

25 February 2026

GLOBAL DEVELOPMENT FINANCE IN 2026: CAPITAL UNDER CONSTRAINT

As traditional aid budgets contract and geopolitical fault lines deepen, the architecture of global development finance is undergoing structural change. Official Development Assistance is declining sharply, while Development Finance Institutions and Multilateral Development Banks are being asked to mobilise greater volumes of private capital with fewer concessional resources. This joint Pangea-Risk and Texel report examines the forces reshaping how capital reaches vulnerable economies, and what will be required to deploy risk-adjusted investment at scale in 2026 and beyond.

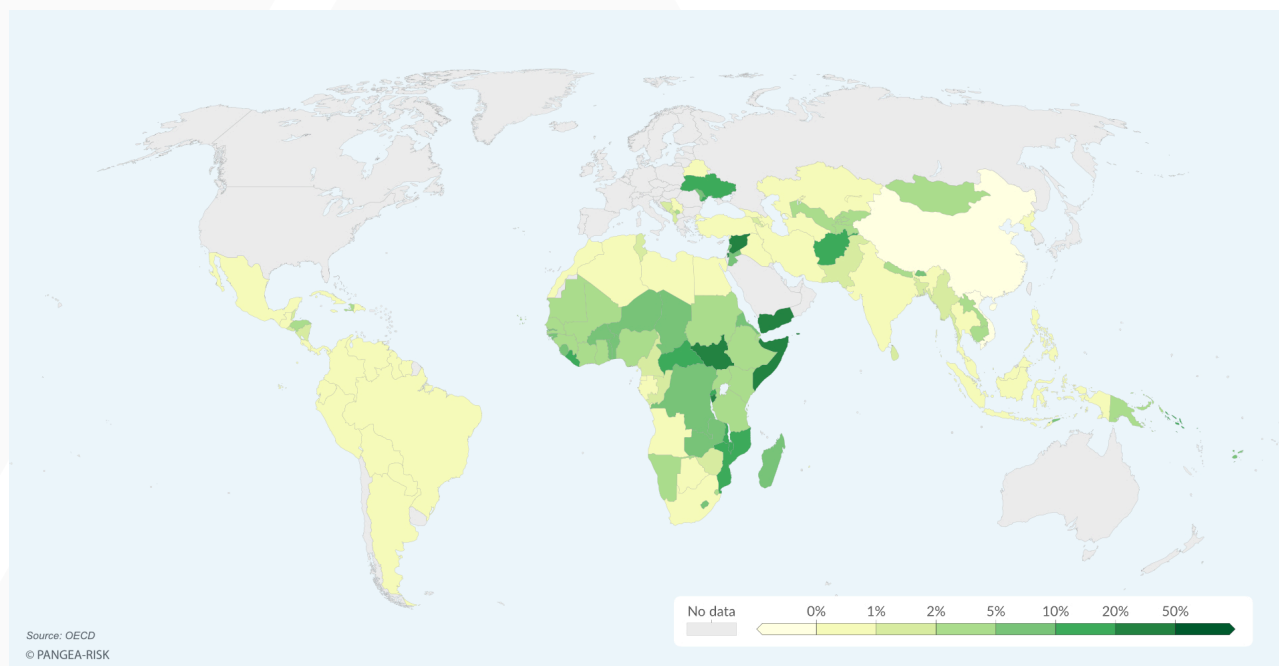
2026 marks an inflexion point in global development finance. Traditional public finance, particularly Official Development Assistance (ODA), is contracting under fiscal pressure and geopolitical realignment. At the same time, Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) are being repositioned as catalytic intermediaries, expected to mobilise private capital into markets that remain structurally risky.

Grant-based and highly concessional finance has entered a sustained decline. In 2024, ODA from OECD Development Assistance Committee (DAC) members fell by 6–7 percent in real terms, reversing several years of post-pandemic expansion. OECD projections indicate a further 9–17 percent decline in 2025, driven by cuts across the United States and major European donors. Contraction is expected to continue into 2026. Bilateral ODA to least developed countries (LDCs), particularly in sub-Saharan Africa, could fall by up to 25 percent. Health, humanitarian, and social sector funding are disproportionately affected, with health financing projected to decline by as much as 60 percent from recent peaks.

Pangea-Risk assesses that declining concessional finance and fragmented multilateralism signal a structural shift in development capital deployment. Institutions will need to better distinguish sovereign risk from project viability and use catalytic capital more precisely. Future effectiveness will depend on disciplined risk allocation, leverage structures, and political and macroeconomic insight rather than funding volume.

