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# Financialisation, human rights and the Bretton Woods Institutions

## Table of Contents

1. **INTRODUCTION: WHAT IS FINANCIALISATION?**
   - 1.1. Why does financialisation matter?  
   - 1.2. The World Bank and the IMF: From the Washington Consensus to the Wall Street Consensus  
   - 1.3. Financialisation re-engineers Global South states

2. **UNDERSTANDING FINANCIALISATION**
   - 2.1. The distorting effects of financialisation
   - 2.2. Empowering financial actors
   - 2.3. Governments tread carefully

3. **FINANCIALISATION AND THE GLOBAL SOUTH: NEOCOLONIALISM 2.0**
   - 3.1. Globalisation and financialisation
   - 3.2. Financialised capitalism, a key driver of vulnerability and fragility in Global South states

4. **THE BANK AND FUND: APOSTLES FOR THE FINANCIALISATION OF THE GLOBAL SOUTH**
   - 4.1. The IMF: Opening economies, pushing austerity
   - 4.2. The World Bank: Promoting private capital
   - 4.3. Limiting the policy space of Global South governments
   - 4.4. Privatisation as a gateway to financialisation  
     - Explainer: Squeezing profits from water
     - Explainer: Extracting profit from healthcare
   - 4.5. De-risking the private sector
   - 4.6. Financial inclusion drives indebtedness
     - Explainer: The gendered impacts of financialisation

5. **FINANCIALISATION INCREASES VULNERABILITY TO SPECULATION IN COMMODITY AND CAPITAL MARKETS**
   - 5.1. The risk of uncontrolled capital flows
   - 5.2. Speculation in globalised markets
     - Explainer: Profiting from hunger
     - Explainer: Housing is a right not an asset

6. **ALTERNATIVES TO FINANCIALISATION: GIVE GLOBAL SOUTH STATES WHAT THEY NEED TO GOVERN EFFECTIVELY**
   - 6.1. The future is public
   - 6.2. The funding gap that isn’t

7. **CONSIDERATIONS FOR CIVIL SOCIETY ADVOCACY**

ENDNOTES
Executive Summary

While most people are unfamiliar with the term ‘financialisation’, it has become so important as a process shaping the world economy and people’s lives in both the Global North and South that, according to many economists, we are no longer in the age of ‘industrialised capitalism’, we now live in a new era of ‘financialised capitalism’. Financialisation affects all areas of civil society’s collective work to achieve a more democratic, ecologically sustainable and equitable world.

Financialisation is the disproportionate growth in the size, role and power of finance in the economy at the national or global level. It has led to wage stagnation, increasing inequality, financial crises, profit extraction, underinvestment in the real economy in both the Global North and South, as well as deindustrialisation and deepening commodity dependence in the Global South. Financialisation has ultimately reinforced the dominant position of the Global North in the world economy while stalling the South’s long-promised economic transformation. The human rights impacts of financialisation have been so severe that 17 United Nations Special Rapporteurs, including those on the right to development, safe drinking water, housing and a democratic and equitable international order, have recognised it as a threat to human rights.

Since the 1980s, the Bretton Woods Institutions (BWIs) – the World Bank and the International Monetary Fund (IMF) – have facilitated the financialisation of the global economy and international development, profoundly impacting the economies of the Global North and South and driving the restructuring of Southern economies to privilege international financial interests. This has made Global South states in particular more vulnerable to speculation in currencies and commodities that have had profoundly negative effects on populations around the world, and the reengineering of economies in the interests of international finance and the elites that profit from it in both the Global North and South. The report also explores the human rights impacts of financialisation in various contexts, paying particular attention to its gendered consequences, and includes recommendations for civil society organisations on incorporating a financialisation lens into their advocacy work on the Bank and the Fund.

This report makes no pretence of being a comprehensive treatment of the issue of financialisation, but is intended as an introduction, and structured to allow readers to dip into it as they wish and read sections of interest.
1. Introduction: What is financialisation?

Financialisation refers to the disproportionate growth in the size, role and power of finance in the economy at the national or global level. This process has been underway since approximately 1980. In that year, the size of global financial assets was 1.5 times the size of global GDP; it is now at least 3.5 times global GDP. This wealth has given the financial sector the ability to intervene decisively in markets, influence policy and restructure the economy in its interest, cutting regulations and social protections, and creating new and lucrative opportunities for profit.

Financialisation has pulled investment away from the real economy – industry, agriculture and non-financial services – and channelled it toward bidding up asset and commodity prices or securing economic rents (money earned that exceeds what is economically or socially necessary, typically from ownership or control over a limited asset or resource). The results of the economic transformation that financialisation has wrought on the global economy have been profound. These have ranged from wage stagnation, inequality and increasing precarity of employment, financial crises, profit extraction and underinvestment in the real economy in Global North and South, to deindustrialisation in the Global North and parts of the Global South as well as deepening commodity dependence in the latter, ultimately reinforcing the dominant position of the Global North in the world economy and stalling the South’s long-promised economic transformation.

Financialisation has also had a profound impact on human rights, especially those of women and marginalised groups, as a direct result of the privileging of profits and the interests of investors over the rights and interests of citizens, including through a drive for the privatisation and subsequent marketisation of essential goods and services.

In the Global South, financialised capitalism has largely determined the way states have been integrated into the global economy, and reinforced the existing economic order, under which a few rich countries in the Global North disproportionately benefit from the labour and resources of poor countries. Global South economies have been incorporated into highly globalised production chains as providers of oil, food and labour for products from clothing to pharmaceuticals and electronics destined for foreign markets. These production chains are structured to facilitate the extraction of profit from Global South countries to the benefit of their legal owners, mostly in the Global North, an imbalance that contributes to unfavourable terms of trade for the countries in question. This wealth transfer directly benefits the owners of capital in the Global North – but not its workers.

Financialisation has also been, for the most part, enthusiastically supported by Global South elites who benefit from privatisation schemes, economic deregulation and their roles in these global supply chains.

1.1 Why does financialisation matter?

Reflecting on the importance of the processes of financialisation in the current global economic system, various academics have argued we no longer live in the age of ‘industrialised capitalism’, but in a new era of ‘financialised capitalism’. Financialisation affects all areas of civil society’s collective work to achieve a more democratic, ecologically sustainable and equitable world.

