

De-risking, vulnerability, and exploitation in climate and development finance

My argument focuses evaluating the World Bank's Maximizing Finance for Development program (2017), recently rolled in the World Bank's Evolution Roadmap, which is concerned with the development of infrastructure for climate change mitigation and adaptation, as well as other sustainable development goals established by the UN. The World Bank's Maximizing Finance for Development program is intended to attract private investment in the Global South by de-risking various development projects, usually of an infrastructural nature. By de-risking is meant political de-risking: the state contractually obliges itself to not change regulations in ways that might be detrimental to investors. This is emphasized in the development of local sovereign bond issuance and regulatory accommodation of repo/shadow banking. Public-Private Partnerships in which shortfalls in income from investments require then the state must compensate the investors for the shortfall. Capital controls in which states lower/eliminate penalties for international investors who withdraw their capital from PPP and other infrastructure assets. This makes the capital in these investments more "liquid" and capable of being wound down and invested in more profitable opportunities, leaving vulnerable economies even more exposed to volatility and systemic risk (cf. Gabor 2021).

One way of putting it is that the structural power of MNBs, asset management firms, etc., demand the creation of vulnerabilities in LDCs, taking advantage of how, historically, power in colonialism left them vulnerable, underdeveloped, and dependent. De-risking and conditionality, etc., are applications of the structural power "Western" institutions have due to the accumulation of capital, currency dominance, etc. Assetizing infrastructure and other investments is using the vulnerability that power creates to extract value and construct securities that (are supposed to) keep market finance/shadow banking networks liquid. Centering on the WB is a good idea because it is an important facilitator of this dynamic (though certainly not the only one.)

Vulnerability, in so far as it is social, is frequently systemic and related but not the same as systemic risk. I identify the problematic aspect of MFD as its creation of systemic vulnerabilities, For a system to function, it must produce some vulnerability in some of its elements. The MFD program through its insistence on severe de-risking produces further vulnerabilities in already financially and geographically precarious nations that allow structurally powerful elements of the financial system to further exploit them and expose them to the systemic risks of the shadow banking system.

Gabor, D. (2021), The Wall Street Consensus. *Development and Change*, 52: 429-459. <https://doi.org/10.1111/dech.12645>

World Bank (2017). *Maximizing finance for development: Leveraging the private sector for growth and sustainable development*. Washington, DC: World Bank.

http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23758671/DC2017-0009_Maximizing_8-19.pdf.

Statement regarding policy relevance

Current leading models of financing for climate mitigation and adaptation in the Global South are neither fit for purpose nor are they just. Recent statements and interventions by Mia Mottley, Prime Minister of Barbados and Kenyan President William Ruto have made it clear that current modes of climate finance are inadequate. However, even their proposed remedies, rely significantly on financializing climate and development investment for the private sector—an approach that has not proved productive and embodies and expands the exploitative financial relations between the North and the South.

Policy makers are frequently averse or outright hostile to ideas like climate reparations, which Mottley and her ally Avinash Persaud have vigorously distanced themselves from. While my analysis has an historical dimension, it provides a conceptual vocabulary and model of vulnerability and exploitation that is normatively robust and descriptively accurate. It lends itself to appeals to solidarity and a break from the past without reference to the highly charged notion of reparations.