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The Price of Money

High capital costs as an obstacle to development

by Bodo Ellmers

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Executive Summary

Governments in the global south pay significantly higher interest rates on loans and bonds than governments in the global north. This financial divide is a key cause of disparities in prosperity and development around the world. The price of money determines the extent to which a state can provide goods and services like healthcare and education for its citizens. It also determines how far necessary transformations, such as climate change adaptation, can be financed from domestic resources.

The issue has gained considerable prominence in development policy discourses in recent years and is also shaping discussions in key multilateral policy-making forums, such as the United Nations (UN) Financing for Development (FfD) process, the UN Climate Summit to be held in Brazil in November 2025, and, above all, the G20 process under the 2025 South African presidency. As African countries are most affected by high interest rate premiums, they are also taking a leading role in the search for solutions.

BRIEFING

Numerous policy options and institutional innovations have been under discussion in recent years. Some are already being implemented. These include an African credit rating agency, which is intended to provide more accurate and, from a regional perspective, fairer ratings for African financial products. Another innovation is the African financial stability mechanism, which is designed to reduce the risk of loan defaults. Reforms of financial market regulation, in particular the Basel Accords, also have great potential. The current regulation makes loans to low-income countries more expensive, especially in the infrastructure sector, due to higher capital requirements for lending institutions. Together, such reforms have the potential to significantly reduce the cost of capital for countries in the global south. Their implementation should be pursued as a matter of urgency through decisive multilateral action. Regional initiatives also warrant strong and sustained backing from the international community.

Capital costs on the international political agenda

Capital costs have played a central role in the current debate on development financing since the Interagency Task Force (IATF) on Financing for Development highlighted the financial divide between north and south in 2022 in its analysis of different country groups' responses to the COVID-19 crisis. One aspect of this divide is that rich countries have access to virtually unlimited amounts of capital on global financial markets. This enables them to finance large fiscal deficits when faced with economic shocks or when seeking to finance development initiatives and strategically important transformations. An example is the Recovery and Resilience Facility, which provided European Union (EU) member states with funding on equal terms, thereby overcoming their different interest costs on capital markets. The second aspect is that rich countries can finance their budget deficits at significantly lower interest rates on global financial markets.

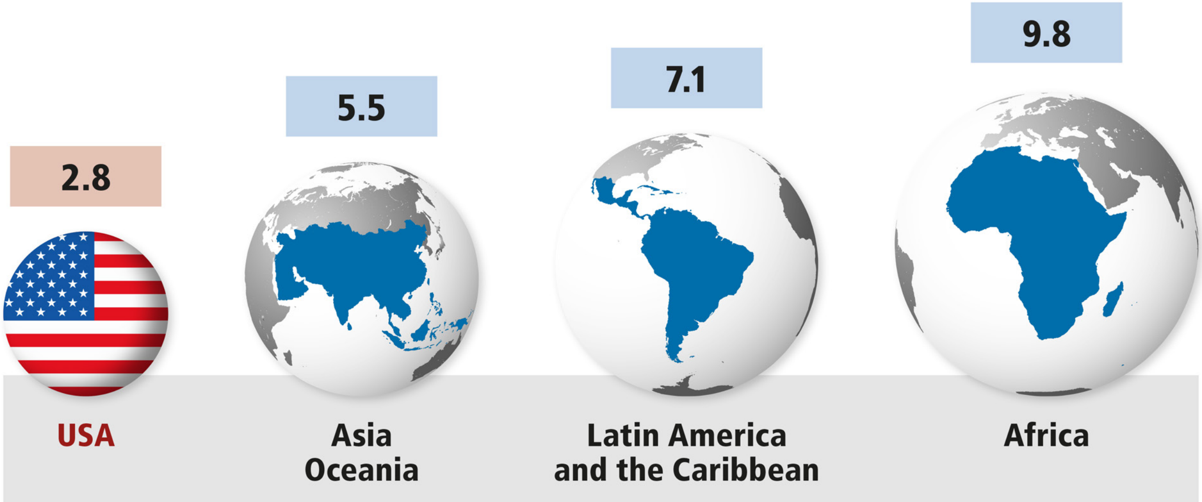
The new focus on capital costs has brought about a significant and long-overdue shift in discourse, which is also reflected in new policy goals. Over the last decade, spurred on by the "from billions to trillions" paradigm of the Bretton Woods institutions, the primary focus has been on mobilizing larger amounts of private capital for the global south. However, where the mobilization has been successful, it was often at exorbitant costs, with significant side effects. Many countries fell into debt crises because their revenues were insufficient to cover the high interest costs. State insolvencies became inevitable. The private sector in the global south is also suffering from higher financing costs, which are a key competitive disadvantage compared to rival companies from the global north or transnational corporations. The new focus means that the emphasis is no longer on the sheer volume but on the terms of the money mobilized, and thus primarily on the cost of capital.