Financialisation has allowed financial interests to lay claim to enormous profits, which have been parlayed into substantial political influence, and played a key role in further weakening Global South states and their already reduced resilience to economic shocks. Financialisation enabled the speculation – the purchasing of an asset or currency in the expectation or hope that it can later be resold at a higher price – that drove the 2007-2008 financial crisis and played a major role in the food shock of 2022, which has had a disproportionate impact on those with the lowest income and wealth around the world, including women and girls.

One way or another, financialisation is implicated either directly or indirectly as a compounding factor in many aspects of the current global polycrisis, from the climate emergency and the current economic crisis, to growing poverty and inequality. It has had broad and often profound social and economic consequences, including but not limited to profit extraction, inflation, inequality, the increasing precarity of employment, wage stagnation and a decline in the share of wages in the economy, financial crises, the decoupling of financial investment and profits from the real economy, the commodification of nature, and deindustrialisation in semi-peripheral and peripheral economies.

Financialisation has also had a profound impact on human rights, especially those of women and with the lowest income and wealth. This is a direct result of the privileging of profits and the interests of investors over the rights and interests of people under financialised capitalism. It denaturalises the notion of people as rights holders and reduces them to consumers with all the consequences this entails. Financialisation has been recognised as a threat to human rights by 17 United Nations Special Rapporteurs and Independent Experts, including those charged with supporting the human rights to development, safe drinking water, housing and a democratic and equitable international order.

1.2 The World Bank and the IMF: From the Washington Consensus to the Wall Street Consensus

Though the financialisation of the global economy started in the Global North, it has been spread to the Global South not least through the influence of international finance institutions (IFIs) like the World Bank and the International Monetary Fund (IMF), known as the Bretton Woods Institutions (BWIs). In the 1980s and 1990s, the Bank and Fund pushed Structural Adjustment Programmes (SAPs) on crisis-afflicted Global South states. These programmes embodied the Washington Consensus – a set of
policy prescriptions pushing for free trade, economic and financial deregulation, the rearticulation of the role state to an active focus on meeting the needs of the private sector— and laid the foundations for later financialisation.

The Washington Consensus has given way to what Professor Daniela Gabor of the University of West England Bristol refers to as the ‘Wall Street Consensus’, an informal understanding embodied in the policies of the Bank and Fund that drives financialisation in the Global South. It is a systematic effort to reorganise development around partnerships with global financial interests, opening states to investment and maximising the investment opportunities available through privatisation, deregulation and de-risking, providing investors with consistent revenue streams that can be packaged into financial asset classes and resold in financial markets as investment-worthy assets.

The economic and financial liberalisation forced on Global South economies over the last four decades has driven the erosion of state capacity to administer their own economies. It has also facilitated the extraction of capital on a massive scale. According to Professor Jason Hickel, Global North corporate and financial interests extract $2.2 trillion a year of resources from Global South states, dwarfing the size of aid and inward investment.

1.3 Financialisation re-engineers Global South states

The impacts of the financialisation supported and imposed by the World Bank and IMF go far beyond privatisation and liberalisation, and the consequent extraction of capital. The Bank and Fund have pushed the reconfiguration of Global South states to favour the interests of finance above those of their own populations, reinforcing the capture of economic policy by elite interests and undermining the possibility of more broad-based democratic economic governance. This has had profound consequences for the enjoyment of a range of rights, including the right to water and sanitation, healthcare, food, education, and even access to services and amenities like transportation, electricity and other essentials.

Under the logic of financialisation, the privatisation and marketisation of public services and goods means maximising the opportunities for investors to profit, typically by using market-based mechanisms to reallocate services and goods away from those least able to afford it. Entire economies have been restructured to privilege private investment, facilitate profit extraction and guarantee profits through what is euphemistically called ‘de-risking’ through either blended finance or public-private partnerships (PPPs), but is more accurately characterised as a transfer of risk from private investors to states and their populations.

Further, the massive potential size of profit-seeking capital flows in the global economy has had a significant impact. Speculation – the purchasing of an asset or currency not for its use or inherent value but in the expectation or hope that it can later be resold at a higher price – was a significant driver of the spike in food and energy prices in 2022, which hit states and vulnerable populations in the Global South especially hard. The US interest rate hikes that same year led to investors withdrawing funds from Global South markets in search of higher returns, which depleted Global South states’ foreign currency reserves, provoked severe balance of payments crises, and exacerbated a debt crisis as countries do not have the foreign reserves to pay their debts. The Bank and Fund have worked assiduously to open up Global South financial and other markets, thereby enabling speculation, but have yet to recognise the damage this has done and can potentially do.

The World Bank and IMF’s strong support for financial inclusion as a poverty alleviation strategy, giving those with the lowest income and wealth access to financial services, is profoundly problematic. While this can improve their lives in the short term, in the longer term it exposes them to predatory lenders and leads them into debt, effectively turning poverty into a revenue stream for financial interests.

The negative impacts of financialisation noted above are disproportionately gendered, and many have their roots in the austerity and cuts to social protection budgets first forced on Global South states by the Bank and Fund under the 1980s and 1990s SAPs. In most Global South countries, women are more likely to be in insecure and low-paid employment, comprising a significant portion of civil service staff in health and education. They are also more likely to support dependents in single-parent households, and depend on social services that could be cut or reduced because of a fiscal crisis. This means that financialisation-driven increases in the prices of essentials like food, the need to pay for health and education, or increased transportation costs will likely hit women especially hard.

Efforts at ‘financial inclusion’ also have disproportionately gendered impacts, as women are more likely to be primary caretakers and, because they generally have worse prospects in employment, they are more likely to be forced to resort to debt to cover the basic living expenses of themselves and their families.

Instead of rethinking their current approach to development, the Bank and Fund are doubling down on the highly-financialised practices that have contributed to or at the very least exacerbated the current polycrisis. The World Bank’s Evolution Roadmap envisages a potentially large increase in lending along with a significant increase in de-risking to leverage private sector financing, and the promotion of private sector lending. Meanwhile, the IMF is continuing to impose austerity, while opposing substantive capital controls to curb the effects of currency outflows dragging its feet on debt relief, and refusing to recognise the pernicious effects of commodity speculation on the poorest and most vulnerable countries.
Belgian academic Manuel Aalbers defines financialisation broadly as a change in the relationship between the financial sector and the real economy – which produces non-financial goods and services – resulting in the increasing dominance of finance, and the consequent structural transformation of the economy to serve financial interests.34

Globally, finance has far overstepped its historic and theoretical role of supporting the real economy by facilitating the exchange of goods and services, mobilising domestic savings, promoting productive investment, and spreading and diversifying risk. Since the early 1980s, the financial sector has become an engine for the realisation and extraction of profit from the real economy, distorting normal economic activity by pulling investment away from productive enterprises to bid up the prices of assets and make already wealthy investors even wealthier. These factors have compounded the obstacles to the industrialisation and economic transformation of the Global South and contributed to the rise of far-right nationalist parties in both North and South.

