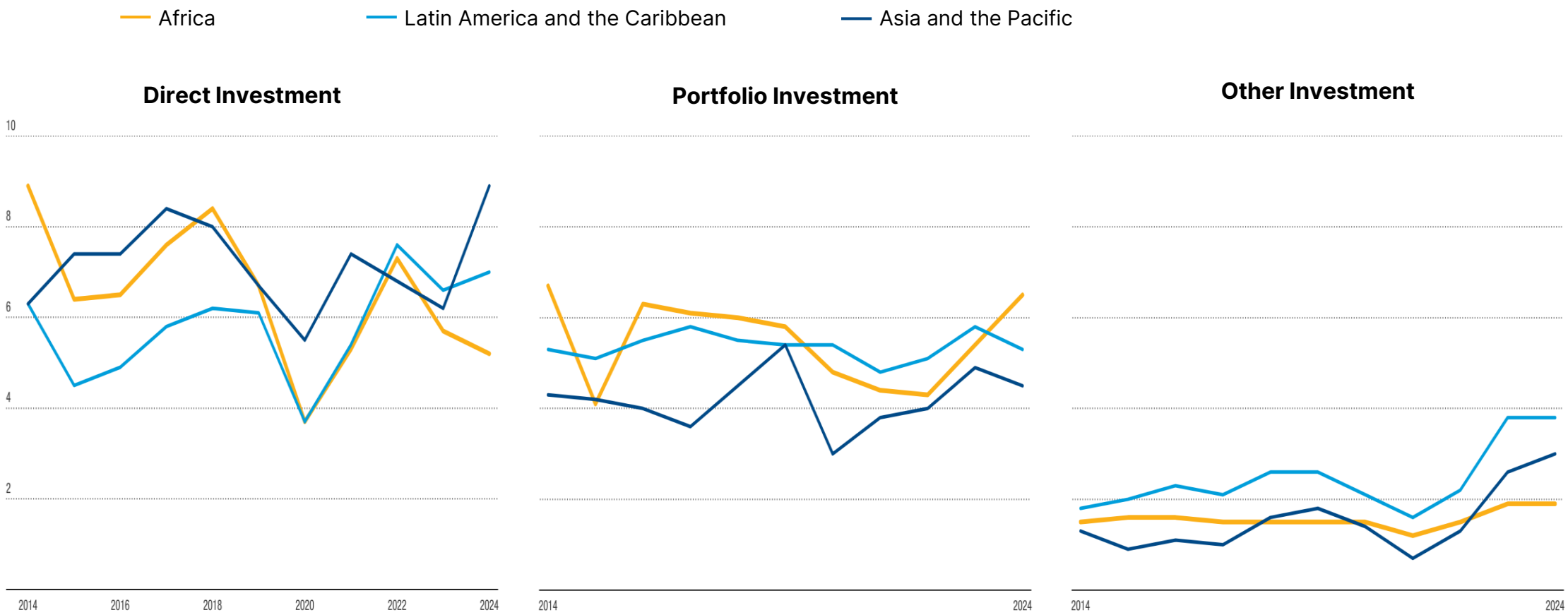



- Convergence in cost of direct investment.
- Developing country portfolio investment costs were **more than double** those of developed countries.
- Concessional lending in developing countries lowers cost of other investments.

Source: UNCTAD calculations based on IMF data

# There are also regional variations in costs

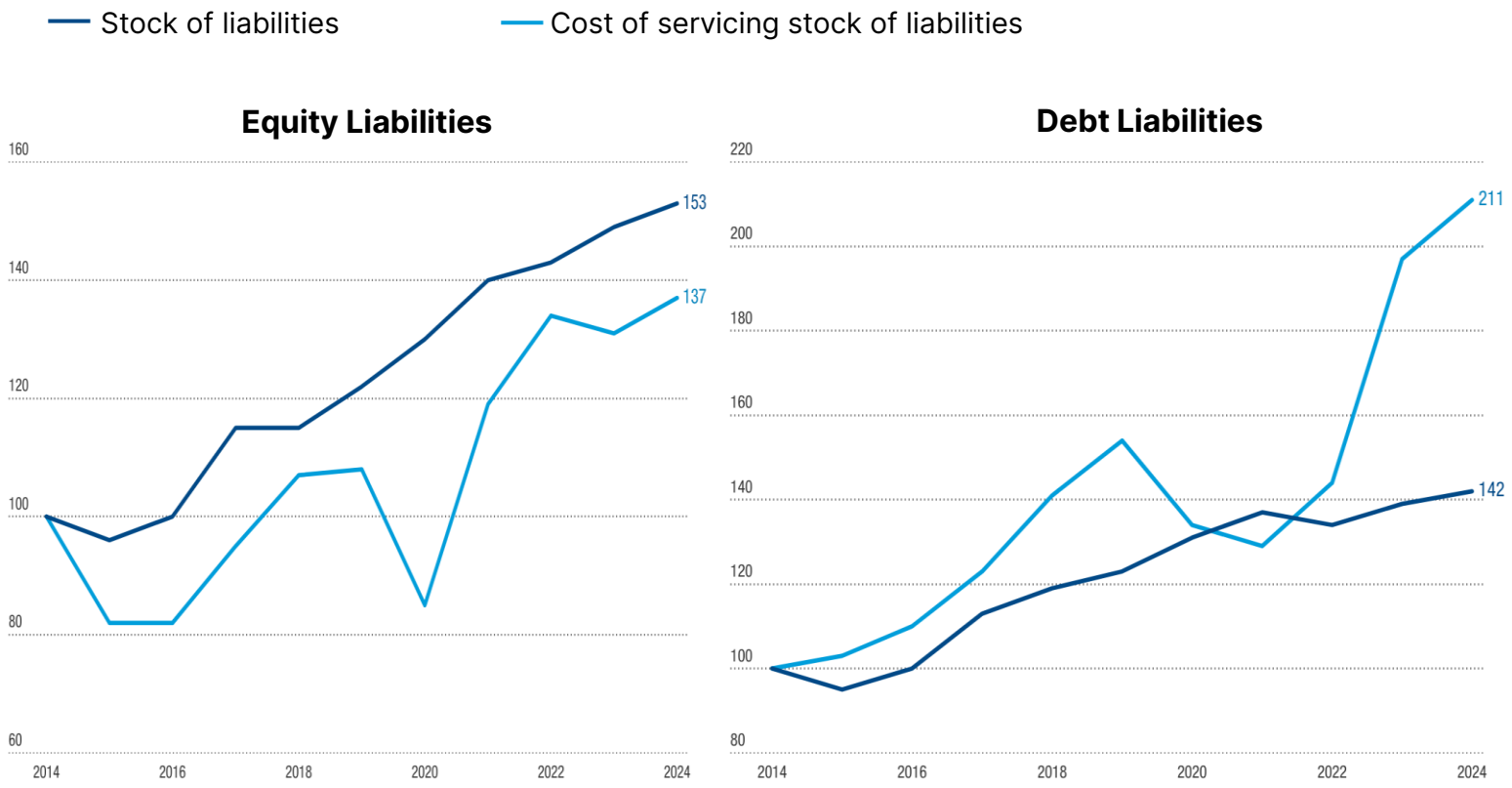
Comparative median costs of direct, portfolio and other investment in developing regions
(Per cent per annum)




Source: UNCTAD calculations based on IMF data

# Growth in servicing costs outpaced debt stocks, but not equity stocks

Comparative trends in the stocks of external equity and debt liabilities relative to their associated servicing costs
(Index: 2014 = 100)




- Debt servicing costs increased by more than **two-and-a-half times faster** than the stock of debt liabilities.
- Higher external borrowing costs for developing countries translate into higher borrowing costs for their public sectors
- Debt dynamics were the principal contributor to the **volatility and costs** of external finance.