The year 2025 offered key opportunities for political leaders in the global south to put the issue on the international agenda. For the first time ever, an African country – South Africa – is holding the presidency of the G20. From the outset, the cost of capital played a priority role on the G20 agenda set by Pretoria. This is also the year that Brazil, another important player in the global south, is hosting the UN Climate Summit. Since climate finance is high on the agenda as a result of the decisions taken at the Baku Climate Summit in 2024, the issue of capital costs is also being prioritized at the November summit.

The high capital costs are considered a key reason why the global south cannot adequately finance the necessary transformations. Developing countries (excluding China) need about US$ 2.5 trillion annually until 2030 for investments in climate-related areas and sustainable development. The cost of capital is crucial in determining whether these enormous sums can be mobilized initially and then serviced sustainably. Not least, the issue played an important role at the Fourth International Conference on Financing for Development, which took place in Sevilla, Spain in July 2025 and agreed on a comprehensive multilateral framework for development financing with the new Compromiso de Sevilla.

This raises the question of what causes higher capital costs in the global south and what can be done about it. This briefing paper outlines key approaches to solving this problem. It begins by discussing the different credit ratings between borrowers in the global north and south and their causes. It then presents key reform approaches to reducing capital costs, particularly in the areas of credit rating agencies, financial market regulation and reform of international financial institutions.

Figure 1: Bond yields for developing regions and the US (2020–2025)



Source: UNCTAD: A World of Debt

How high are capital costs in the global south?

When assessing the level of capital costs, the first question that arises is which benchmark to use. For capital in US dollars, this is usually the interest rate on US government bonds (treasury bonds), while for bonds in euros it is the German government bond. All other debtors pay a so-called risk premium on top of the interest rates paid by the US government or the German government on the capital markets.

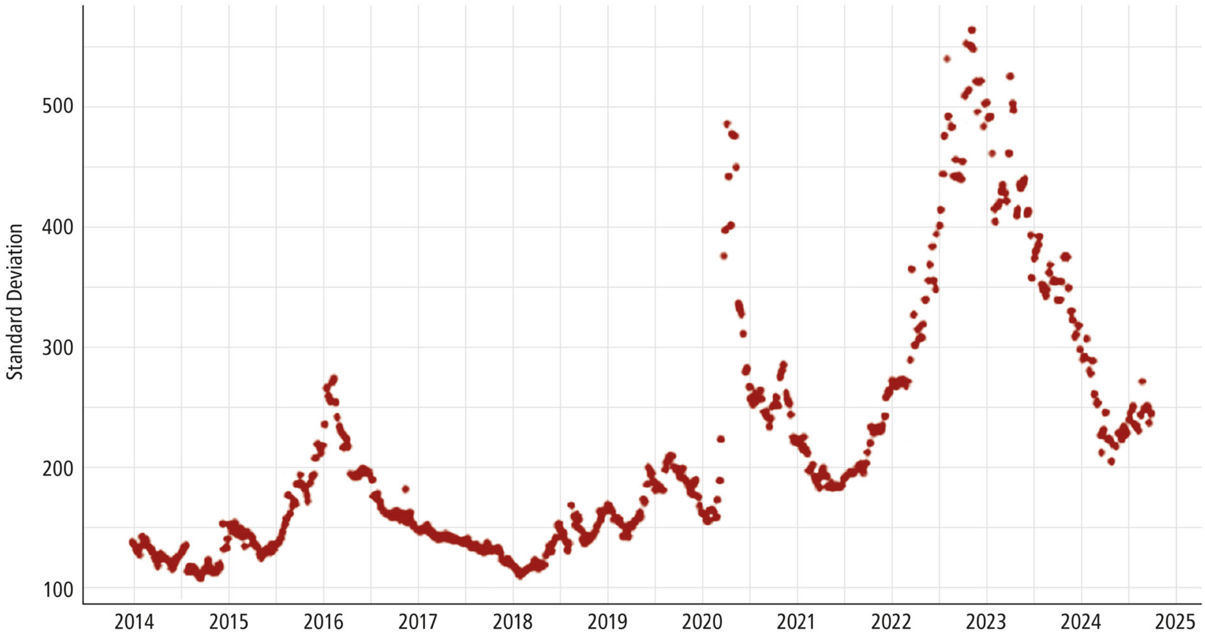
According to calculations by the UN (see Figure 1), interest costs, in this case on government bonds denominated in US dollars, were only 2.8 percent in the US on average for the years 2020 to 2025. Countries from the global south have to pay high premiums. The average interest rate for countries in Asia was 5.5 percent, in Latin America 7.1 percent and in African countries 9.8 percent – almost four times the interest rate set by the US, or an additional 7 percent.