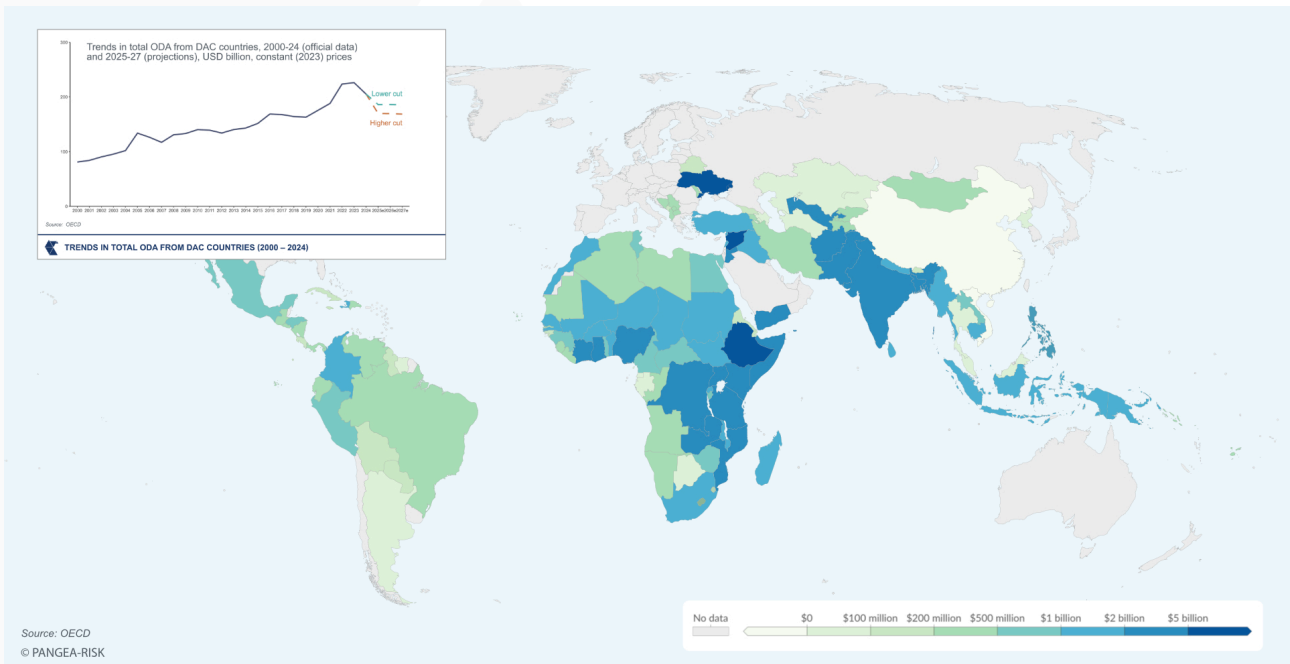
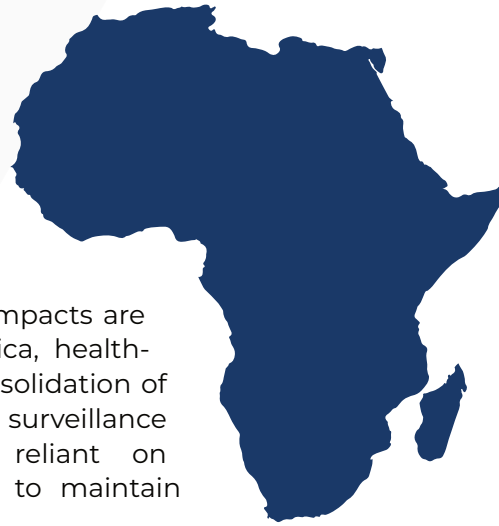
Tighter public budgets and ODA decline

After a period of expansion, official aid flows are structurally constrained. OECD data show DAC member ODA totalled USD 214.5 billion in 2024, a 6.0 percent real-term decline from 2023. A further 9–17 percent reduction is projected in 2025, implying a cumulative two-year contraction of 17–26 percent. Bilateral ODA to LDCs may fall 13–25 percent, while sub-Saharan Africa faces a 16–28 percent reduction.



