

The Wall Street Consensus in pandemic times: what does it mean for climate-aligned development?

Yannis Dafermos^{1*}; Daniela Gabor²; Jo Michell²

¹Department of Economics, SOAS University of London; ²Department of Accounting, Economics and Finance, UWE Bristol

ABSTRACT

The COVID-19 pandemic has reinforced the dominance of what Daniela Gabor calls the Wall Street Consensus (WSC) as the hegemonic approach to sustainable development. Public commitments to ‘green recoveries’ and climate resilience, growing fiscal deficits in the Global South, and new central bank emergency liquidity measures have created more space for WSC policies. We examine the key WSC climate policy tools – climate infrastructure as an asset class, climate rescuer of last resort, disclosure of climate-related financial risks and carbon pricing – and argue that these will increase financial vulnerability in the Global South while doing little to achieve climate-aligned development.

KEY WORDS: Wall Street Consensus; COVID-19; climate-aligned development; global finance; climate crisis

Introduction

A new policy paradigm has emerged in recent years which posits that development goals can be achieved by placing global finance at the centre of development processes. Gabor (2020) labels this the ‘Wall Street Consensus’ (WSC). In common with the Washington Consensus, the WSC emphasises fiscal discipline, central bank independence and privatisation. The distinguishing feature of the WSC is the introduction of mechanisms that allow global institutional investors to become critical actors in international development (see also Bigger and Webber 2020).

The WSC is reflected in recent initiatives such as the *Billions to Trillions* agenda – spearheaded by the World Bank under the *Maximising Finance for Development (MFD)* umbrella – and the *G20 Infrastructure as an Asset Class* agenda (World Bank and IMF 2015, 2017; G20/OECD/World Bank 2018). These aim to achieve the Sustainable Development Goals (SDGs) and close infrastructure investment gaps by encouraging poor countries to work with multilateral development institutions to attract institutional investment in SDG-related asset classes, which are typically produced through Public-Private Partnerships (PPPs) (Bayliss et al 2020; Dimakou et al 2020). The WSC promotes PPPs as a ‘perfect is the enemy of good’ strategy: PPPs are depicted as the only way for the poor to improve access to infrastructure, given the scarcity of public resources in emerging market and developing economies.

*CONTACT: Yannis Dafermos; email: Yannis.Dafermos@soas.ac.uk

A key mechanism for ‘escorting’ private finance to the Global South involves the use of subsidies and guarantees to de-risk PPPs, making PPP-based asset classes attractive to global institutional investors. This, it is typically argued, amounts to a more efficient use of scarce public resources than direct public investments – despite mounting evidence to the contrary (see Bayliss and Van Wayenberge 2018). Such a strategy – based on the promise of higher returns and lower risks for private providers of commodified public goods – does not represent a “mission-oriented” market-shaping approach (Mazzucato 2016).

The project of de-risking goes beyond the use of fiscal resources to backstop PPPs: it extends to creating the market structures preferred by portfolio investors, and instruments that match the risk/return profile of SDG assets to the mandates of investors. The multilateral development banks are critical players, facilitating institutional investment in PPPs through credit enhancement of project bonds, securitisation of infrastructure loans and syndication arrangements (Humphrey 2018; Gabor 2019). The WSC promotes the structural transformation of local financial systems in the image of US market-based finance, allowing global investors easy entry into, and exit from, new SDG bonds (see also Mawdsley 2018). To facilitate this turn to market-based finance, Gabor (2020) argues, the WSC also seeks to transform central banks by normalising unconventional interventions that shift liquidity and exchange rate risk from institutional investors to the balance sheet of central banks and thus to the states (see also Musthaq 2020).

The WSC is a ‘young’ global initiative, a product of the turbulent period capitalism has entered since the global financial crisis. It reflects attempts by global finance to expand into the Global South and policy initiatives that aim to facilitate this expansion. In a short period of time, the WSC successfully articulated a new development narrative shared by G20 governments, multilateral development banks and private financial actors from institutional investors and their asset managers to global and local banks. However, before the COVID-19 pandemic, the WSC confronted significant obstacles, not least the difficulty of rapidly implementing the required institutional transformation. With the pace of new PPP infrastructure lagging WSC ambitions, COVID-19 created an opportunity to accelerate WSC-related institutional transformation, exploiting three key developments: rapidly increasing fiscal deficits, the normalisation of central bank interventions in bond markets in the Global South and the policy emphasis on ‘green recoveries’ and climate resilience (IMF 2020; World Bank 2020a). Indeed, the WSC has used the growing attention to the climate crisis as an opportunity to promote policy instruments that put finance at the core of climate-aligned development. In this article, we explore the implications of the ‘climate-turn’ in the WSC.

We proceed as follows. We first discuss the key features of the WSC, analyse how the pandemic is reinforcing its dominance and frame the turn to climate as a strategic response to Green New Deal discourses that put the state at the core of green transformations (Section 2). We then focus on the climate policy tools that the WSC is promoting in the Global South (Section 3) and explain why the WSC climate policy mix is unlikely to be conducive to climate-aligned development (Section 4).

The WSC in the pandemic: a financial globalisation supercycle account

The emergence of the WSC can be understood as the outcome of political and macrofinancial processes that have taken place in the Global North over the last decades. These processes can be analysed using the theoretical framework developed by Dafermos et al. (2020), which draws on the Minskyan concepts of ‘thwarting mechanisms’ and ‘supercycles’ (see Ferri and Minsky 1992; Palley 2011; Dafermos et al. 2020).