Source: UNCTAD calculations based on IMF data

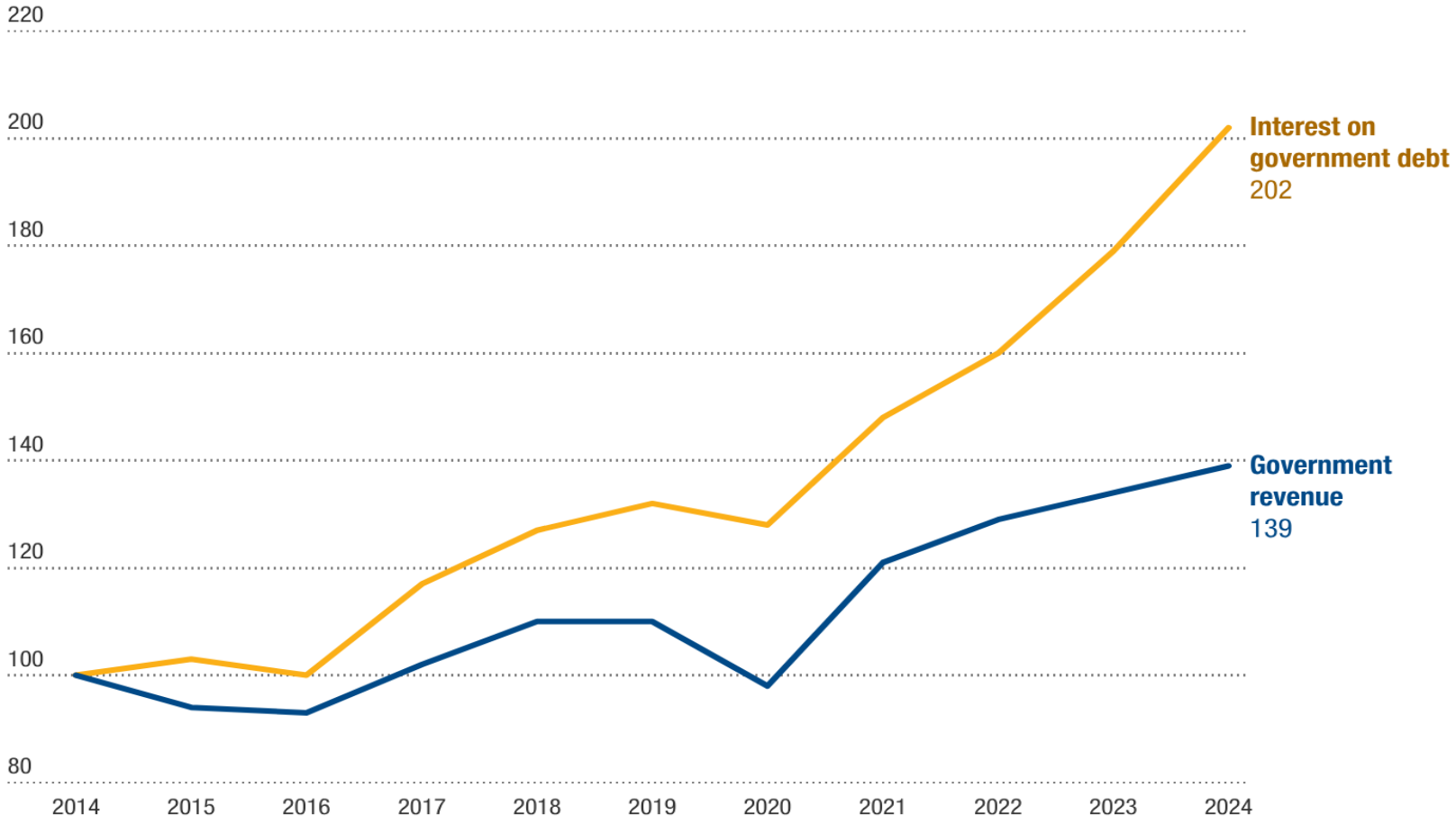
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# Interest costs outpaced the capacity to service

Trends in general government interest costs and revenues in developing countries (Index: 2014 = 100)