A distinctive feature of the current highly financialised globalised economic system is the heavy reliance on and idealisation of what Dutch economist Servaas Storm describes as “the ‘invisible hand’ of supposedly anonymous, self-regulating, financial markets.”35,36 These markets are mechanisms that provide buyers and sellers with the ability to trade financial instruments, such as bonds, equities, derivatives and currencies.37 They match those who want to hold these instruments – and, more importantly, can afford them – or those willing and able to pay to transfer risk. The impersonal operation of financial markets has to a large extent replaced banks in their historic role as systemically important financial intermediaries. The ‘patient banking’ under which banks built a personal relationship with borrowers is now largely a thing of the past.

Costas Lapavitsas, of London’s School of Oriental and African Studies, and Aylin Soydan, of Istanbul Okan University, argue that though facilitated by neoliberalism and the neoliberal dismantling of capital controls and financial deregulation across borders from the 1980s, the foundations for the current system of financialised capitalism were laid a decade earlier, in the 1970s,38 with the partial dismantling of the Bretton Woods System of monetary management.39 Then-US President Richard Nixon ended the convertibility of the US dollar to gold, and the world moved to fiat currencies not backed by gold reserves, which meant the global gold supply did not impose a limit on the creation of new money. This situation created the conditions for the massive expansion of assets, exchange rate volatility and the deepening financialisation of the decades that followed.

2.1 The distorting effects of financialisation

The most visible manifestation of the financialisation of the global economy has been the disproportionate growth in the size of financial assets in comparison to the real economy.40 Around 1980, the value of financial assets (cash, stocks, bonds, mutual funds, bank deposits, etc) was about 1.5 times global GDP, but it is now at least 3.5 times global GDP and concentrated in the Global North.41 Wealth – measured as net worth, the market value of assets minus debts – has tripled since 2000, far exceeding economic growth which it previously tracked. This growth has been driven by the increase in value of assets like real estate rather than the productive assets on which the economy is based.42 Real estate, a non-financial asset that has been financialised, transforming from a human right into an investment,43 has become a leading store of wealth around the world. It is now worth more than three times global GDP – more than 20 times the value of all the gold ever mined.44

There is too much financial wealth in the world, and this has profoundly distorted incentives in the real economy.45 Massive profits have been realised simply by bidding up the price of assets, from housing to food, essentially making money from money; this asset price inflation has likely been a key driver of inequality.46 The provision of non-financial services and the trade in commodities have become less important than the profits of financial speculation based on or derived from those non-financial activities.47 Further, by linking commodity markets to financial markets, financialisation can also transmit financial shocks to the farmer and disrupt price signals based on supply and demand.48

Asset price inflation has given financial interests the wherewithal to intervene decisively in commodity and currency markets. The potential size of speculative capital flows the financial sector can mobilise relative to the size of normal trading in global commodity and currency markets means that they can have a significant and distortionary effect on prices. This has been a major driver in the rise of house prices in both the Global North and South,49 in the spike in food prices in 202250 and likely also in 2008, 2009 and 2011.51

Institutional investors have become enormously powerful agents within the marketised financial architecture and now play key roles in globalised markets.52 The largest 300 pension funds control over $20 trillion,53 and pension funds profited enormously from the spike in food prices last year,54 likely playing a key role in bidding up those prices. The existence of these funds is largely due to the privatisation of pensions in the Global North, bringing to light a sharp contradiction. The savings of workers have been made to a significant degree dependent on the success of a financial sector reliant on labour deregulation and transfer of capital share away from labour.

Financialisation has created bankable landscapes (entire economies in which investment opportunities are maximised) and driven the development of new asset classes (individual investments grouped together to form new investment vehicles, typically to structure and manage risk, for instance real estate, equities and commodities – note that investors do not need to physically take possession of these commodities, just legal ownership)55 and securitisation (bundling and repackaging investments so they can be resold).56 The most well-known example of securitisation is, of course, the sub-prime mortgages that, before the 2007-2008 financial crisis, were packaged and repackaged into supposedly more secure financial products before they were sold on and traded widely.57

Financialisation, human rights and the Bretton Woods Institutions

2. Understanding financialisation
Securitisation of the mortgage market before 2007 was supposed to insulate investors from risks posed by individual investments by distributing that risk, but the spreading of that risk through securitisation ultimately created a systemic risk to the entire global financial system when a large enough shock occurred.

Financialisation has pulled investment away from the real economy and channelled it toward bidding up asset and commodity prices or seeking opportunities to secure rents (money earned that exceeds that which is economically or socially necessary, typically from ownership or control over a limited asset or resource). The damage this can do to economies is being increasingly recognised in the Global North. As noted by John Maynard Keynes as long ago as the 1930s, when he wrote in his General Theory:

“Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.”

The logic of financialisation has permeated the real economy and subverted profit incentives. Many corporations spend more money on share buybacks to drive up share prices, the value of stock options and executive pay than they do on research and development or on developing human resources; the value extraction enabled by financialisation has trumped the ostensible capitalist goal of value creation.

Some companies now make more from the financial activities associated with their business than they do from their core business itself. In 2022, GE Capital, the financial services division of GE (formerly General Electric) that provides financial services to the energy industry, made around half of the earnings of GE, a major international conglomerate that is one of the world’s major manufacturers of aircraft engines, and produces industrial software, medical imaging technology, gas and steam turbines, and wind, hydroelectric and solar power generation technology. American Airlines now makes more from its air miles loyalty programme than it does from its ‘core’ business of carrying passengers, with predictable consequences, from high levels of flight cancellations and frequent service disruptions to poor service.

A 2019 study by Daniel L. Greenwald of New York University et al. found that under financialised capitalism, the rate at which US companies grew in value increased, and the composition of those gains also changed. Between 1952 and 1988 economic growth accounted for all the increase in the value of US companies. Between 1987 and 2017, however, US companies increased in value three times faster, but only a quarter of that increase was due to economic growth – 40 per cent was due to more profit accruing to shareholders, most of which was due to less going to workers.