Thwarting mechanisms are policies and institutional structures that aim to restrict the endogenous instability of capitalism. These mechanisms place upper and lower bounds on economic and financial activity, thus preventing instability from spiralling out of control and causing severe crises. Thwarting mechanisms, and the processes by which they are put in place, are influenced by prevailing ideas and the distribution of power across social groups and nations. Further, these mechanisms are subject to endogenous processes of evolution and erosion: profit-seeking agents constantly try to avoid or undermine restrictions (such as financial regulation). In other cases, a thwarting mechanism may change in character, switching from stabilising to destabilising. The growth of private debt, for example, acted as a stabiliser during the 1990s and the 2000s because it allowed aggregate demand to be maintained even as wage income stagnated or fell. In 2008, however, it became clear that private debt had become an important driver of instability.

These processes unfold over what Minsky termed a ‘supercycle’: a long-run period during which a given set of thwarting mechanisms remains in place. During the supercycle, institutional evolution and profit-seeking activity gradually weaken the effectiveness of the institutional framework. Eventually this leads to a severe crisis as the inherent instability of capitalism is no longer constrained. During the crisis period, new institutional forms are put in place, new political coalitions are formed, and new economic constraints emerge. If an effective set of new thwarting mechanisms can be put in place, a new supercycle is initiated.

Dafermos et al. (2020) identify two post-war supercycles in rich countries. The ‘industrial capitalism’ supercycle lasted until the stagflation crisis and the breakdown of the Bretton Woods system in the 1970s. Shifts in policy and institutional structure in the late 1970s and 1980s gave rise to the ‘financial globalisation’ supercycle in the Global North, characterised by weakened labour, the growth of finance, and the replacement of fiscal activism with independent central banks. The thwarting mechanisms of this supercycle were gradually eroded by a series of evolutionary changes in finance, in particular the rise of shadow banking.

Since 2008, rich countries have experienced a prolonged period of macrofinancial instability and stagnation. Political struggles over new thwarting mechanisms are ongoing and a new set of stabilising tools is yet to emerge. Global finance, in its various institutional forms, has so far dominated the policy landscape. Climate challenges are at the core of these political struggles, as it has become

clear that a new supercycle cannot start without addressing the urgent need for decarbonisation and climate resilience.

The WSC is the product of this ‘genesis’ period in three interconnected ways. First, the WSC seeks to create profitable opportunities for the financial institutions from the Global North that dominate global finance, a prerequisite for the emergence of a new finance-dominated supercycle. Second, the turn to climate in the WSC rhetoric reflects the growing recognition in financial circles that macrofinancial stability cannot be restored without addressing the climate crisis. Third, from this perspective, the WSC should be understood as a strategic intervention in the ideological battle over what form of capitalism should emerge in the new supercycle. The WSC initiatives reinforce the ideological claim that the development of new finance-oriented mechanisms is sufficient to fix the failures of capitalism, understood through the SDG framework broadly, and through the climate crisis specifically. Thus, the WSC seeks to reduce the appeal of Green New Deal discourses (see e.g. UNCTAD 2019; Pettifor 2020) that identify the state as the key economic actor that drives and shapes the transition to a low-carbon supercycle.

The WSC should therefore be located within the broader paradigm struggle in international development. But its attempts to dominate global policy agendas are not only disrupted by the appeal of alternative discourses. The success of the WSC is also contingent on complex and heterogeneous local political dynamics which can create barriers to the rapid institutional transformation that is essential for the implementation of the WSC policies. For instance, the development of PPP-based investible projects requires (i) domestic political coalitions in poor countries willing to accelerate the provision of local infrastructure through user-fee models; (ii) a re-organisation of local financial systems towards bond-centric models, (iii) the institutionalisation of new practices for central banking geared towards reducing liquidity and currency risks for institutional investors and (iv) a change in the distribution of risks in PPP contracts such that the state assumes more risks in order to make PPP asset classes fit better the risk-return preferences of foreign investors.

Given these challenges, it comes as no surprise that the pace of PPP projects in the Global South remained disappointing before the pandemic: according to the World Bank (2020b, p. 4), the number of Private Participation Infrastructure (PPI) projects in emerging market and development economies fell to less than 500 (USD 120 billion) per year since 2013 from the high of more than 600 (USD 170 billion) in 2012.¹ Moreover, between 2011 and H1 2017, institutional investors’ share in global PPI remained extremely low (0.67%) without any sign of increase over the last years (World Bank 2018a).

The COVID-19 pandemic further threatened the WSC mantra of ‘optimising the use of scarce public resources’ via de-risking. It illustrated the importance of publicly-funded social infrastructure, particularly in health, while calling into question the idea of ‘scarce’ public resources, at least for those states that issue currencies in strong demand internationally. It also rendered visible the scale of public resources that would be required for de-risking PPPs that are susceptible to extreme events such as those resulting from climate change. Instead, it seemed that a political momentum for state-led Green New

Deal-type interventions had been developed. However, multilateral institutions geared up to use the pandemic as an opportunity to accelerate the diffusion of the WSC. With the COVID-19 outbreak, two key developments created a favourable economic and political environment for deepening the WSC hegemony: rapidly increasing fiscal deficits and the normalisation of central bank interventions in bond markets in the Global South.

First, the pandemic-driven increase in fiscal deficits in the Global South has reinforced the political appeal of recoveries driven by PPP-financed infrastructure: these projects can impart a fiscal stimulus without generating further large on-balance sheet increases in public deficits. While typically more expensive than traditional public investment, PPP guarantees commit public resources to backstopping private investors while maintaining the ideological commitment to fiscal responsibility (Bayliss and Van Waeyenberge 2018).