A new study by the Finance for Development Lab emphasizes that risk premiums have risen particularly steeply for low- and lower-middle-income countries (LLMICs) over the last decade. While these averaged 2.5 percent in 2015, they have risen to 7.5 percent by 2025. In general, risk premiums are not constant, but they rise rapidly in times of crisis. Particularly high premiums were paid in the last decade at the outbreak of the COVID-19 crisis in 2020 and after the central banks of the global north initiated the interest rate turnaround from 2022 onwards (see Figure 2). Governments in the global south therefore have less access to cheap money precisely when it is most urgently needed for crisis management.

Both the US Federal Reserve Bank (Fed) and the European Central Bank (ECB) frequently change key interest rates, depending on their own economies' requirements. The actions of the central banks of the global north naturally also mean that the benchmark interest rate is not constant. This exposes debtors in the global south to interest rate shocks in both directions over which they have no control. For example, after the global financial crisis of 2007, the central banks of the global north set key interest rates at historically low levels and kept them there for a long time. This meant that developing countries had access to relatively cheap money on the capital markets and used this to increase their borrowing from private creditors. The COVID-19 crisis was followed by interest rate turnaround. First the Fed, and later the ECB, raised key interest rates rapidly and sharply to combat inflation in their home countries. This meant that the global south was hit by an interest rate shock, which not only made fresh capital more expensive, but also increased the cost of refinancing their existing debt.

The following example illustrates the interest rate shock: a country with a debt of US$100 billion and an interest rate of 5 percent must raise US$5 billion from the national budget each year to service the interest. If the interest rate rises to 10 percent, the figure rises to US$10 billion. Many countries become insolvent as a result of such interest rate shocks, even though their debt stock has not in-

Figure 2: Eurobond spreads: development of the standard deviation



Source: Finance for Development Lab

creased at all and their debt looked – and actually was – sustainable at a lower interest level. According to the World Bank, it is primarily this interest effect that is driving up the debt service of the poorest and most vulnerable countries. Although their repayments on principal fell by almost 8 percent to US$ 61.6 billion in 2023, interest costs rose to a historic high of US$ 34.6 billion – four times higher than 10 years ago.

In any case, their fiscal space shrinks, because every additional dollar of interest burden weighs on their national budget and reduces the funds available for other expenditures. The UN warns that more than 3.4 billion people, almost half of humanity, now live in countries whose governments spend more money on interest payments than on education or health. According to the 2025 Debt Report published by Erlassjahr.de, the number of countries whose national budgets are under extreme strain has risen to 47. These countries have to spend at least 15 percent of their national income on debt payments to foreign creditors.

The risk premiums for countries in the global south also have a substantial impact on the private sector, as the cost of capital is significantly higher there for private actors as well. For private sector investments, the cost of capital is initially determined by the base rate, which reflects the risk rating of the respective country. Added to this is a premium determined by the sector. According to the International Energy Agency, the base rate accounts for 60 to 90 percent of capital costs for investments in solar energy in African countries, compared to only 35 percent in China and as little as 10 percent in advanced economies. This means that, from a financing perspective, investing in an identical solar power plant is significantly more expensive in an African country than in other regions.

