Fourth International Conference on Financing for Development (FfD 4)

Seville, Spain, 30 June – 3 July 2025

Call for Inputs for an Elements Paper on Financing for Development, October 2024

Guiding questions: "What are the key financing policy reforms and solutions that the fourth International Conference on Financing for Development should deliver? How could the Conference strengthen the follow-up process, to ensure accountability to and full implementation of commitments made?"

Submission by

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Based on the authors' research published in the article "Interest Rates & Human Rights: Reinterpreting Risk Premiums to Adjust the Financial Economy" in the Yale Journal of International Law[1]

Question 1: Key Financing Policy Reforms and Solutions

A) Affected Areas of the Addis Ababa Action Agenda:

A. Domestic public resources
B. Domestic and international private business and finance
C. International development cooperation
E. Debt and debt sustainability
F. Addressing systemic issues

B) Recommendation:

We recommend the legal and contractual treatment of risk premiums in lending as collateral.

C) Reasons:

Borrowing expenses of developing countries and their citizens are significantly higher than those of developed countries and their private borrowers. The difference in borrowing costs is due to risk premiums that riskier creditors are forced to pay on top of the prime rate for the least risky borrower. The lenders' practice of keeping these risk premiums once the loan contract is fulfilled is legally not justified because the default risk does not remain at the initial level when the loan contract is concluded but decreases over time, along with the increasing payments of the borrower. Moreover, collateral can replace risk premiums in interest rates and vice versa. Research shows, that risk premiums fulfil the same function as conventional collateral, they protect the principal and therefore the lender from counterparty default risk. Therefore, the risk premium is a collateral sui generis and has to remain property of the borrower.

1 Available at https://bpb-us-w2.wpmucdn.com/campuspress.yale.edu/dist/8/1581/files/2021/04/Panhecke-Bohoslavsky-Interest-Rates-Human-Rights.pdf

The United Nations should urge lending institutions, such as International Monetary Fund, the World Bank Group and development banks, as well as sovereign lenders, to treat risk premiums as collateral within their bilateral and multilateral lending.
Contractual terms of bonds should reflect an adjustment of the interest rate along with the risk premium, so that risk premiums decrease gradually over time in parallel with interest to compensate the loan.
Likewise, banking regulations based on the Basel Accords should request banks to treat risk premiums as collateral. Then debtors considered riskier than the benchmark low risk debtor would initially still pay a higher interest rate, but at the end of the loan contract, the risk premium would be returned to the debtor, unless a default has happened before the loan has been paid off.
As a result, developing countries would be able to borrow at similar costs compared to developed countries.

D) Outlook:

This "financial divide", as the IATF called it in their 2022 report – the availability of affordable finance for some, and the absence for others – is probably a key reason why some countries are economically developed, and others are not. Higher borrowing costs reduce private investment, and shrink the fiscal space that governments need to finance public goods and social protection. Higher borrowing costs also lead to debt crises in a vicious circle.

If risk premiums would have to be returned at maturity, or if interest rates would be reduced over time, along with the real default risk, additional funds would remain where they are needed most – in the state budgets, in private households, or in enterprises for investments. Once high yields in risky lending can only be used to cover risk like collateral, instead of keeping them as compensation, the financial incentive structures should support prudent lending instead of predatory lending and could help stabilize the international financial architecture.

E) Language in the Seville FfD4 Document:

Risk premiums on the borrowing of developing countries and of riskier private borrowers conflict with their ability to raise affordable capital. We request the International Monetary Fund, the World Bank Group, Development Banks, private and Sovereign Lenders to treat risk premiums as collateral.
We invite the G20 to initiate the review of the Basel Accords with the aim to allow future treatment of risk premiums as collateral.

Question 2: Strengthening the Follow-Up Process

To ensure the full implementation of commitments the Conference could set up a forum for monitoring progress in the FfD goals. This forum could be hosted by the IATF Coordinator and Task Force Report Editor, the United Nations Department of Economic and Social Affairs (UNDESA). Apart from the Major Institutional Stakeholders in FfD, the forum should also consist of representatives of the Office of the High Commissioner for Human Rights (OHCHR) and the
United Nations Conference on Trade and Development (UNCTAD), to safeguard human rights.