Second, the COVID-19 crisis saw the normalisation of central bank interventions to de-risk the bonds held by institutional investors (Gabor 2020). While central banks in most high-income countries had already assumed market-maker of last resort interventions after the global financial crisis (Mehrling 2014; Gabor 2020), the translation of this policy to the Global South remained elusive before the pandemic: such interventions, which include the purchase of government bonds, contravene the spirit of central bank independence, invoking the ghost of political capture and fiscal dominance. But the COVID-19 outbreak changed the political appetite for direct interventions, as the rise in uncertainty led to a sharp decline in international investors' holdings of local currency bonds in emerging market economies, causing a sharp rise in yields (Hördahl and Shim 2020). In response, central banks acted as market makers of last resort, introducing government bond purchase programmes. It is important for the WSC that these interventions, alongside other initiatives such as the introduction of Federal Reserve swap lines, proved largely successful in preventing illiquidity in the financial markets of the Global South. This suggests that the establishment of mechanisms that allow the Fed and the central banks of the Global South to act as market makers and swappers of last resort would counteract foreign investors' concerns about the risks that can arise from developments that cause major disruptions in the economies of the Global South.

Beyond these developments, the devastating economic and social consequences of COVID-19 made it clear that nature-related forces can quickly destabilise economies and societies. This created momentum for the support of policy initiatives that promise infrastructure-led 'green recovery' and climate resilience (Estevão, 2020; Hepburn et al. 2020; IMF 2020; World Bank 2020a).²

Before the pandemic, the WSC gestured towards environmental sustainability by adopting the language of derisking from debates around financing renewable energy projects in the Global South, and by aligning Environment Social and Governance (ESG) metrics with the SDGs (Gabor 2020). But following the outbreak of the pandemic, the WSC has entered a new phase in which climate change has a more prominent role: the pandemic-era WSC has put private sector-led solutions to climate problems at the core of its agenda, promising finance-led pathways to climate-aligned development (Klein 2020).

The WSC climate policy tools for the Global South

We now describe in more detail the climate policy tools that the WSC is currently promoting in the Global South (Table 1). These policies aim to address both climate adaptation and climate mitigation issues. Climate mitigation seeks to decarbonise economies, for example through investment in renewables and energy efficiency. Climate adaptation has three aspects: (i) building infrastructure that protects areas from climate-related phenomena, like the sea level rise, hurricanes, draughts and typhoons; (ii) provision of financial support to people and institutions who will be affected by climate change; and (iii) the adaptation of the financial system to potentially increasing climate-related financial losses.

Table 1: The Wall Street Consensus climate policy tools

	Climate target	
	Climate mitigation	Climate adaptation
Climate PPP infrastructure as an asset class	x	x
Climate rescuer of last resort		x
Disclosure of climate-related financial risks	x	x
Carbon pricing	x	

The development of *climate asset classes* is the key WSC climate policy tool. Since the outbreak of the pandemic, PPP-based infrastructure as an asset class is increasingly promoted as an instrument that can power recoveries in the context of growing public deficits in the Global South. The COVID-19 crisis has made clear that PPP projects are susceptible to adverse economic shocks, including climate events. Hence, the World Bank has called for a new approach to PPPs that further shifts risks from the private sector to the public sector (Peñalver, 2020).

International organisations offer direct de-risking support to climate-related projects in the Global South in the form of subsidies and guarantees (Waissbein et al., 2013; Frisari and Stadelmann, 2015; Sweerts et al., 2019). This includes, for example, loan guarantees, feed-in tariffs, subsidies and political risk insurance. Recently, attention has also been paid to the use of financial regulation via the policy proposal of a green supporting factor that reduces the bank capital requirements that correspond to green assets (see European Banking Federation 2017; HLEG on Sustainable Finance 2018; World Bank Group 2020a).

In practice, these de-risking arrangements generate significant contingent liabilities for the state (see Bayliss and Van Waeyenberge 2018) because the public sector often needs to compensate the private PPP operator should demand fall, currency depreciate, or if new governments introduce

regulations such as minimum wages that would affect private sector profitability – outcomes that can easily materialise (see, for example Gabor 2020 on the case of Nigeria’s Azura PPP power plant), threatening available space for countercyclical fiscal policy.

One example of the WSC plans for the creation of climate asset classes is the World Bank’s *Next Generation Africa Climate Business Plan* (see World Bank 2020a), which was launched in the light of the need for a ‘green recovery’ in Africa in the aftermath of the COVID-19 outbreak. For the next five years, this plan includes support for 36 gigawatts of renewable energy infrastructure, the promotion of projects that will lead to energy savings of 1.5 million gigawatt-hours and the provision of help to 100 cities for low-carbon urban planning. The plan also comprises a large number of adaptation projects which, in line with the World Bank Group’s *Action Plan on Climate Change Adaptation and Resilience* (see World Bank Group 2019) and the *City Resilience Programme* (see Bigger and Webber 2020), focus on disaster risk management, coastal resilience and water security. One of the key priorities of the plan is to increase the leverage of private finance (US\$67 billion from the World Bank Group) and create ‘markets for climate business’ (World Bank 2020a, p. 32). In the context of this priority, the World Bank intends to support *inter alia* the standardisation of contracts and tariff setting, the use of special purpose vehicles and the provision of risk guarantees.