Development economists Jeffrey Sachs and Lisa Sachs emphasize that financing costs mean that the price of a kilowatt hour of electricity produced from solar energy in Africa can be four times higher than in Europe. It is these differences in financing costs that explain why comparable projects find financing from the private sector in high-income countries but not in low-income countries. They conclude that, for the global south, "the cost of capital – not capital scarcity – is the biggest bottleneck for climate and [Sustainable Development Goal] SDG finance".

Why are capital costs so high?

With increasing attention being paid to the issue of capital costs in development economics discourse, there has also been a rise in the number of attempts to explain why countries in the global south pay such high risk premiums. Essentially, investors want to be compensated in advance for a potential default risk. The assumption is that the default risk on US dollar financial products issued by the US government is lowest, partly because the US government also has its tax revenues in dollars, but above all because, in an emergency, the US Federal Reserve will buy up unlimited amounts of its own country's bonds to avoid default – as it did during the global financial crisis and the COVID-19 crisis. This option is not available to countries for which the US dollar is a foreign currency. This results in a **significant default risk** for these countries.

The level of risk is assessed by rating agencies using complex methods. They assign ratings to different countries – and their various financial products – with "AAA" usually representing the lowest risk and "C" or "D" the highest risk on the rating scale. It is important to note that these are inevitably estimates – i.e. forecasts – as they relate to the probability of a future default. Because the future is always uncertain, there is inevitably an **element of speculation** involved, despite the complex methods on which the forecasts are based.

Another problem is that the market for ratings is highly oligopolistic. Three private companies – Fitch, Moody's and S&P Global Ratings – dominate the market and determine the financial fate of entire countries with their upgrades and downgrades. Their headquarters are all located in the global north. Many actors from Africa accuse the ratings agencies of **bias**, claiming that they give African countries poor ratings that cannot be justified by objective factors and arguing that they lack knowledge of African conditions, which leads to misjudgements in their ratings. This is exacerbated by the limited presence of the major rating agencies in Africa, where they have few offices, as well as the lack of African colleagues in their workforce.

Whether or not the poor ratings for countries in the global south are justified has sparked a heated debate. In fact, where poorer ratings correlate with higher defaults, the question of causality, of cause and effect, arises. The poor rating itself could be the reason for the more likely default, as it results in higher interest costs. And the higher the interest rates, the more difficult it is, of course, to service a loan. The poor rating would therefore function less as an objective prediction and more as a **self-fulfilling prophecy**.

However, there are also other explanations that point to **institutional deficits**. With regard to the debtor countries themselves, reference is made to a lack of transparency in public finances or simply to poor communication between governments and rating agencies, which makes it difficult for the latter to assess the objective risks more accurately. However, experts – including those from the Finance for Development Lab – also emphasize that the difference between low- and high-income countries cannot be explained solely by deficits in the policies or institutions of the debtor countries.

Deficits in the international financial architecture are a particularly important point. The Finance for Development Lab points to three factors that are particularly important for low- and lower middle income countries (LLMICs):

1. **Vulnerable debt structure:** In LLMICs, the proportion of debt owed to multilateral creditors is particularly high. These creditors claim preferential creditor status. This means that their loans are exempt from restructuring or debt relief in the event of a crisis. One of the reasons given is that they grant concessional loans, thereby contributing in advance to reducing capital costs. However, as a result, write-offs on loans from private creditors would have to be higher if the debt sustainability of an over-indebted country is to be restored. From the perspective of private creditors, this increases their own write-off risk, as multilateral creditors bear no risk at all. They compensate for this risk by charging higher risk premiums. In other words, the AAA rating of development banks such as the World Bank is secured at the expense of their debtor countries receiving poorer ratings for their financial products.

2. **Poor creditor coordination:** The creditor structure of LLMICs incorporates not only multilateral and private creditors, but also bilateral creditors. The latter include both traditional creditors, as well as an increasing number of creditors from the global south such as China and, to a growing extent, Gulf states. In practice, coordination between all these creditor groups is poor, which in the event of a crisis leads to delays in debt restructuring and higher costs – i. e. write-offs.

3. **Deficits in the financial safety net:** LLMICs are almost entirely dependent on support from the International Monetary Fund (IMF) in the event of temporary liquidity bottlenecks. Due to the high proportion of foreign currency loans, their own central banks are unable to help.