2.2 Empowering financial actors

Asset price inflation has also given financial interests disproportionate economic power and therefore influence on the formulation of economic policy. The financial sectors in the US and the UK, the world’s most influential, have spent considerable sums of money influencing policy in their respective countries: The US financial sector spent at least $600 million in lobbying and donations during the 2013–2014 electoral cycle, three times as much as the healthcare sector. Since 1980, the economy has been restructured to privilege the interests of the financial sector, loosening regulations and creating more opportunities for profit. Profits are realised through the commodification of goods and services which Andre Standing, an advisor to the Coalition for Fair Fisheries Arrangements, describes as “packaging everything into commodities that can be traded and gambled with”, from food to infrastructure and healthcare. Even poverty has been instrumentalised and turned into a source of revenue (see Financial inclusion driving indebtedness, below). The role of the private sector, and especially that of the private investor, has been idealised, while the state as an institution has been vilified, its capabilities to drive economic development disparaged and limited to facilitating private sector profits while socialising associated risks. This runs directly counter to historical and contemporary experience in the Global North – in Asia, Europe and North America – where states have played significant and critical roles in the economy and as drivers of economic development.

The global financial sector has now become so powerful and influential that it is challenging the gains in democratic norms of governance made during the 20th century. Its singular focus on profit often runs directly against the interests of democratic regulation of the economy and the human rights obligations of states to their populations. Power has increasingly shifted from politicians and electorates to financial sector actors. Only strong and effective regulation of the activities of finance and financial markets can bring these potentially damaging tendencies under control, yet the need to do so is still not widely acknowledged, while the political will to do so effectively is still largely absent.

The extraordinary profits of the financial sector have come at the expense of those affected by the price swings, from housing and food to national currencies, with the heaviest burden falling on those with the lowest income and wealth. There is also evidence that financialisation erodes the share of economic output going to labour, causing wages to stagnate, as a result of an increase in capital mobility. The livelihoods of those with the lowest income and wealth are the most affected by squeezed wages, increasingly precarious employment, reduced access to and increased cost of public services like healthcare, and the commodification of essential goods like food and housing. Meanwhile the availability of easy consumer credit, which has increasingly been used to compensate for
the aforementioned loses, means wealthy investors can profit directly off the most economically marginalised as they struggle to afford the essentials. This is where the natural tendencies of financialisation potentially clashes most directly with human rights. Mark Kear, of the University of Arizona, notes that citizenship and even the notion of rights in itself “are being re-conceptualized in terms of universal access to ‘safe’ and affordable financial products.”

2.3 Governments tread carefully

Even governments in the Global North have struggled to discipline the excessive power of finance. This is likely, at least in part, due to the political power and leverage of the financial sector, especially in key Global North states, but also because of the nature of international financial sector governance, which is highly fragmented and predominantly comprised of non-binding standards and codes. There are also no formal dispute resolution mechanisms to address issues of financial regulation. The standard setters in this loosely organised system are predominantly Global North states, whose focus on the stability of the financial system can have serious and negative effects on inclusive growth in the states of the Global South – and North.

The G20, a grouping of the world’s largest economies, was unable or unwilling to force private creditors to take part in debt cancellation or suspension of debt repayments under the Debt Service Suspension Initiative (DSSI) and the Common Framework in response to the economic damage caused by Covid-19, when even bilateral donors (i.e. states) cooperated.

Debt forgiveness, which would involve financial interests willingly accepting a reduction of their wealth, is now rarely if ever on the table, even though it can boost economies in a time of weak demand like the present. Private creditors like hedge funds have an incentive to hold out on debt relief to maximise their profits, and contributed to the delaying of debt relief for Sri Lanka and Zambia during their recent debt crises. Argentina has been hounded by hedge funds since defaulting on its national debt in 2001. These so-called vulture funds bought up tranches of its outstanding debt at steep discounts: One fund, NML Capital, paid on average of 27 cents on the dollar. They then held out till 2015 for full payment, pursuing Argentina through the US court system. NML made £2 billion, a return of over 1,200 per cent on its investment. Vulture capital funds also bought the right to sue the Argentine government over the 2012 nationalisation of energy giant YPF, again through the US courts as the company is listed on the New York Stock exchange. The case is still ongoing. Insurance companies are also suing Argentina and Bolivia at the World Bank’s International Centre for Settlement of Investment Disputes (ICSID) over the reversal of a disastrous pension privatisation, which could result in those countries’ pensioners paying compensation.

There has been some pushback against funds that buy up sovereign debt cheaply and hold out against debt relief settlements to maximise their profits. While former World Bank President David Malpass called on the G20 and G7 to push private sector participation in sovereign debt relief efforts and Belgium has passed a law to limit their profits, there is still a long way to go before there are any real global limits on the activities of these funds.
3. Financialisation and the Global South: Neocolonialism 2.0

While the origins of financialisation lie in the Global North, it has been spread to the Global South, in large part because of the structural reforms and financial and economic liberalisation the World Bank and the IMF have promoted and often forced on many of the region’s economies since the 1980s.

Financialisation in the Global South has progressed in a fundamentally different manner from that in the Global North. It has been at least as varied across the different social, political and economic landscapes as it has been in the Global North but has been driven by deregulation and the opening of Global South economies to foreign capital flows originated, for the most part, in the Global North. Along with neoliberalism, financialisation has profusely restructured Global South states, societies and economies, creating new neocolonial forms of economic dependency and vulnerability and, with the buy-in of local elites who have stakes in the system, new political economies. Even the Vatican has recognised the insidious neocolonial logic of the current system, with Pope Francis condemning a new “economic and ideological colonialism” that is “virtualised, camouflaged, hidden, making it difficult to detect and neutralise.” However though the dynamics may differ, Kai Kodenbrock, Professor of Political Economy at Bard College, Berlin, et al. point out that there is a remarkable degree of continuity between colonialism and financialised neo-colonialism in Global South states, with foreign-dominated banking sectors oriented toward extraction rather than financing domestic production. Financial interests have colonised development space in the way neoliberalism did in the 1980s and 1990s; the overlap between neoliberalism and the worldview of financial interests meant that the first developed into the second, with little apparent discontinuity. The Washington Consensus of the 1980s and 1990s—a set of policy prescriptions the Bank and the Fund imposed under their SAPs on crisis-afflicted Global South states to “fix” their economies, pushing for free trade, economic deregulation, the shrinking of the state and the promotion of the private sector—laid the foundations for later financialisation and what Professor Daniela Gabor of the University of West England Bristol terms the Wall Street Consensus. This is “an elaborate effort to reorganise development interventions around partnerships with global finance,” opening states to international investment and maximising the investment opportunities available, including through privatisation. Under both approaches, private profit is prioritised at the expense of public services and the living standards of ordinary people and indeed, the real economy.