Another example is Cameroon’s EUR 1.2bn Nachtigal Hydropower Project, the largest renewable energy PPP in the history of the country. For the World Bank Group, this flagship MFD project illustrates its capacity to ‘find ways to bring in private capital, which can build and operate these plants in an efficient manner while not burdening the country’s finances with more debt’ (see IFC 2019). Behind the rhetoric, the PPP legal contract (World Bank 2018b) shows that although the state does not directly accrue on-balance sheet debt, the Government of Cameroon assumes a variety of risks, including demand risk (guaranteeing the PPP operator the purchase of power generated), currency risk and political risk.

The WSC also promotes climate asset classes via the development of taxonomies that can put ‘green’ labels to financial instruments that are supposed to be used to support climate mitigation and adaptation. The ambition is that ESG ratings, published by various private providers, will play this role. However, ESG ratings are susceptible to greenwashing (Gabor 2020) due to the significant divergence in ESG ratings among different agencies. This divergence stems from differences in the methodologies used, in part driven by the subjective view of the providers about individual companies (Berg et al. 2019; Li and Polychroniou 2020). This allows private finance to shop around for higher ESG ratings in order to demonstrate commitment to low-carbon and to deflect calls for systemic change or dirty assets regulation. Even the development of national green taxonomies, that would allow higher consistency in the definition of ‘green’ (see World Bank Group 2020a), remains open to arbitrage unless governments prioritise their use over private ESGs.

The de-risking efforts of national governments and international organisations may not provide sufficient security to attract institutional investors, requiring a role for central banks. Central bank

interventions as market makers/swappers of last resort were crucial for preventing pandemic-induced asset price deflation. The normalisation of such interventions is important for reassuring investors into low- and middle-income countries that face greater direct climate-related risks than rich nations. Central bank interventions that promise to de-risk global portfolio investments in the era of the climate crisis can therefore become an important tool of the WSC in the Global South: central banks will have to evolve into what Bolton et al. (2020) call *climate rescuers of last resort*, acting as residual purchasers of devalued assets linked with climate-impaired infrastructure.

The *disclosure of climate-related financial risks* is another instrument currently promoted in the context of the WSC. Private financial institutions and central banks have recently recognised that climate change poses risks to the financial system: so-called ‘physical risks’ reflect the impact that climate-related events might have on the ability of household and firms to repay debt, as well as on the prices of financial instruments issued by companies or governments that might face financial problems due to climate-related phenomena; ‘transition risks’ refer to the adverse impact that an abrupt transition to a low-carbon economy might have on carbon-intensive assets and thereby on the financial institutions that have financed these assets (see e.g. Scott et al. 2017; Campiglio et al. 2018).

International organisations and central banks have encouraged financial institutions to collect data and develop methodologies that will allow them to disclose and manage the climate risks of their portfolios (Fayolle et al. 2019; Jobst and Pazarbasioglu 2019; NGFS 2019; Arndt et al. 2020). The politics of disclosures illustrates why the climate WSC falls short of the structural transformations necessary: the disclosures lens constructs climate change as a threat to the financial system, but does not see private finance as a key driver of the climate crisis that should be fundamentally transformed to contribute to the reduction of global warming.

Although in theory the disclosure of transition risks could lead to less available finance for dirty assets (which are often perceived to exhibit higher transition risks), in practice, the WSC is reluctant to penalise dirty financial assets via financial regulation (such as higher capital requirements). There are two types of rhetoric against penalising dirty assets. Private financial institutions claim that this would unfairly penalise financial companies, which are not in a position to design climate policies (see e.g. European Banking Federation, 2017), as well as non-financial companies that might be carbon-intensive currently, but are willing to invest in cleaner forms of production in the future. In turn, central banks often argue that in principle dirty assets could be penalised, but in practice this should be postponed since there is not enough evidence demonstrating that dirty assets are riskier (see e.g. Carney 2020; NGFS 2020). Without dirty penalties, the mere promotion of climate-related financial disclosures will do little to promote low-carbon pathways. Furthermore, disclosures are, paradoxically, likely to undermine climate adaptation instead of supporting it. Countries with higher climate vulnerability are already facing a higher cost of borrowing (see Kling et al. 2018, 2021). As climate-related events become more frequent and severe, the disclosure of physical risks will deteriorate the situation: it will

make the financial sector even more reluctant to provide finance to countries that have the highest need to spend on climate adaptation.

The climate policies promoted by the WSC are not confined to the role of the financial system. The WSC asserts that climate-aligned development requires the combination of finance-related climate initiatives with fiscal policy tools. *Carbon pricing* is the central climate fiscal policy tool in the WSC agenda (e.g. Parry 2018; Jobst and Pazarbasioglu 2019; Pigato 2019; Estevão 2020; Santikarn et al. 2020; World Bank Group 2020b). From the WSC perspective, the appeal of carbon pricing is that it promises climate mitigation without undermining fiscal discipline. Carbon pricing is also perceived to provide a clear financial signal to investors about the viability of low-carbon investments (World Bank Group 2020b), serving thereby as a promoter of climate PPPs.

Currently, only a few countries in the Global South (such as Colombia, Mexico and South Africa) have implemented carbon pricing schemes, which take the form of carbon taxes or exchange traded schemes (see World Bank Group 2020b). Although the pandemic has challenged the resilience of carbon pricing schemes, the ambition of international organisations is that much more countries will adopt carbon pricing as a key environmental policy in the coming years.