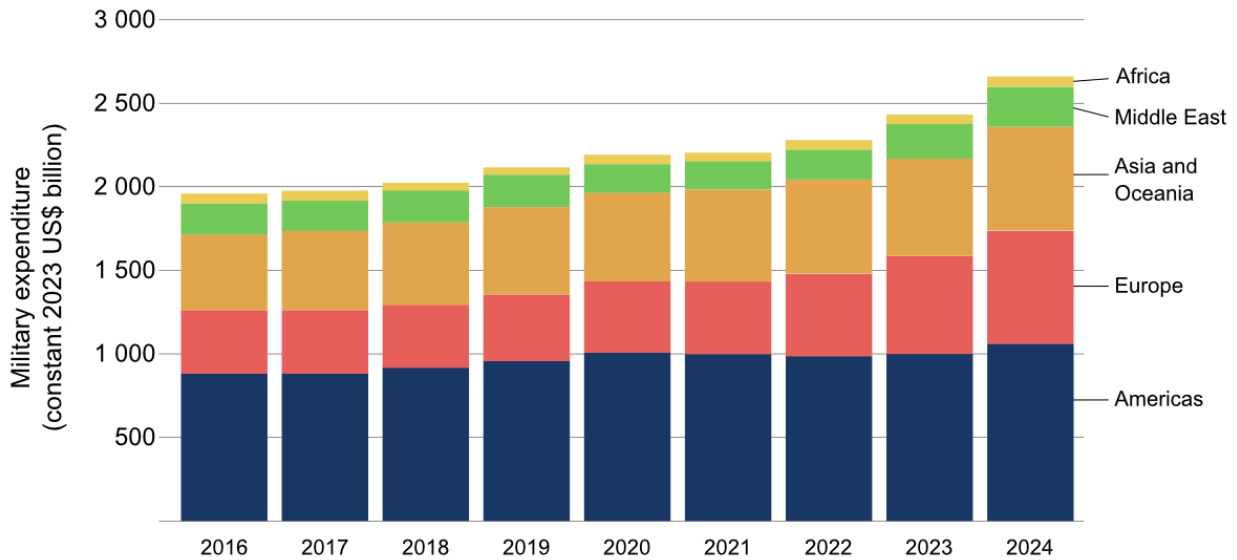
FOREIGN AID RECEIVED AS A SHARE OF NATIONAL INCOME, 2024

The drivers of this decline are structural. Major donor economies face slower growth, elevated debt servicing costs, and expanding domestic obligations, particularly in defence and social protection. Political support for traditional aid has weakened, with development finance reframed as a tool of national interest. And, the impacts are already being felt. Across West and Central Africa, health-related aid reductions in 2024–25 have forced consolidation of maternal health, vaccination, and disease surveillance programmes. Governments are increasingly reliant on multilateral facilities and philanthropic funding to maintain essential services.



FOREIGN AID RECEIVED BY COUNTRY, 2024

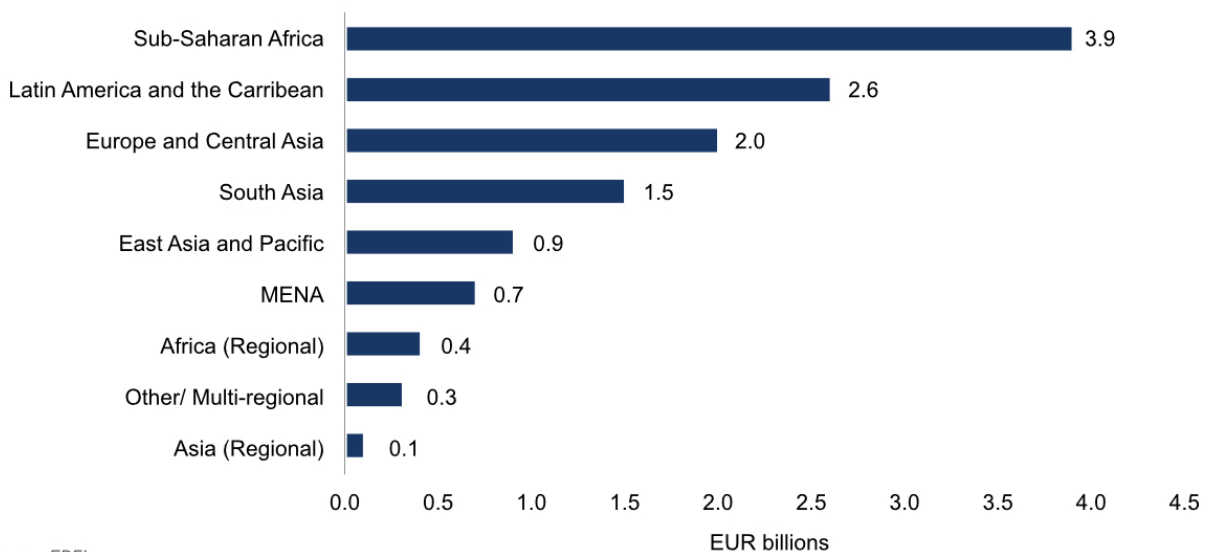
At the same time, DFI activity is expanding. Unlike ODA, DFIs deploy repayable capital: loans, equity, guarantees, and blended instruments. In 2024, European DFIs recorded their strongest commitment growth since 2018. New investments rose 29 percent year-on-year to EUR 12.35 billion, reaching EUR 21.39 billion including affiliates. Allocations to sub-Saharan Africa, LDCs, SMEs, and climate projects all increased.



Source: SIPRI

WORLD MILITARY SPENDING BY YEAR AND REGION (1988 – 2024)

This divergence signals a rebalancing of the system. As concessional aid contracts, DFIs, MDBs, insurers, and guarantors are expected to use limited public capital more strategically, absorbing specific risks to mobilise larger private flows.



Source: EDFI

Note: EDFI Affiliate Partners U.S. DFC and FinDev Canada figures are excluded.

REGIONAL DISTRIBUTION OF EDFI NEW INVESTMENTS IN 2024

Geopolitical fragmentation

At a time when development cooperation is increasingly shaped by geopolitical competition, multilateral frameworks are under strain as donors prioritise bilateral and region-specific agendas. The United States' 2026 withdrawal from 66 international organisations, including several UN-linked development agencies, for example, represents both a funding shock and a structural shift away from US-anchored multilateralism. Instead, financing decisions are becoming more transactional, tied to economic diplomacy, migration management, supply chain security, and critical mineral access. The geopolitical contest for influence in Africa and other emerging markets is reshaping capital flows. Countries aligned with strategic interests may receive preferential support, while coordinated responses to climate, health, and governance challenges weaken.

Emerging donors, including China, Gulf states, and new development banks, are expanding infrastructure- and resource-focused financing models. While they help fill funding gaps, they also increase fragmentation, with differing standards of governance and transparency.