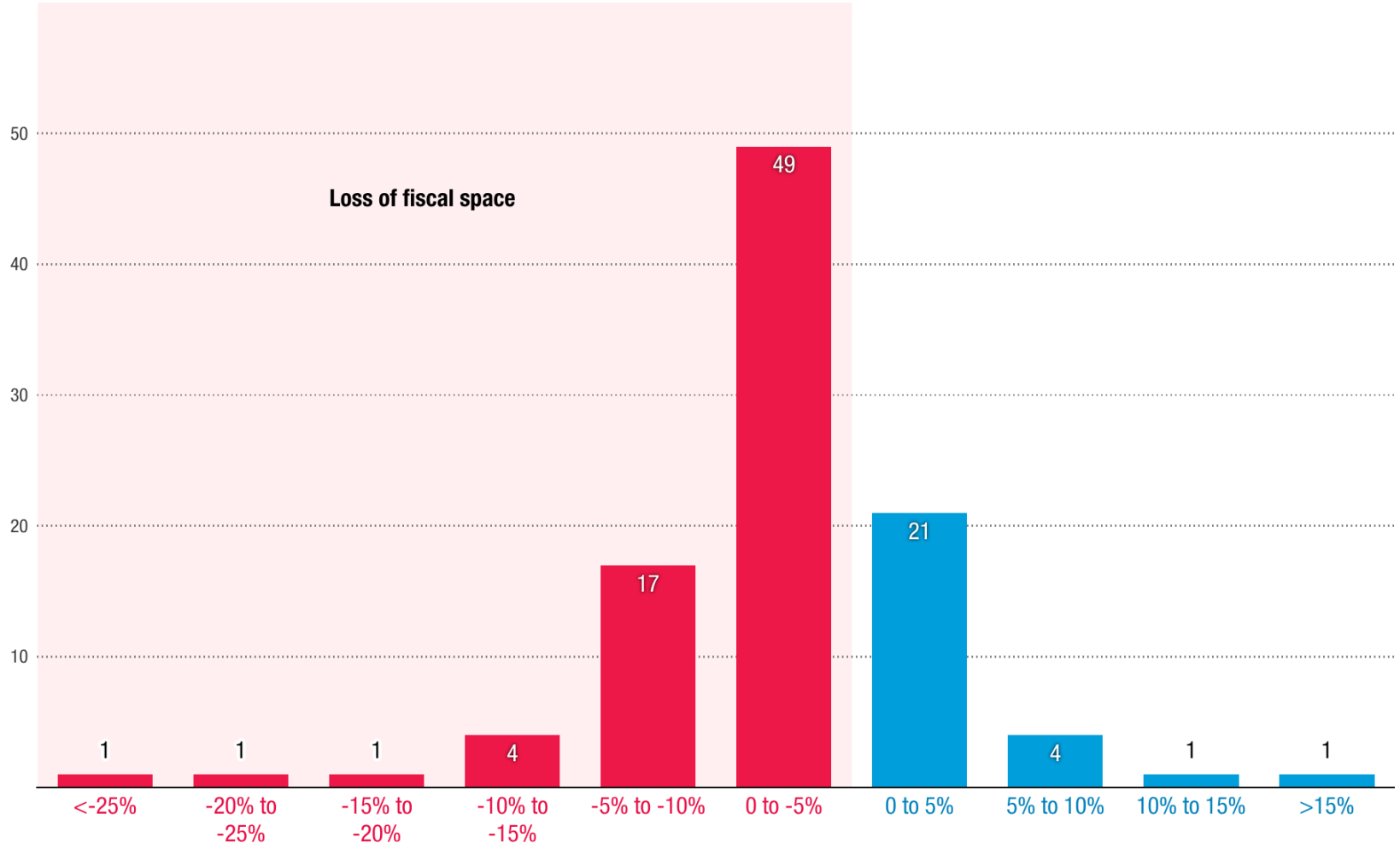



Interest increased 2.6 times faster than revenues

Source: UNCTAD calculations based on IMF data

# Squeezing of fiscal space for most developing countries

Share of developing countries that have lost (-) or gained (+) fiscal space, measured as interest payments as a share of government revenue (Per cent)

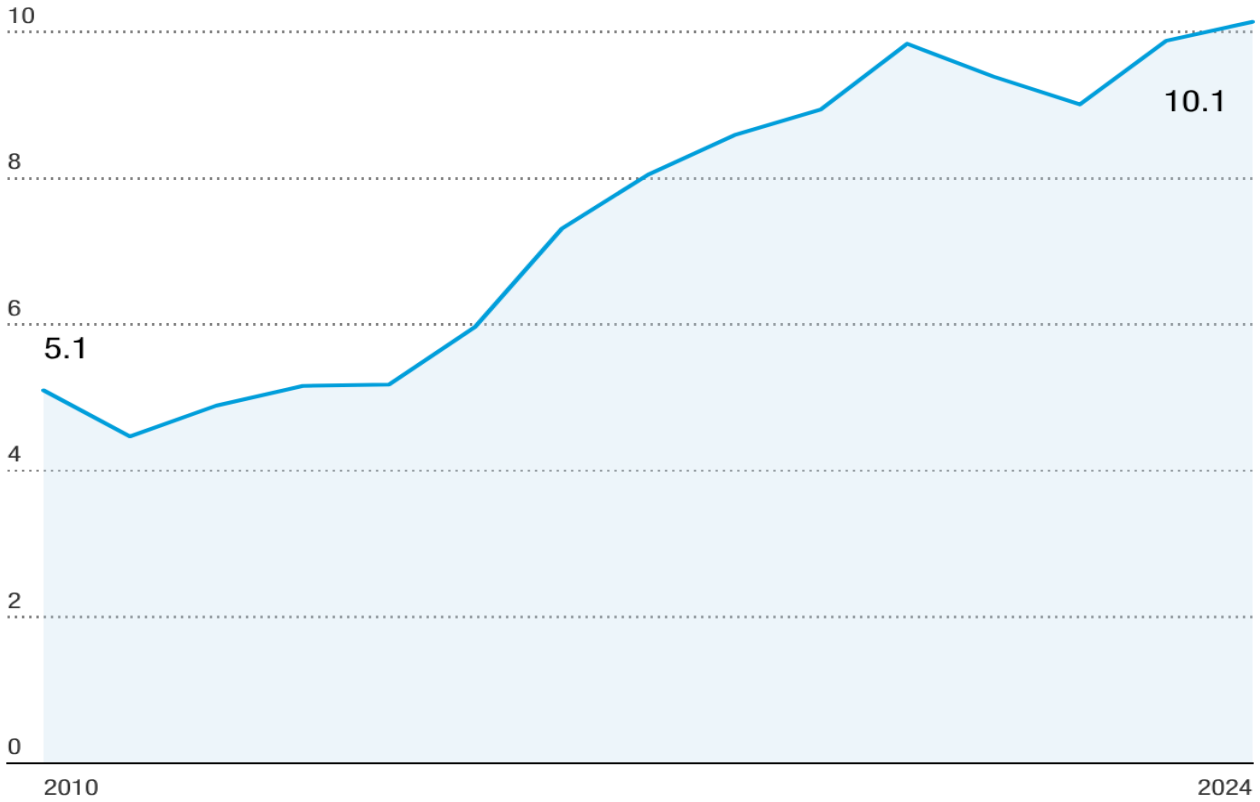



73% of developing countries lost fiscal space between 2018 and 2024

Source: UNCTAD calculations based on IMF data

# Debt service is taking a growing share of government revenues

Median external public debt service as a share of government revenues in developing countries (%)




Source: UN Trade and Development (UNCTAD) calculations based on IMF World Economic Outlook (April 2026), World Bank International Debt Statistics and national data.

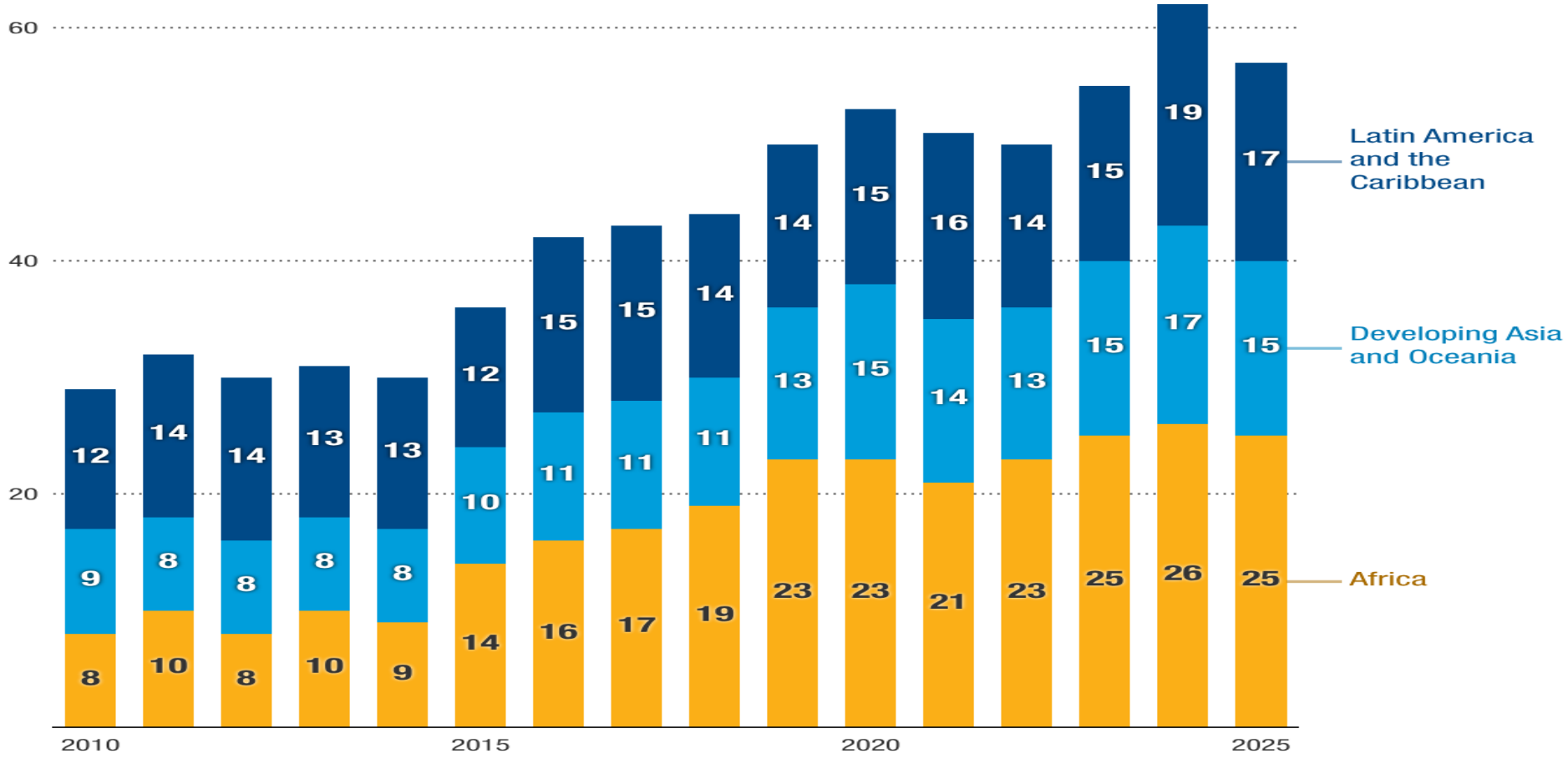
Note: External public debt service refers to principal and interest payments on external public and publicly guaranteed (PPG) debt. The median represents the midpoint of the country-level distribution-