Carbon pricing is one of the tools that can be used for the fight against climate change, as part of a broader transformative climate agenda. However, the promotion of carbon pricing in the Global South in the context of the WSC raises some issues. First, carbon pricing can have significant distributional effects. For example, energy companies can pass the higher energy cost on to prices, disproportionately affecting poor households that spend a significant proportion of their income on energy bills. Moreover, carbon taxes can have gendered effects since women tend to disproportionately bear the costs of domestic energy use (see Cottrell and Falcão 2018; Price 2020). According to the rhetoric of the WSC, distributional issues can be addressed by promoting carbon pricing as part of a broader Environmental Tax Reform (ETR). In the context of ETR, the revenues from carbon pricing can be recycled and used to reduce taxes on labour, provide transfers to households or undertake investment in infrastructure. Although properly designed revenue recycling systems can reduce inequalities (see e.g. Fremstad and Paul 2019; Azad and Chakraborty 2020), the WSC's emphasis on fiscal discipline makes it less likely that all the revenues from carbon pricing will be used for recycling. In the aftermath of the COVID-19 crisis, carbon pricing is more likely to be used as a means of reducing public debt and rebuilding 'fiscal space' (see e.g. Estevão 2020).

Second, by putting carbon pricing at the core of environmental fiscal policy, the WSC does not give space to more transformational fiscal tools that, in conjunction with industrial and regulatory policies, could achieve a quicker transition to a low-carbon economy. As Rosenbloom et al. (2020) point out, carbon pricing frames climate change as a failure that can be easily fixed through the market and not as a fundamental system problem that requires a mix of transformational policies.

Why does the WSC undermine climate-aligned development?

Despite its stated purpose, the WSC will likely ultimately undermine climate-aligned development. First, although in the short run the WSC policies can increase in the amount of funding available for climate infrastructure projects, this might not be the case in the long run. The WSC relies on shadow-banking practices (such as securitisation of PPP loans) for the creation of financial assets (see also Jafri 2019). Such assets are more susceptible to changes in economic and financial conditions. They will thus be more responsive to financial shocks that might stem from climate catastrophes in the Global South. This can reinforce financial losses during climate events, making institutional investors less willing to continue funding climate assets in the Global South in the long run.

Second, the WSC makes the Global South more susceptible to the global financial cycle. It directly promotes an increase in foreign portfolio investment which, as is well-documented, can be particularly susceptible to changes in global financial conditions (Rey 2015; Gonzalez et al. 2019). Although market maker/swapper of last resort interventions can reduce this susceptibility, they cannot eliminate the adverse financial implications that capital outflows can have for the financing of climate mitigation and adaptation in the Global South.

Third, the scale of infrastructure investment that is necessary to decarbonise low- and middle-income economies and make them less vulnerable to climate change is massive. The climate infrastructure gaps are unlikely to be filled in through policies that favour a subset of financial actors, like institutional investors (see Mazzucato and Semieniuk, 2018). Moreover, climate-aligned development involves significant social and political challenges. For example, the fact that low- and middle-income economies have a high reliance on fossil fuels can create tensions around the implementation of climate policies like carbon pricing, especially if these policies are imposed by external forces (Perry 2020a). In addition, in many of these countries the distribution of political power is a function of the fossil-related revenues of the state. Policies that affect these revenues can have an important impact on political conflicts (see e.g. Dafe 2019 for an analysis about Nigeria).

The WSC does not focus on how to develop new institutional structures that would allow countries to directly address the economic and social challenges of the climate crisis through traditional government tools under the umbrella of a Green New Deal (like industrial policies, social policies, public procurement and public investment). Instead, WSC practices subordinate public climate issues to the imperative of developing financially viable contracts for the private sector. This approach is inconsistent with the urgency and the complexities of the climate crisis.

Fourth, the WSC does not address climate justice issues. Although climate change is affecting all countries around the globe, studies have shown that the Global South is being influenced much more severely by the climate crisis compared to the Global North (Roy 2018). However, the primary responsibility for this crisis rests with the Global North: the global cumulative emissions have been generated primarily from high-income countries (Botzen et al. 2008; Hickel 2020). Climate injustice has fundamental implications for the way that climate mitigation and adaptation should be financed in

the Global South. It suggests that the financial resources for investment in climate infrastructure should primarily come from the Global North, for instance in the form of transfers (e.g. climate reparations) and debt relief (see Perry 2020b and Volz et al., 2020). As explained above, the logic of the WSC is exactly the opposite: it undermines the financial position of national governments in the Global South and creates profitability opportunities for institutional investors and wealthy individuals in countries that have the key responsibility for the climate crisis.

Overall, the WSC is likely to increase financial vulnerability in the Global South and will do little to achieve climate-aligned development. Its growing hegemony in the global policy agenda undermines the political feasibility of Green New Deal discourses that put public institutions, public finance and climate justice at the core of climate mitigation and adaptation in the Global South.

Acknowledgement

We are grateful to two anonymous reviewers and Anastasia Nesvetailova for useful comments. The usual disclaimers apply.