Africa has the structural problem that, unlike in Europe, Asia or Latin America, there is no regional stability mechanism. As a political institution whose interventions must be laboriously negotiated by its executive board, the IMF often acts too slowly, grants emergency loans that are too small and/or attaches conditions that are very disadvantageous for debtors. This also has a negative impact on default risk and default levels.

The role and reform of credit rating agencies

The shortcomings of the current credit rating agency system play a central role in the high cost of capital in the global south. The United Nations Development Programme (UNDP) has conducted a detailed study examining the activities of rating agencies in Africa during and since the coronavirus crisis. It concludes that the ratings of African sovereign debt are influenced more by methodological peculiarities than by changes in macroeconomic and fiscal fundamentals. The UNDP emphasizes that reforming the methodology of the major rating agencies away from subjective factors could bring African countries US$74.5 billion in additional capital, partly through access to additional credit and partly through savings on interest payments.

The counterproductive actions of private rating agencies have implications far beyond the actual realm of private financial markets. One example was the failure of the Debt Service Suspension Initiative (DSSI) during the COVID-19 crisis. With the DSSI, the international community had offered low-income countries (LICs) a debt moratorium on their debts to bilateral creditors. However, despite the urgent need for money, many countries did not accept it. The reason for this was the threat of downgrades by rating agencies, which would have considered participation in the DSSI as a default, even though the debt owed to private creditors was not affected by the DSSI. Consequently, multilateral cooperation in crisis management is also negatively affected, as the credit rating system undermines the political measures of the international community and limits its policy options.

Research by the UNDP and other actors suggests that the major rating agencies need to build up more capacity in the global south itself, or at least hire more staff with specific knowledge of the LIC context, in order to produce adequate ratings. Aloysius Uche Ordu, Director of the Africa Growth Initiative at the renowned Brookings Institute, comments: “The attempt to quantify future uncertainty is indeed a difficult task. Often though we observe that the Credit Rating Agencies provide counter intuitive opinions because they employ inexperienced staff who are good in mathematics but lack an appreciation of the complexity of the real world, especially the complex operating environment in Africa.”

At the beginning of 2025, only two countries in Africa – Botswana and Mauritius – had an investment grade rating. In September 2025, Morocco became the third, following an upgrade by S&P Global. Poor ratings not only lead to higher interest rates on government debt, they also result in significantly higher capital costs for private project financing. This stands in stark contrast to the findings of studies conducted by the rating agencies themselves, which show that the actual default risk for infrastructure projects in Africa is lower than in other regions, as the then President of the African Development Bank, Akinwumi Adesina, pointed out. Adesina linked his criticism of the private rating agencies with a call for the establishment of a credit rating agency in and for Africa.

The African Credit Rating Agency

The process of establishing an African Credit Rating Agency (AfCRA) was initiated by the African Union in March 2019 and is being driven primarily by the African Peer Review Mechanism. The AfCRA is expected to begin operations in 2026, focusing exclusively on the African region. Its goal is to promote access to affordable capital for African countries as well as local governments and private actors. It is intended to complement, not replace, the ratings of existing private rating agencies. Although the AfCRA is the result of a political initiative, it is to operate independently to ensure the objectivity of its ratings. Similar to the big three agencies, it will be financially independent and finance itself through the sale of its services. Greater objectivity in ratings will therefore be ensured not so much by a change in operating methods but by the fact that it is an African-owned and African-based institution.

The establishment of AfCRA was welcomed and received global recognition in the Compromiso de Sevilla, the outcome document of the Fourth International Conference on Financing for Development in July 2025. The agency was originally supposed to start operating in mid-2025, but this has been delayed. One obstacle is the high costs involved. According to one estimate, up to US$500 million would need to be invested to create an African rating agency that could compete with the major agencies, which is a huge sum in relation to the African Union's budget. In addition, these funds would have to come from the own resources in order to ensure its independence. Other African institutions are financed to a considerable extent by external donors. In September 2025, on the sidelines of the UN General Assembly, it was decided to locate the AfCRA in Mauritius, the African island nation that already hosts a major financial centre. Subsidiaries could be located in other regions of Africa.