Trump and the UN

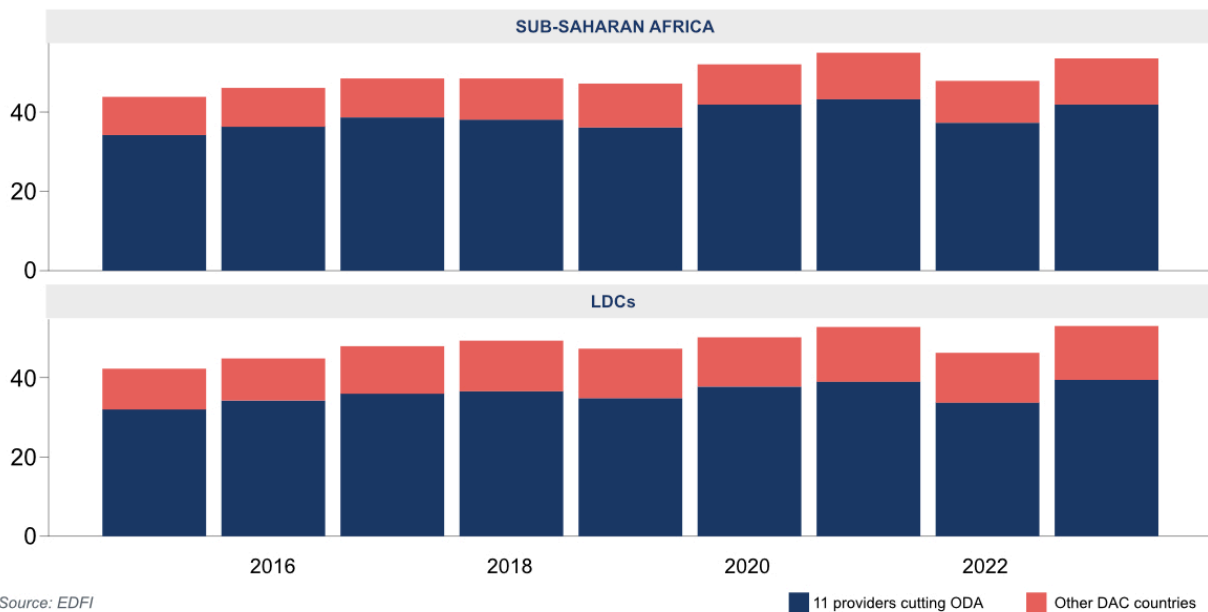


DFIs and MDBs: Risk-sharing, reform, and leverage

Against this backdrop, DFIs are scaling their catalytic role. European DFIs committed EUR 12.35 billion in 2024, up 29 percent year-on-year. Thirty-one percent targeted sub-Saharan Africa; investments in LDCs and low-income countries more than doubled to EUR 2.66 billion. SME finance rose 104 percent, and climate finance increased 21 percent. In East and West Africa, DFIs also expanded local-currency lending and SME equity investments to offset tightening domestic credit conditions.

However, DFIs now face a dual mandate: deliver measurable development impact while mobilising private capital. This has increased reliance on blended finance, first-loss capital, and guarantee structures. Political, macroeconomic, and regulatory risk analysis is becoming more central to investment structuring. Scarce concessional resources must demonstrate additionality, not simply volume.

MDBs, meanwhile, remain core to the architecture but face capital adequacy pressures. Rising global financing needs, particularly in climate adaptation and infrastructure, coincide with limited shareholder contributions. MDBs are therefore shifting toward leverage-based models. Greater emphasis is placed on local-currency financing, digital financial infrastructure, and private capital mobilisation. Governance reform discussions aim to improve flexibility and efficiency. Guarantees and risk-sharing instruments are expanding, particularly for infrastructure, climate resilience, and digital connectivity. Public balance sheets alone are insufficient to meet demand.