References

- Arndt, Channing, Christopher Loewald, and Makrelov Konstantin. 2020. "Climate Change and its Implications for Central Banks in Emerging and Developing Economies." South African Reserve Bank Working Paper 20/04.
- Azad, Rohit, and Shouvik Chakraborty, 2020. "Green Growth and the Right to Energy in India." *Energy Policy*, 141. doi: [10.1016/j.enpol.2020.111456](https://doi.org/10.1016/j.enpol.2020.111456).
- Bayliss, Kate, Bruno Bonizzi, Ourania Dimakou, Christina Laskaridis, Farwa Sial, and Elisa Van Waeyenberge. 2020. "The Use of Development Funds for De-risking Private Investment: How Effective is It in Delivering Development Results?", European Parliament's Committee on Development, May.
- Bayliss, Kate, and Elisa Van Waeyenberge. 2018. "Unpacking the Public Private Partnership Revival." *The Journal of Development Studies*, 54 (4): 577-593. doi: [10.1080/00220388.2017.1303671](https://doi.org/10.1080/00220388.2017.1303671).
- Berg, Florian, Julian F. Koelbel, and Roberto Rigobon. 2019. "Aggregate Confusion: The Divergence of ESG Ratings." MIT Sloan School of Management. Available at: https://papers.ssrn.com/sol3/Papers.cfm?abstract_id=3438533.
- Bigger, Patrick, and Sophie Webber. 2021. "Green Structural Adjustment in the World Bank's Resilient City." *Annals of the American Association of Geographers*, 111 (1): 36-51. doi: [10.1080/24694452.2020.1749023](https://doi.org/10.1080/24694452.2020.1749023).
- Bolton, Patrick, Morgan Despres, Luiz Awazu Pereira da Silva, Romain Svartzman, and Frédéric Samama. 2020. "The Green Swan: Central Banking and Financial Stability in the Age of Climate Change", Bank for International Settlements and Banque de France, January.

- Botzen, Wouter JW, John M. Gowdy, and Jeroen CJM van den Bergh. 2008. “Cumulative CO₂ Emissions: Shifting International Responsibilities for Climate Debt.” *Climate Policy*, 8 (6): 569-576. doi: [10.3763/cpol.2008.0539](https://doi.org/10.3763/cpol.2008.0539)
- Campiglio, Emanuele, Yannis Dafermos, Pierre Monnin, Josh Ryan-Collins, Guido Schotten, and Misa Tanaka. 2018. “Climate Change Challenges for Central Banks and Financial Regulators.” *Nature Climate Change*, 8 (6): 462-468. doi: [10.1038/s41558-018-0175-0](https://doi.org/10.1038/s41558-018-0175-0).
- Carney, Mark. 2020. “Letter from the Governor of the Bank of England, Mark Carney, to the Chair February.” Available at: <https://publications.parliament.uk/pa/cm5801/cmselect/cmtreasy/correspondence/Mark-Carney-BoE-to-Chair-270220.pdf>
- Cottrell, Jacqueline, and Tatiana Falcão. 2018. “A Climate of Fairness: Environmental Taxation and Tax Justice in Developing Countries.” Vienna Institute for International Dialogue and Cooperation, Vienna.
- Dafe, Florence. 2019. “Fuelled Power: Oil, Financiers and Central Bank Policy in Nigeria.” *New Political Economy*, 24 (5): 641-658. doi: [10.1080/13563467.2018.1501353](https://doi.org/10.1080/13563467.2018.1501353).
- Dafermos, Yannis, Daniela Gabor, and Jo Michell . 2020. “Institutional Supercycles: An Evolutionary Macro-finance Approach.” *Rebuilding Macroeconomics*, Working Paper 15.
- Dimakou, Ourania, Maria Jose Romero, and Elisa Van Waeyenberge. 2021. “The World Bank and the Pandemic: Change in Direction or Turbocharging the Private Sector for Development?,” *Canadian Journal of Development Studies*, doi: [10.1080/02255189.2020.1839394](https://doi.org/10.1080/02255189.2020.1839394).
- Estevão, Marcello. 2020. “Climate-Smart Fiscal Policy Can Foster a Lasting Economic Recovery.” *One Earth*, 3 (3): 273-276. doi: [10.1016/j.oneear.2020.08.017](https://doi.org/10.1016/j.oneear.2020.08.017).
- European Banking Federation, 2017. “Towards a Green Finance Framework”. Brussels and Frankfurt.
- Fayolle, Virginie, Caroline Fouvret, Vidya Soundarajan, Vandana Nath, Sunil Acharya, Naman Gupta, and Luca Petrarulo. 2019. “Engaging the Private Sector in Financing Adaptation to Climate Change: Learning from Practice.” *Action on Climate Today*, Learning Paper, February.
- Ferri, Piero, and Hyman P. Minsky. 1992. “Market Processes and Thwarting Systems.” *Structural Change and Economic Dynamics*, 3 (1): 79-91. doi: [10.1016/0954-349X\(92\)90027-4](https://doi.org/10.1016/0954-349X(92)90027-4).
- Fremstad, Anders, and Mark Paul. 2019. “The Impact of a Carbon Tax on Inequality.” *Ecological Economics*, 163: 88-97. doi: [10.1016/j.ecolecon.2019.04.016](https://doi.org/10.1016/j.ecolecon.2019.04.016).
- Frisari, Gianleo, and Martin Stadelmann. 2015. “De-risking Concentrated Solar Power in Emerging Markets: The Role of Policies and International Finance Institutions.” *Energy Policy*, 82: 12-22. doi: [10.1016/j.enpol.2015.02.011](https://doi.org/10.1016/j.enpol.2015.02.011).
- G20/OECD/World Bank, 2018. “Stocktake of Tools and Instruments Related to Infrastructure as an Asset Class – Background report.” July.
- Gabor, Daniela. 2019. “Securitization for Sustainability - Does it Help Achieve the Sustainable Development Goals?” Heinrich Böll Stiftung, Berlin, October.