3.1 Globalisation and financialisation

Financialisation is closely tied to globalisation. Indian economist Prabhat Patnaik argues that globalisation, specifically the globalisation of finance, is connected to the reimposition of Western hegemony on the world and the restriction of policy space of Global South states:

“It meant the coming into being of a phase of capitalism where capital, including, above all, finance, had become globalised by opening up economies for its unrestricted movement. It had thereby curbed the capacity of the nation-state to intervene in ways that finance did not approve.”

Financialised capitalism has thus largely determined the modalities of the increasing integration of Global South states into the global economy, reinforcing its core-periphery structure. These national economies have been incorporated into highly globalised production chains in subordinate positions, providing labour, raw materials, commodities and products from cars to clothing and much else destined for foreign markets. What the Global North states have retained are the core functions that control the global production chains, including overall control and coordination of these chains, design, marketing, research, intellectual property and financial services, all backed by legally enforceable ownership. This has driven what Bruno Bonizzi, et al. describe as “the geographic transfer of value from subordinate regions [i.e. the Global South] and actors to superordinate ones [i.e. the Global North].”

However, as with the colonialism of previous centuries, this new financialised neocolonialism is not a simple and uniform South-to-North wealth transfer: The co-optation of local business elites by international financial interests, giving them a stake and allowing them to profit from the integration of Global South economies into the international economic architecture, is a key enabler of financialised capitalism internationally.

Further, the world’s large securities markets, the financial linchpins of the global economy, are in the Global North, under the regulatory control of Global North states. The US dollar is still the de facto global reserve currency, enjoying ‘exorbitant privilege’ and backed by the massive size of the dollar-denominated US securities market, which grants the US the ability to borrow at extremely low interest rates. Many other Global North states are also privileged to be able to borrow in their own currency and many have access to liquidity from currency swap lines—agreements between Global North central banks to exchange currencies, which grant them resilience in the face of adverse economic shocks. These agreements are highly political and restricted to a select few states. Global South states have to borrow in foreign currencies because they cannot borrow in their own. University of California Professor Barry Eichgreen, et al. describes this as the “original sin,” as it exposes them to considerable currency risk and leaves them vulnerable to disruption from rapid inflows and outflows of capital, leading to financial fragility and consequently, “much human suffering and economic pain.” The development pathways of Global South states are vulnerable to disruption by debt overhangs, as they are pressured to prioritise the repayment of debts over social spending, economic development and the fulfilment of the rights to their populations in order to maintain market access. Global South economies are less resilient and more vulnerable.
to economic shocks than Global North states simply by virtue of their peripheral position in the global economy, which has been exacerbated by globalisation and financialisation. This is not the only way in which the financialised capitalist global economic system drives insecurity in the Global South and derails development outcomes.

### 3.2 Financialised capitalism, a key driver of vulnerability and fragility in Global South states

Financialised capitalism is clearly failing the states of the Global South and the majority of the population in the Global North. The modest economic gains Global South countries made this century have been endangered by the fallout from multiple global crises to which they lack the capacity to respond effectively. During the pandemic, Global North states provided massive stimuli to their economies, with fiscal deficits rising from an average of 3.3 per cent to 14.4 per cent in 2020, as they borrowed from their own central banks or bond markets. Global South states, in contrast, had to take out expensive dollar-denominated private sector loans from external creditors, which had to be repaid in dollars earned from exports and other sources of hard currency like tourism. In a vicious circle, their fiscal space to finance their own requirements is constrained by the low-tax investment and business-friendly regimes states in the Global South have to implement to appear credible and attract investment, and of course prioritise the repayment of debt.

Further, commodity dependence among Global South states is increasing, meaning that about two-thirds of Southern countries are vulnerable to price fluctuations in global commodity markets; for many countries the prospect of economic transformation through the development of value-added processing and manufacturing is receding. This increases the pressure on states to extract natural resources to pay their obligations and build foreign currency reserves, regardless of the consequences for the green transformation.

The economic vulnerability and financial fragility of Global South states have had a huge impact on their ability to drive their own development and protect those with the lowest income and wealth, including women and girls. Without concerted global action, the Sustainable Development Goals (SDGs) are unlikely to be met, and the much-lauded gains made this century in eliminating extreme poverty (those living on under $1.90 a day) are now in any case being reversed. However these gains were largely driven by China, not by the poverty reduction efforts of the World Bank and other development finance institutions, and as University of Barcelona Professor Jason Hickel points out, the number of people living under the more realistic poverty line of $7.60 a day has significantly increased over recent decades.
4. The Bank and Fund: Apostles for the financialisation of the Global South

Concerns over the promotion of financialisation by the World Bank and IMF are as relevant today as those about their support for neoliberal reforms and Structural Adjustment Programmes (SAPs) in the 1980s and 1990s. The SAPs the World Bank and IMF pushed on Global South states during the 1980s and 1990s sought to ‘fix’ economies experiencing debt or balance of payments crises, re-engineering states by imposing severe austerity measures,136 liberalisation, deregulation and privatisation. These reforms were part of the Washington Consensus137 of the time, which pushed for the opening of Global South economies to international markets and the reduction of the public sector in favour of the private.138 By opening up economies to international capital flows, loosening restrictions on business, weakening social protections and employment conditions, and shrinking the state to maximise the opportunities for investment, the Washington Consensus as implemented by the Bank and Fund also laid the foundation for the later financialisation of the region’s economies, and what has been called the Wall Street Consensus.139

4.1 The IMF: Opening economies, pushing austerity

The tools the Fund has used to leverage the restructuring and opening of Global South economies to international financial flows have varied. The IMF conducts routine surveillance of economies (Article IV consultations) on an annual basis, advising governments on their economic policies. These consultations have generally favoured the private sector over the public, pushing countries in the direction of economic openness, financial liberalisation and privatisation, creating more opportunities for foreign investment and the financialisation of economies.140

While Article IV consultations are not always tied to IMF loan programmes, Global South governments are nonetheless under pressure to follow this advice. Even Global North states bristle and defend themselves strongly in the face of IMF criticism of their policies.141 There is a widespread fear among Global South states that a critical Article IV report may signal to investors that they are not ‘serious’ about economic reform and therefore not investment worthy, which may discourage investors and result in higher borrowing costs. Further, Article IV consultations are generally the basis for IMF programmes when countries do come to the Fund for support and undergo even more intensive surveillance.