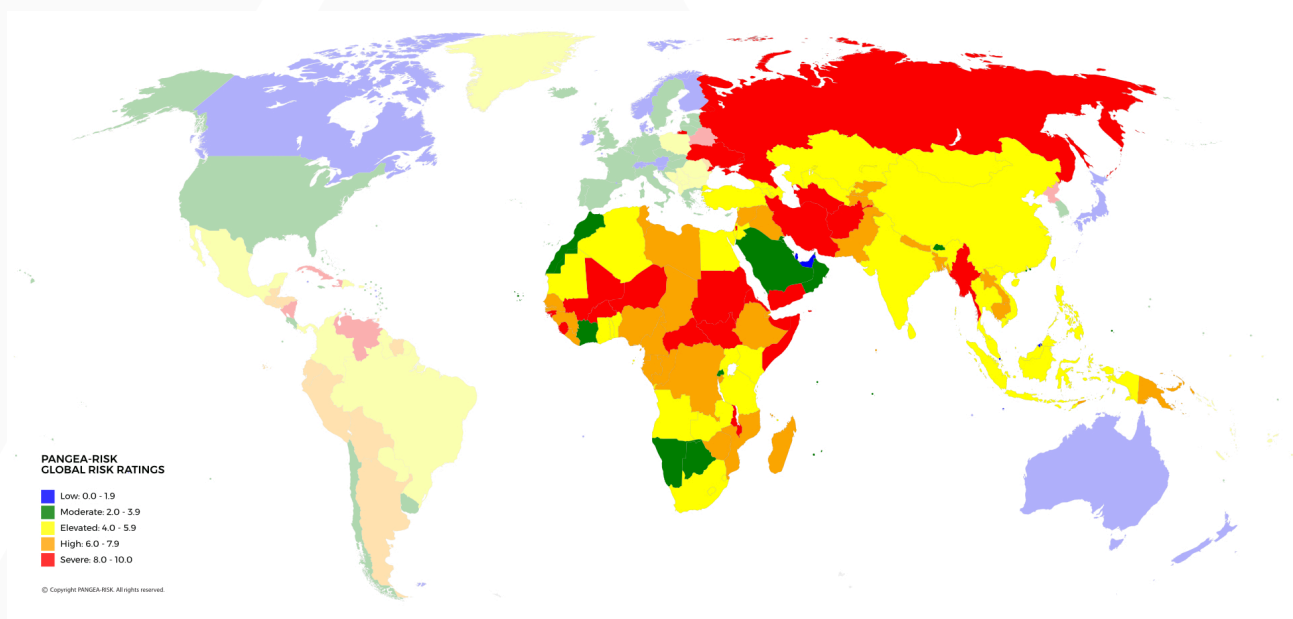


ODA OUTPUT TO SUB-SAHARAN AFRICA AND LEAST DEVELOPMENT COUNTRIES BY YEAR



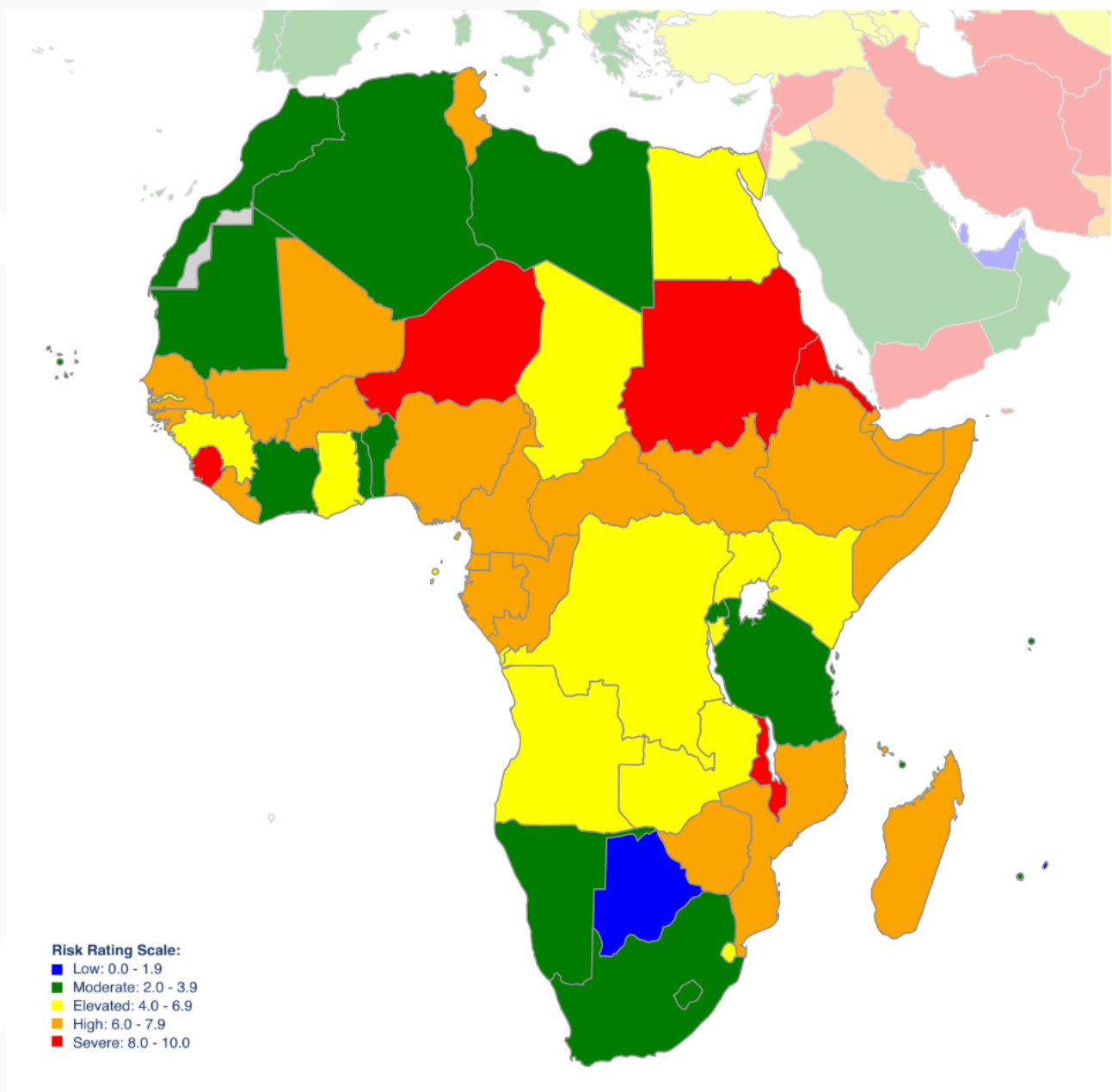
In a constrained fiscal environment, catalytic capital is central. First-loss tranches, blended concessional facilities, and guarantee instruments are designed to address political risk, currency mismatches, and regulatory uncertainty. The effectiveness of these tools depends on strategic deployment. Public capital must absorb clearly defined risks that private investors cannot price, thereby unlocking larger flows into commercially viable projects. Volume is less important than placement. Institutions must now distinguish between bankable and non-bankable risk, between cyclical volatility and structural instability, and the capacity to allocate limited concessional resources effectively will determine whether private capital flows at scale.