- Gabor, Daniela. 2020. “The Wall Street Consensus.” July, Available at: <https://doi.org/10.31235/osf.io/wab8m>
- Gonzalez, Rodrigo, Dmitry Khametshin, José-Luis Peydró, and Andrea Polo. 2019. “Hedger of Last Resort: Evidence from Brazilian FX Interventions, Local Credit, and Global Financial Cycles.” BIS Working Paper 832.
- Hepburn, Cameron, Brian O’Callaghan, Nicholas Stern, Joseph Stiglitz, and Dimitri Zenghelis. 2020. “Will COVID-19 Fiscal Recovery Packages Accelerate or Retard Progress on Climate Change?” *Oxford Review of Economic Policy*, 36: S359–S381. doi: [10.1093/oxrep/graa015](https://doi.org/10.1093/oxrep/graa015).
- Hickel, Jason. 2020. “Quantifying National Responsibility for Climate Breakdown: An Equality-based Attribution Approach for Carbon Dioxide Emissions in Excess of the Planetary Boundary.” *The Lancet Planetary Health*, 4 (9): e399–e404. doi: [10.1016/S2542-5196\(20\)30196-0](https://doi.org/10.1016/S2542-5196(20)30196-0).
- HLEG on Sustainable Finance, 2018. “Financing a Sustainable European Economy: Final Report 2018 by the High Level Expert Group on Sustainable Finance”, European Commission, Brussels.
- Hördahl, Peter, and Ilhyock Shim. 2020. “EME Bond Portfolio Flows and Long-term Interest Rates During the Covid-19 Pandemic.” BIS Bulletin 18.
- Humphrey, Chris. 2018. “Channelling Private Investment to Infrastructure. What Can Multilateral Development Banks Realistically Do.” ODI Working Paper 534.
- IFC 2019. “Cameroon’s Nachtigal Taps New Possibilities for Clean Power.” International Finance Corporation, May. Available at: https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/cm-stories/nachtigal-cameroon-hydropower-plant-clean-power
- IMF, 2020. “Special Series on Fiscal Policies to Respond to COVID-19: Greening the recovery.” April, Available at: <https://www.imf.org/en/Publications/SPROLLS/covid19-special-notes>
- Jafri, Juvaria. 2019. “When Billions Meet Trillions: Impact Investing and Shadow Banking in Pakistan.” *Review of International Political Economy*, 26 (3): 520-544. doi: [10.1080/09692290.2019.1608842](https://doi.org/10.1080/09692290.2019.1608842).
- Jobst, Andreas Andy, and Ceyla Pazarbasioglu. 2019. “Greater Transparency and Better Policy for Climate Finance.” Banque de France, *Financial Stability Review*, 23: 85-99.
- Klein, Alzbeta. 2020. “When it Comes to Sustainable Finance in the COVID Era, Let the Private Sector Lead the Way.” World Bank Blogs, June. Available at: <https://blogs.worldbank.org/climatechange/when-it-comes-sustainable-finance-covid-era-let-private-sector-lead-way>
- Kling, Gerhard, Yuen Lo, Victor Murinde, Ulrich Volz. 2018. “Climate Vulnerability and the Cost of Debt”. SSRN paper, Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3198093
- Kling, Gerhard, Ulrich Volz, Victor Murinde, and Sibel Ayas. 2021. “The Impact of Climate Vulnerability on Firms’ Cost of Capital and Access to Finance.” *World Development*, 137: 1-11. doi: [10.1016/j.worlddev.2020.105131](https://doi.org/10.1016/j.worlddev.2020.105131).

- Li, Feifei, and Ari Polychronopoulos. 2020. "What a Difference an ESG Ratings Provider Makes!" Research Affiliates, January. Available at: https://www.researchaffiliates.com/en_us/publications/articles/what-a-difference-an-esg-ratings-provider-makes.html
- Mawdsley, Emma. 2018. "Development Geography II: Financialization." *Progress in Human Geography*, 42 (2): 264-274. doi: [10.1177/0309132516678747](https://doi.org/10.1177/0309132516678747).
- Mazzucato, Mariana. 2016. "From Market Fixing to Market-creating: A New Framework for Innovation Policy", *Industry and Innovation*, 23 (2): 140-156. doi: [10.1080/13662716.2016.1146124](https://doi.org/10.1080/13662716.2016.1146124).
- Mazzucato, Mariana. and Gregor Semieniuk. 2018. "Financing Renewable Energy: Who is Financing What and Why it Matters." *Technological Forecasting and Social Change*, 127: 8-22. doi: [10.1016/j.techfore.2017.05.021](https://doi.org/10.1016/j.techfore.2017.05.021).
- Mehrling, Perry. 2014. "Why Central Banking Should be Re-imagined." BIS Papers No. 79.
- Mikulewicz, Michael, and Marcus Taylor. 2020. "Getting the Resilience Right: Climate Change and Development Policy in the 'African Age'." *New Political Economy*, 25 (4): 626-641. doi: [10.1080/13563467.2019.1625317](https://doi.org/10.1080/13563467.2019.1625317).
- Musthaq, Fathimath. 2020. "Development Finance or Financial Accumulation for Asset Managers?: The Perils of the Global Shadow Banking System in Developing Countries." *New Political Economy*, 1-20. doi: [10.1080/13563467.2020.1782367](https://doi.org/10.1080/13563467.2020.1782367).
- NGFS, 2019. "Macroeconomic and Financial Stability: Implications of Climate Change." July.
- NGFS, 2020. "Guide to Climate Scenarios analysis for Central Banks and Supervisors." June.
- Palley, Thomas I. 2011. "A Theory of Minsky Super-cycles and Financial Crises." *Contributions to Political Economy*, 30 (1): 31-46. doi: [10.1093/cpe/bzr004](https://doi.org/10.1093/cpe/bzr004).
- Parry, Ian. 2018. "Putting a Price on Pollution: Carbon-pricing Strategies Could Hold the Key to Meeting the World's Climate Stabilization Goals." *Finance & Development*, 25 (4), December: 16-19.
- Peñalver, Domingo. 2020. "Public-Private Partnerships 2.0: Value for People and Value for Future." World Bank Blogs. July, Available at: <https://blogs.worldbank.org/ppps/public-private-partnerships-20-value-people-and-value-future>
- Perry, Keston. 2020a. "For Politics, People, or the Planet? The Political Economy of Fossil Fuel Reform, Energy Dependence and Climate Policy in Haiti." *Energy Research & Social Science*, 63: 1-13. doi: <https://doi.org/10.1016/j.erss.2019.101397>.
- Perry, Keston., 2020b. "Realising Climate Reparations: Towards a Global Climate Stabilization Fund and Resilience Fund Programme for Loss and Damage in Marginalised and Former Colonised Societies." SSRN paper, Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3561121
- Pettifor, Anne. 2020. *The Case for the Green New Deal*. London and New York: Verso.