**5.1% → 10.1%**
**Median external public debt service as a share of government revenues**

Higher debt-service burdens reduce the fiscal space available to finance other priorities

# High interest burdens remain widespread

Number of developing countries with net general government interest payments of at least 10% of government revenues




Source: UN Trade and Development (UNCTAD) calculations based on IMF World Economic Outlook (April 2026).

Note: Net interest payments refer to total domestic and external interest paid less any interest income received.

# A rising number of countries spend more on interest than on essential services

Number of developing countries spending more on interest than on health or education




Source: UN Trade and Development (UNCTAD) calculations based on IMF World Economic Outlook (April 2026), World Bank World Development Indicators.
Note: Interest refers to net interest payments.

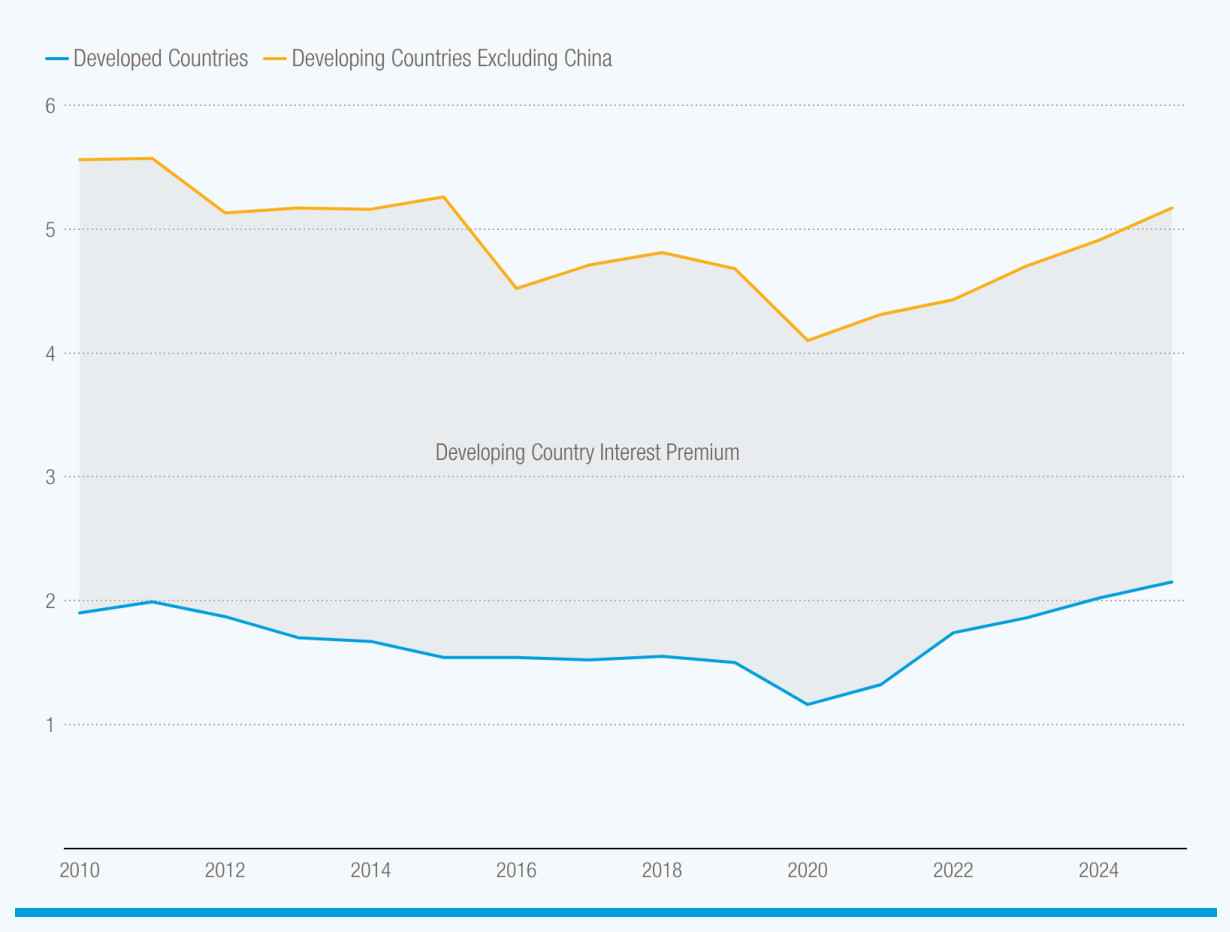
**3.7 billion people**
Lived in developing countries where interest spending exceeded health or education in 2024. Up from 3.4bn in 2023

**Declining external support compounds these pressures**
Official Development Assistance (ODA) from DAC members fell from 0.37% of their combined GNI in 2023 to an estimated 0.26% in 2025, moving further away from the UN target of 0.7%.

**These fiscal trade-offs directly constrain governments' capacity to finance essential public services and development.**

# Developing countries pay almost three times more to service their public debt

Comparative average interest rate on public debt in developed and developing countries (% per annum)