The IMF has also imposed strict loan conditionalities on countries that have sought its assistance when facing debt crises, usually requiring governments to open domestic markets and financial sectors to international investment and impose austerity, creating more space for the private sector and therefore more opportunities for international finance to extract profit.142 By cutting down wages, reconfiguring states and decreasing their fiscal capacity, austerity suppresses aggregate demand in affected economies, reducing domestic investment and making states ever more dependent on foreign capital and, particularly, on financial markets for funding.

IMF-imposed austerity has been responsible for shrinking the budgets of many Global South states143 and forcing the privatisation of public services144 that many depend on, especially those with the lowest income and wealth,145 women146 and children. Viewed through a financialisation lens, the negative impacts of the austerity-driven privatisation of public services are not just attributable to austerity but also to the way in which it is done – in the commodification of public goods and services, prioritising the profit and interests of international investors above those of the Global South states and their populations. Financialisation is strongly associated with increased inequality,147 as austerity not only may dismantle the mechanisms that reduce inequality and enable equitable growth148 but also because, as at least some IMF staff recognise, it tends to reduce the labour share of GDP and raises long-term unemployment rates.149

Austerity has also been associated with economic scarring (hysteresis),150 which is medium-term damage to an economy’s productive potential. The Fund has recently recognised the importance of domestic revenue mobilisation,151 but favours regressive taxation152 like value added taxes because they are ‘less distortional’153 and easier to administer. However, while the Fund is supporting increased domestic resource mobilisation,154 and encouraging Global South states to spend more money on targeted social protection, it has instructed them to cut their overall expenditure by four times that amount,155 and has remained silent on the inequity of the international taxation system and recent efforts in the UN General Assembly to reform it.156

An indication of the reach of IMF programming is evidenced by the fact that at least 102 countries had been through IMF–supported programmes by 1998,157 with many of them forced to implement austerity measures.158 Research by the Boston University Global Development Policy Center has indicated that borrowing countries in IMF programmes are more likely to face austerity if they have received significant foreign direct investment.159

4.2 The World Bank: Promoting private capital

The World Bank Group’s development paradigm is the mobilisation of private capital to accomplish development goals, which it implements through loan conditionalities and policy reforms it promotes through its Development Policy Financing (DPF), its discontinued Doing Business Report country rankings,160 and the Report’s replacement, the B-READY (Business Ready) project, due to be launched in September 2024.161 The mission of the World Bank’s International Finance Corporation (IFC), its private sector lending arm, is to develop the private sector and private finance in the Global South, “expanding existing capital markets and creating new ones.”162

The Bank’s programmes have attempted to re-engineer the structure of development finance in the Global South, favouring the scaling up of private sector and private funding over public sector and public funding, putting private finance, volatile international
capital flows and the pursuit of private profits at the heart of international development. However, the Bank has recognised that it has failed to adequately support micro-, small- and medium-enterprises (MSMEs), key drivers of economic and employment growth in the Global South. Moreover, the Bank’s support for the private sector since the 1980s has singularly failed to drive the economic transformation of Global South economies.

Recent proposals to reform the Bank in response to climate change and the post-Covid economic crisis, like the Multilateral Development Banks’ Capital Adequacy Framework review conducted under the aegis of the G20, and the Bank’s own Evolution Roadmap, suggest an expansion of existing practices like de-risking and dependence on international investment, which have led Global South states into a vicious cycle of debt and underdevelopment, rather than a fundamental reassessment of its current highly financialised approach to development finance.

4.3 Limiting the policy space of Global South governments

In relentlessly promoting the interests of international finance, the Bank and Fund have severely constrained the policy space available to Global South states to drive economic transformation and the green transition, guarantee human rights and even manage their own economies. They have also exerted considerable influence over the development space by establishing a narrative of what responsible economic policy and governance should look like. Global South states exist in a normatively pro-business environment fostered by, among others, the IMF and WBG, in which almost any interference by the state in the private sector, and especially in the freedom of international finance or the private sector profits that feed it, is viewed in a negative light. Global investors and their local cognates are structurally empowered by a pro-business, pro-finance international economic system, and backed by Investor-State Dispute Settlement (ISDS) mechanisms like the World Bank’s International Centre for Settlement of Investment Disputes (ICSID), which reflect the general asymmetry of power relationships between the Global North and Global South.

States in the Global South that deviate from this pro-business consensus suffer real consequences in terms of capital flows from investment and speculative. Otherwise, they need to stay solvent and make their debt and interest payments in order to maintain access to financial markets on which they have become increasingly reliant. Between 2005 and 2023, middle-income countries eligible for World Bank loans increased their lending from private creditors five times over, which now hold over three-quarters of their debt, while low-income countries eligible for grants or concessional loans from the Bank increased their lending from the private sector from two to 16 per cent of their debt.

The interests of Global South elites often align with those of international finance. These elites have often backed the economic and financial liberalisation, privatisation and deregulation that enabled the financialisation of their own countries’ economies, finding their policy space is so constrained that they have little choice but to comply.

Forced to cut taxes or guarantee loans to cover projects and expenditure they can no longer afford to pay from their own revenues, many Global South states have become a means to facilitate and guarantee returns on investments. States must prioritise repaying related debt, along with interest, over the needs of their populations and their international human rights obligations if they are to avoid losing access to financial markets. The need to be seen as investment worthy to attract capital also gives real power to the unenforced international standards set by the Bank and the Fund, other international financial institutions, credit rating agencies, and organisations like the International Capital Markets Association (ICMA) and regulatory agencies like the International Organisation of Securities Commissions (IOSCO). States in the Global South have had little or no influence over the development of this international ‘soft law’ economic regulatory architecture. The structural weakness of their position in the global system makes them rule takers, not rule makers.