When deployed alongside robust risk assessment and structured finance expertise, catalytic capital can materially improve investor confidence and risk-adjusted returns. Its effectiveness lies not in the volume of public funding deployed, but in its strategic placement, absorbing early or non-commercial risks in order to mobilise significantly larger private flows into high-impact sectors.



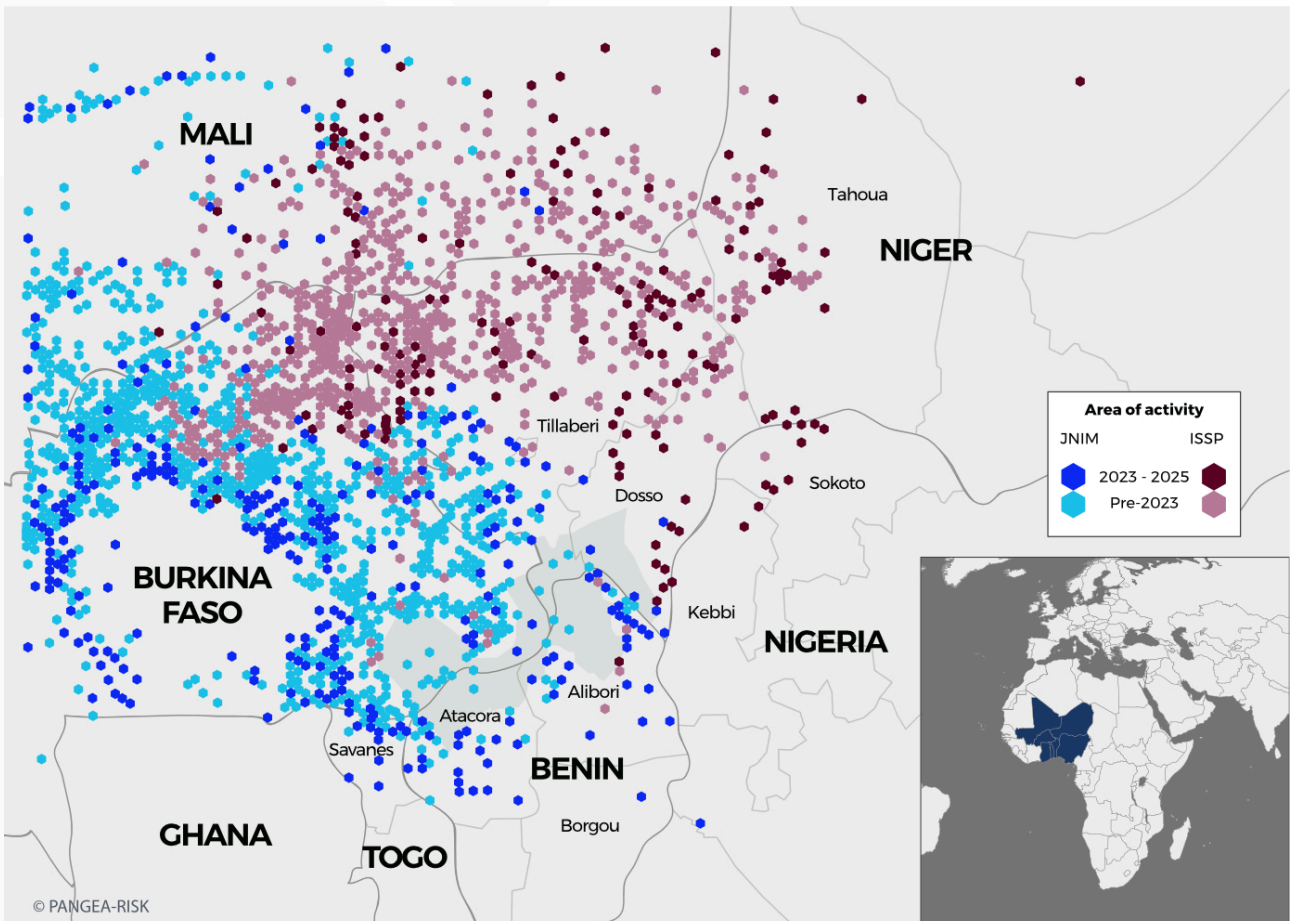
Emerging market risk under fiscal constraint

The withdrawal of grant-based finance has reshaped fiscal dynamics in many African and other frontier economies. While the Economic Commission for Africa projects continental growth of 4.0 percent in 2026, sovereign balance sheets remain strained. African governments face approximately USD 90 billion in external debt payments over the coming year. Servicing costs are three times higher than in 2012. Around 70 percent of this debt is denominated in US dollars, exposing sovereigns to exchange rate volatility. As debt absorbs larger portions of national budgets, fiscal space for growth-enhancing investment narrows. Pangea-Risk's indicator-based frameworks show 38 sovereigns across Sub-Saharan and North Africa face elevated, high, or severe non-payment risks over the coming year.