- Pigato, Miria. A. 2019 (ed.). *Fiscal Policies for Development and Climate Action*, World Bank Group, Washington DC.
- Price, Roz. 2020. “Lessons Learned from Carbon Pricing in Developing Countries.” Institute of Development Studies, April.
- Rey, H el ene. 2015. “Dilemma Not Trilemma: The Global Financial Cycle and Monetary Policy Independence.” Working Paper 21162. National Bureau of Economic Research.
- Rosenbloom, Daniel, Jochen Markard, Frank W. Geels, and Lea Fuenfschilling. 2020. “Opinion: Why Carbon Pricing Is Not Sufficient to Mitigate Climate Change—and How ‘Sustainability Transition Policy’ Can Help.” *Proceedings of the National Academy of Sciences*, 117 (16): 8664-8668. doi: [10.1073/pnas.2004093117](https://doi.org/10.1073/pnas.2004093117).
- Roy, S. Sen. 2018. *Linking Gender to Climate Change Impacts in the Global South*. Cham: Springer.
- Santikarn, Marissa, Marcos Castro, and Adrien Vogt-Schilb. 2020. “Can Carbon Pricing Help Latin America and the Caribbean Engage in a Net-zero Carbon Future?” World Bank Blogs, October 2020. Available at: <https://blogs.worldbank.org/climatechange/can-carbon-pricing-help-latin-america-and-caribbean-engage-net-zero-carbon-future>
- Scott, Matthew, Van Huizen, Julia, and Jung, Carsten (2017). “The Bank of England’s Response to Climate Change”, Bank of England, Quarterly Bulletin 2017 Q2, pp. 98-109.
- Sweerts, Bart, Francesco Dalla Longa, and Bob van der Zwaan. 2019. “Financial De-risking to Unlock Africa’s Renewable Energy Potential.” *Renewable and Sustainable Energy Reviews*, 102: 75-82. doi: <https://doi.org/10.1016/j.rser.2018.11.039>.
- UNCTAD, 2019. “Trade and Development Report 2019: Financing a Global Green New Deal.” United Nations, Geneva.
- Volz, Ulrich, Shamshad Akhtar, Kevin P. Gallagher, Stephany Griffith-Jones, J org Haas, and Moritz, Kraemer, 2020. “Debt Relief for a Green and Inclusive Recovery: A Proposal.” Berlin, London, and Boston, MA: Heinrich-B oll-Stiftung; SOAS University of London; and Boston University.
- Waissbein, Oliver, Yannick Glemarec, Hande Bayraktar, and Tobias S. Schmidt. 2013. “Derisking Renewable Energy Investment. A Framework to Support Policymakers in Selecting Public Instruments to Promote Renewable Energy Investment in Developing Countries.” United Nations Development Programme (UNDP), New York.
- World Bank, 2018a. “Contribution of Institutional Investors: Private Investment in Infrastructure 2011-H1 2017.”, Washington DC.
- World Bank, 2018b. “Project Appraisal Document International Bank for Reconstruction and Development (IBRD).” Report No: 122876-CM, June.
- World Bank, 2020a. “The Next Generation Africa Climate Business Plan Ramping Up Development-Centered Climate Action.”, Washington DC.
- World Bank, 2020b. “Private Participation in Infrastructure (PPI): 2019 Annual Report.”, Washington DC.

World Bank and IMF, 2015. “From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance.” Development Committee Meeting, DC2015-0002, 2 April.

World Bank and IMF, 2017. “Maximizing Finance for Development: Leveraging the Private Sector for Growth and Sustainable Development.” Development Committee Meeting, DC2017-0009, 19 September.

World Bank Group, 2019. “Action Plan on Climate Change Adaptation and Resilience: Managing Risks for a More Resilient Future.”, Washington DC.

World Bank Group, 2020a. “Developing a National Green Taxonomy: A World Bank Guide.”, Washington DC.

World Bank Group, 2020b. “State and Trends of Carbon Pricing 2020.”, Washington DC.

¹ The picture is similar in International Development Association (IDA) countries (see World Bank 2020b, p. 14).

² Despite widespread use of the term, the meaning of ‘resilience’ is poorly defined (Mikulewicz and Taylor 2020).