This directly undermines the ability of Global South states to fulfil their role as duty bearers, promoting human rights and a dignified standard of living, and puts the ability to deliver those rights in the hands of the private sector and ultimately of local and international investors, whose primary motivation and interest is in realising a profit. The Global South has been reconfigured to serve the needs of business, rather than their people. This will inevitably, and profoundly, impact the enjoyment of rights, from the right to water and sanitation, to healthcare, food, education, transportation, electricity – and all the other areas in which states involve themselves. In doing so, it arguably deprives people of their Right to Development as identified in a 1986 UN General Assembly resolution, recognised as international ‘soft law’. Giving richer investors control over development clearly undermines the right of people to “participate in, contribute to and enjoy economic, social, cultural and political development” as enshrined in Article 1 of its Declaration.

4.4 Privatisation as a gateway to financialisation

Like the IMF, the World Bank has also pushed privatisation, which has facilitated financialisation. What is relevant here is not just the fact of privatisation, but also the way in which it is done: Restructuring sectors and entire economies to privilege private investment and profit extraction, de-risking to guarantee profits from any investment they make, and financialising these investments by packaging them into commodities that can be easily traded. The incentive under financialised capitalism is to maximise short-term profit and to decouple it from the long-term ‘business fundamentals’ or health of the real economy. This can generally be done more easily by minimising overheads like labour and the cost of compliance with local labour, environmental and other standards, research and development costs, and facilitating the repatriation of profits – extraction – than with potentially risky long-term investment to increase productivity. This is why the drive to privatise everything that can be privatised in the Global South has impeded the structural transformation of Southern economies.

Though privatisation may initially seem less expensive, there are hidden costs as the public sector must pay for the investment plus
investors’ profits and additional costs for environment and other assessments and monitoring. Dexter Whitfield of Flinders University in Australia notes that, “It replaces public investment at a much higher cost.”

Further, many of the privatised services, like water, electricity, and rail networks are natural monopolies. Profit maximisation by these privatised natural monopolies will mean that prices are set higher than they would be in competitive markets. Regulation is also likely to be ineffective because of political capture and the disproportionate power of international financial investors vis-à-vis Global South states. University of Oxford Professor Simon Wren-Lewis notes that “privatisation of natural monopolies is not about creating markets…but instead selectively applying particular economic ideas to create new private capital.”

The financialisation of newly privatised companies and utilities is accomplished by ensuring the tradability of the income streams they generate. This enable them to be converted into financial assets and sold on to investors for whom profit is their primary – or more likely – their only concern, and who have no long-term commitment to the health or development of the business, or indeed the country’s economy.

Despite the World Bank’s well-known preference for private sector-led development, there is no evidence the private sector is actually better or more efficient in the provision of goods or services; quality depends largely on how service delivery is organised and the overall regulatory framework. However, there is strong evidence that the quality of services and their availability can be negatively affected when profitability is prioritised over all other considerations. The privatisation and commodification of a service is a way of redistributing it away from those least able to afford it – there is generally little profit to be made from those with the least income and wealth. Services are redirected to those that are the most profitable; infrastructure will not be built and operated by the private sector for those who do not have the ability to pay. Further, IMF and World Bank-approved low-tax regimes constrain the resources of Global South states and mean that their capacity to subsidise service delivery to economically marginalised populations likely to be excluded from or disadvantaged by market-based solutions is severely constrained.

The World Bank has imposed conditionalities for its Development Policy Financing (DPF) loans that include privatisation, the removal of protections for labour, lower taxes and public-private partnerships (PPPs). Shrinking the state creates more space for private investment, while deregulation loosens or removes constraints on private enterprise imposed by labour laws and unions, and on the movement of capital and goods, all of which create opportunities for financialisation through the commodification of goods and services, and the consequent realisation of ever greater profits from investments. The PPP-model currently favoured and promoted by the WBG, primarily used to ‘de-risk’ investments and so ‘crowd in’ private sector investment (see De-risking the private sector, below) is also problematic, and offers particularly bad value for money.

The Bank and Fund have variously pushed the privatisation of healthcare, education, the construction and maintenance of infrastructure, banking, transport, communications, water and electricity. Serious concerns have been raised about the human rights impacts of the privatisation the Bank and the Fund have promoted, including issues surrounding water and healthcare, which will be considered in brief below to illustrate specific human rights concerns.

**EXPLAINER: Squeezing profits from water**

The privatisation of water is intrinsically linked to its commodification and financialisation, and has demonstrably undermined the universal human right to water and sanitation. In 2020, then-Special Rapporteur on the human rights to safe drinking water and sanitation, Léo Heller, detailed how privatisation can pose serious risks to the right to water and sanitation, through profit maximisation, natural monopolies inherent in the provision of water and power imbalances between providers and consumers. He noted that this can result in deteriorated services, unaffordable access, a neglect of sustainability, a lack of accountability and inequality, and that the evidence does not always support the notion that the higher prices resulting from privatisation mean higher efficiency. A study by Joe Williams on the privatisation and financialisation of water in Kenya revealed that though efforts to commercialise the sector were justified by a lack of funding, investment went to areas that were seen to be the most profitable, it was not allocated on the basis of need.

Elisa Saveli, et al. argues that water shortages are largely driven by the rich, who consume a vastly disproportionate share which far exceeds their basic needs, and notes that a failure to recognise the role of inequality in driving the negative human rights impacts of water crises can result in technocratic solutions that reproduce the inequalities that drove the water crisis in the first place.

The World Bank has historically supported the privatisation of water supplies without due regard to the human rights impact, and its private finance arm, the IFC, has a long history of involvement in private water projects, with mixed results and often faced strong opposition from civil society.
Explainer: Extracting profit from healthcare

The financialisation of healthcare builds on the privatisation of healthcare systems but goes beyond simple for-profit private provision by commodifying healthcare to create investment opportunities that are easily fungible and are managed to maximise profit for investors.¹⁸⁶

The World银行 has made investments more attractive for the private sector by pushing de-risking, as investors have to date been hesitant to accept the risks associated with development finance. De-risking has been an important part of industrial policy, particularly in advanced economies, but its ability under financialised capitalism to drive economic transformation is heavily constrained by the dynamics explained above rooted in the power imbalances between finance capital and the state and players in the real economy.

Furthermore, de-risking does not make an investment less risky, it merely shifts risk, usually from private investors to states, which take on contingent liabilities – potential future financial burdens, which even the IMF recognises as potentially problematic – to guarantee private profits.¹⁸⁷ This is an important buttress of financialised capitalism, a critical strategy for maximising the returns on financial capital: Whenever possible, states (and by extension ordinary people) should bear the risks and potential costs of investments, while private investors should reap the profits.