NON-PAYMENT RISKS IN AFRICA

Political instability further compounds these fiscal pressures. Since 2020, Africa has experienced a concentration of coups and attempted coups not seen in previous decades, particularly across the Sahel and parts of West and Central Africa. Military takeovers in Mali, Burkina Faso, Niger, Guinea, and Sudan have disrupted constitutional order, strained relations with regional blocs, and complicated engagement with international financial institutions. Even in countries where coups have not occurred, contested elections, constitutional amendments extending presidential terms, and rising protest movements reflect underlying tensions linked to cost-of-living pressures, youth unemployment, and perceptions of elite capture. Political transitions in such contexts often lead to policy discontinuity, delayed reforms, and weaker fiscal discipline, increasing sovereign risk and complicating project execution timelines.



JNIM AND ISSP EXPANSION IN THE SAHEL AND LITTORAL BORDERLANDS

Security conditions compound fiscal stress. Insurgent activity in the Sahel continues to disrupt trade corridors and border crossings. Burkina Faso, Niger, and Mali's withdrawal from the Economic Community of West African States (ECOWAS), including joint counterinsurgency operations, has coincided with rising fatalities, with 51 percent of global terrorism-related deaths occurring in the region in 2024. In Mali, JNIM's blockade of key transport routes has extended into its seventh month, restricting commerce and public services.

Such instability affects sovereign credit ratings and investor confidence. A UNDP study estimates the "African premium" costs the continent USD 75 billion annually in mispriced interest and lost investment.

Commodity dependence adds volatility. Cocoa prices rose to USD 13,000 per tonne in 2024 before falling to around USD 4,000. Ghana and Côte d'Ivoire now face a 200,000-tonne surplus. Uncertainty over US trade policy and the future of AGOA further complicates outlooks, particularly for export-dependent economies such as Nigeria.



COCOA PRICE

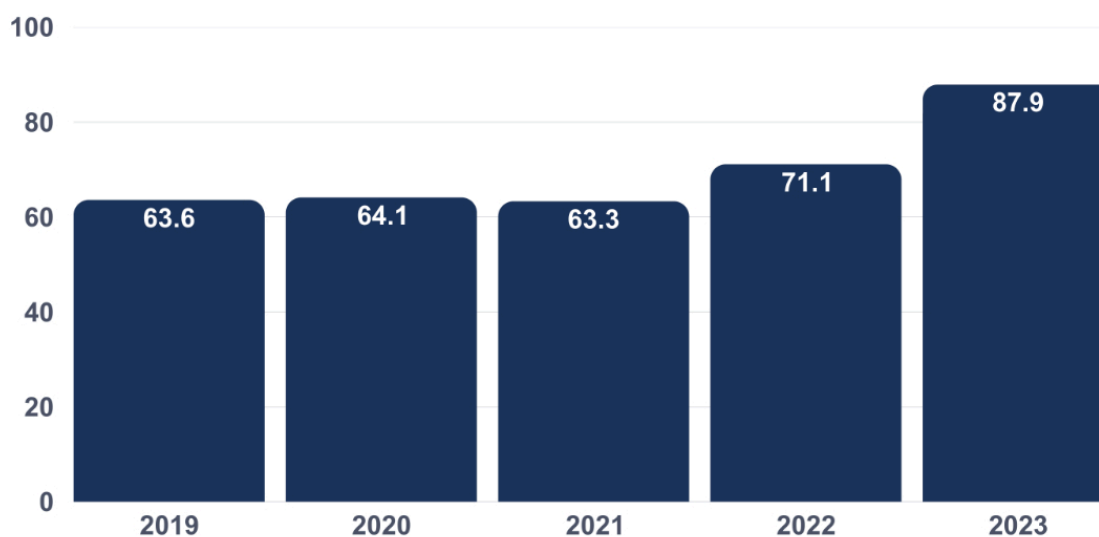


SOURCE: tradingeconomics.com

Where capital can flow

Despite elevated risk, targeted development finance can support resilience and diversification. A key distinction must be drawn between sovereign-level risk and sector-specific or corridor-level viability.

The Lobito Corridor illustrates this dynamic. The 1,300 km railway linking Angola's Port of Lobito to mineral regions in the DRC and Zambia reflects blended financing aligned with global demand for cobalt and copper. Once operational, it is expected to transport 4.6 million tonnes annually and reduce transport costs by up to 30 percent, while creating around 30,000 direct and indirect jobs. Total investment exceeds USD 6 billion, combining EU Global Gateway funding, AfDB, US DFC, DBSA, AFC, and other partners. A USD 753 million DFC-DBSA commitment provides long-tenor financing, lowering early repayment pressure. Regulatory coordination between participating governments underpins viability.



Source: International Finance Corporation / World Bank Group



TOTAL MOBILISATION OF PRIVATE FINANCE BY MDBS IN MICS / LICs BY YEAR



INSIGHT

Taken together, these trends point to a development finance system that is becoming leaner, more strategic, and more risk-sensitive. Public budgets are unlikely to return to previous levels of concessional support in the near term, and geopolitical competition will continue to shape where and how capital is deployed. At the same time, the scale of infrastructure, climate adaptation, and social investment needs across emerging and frontier markets remains substantial.