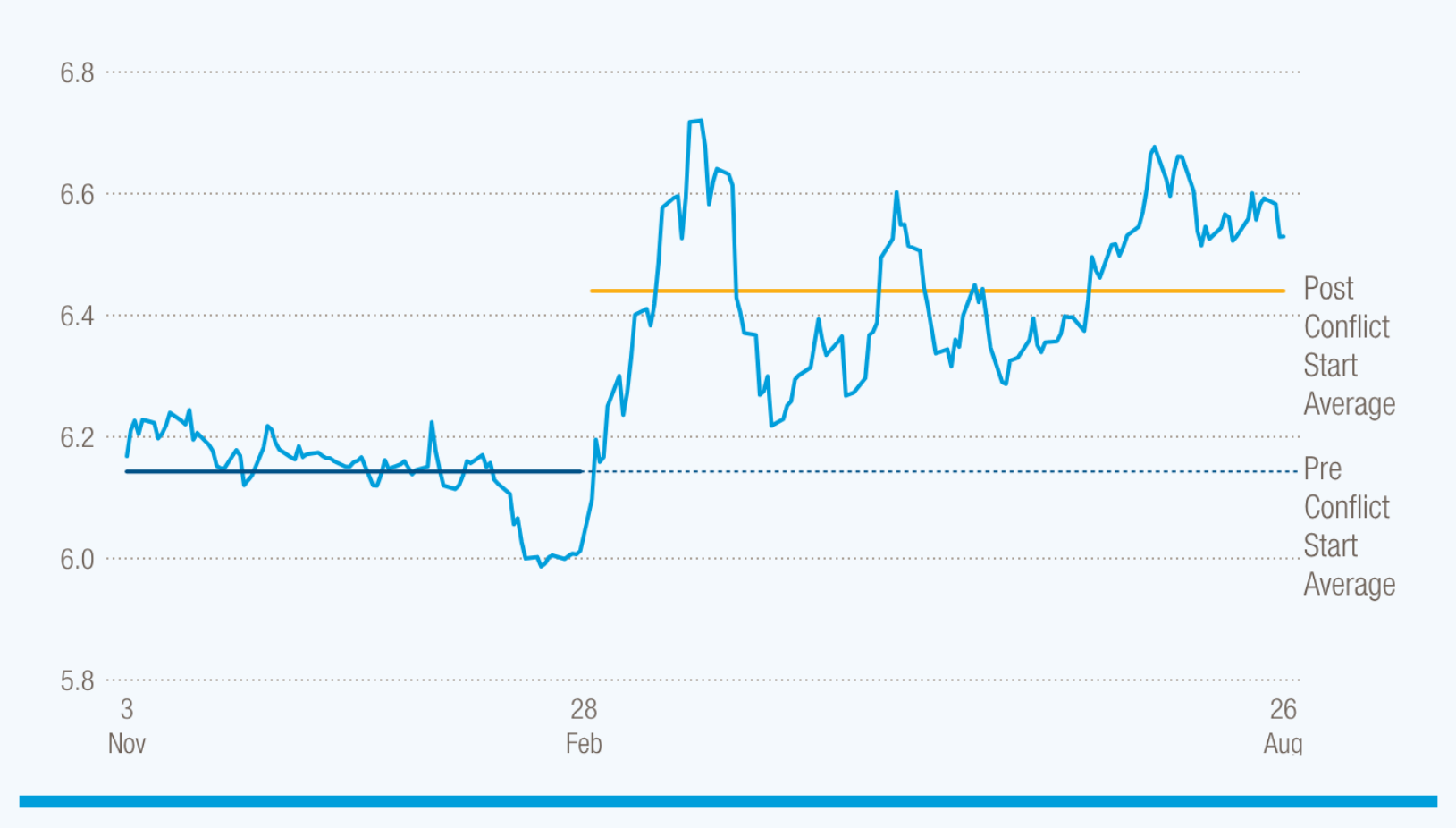



Between 2010 and 2025, developing countries paid an average rate of 4.9% per year to service their public debt, compared with 1.7% a year for developed countries

Source: UN Trade and Development (UNCTAD) calculations based on IMF World Economic Outlook (April 2026).

# The conflict in the Middle East has pushed up borrowing costs further

Weighted yields on the sovereign bonds of financially integrated developing countries (% per annum)




Source: UN Trade and Development (UNCTAD) calculations based on IMF World Economic Outlook (April 2026).

Conflicts and crises add to the already structurally-high borrowing costs of developing countries.

The war in the Middle East added an average of 30 basis points to borrowing costs. If these become embeded it would add an additional $57 billion to interest bills

# The potential impact of lower interest costs

Illustrative uses of $500 billion annual interest savings if developing countries borrowed at developed country rates

**$500bn**
annual interest savings



**NUTRITION**
**≈1.6 billion**
children benefiting from minimum dietary diversity for one year



**ROADS**
**≈66,000 km**
dual-lane rural highways



**HEALTH**
**≈1.3 million**
primary health-care centres



**RAIL**
**≈24,000 km**
high-speed railway track



**ENERGY**
**≈923 GW**
solar generation capacity



**EDUCATION**
**≈375,000**
additional schools

Each example represents one illustrative use of the full $500 billion in annual interest savings; estimates are not additive.

Source: UNCTAD calculations based on IMF and World Bank data and costing estimates from other sources

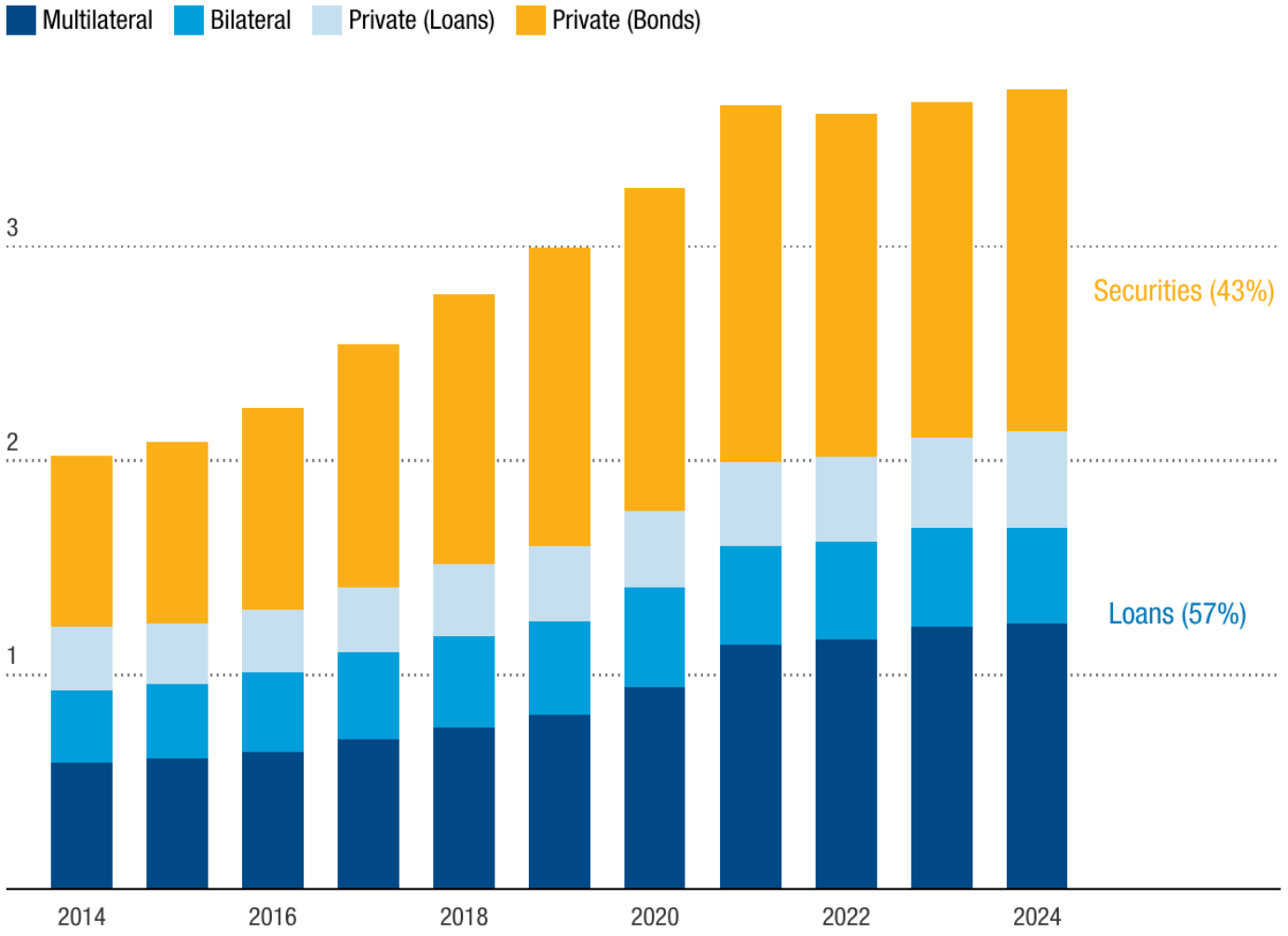
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# Sources and types of debt financing