Another obstacle is that the AfCRA's ratings would have to be accepted by financial market players as an alternative to those of the big three. In many third countries, however, the status quo is that regulators prescribe to institutional investors whose ratings they should follow. In doing so, they have created the oligopoly of the big three and have since secured it. The Financial Times concluded: "Without international regulatory recognition, AfCRA risks becoming an advisory service masquerading as an agency; technically useful but irrelevant where it matters." The impact of AfCRA therefore depends largely on regulatory authorities in third countries adapting their regulations.

Box 1: The African Financial Stability Mechanism

Until now, Africa was the only region without a regional financial stability mechanism. In the event of liquidity shortages, African countries were therefore completely dependent on bridge loans from the IMF. Even Europe, despite its strong role in the IMF's decision-making bodies, created the European Stability Mechanism (ESM) after the 2007 financial crisis. This was because the member states of the eurozone had little confidence in an institution that was not under sovereign European control. This was particularly true given that the US has a de facto veto over all decisions in the IMF.

The decision to create the African Financial Stability Mechanism (AFSM) was taken in February 2025. It will be established at the African Development Bank as an independent facility that can finance itself through the capital markets. Similar to the IMF and the ESM, it should only intervene in cases where a country is temporarily unable to obtain liquidity to service its loan repayments on time. If, on the other hand, a country is actually over-indebted – i.e. insolvent – debt restructuring would be unavoidable.

Since the AFSM reduces the default risk of bonds and loans, it should also lower the risk premiums of African financial products: "If implemented as designed, the AFSM can save African sovereigns approximately $20 billion in debt servicing costs by 2035," said AfDB Chief Economist Kevin Urama in an interview with Reuters. In the Compromiso de Sevilla (paragraph 54m), the international community committed itself to supporting the AFSM.

The importance of financial market regulation

Numerous financial market regulations are responsible for the cost of capital being higher in LICs and middle-income countries (MICs) than in higher-income countries. One example of regulations that disadvantage investments in securities from emerging and developing countries is the restriction on the use of national country-owned rating agencies contained in several regulatory frameworks. This regulation generally applies, even if the national rating agency is a subsidiary of one of the major international agencies. This regulation has led to the market for sovereign and corporate ratings being dominated by a few companies. Ratings from other agencies can only be used if the established companies are not represented.

Banking regulation disadvantages the global south

From the perspective of the global south, the regulations of the Basel Committee on Banking Supervision, which is based at the Bank for International Settlements (BIS), are particularly discriminatory. As a central institution for financial market regulation, the Basel Committee sets capital adequacy requirements for banks and other financial market players. These requirements are higher or lower depending on the risk weighting of their exposures. Higher capital requirements result in higher costs for banks, which is why they either stay away from countries and sectors assessed as higher risk or charge a higher price for the money they lend or invest there.

Of course, criteria must be established for assessing risk. The first package (Basel 1), which was adopted in 1988, already **discriminated between global north and south**, or more precisely between members and non-members of the Organisation for Economic Co-operation and Development (OECD). The former were assigned a risk weighting of 0 percent, while the latter received a weighting of 100 percent. This methodology was refined by Basel 2 (2004) and Basel 3 (2010). Risk weighting no longer depends solely on OECD membership, but on the rating of debtors by recognized rating agencies. In special cases, it can also be based on risk assessments by export credit agencies specified by the OECD.

Through these steps, a state-dominated financial market regulatory body has empowered private actors to act as judges of the creditworthiness of entire countries, allowing them to determine whether and at what price their governments can access money. This, of course, determines the extent to which these countries can finance basic government functions – from providing education and health services to building and maintaining physical infrastructure and ensuring effective public administration.

Money laundering regulations disadvantage small countries

Financial market regulations also have negative effects on the price of money in other areas, especially for the least developed countries (LDCs) and small island developing states (SIDS). For example, stricter anti-money laundering regulations (Anti Money Laundering Directives – AMLD) have led to a sharp decline in the number of correspondent banking relationships. These relationships are a prerequisite for transferring money from one country to another. If their number declines, competition among providers decreases and the remaining banks can impose monopoly prices – with the result that the cost of money transfers rises.