The central challenge for 2026 and beyond is therefore not simply mobilising more capital but mobilising it more intelligently. This requires sharper differentiation between sovereign stress and project-level viability, stronger coordination between public and private actors, and disciplined use of catalytic instruments to crowd in sustainable investment. Where political commitment, regulatory clarity, and structured risk-sharing align, capital can still flow at scale. Where they do not, volatility will continue to deter participation. The effectiveness of the next phase of global development finance will depend on how well institutions navigate this more selective, fragmented, and risk-conscious environment.

To discuss how we can support you through tailored analysis and strategic risk solutions, contact our Advisory team.



Gabrielle Reid
Head of Advisory

[CONTACT OUR ADVISORY TEAM](#)

Pangea-Risk: Providing country risk analysis to navigate evolving risk landscapes

As development finance becomes more selective, understanding political settlement, regulatory credibility, and market structure is critical. Pangea-Risk provides country risk analysis to support financial institutions, corporates, insurers, and investors operating in emerging and frontier markets.



Our Insight platform published 378 briefings across 100 countries in 2025, covering political, economic, regulatory, and security developments. Our indicator-based methodology has undergone independent peer review, reinforcing analytical transparency. The introduction of My Insight AI enables targeted interrogation of risk intelligence, allowing subscribers to search and interrogate content more efficiently by geography, sector, and risk category. As capital flows become more targeted and development finance increasingly relies on leverage and risk-sharing structures, Insight supports clients in differentiating between cyclical stress and deeper institutional weakness.





PANGEA-RISK **ADVISORY**

Our Advisory practice applies this analysis to project-level and sector-specific exposure, combining structured frameworks with human-source insight. This enables a clearer distinction between national-level volatility and project-level resilience, particularly for assets linked to strategic trade corridors or underpinned by durable political interests. For clients with on-the-ground exposure, we provided ongoing intelligence and scenario analysis to support risk management. In more fragile environments, targeted political risk assessments examined elite dynamics, succession risks, and unrest trajectories, outlining implications for infrastructure and energy assets.

In a more fragmented and fiscally constrained environment, careful risk assessment is central to effective capital deployment. Pangea-Risk continues to support clients in navigating these decisions with structured, forward-looking analysis.



Gabrielle Reid

Chief Strategy & Growth Officer

CONTACT OUR ADVISORY TEAM

Texel Group: Leading the distribution of development finance risk to private insurance markets

For nearly 30 years, the Texel Group has been the leading broker in establishing non-payment insurance (NPI) as a distribution tool for multilateral development banks and development finance institutions. Texel has



TEXEL

successfully developed programmes with, and secured coverage on behalf of, MDBs and DFIs across Europe, Latin America, Africa, and Asia. Working with MDBs and DFIs forms a major part of the private insurance market's annual support across the exposure to emerging markets and developing economies. As of February 2026, Texel's portfolio for such exposures reached USD 6.74 billion across 46 countries, with all of these policies securing financing that is measurable and quantifiable from a UN Sustainable Development Goal perspective.

With the backdrop of the reduction in ODA, there is a great opportunity for the private insurance market to significantly grow its catalytic support for such clients. Structures such as the Room 2 Run Sovereign, where insurers supported the African Development Bank with first loss capacity, and the recently closed IDB Invest 'Scaling4impact Synthetic Securitisation' provide compelling evidence that data sharing and long-term engagement between development finance lenders and insurers can allow them to provide meaningful credit enhancement that both supports capital optimisation and new transaction origination.

There is also a great opportunity for the insurance market to advance the UN Sustainable Development Goals, at a time when developing countries face a USD 4.3 trillion annual financing gap, which could increase to USD 6.4 trillion by 2030 if there is no significant reform. [Our second sustainable insurance report](#) highlighted the growing impact our MDB and DFI clients and the credit insurance market, are making in advancing the UN Sustainable Development Goals and the urgent need for more private capital to flow into developmentally significant, MDB and DFI-originated transactions if we are going to live free of hunger, with universal access to clean water and education, on a liveable planet in 2030.

We foresee a continued increase in opportunities for insurers to scale their support to MDBs and DFIs, with the performance of their portfolio already evidencing the attractive risk-reward of such transactions. Sustainably priced and well-structured sovereign loans and impactful private sector transactions can now be distributed to insurers at scale, but we must not stop here. This is the time when the private sector can prove how it can be even more impactful in supporting sustainable development through a knowledgeable commercial lens.

About Texel

Texel is the leading independent credit and political risk specialist insurance broker. We are primarily focused on the development, structuring and execution of credit insurance for our clients. Through consistent performance, creativity and relationship thinking, we translate our clients' needs into insurance advice and solutions that set the standard for our industry. With nearly 30 years of experience, our expert brokers see things differently, so our advice and solutions are driven by exceptional, diverse intelligence everywhere we operate. Our teams in the UK, Europe, the US and Asia operate as one business, so we support your needs whenever and wherever they arise, and work collaboratively across markets with ease.

In 2015, Texel established The Texel Foundation to formalise the group's charitable activities with grants supporting at least one of our four main causes: social mobility, health, education or artistic opportunity. Over the last decade, the Foundation has supported over 100 programmes across 25 countries, donating in excess of GBP 4.2 million.



Simon Bessant

**Global Head of Insurance and
Business Development**

[CONTACT SIMON](#)



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Country Outlook,
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