Composition of external public and publicly guaranteed (PPG) debt in developing countries
(Trillions of dollars)

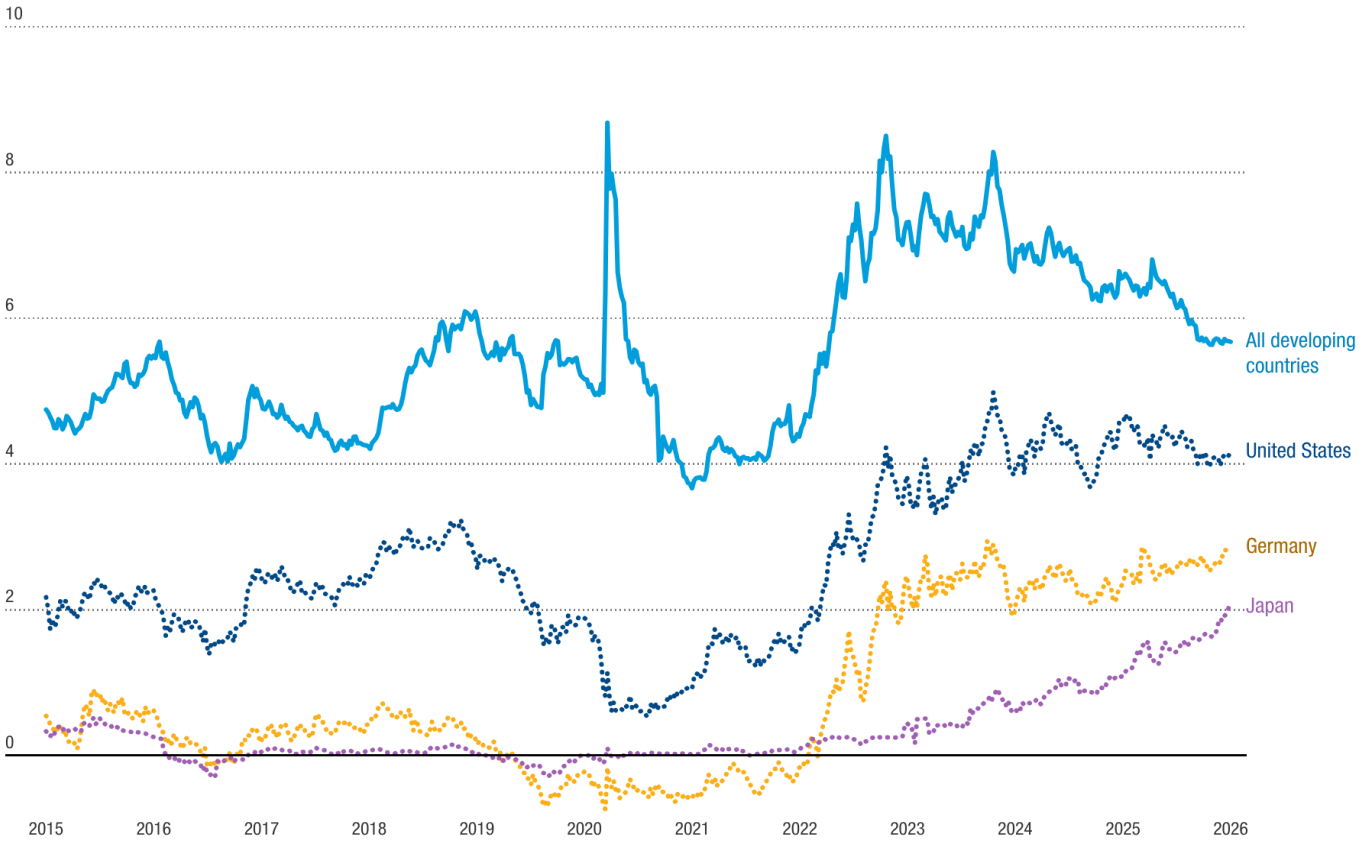



Source: UNCTAD calculations based on World Bank data

- The share of debt securities in external PPG debt **nearly doubled** since 2000
- Bond issuances have picked up again following a slump in 2021-2024.
- Loans - especially from multilaterals - remain central for countries without access to international markets.

# Financing conditions have improved but remain tight

Average yield to maturity of developing country sovereign bonds vis-à-vis 10-year benchmarks
(Per cent per annum)