As banks are afraid of penalties and compliance with regulations is generally expensive for them, they are withdrawing primarily from smaller markets, i.e. countries that are either poor or small. LDCs and SIDS are therefore particularly badly affected. In the Pacific region, the number of correspondent banking relationships has declined by over 60 percent in the last decade, compared to 30 percent in the rest of the world – mainly due to banks' nervousness about having to pay fines under stricter money laundering regulations. Three regions lost more than 40 percent of their correspondent banking relations between 2011 and 2020: Melanesia (a subregion of Oceania in the southwestern Pacific Ocean), Polynesia and the Caribbean, according to a study by the **MOBILIST** programme.

This has a negative impact not only on investment activity, but also on remittances from migrant workers. Remittances are a significant source of income for many families in the global south. The importance of remittances in poverty reduction is so high that the goal of reducing their costs to 3 percent has been included in the UN's Sustainable Development Goals (SDGs). Quantitatively, at US$857 billion in 2023, they are a significantly more important flow of money than, for example, official development assistance (ODA), which amounted to only US$223 billion in the same year. But the price of remittances is high. On average, 6.4 percent – or US$12.80 of a transfer of US$200 – is currently lost in fees. The failure to take the needs of the global south into account in financial market regulation is considered the main reason why no progress has been made on this SDG (SDG 10.c.1).

Cost reduction through reform of the Basel Accords

According to **numerous experts**, the focus of the Basel banking regulations on risk weighting is a key reason why countries in the global south have to pay high interest rate premiums. It determines the capital requirements for creditor banks and thus also has a decisive impact on their costs. Risk weighting is one of the core elements of Basel banking regulation and is used to determine how much capital private banks must hold against their assets.

According to a **study by Oliver Pahnecke and Juan Pablo Bohoslavsky**, the former an expert in commercial law and the latter a former UN **Independent Expert** on External Debt and Human

Rights, risk premiums serve a similar function to collateral. They are intended to protect creditors from default risk. When buying a house with a mortgage loan, the house itself is the collateral for the loan. In the event of a loan default, ownership of the house itself is transferred to the bank, and because of this security, the bank can forego high interest rate premiums.

This principle does not work for loans to countries, as ownership of a sovereign state is naturally not transferable. Creditors therefore demand high interest rate premiums as compensation. Risk premiums play the same role in government financing as collateral does in mortgage loans. The key difference is that, after the mortgage loan has been repaid in full, ownership of the house remains with the borrower, who is now the full owner. In sovereign financing, on the other hand, the additional interest paid on account of the risk premiums remains permanently with the creditors, even if the loan has been repaid in full and on time.

Pahnecke and Bohoslavsky call for legal equality between risk premiums and loan collateral. This would mean that the risk premium would remain the property of the debtor and would have to be repaid to them at the end of the loan term. The government of an LLMIC would thus still pay an interest rate of perhaps 7 percent on a 10-year euro government bond, whereas Germany's federal government only has to pay 2 percent interest. However, the entire interest difference would be repaid to the LLMIC government at the end of the term, provided that no default had occurred during the term. This would bring the borrowing costs of an LLMIC for euro loans in line with those of the benchmark borrower, Germany. Such a reform could be initiated by a political decision of the G20 and implemented by an amendment to the Basel Accords.

Reform of financial sector regulatory institutions

Financial market regulations such as the Basel Criteria or the AMLD directives were introduced for good reason. Usually, it is severe financial crises that trigger new waves of regulation. The most recent wave dates back to the global financial crisis that began in 2007. The fact that they regularly lead to serious side effects in poorer and smaller countries could be described as an unintended result. However, a closer look at the composition and working methods of relevant multilateral bodies makes it clear that the systematic disregard for their interests is due to their structural marginalization. These groups of countries are poorly represented or not represented at all in relevant bodies.

Since the global financial crisis, the central political body with an overarching function has been the G20, which sees itself as "the premier forum for international economic cooperation". By definition, the G20 is intended to bring together only the world's largest economic powers. The fundamental political mandates for financial market regulation are negotiated as part of the G20 process. Specialized multilateral bodies are then tasked with developing them further. Conversely, this means that those who are not among the largest economic powers do not have a seat at the table and cannot assert their interests. Such structural marginalization was already evident when the G20 was founded and was unacceptable to the smaller countries of Europe. For this reason, the G20 de facto comprises only 19 countries and the European Union, which represents the smaller EU member states.