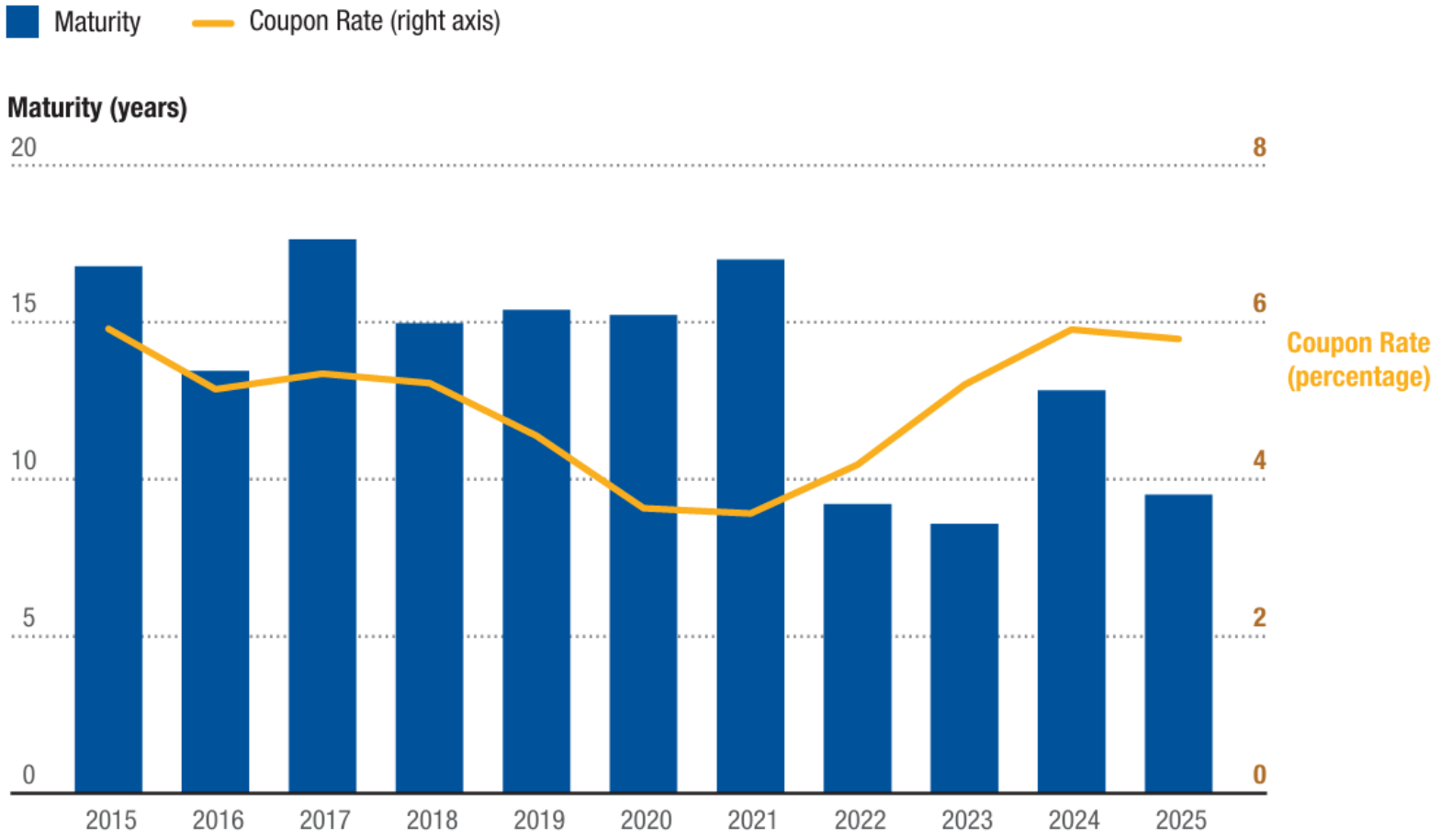

Source: UNCTAD calculations based on LSEG Data & Analytics

Includes all fixed-coupon bonds issued by developing countries since 1990 in dollars, euros, and yen available through LSEG Data & Analytics. Defaulted bonds are excluded. Bonds are weighted by market value and excluded within one year of maturity.

- Yields were low in the mid-to-late 2010s, **averaging around 5%**
- Following COVID-19 and global monetary tightening, yields rose sharply to an **average of 6.8%**
- Yields have since declined and **spreads are near historic lows** but yields remain above pre-COVID levels.
- FMEs and African countries face significantly higher **interest rates** and greater bond market **volatility**

# The term of borrowing has worsened

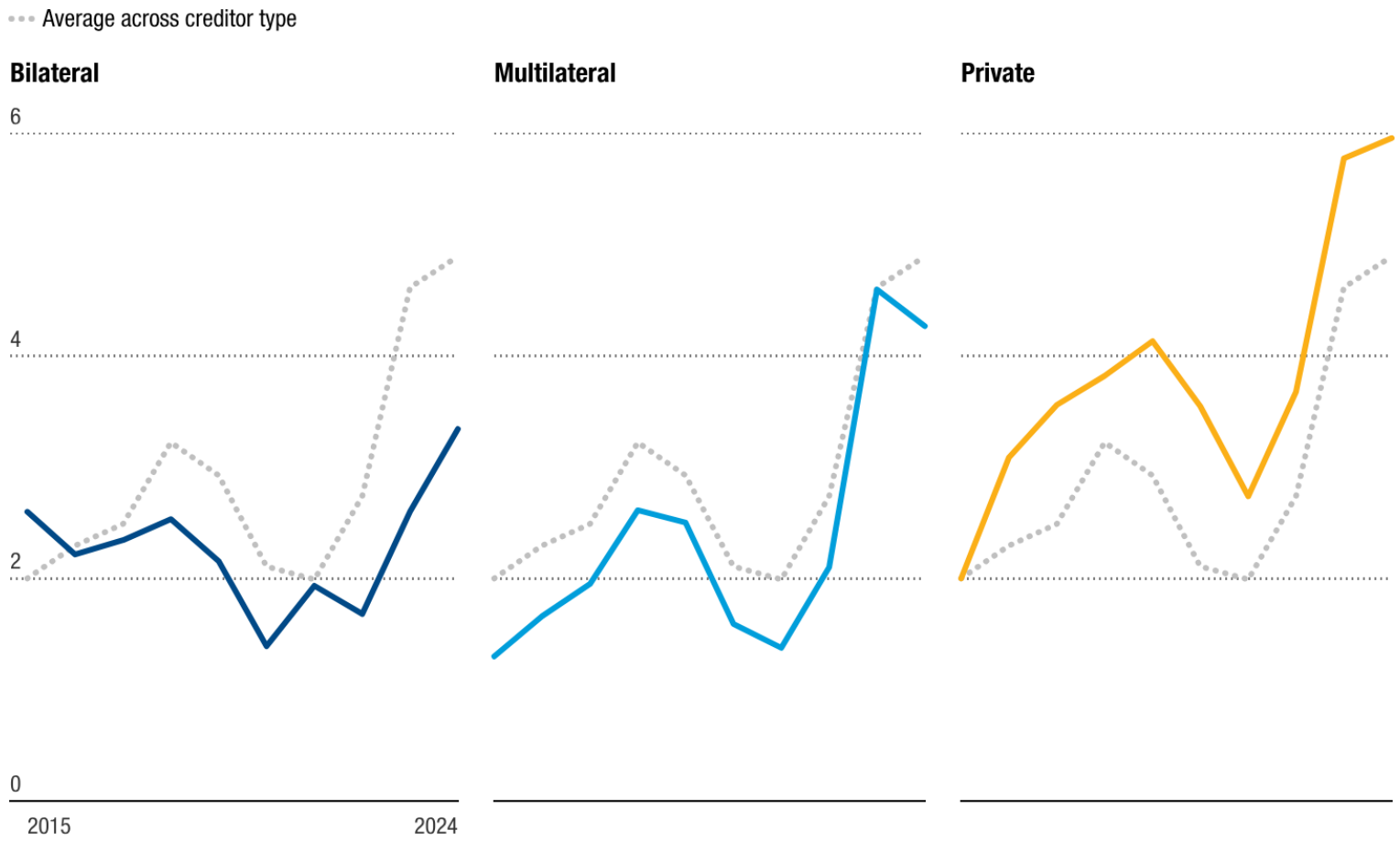
Yearly average tenor and coupon rate of developing country bond issuances




- While yields have decreased, **coupon rates remained elevated** in 2025 at 5.8 %
- Bond **maturities have shortened** significantly, falling from an average 17 years (2015-2021) to 9.5 years in 2025.

# Interest rates on loans have soared

Average interest rate on new external loan commitments to developing countries by creditor type
(Per cent per annum)

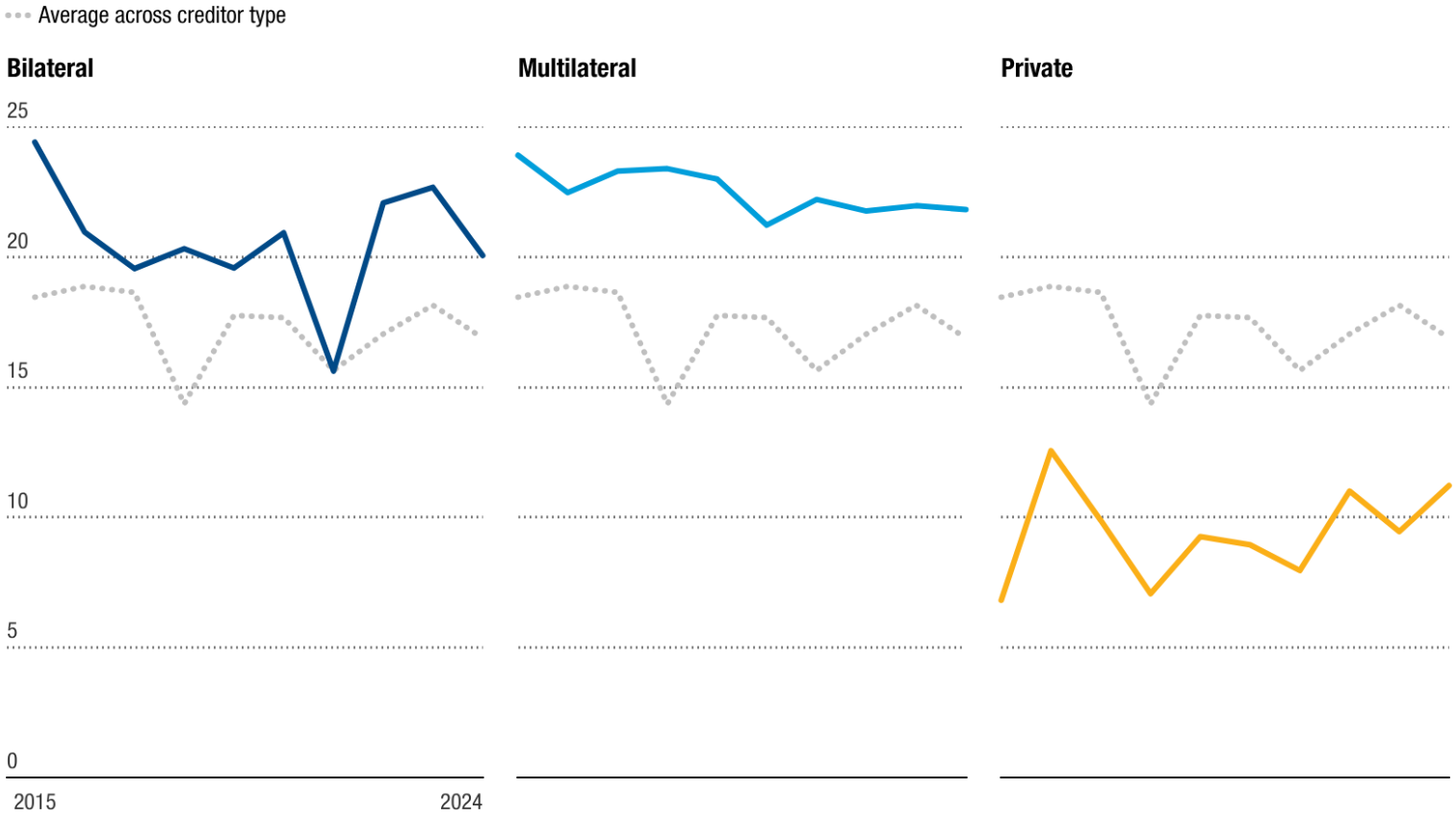



Source: UNCTAD calculation based on World Bank data

- Interest rates on loans have reached a **record high of 4.9 %** in 2024 following a global monetary policy tightening.
- Loans by private lenders the most expensive, followed by multilaterals.
- Multilateral lending is **pro-cyclical** in cost, due to coupling of non-concessional loans to reference rates

# Loan maturities remained mostly stable

Average maturities on new external loan commitments in developing countries by creditor type (Years)




- Multilateral loans have averaged maturities of around 22 years.
- The maturity of bilateral loans have averaged around 20 years.
- Loans from private lenders have tended to have significantly shorter maturities – averaging under 10 years.

Source: UNCTAD calculation based on World Bank data

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# Drivers of debt costs

The drivers of the cost of external debt financing can be grouped into external (push) and domestic (pull) factors. Domestic drivers are country-specific, while external factors remain largely beyond national control.

## External Factors

- Monetary policy in developed countries
- Investor risk appetite
- Global exchange rate dynamics
- Bond yields in developed countries
- Mispricing
- Climate shocks and and conflicts, natural disasters
- Availability of development finance

## Domestic Factors

- Credit risk
- Exchange rate risk
- Liquidity risk
- Mispricing

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# Policy approaches

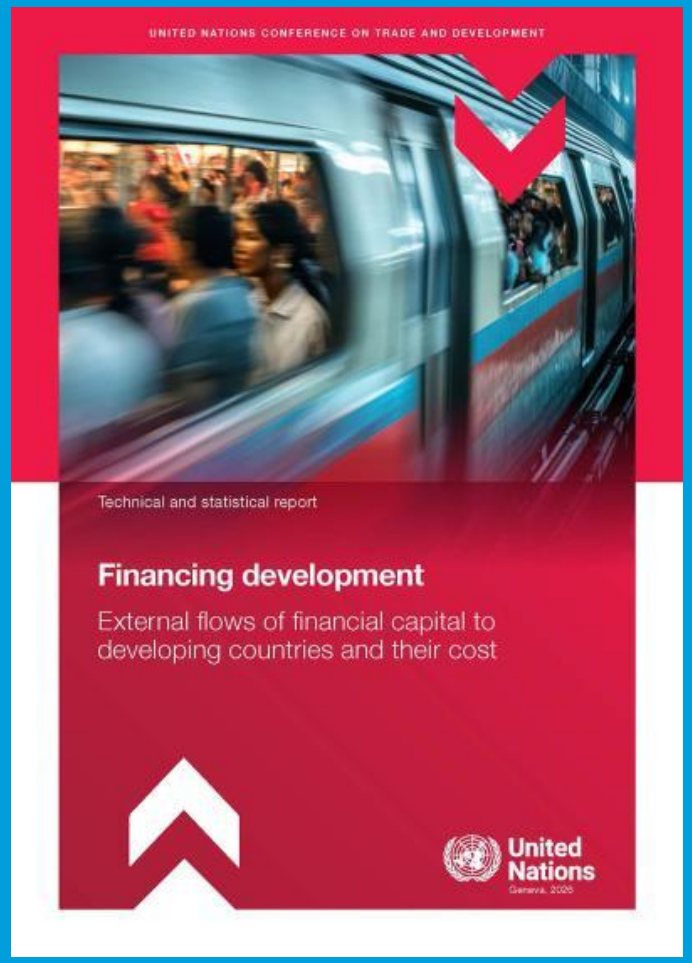
External financial flows are **too costly, too volatile and insufficient in scale**. Policies need to address domestic and external divers of higher borrowing costs at the national and multilateral levels.

## National-level measures

- Strengthen macro frameworks and institutional quality
- Improve structure and investor composition of debt portfolios
- Improve data transparency and investor communication
- Build capacity in debt issuance and market timing
- Use innovative financial instruments more effectively.

## Multilateral and cooperative actions

- Increase concessional finance through MDBs and NDBs
- Expand technical assistance for debt management
- Operationalise the Borrowers' Platform
- Expand global investment in climate adaptation and mitigation
- Ensure more effective and accessible global and regional financial safety nets
- Reverse the decline in ODA
- Standardise debt service pause clauses in sovereign debt contracts
- Provide fairer, more efficient, and more predictable international debt restructuring mechanisms




# Thank you

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