When it was founded, the Basel Committee on Banking Supervision (BCBS) was made up of only 10 central banks, all from countries in the global north. It was not until 2009 that the first round of expansion took place. With the admission of Australia, Brazil, China, India, Mexico, Russia and South Korea, emerging economies were represented on the committee for the first time. Although membership has since grown to 28 countries, important groups of countries are still not represented at all, in particular the LDCs and SIDS.

The same applies to other key institutions. The Financial Stability Board (FSB), whose task is to encourage national regulatory authorities to take a coordinated approach to financial market regulation, has 24 member states – not a single one of which is an LDC. The same applies to the Financial Action Task Force (FATF), the central body for negotiating money laundering regulations. Among its 37 member states, there is also not a single LDC or SIDS.

The situation is different at the UN. Thanks to the 'one country, one vote' principle, all 44 LDCs and 39 SIDS have a seat and a say in the UN General

Assembly. Their voting rights amount to 22.8 percent for the LDCs and 20.2 percent for the SIDS. This has given rise to calls for the UN to play a stronger role in setting policy guidelines for financial market regulation. The Compromiso de Sevilla took this into account by mandating regular meetings of the UN´s Economic and Social Council on credit ratings (paragraph 55a) and financial integrity (29c).

The pressure to give poorer and smaller countries a greater presence and voice in existing institutions is growing and is beginning to bear fruit. For example, the African Union has been participating in the G20 process since 2024. In addition to South Africa, which was previously the only African nation state to be a G20 member, there is now a second African seat in the group. Like the EU, the AU is primarily intended to represent the interests of states that are not at the negotiating table themselves. However, in addition to strengthening its position at the political level, Africa's representation in the technical committees of financial market regulation would also need to be strengthened. Daniel Cash, one of the world's leading experts on credit rating agencies, argues in his comprehensive analysis "Rating the Globe" for African representation in the International Organization of Securities Commissions (IOSCO), the most important standard-setter for the industry.

Table 1: Representation of LDCs in international organizations: numerical membership and voting rights

	Number of LDC members	Voting share
UN General Assembly	44 of 193	22.8 %
UN ECOSOC	9 of 54 in 2025	16.7 %
G20	0	0
G7	0	0
OECD	0	0
International Monetary Fund	44 of 191	3.3 %
World Bank (IBRD)	44 of 189	2.7 %
Basel Committee for Banking Supervision	0 of 28 (only states)	0
Financial Stability Board	0 of 25 (only states)	0
Financial Action Task Force	0 of 40	0

Source: Own calculations based on information from the institutions listed

Conclusion

High capital costs are the biggest obstacle to development financing in many low-income countries, even more so than the lack of available capital. They make it difficult for private economic actors to carry out their projects and they prevent states from offering their citizens public goods and services in sufficient quantity and quality. They also mean that countries in the global south are becoming increasingly over-indebted, even with a significantly lower debt stock than their counterparts in the global north. The success or failure of sustainable development depends in no small part on the cost of capital.

The credit rating system, combined with the negative effects of financial market regulation, is partly responsible for the high cost of capital. It is welcome news that the development policy discourse, which previously focused solely on the amount of capital mobilized, is now paying more attention to the cost of capital. Institutional innovations such as the African Credit Rating Agency are the first results of this shift in the international financial architecture. Recognition of their ratings would have to be enforced through regulatory reforms in third countries, including Europe. Further reform steps should follow, particularly regarding the Basel Accords on banking regulation and money laundering directives. In fact, they have already been mandated in part in international agreements such as the Compromiso de Sevilla. An important prerequisite for ensuring that the needs of previously marginalized groups of countries are taken into account is to strengthen their position in key bodies of the international financial architecture.

Imprint

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Bischöfliches Hilfswerk MISEREOR e.V.
Mozartstr. 9, 52064 Aachen
info@misereor.de
www.misereor.de
Contact: Benjamin Rosenthal

Global Policy Forum Europe e.V.
Königstr. 37 a, 53115 Bonn
europe@globalpolicy.org
www.globalpolicy.org
Contact: Bodo Ellmers

Brot für die Welt
Evangelisches Werk
für Diakonie und Entwicklung e. V.
Caroline-Michaelis-Str. 1, 10115 Berlin
info@brot-fuer-die-welt.de
www.brot-fuer-die-welt.de
Contact: Ute Straub