De-risking can be done in different ways: The World Bank, for example, is currently promoting diverse forms of blended finance, combining public and private money.¹⁸⁸ This could be used to de-risk in various ways, for instance with the private sector providing the senior tranche of the loan, of which repayment is prioritised, and the poor value for money;¹⁸⁹ in the Global South, outcomes have often been significantly worse. World Bank-led privatisation and the extensive reliance on PPPs have pushed Kenyans into poverty and debt,²⁰⁵ with only the wealthy being able to afford high-quality care. Privatisation of health provision in the country has created a two-tier health system,²⁰⁶ and set back the goal of universal health coverage.²⁰⁷ Crystal Simeoni, Director of the Kenya-based CSO Navj, and Wangari Kinoti, Global Lead for Women’s Rights and Feminist Alternatives in ActionAid, argue that women have borne “an enormously disproportionate burden” of the privatisation and financialisation of health systems in Africa, as their out of pocket expenditure for themselves and those they care for has been systematically higher than that of men, and they have been less able to buy private healthcare because of their lower incomes.²⁰⁸

Privatisation and deregulation directly affect living standards, pushing down wages, increasing the precarity of employment and decreasing the availability and affordability of key services. All of this negatively impacts those with the lowest income and wealth, and of course has a disproportionately gendered impact (see Explainer: The gendered impact of financialisation, below).

4.5 De-risking the private sector

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Other forms of de-risking the Bank has promoted include states guaranteeing the commercial viability of investments²¹¹ like PPPs. Power plants, for instance, have been de-risked by guaranteeing demand for services or the price at which services from these PPPs are purchased.²¹² These arrangements are now generally recognised to be extremely risky and offer states poor value for money.²¹³ They also may attract liability under bilateral investment treaties (BITs) and international investment agreements (IIAs), many of which refer disputes to ISDS mechanisms like the World Bank’s ICSID.²¹⁴ These mechanisms allow investors to sue a state for any possible action that impacts their current or future profits. Defending a case can cost a country millions of dollars, and awards can easily run into the hundreds of millions of dollars. The threat of these claims can lead to a ‘regulatory chill’ where states are reluctant to legislate to enforce social or environmental standards. The WBG’s ICSID has handled over half of all known ISDS cases,²¹⁵ and has been widely criticised by civil society organisations for alleged corporate bias²¹⁶ and for constraining the policy space available to Global South States.²¹⁷ UN special rapporteurs have argued that it undermines human rights and the rule of law.²¹⁸

The logic of de-risking is in itself questionable. Private sector investors lend to Global South states at very high rates, with a risk premium already priced in – though this only very imperfectly...
Inclusive Development (GRID) approach, launched in response to growing interest in this initiative. It was intended to systematically leverage all sources of finance through strategic parts of their national economies.

However, and despite its enthusiasm for private sector investment, the Bank’s efforts have generally yielded disappointing results in terms of both development impact and the amount of private funding its various approaches to de-risking have successfully mobilised. Its first attempt to increase commercial lending to states in the Global South was under the so-called B-loans of the 1980s, which were stopped when Bank officials concluded that the potential costs of de-risking these loans, with the Bank taking on the junior or riskier tranche of the loan, was excessive. The Bank’s 2015 Billions to Trillions agenda failed to realise its ambitious goal of using billions of dollars of development and public bank financing to leverage trillions in private financing for development to realise the Sustainable Development Goal (SDGs), with the Overseas Development Institute estimating that only $0.37 of private finance was secured for each $1 of public investment, with most of that going to middle-income countries, not the poorest countries that needed the funding most. It was also not clear how Global South states would be able to pay back potentially large loans if that level of financing had been realised. The impact of the longer-term consequences of states taking on potentially huge contingent liabilities to de-risk investments or giving local and international private sector investors via PPPs was also unclear, as was giving other equity arrangements a stake in or possibly even ceding control over strategic parts of their national economies.

The World Bank’s 2017 Cascade approach was built in a preference for private sector funding over public, despite public finance offering better value for money. It stipulated that, if private financing is not viable, policy or regulatory reform to make it viable should be considered; if this does not make it attractive, then the investment should be de-risked (see below, a potentially significant contingent liability on the recipient state); and only when such options are not feasible should public financing be considered. The Bank’s Maximising Finance For Development (MFD), which incorporated the above-mentioned Cascade approach, was intended to systematically leverage all sources of finance through de-risking, privatisation and the creation of new asset classes through PPPs. However, global financial markets displayed little interest in this initiative. The Bank’s 2021 Green, Resilient and Inclusive Development (GRID) approach, launched in response to economic crises exacerbated by the Covid-19 pandemic, has absorbed the MFD approach, with a new green spin, and its ongoing Evolution Roadmap process deepens the private sector bias of its Cascade approach and the use of de-risking by states to secure private financing. Based on South Africa’s experience, the Just Energy Transition Partnership (JETP) is also likely to make extensive use of highly problematic de-risking.

4.6 Financial inclusion drives indebtedness

The World Bank and IMF’s drive for financial inclusion (also known as ‘financial deepening’) is profoundly problematic. Banking the unbanked, giving those with the lowest income and wealth access to financial services and credit and the ability to save, can improve their lives – in the short term. In the longer term, it tends to increase their indebtedness as it exposes them to predatory and exploitative lending practices, which impact their standards of living by eroding future earnings to support their current spending. Far from empowering the economically marginalised, financial inclusion facilitates the extraction of wealth from them, turning this economic marginalisation into a revenue stream for national and transnational financial interests. Only improving the standards of living of the economically marginalised, and empowering them to effectively challenge structural injustice, can remove the risk these predatory lending practices pose.

The financialisation-driven liberalisation and deregulation of economies may contribute significantly to this indebtedness, as these reforms may result in the marketisation and consequent rises in the price of essential goods and services, repress wages by shifting income from labour to capital, and decrease state revenues to fund social protection floors while increasing the vulnerability of Global South economies to speculative price spikes in international commodity markets.

Research by the Third World Network on Ecuador and Pakistan and by Lena Lavinas, of the Federal University of Rio de Janeiro, on Brazil and South Africa, reveal both the seriousness of the problem of indebtedness and its heavily gendered impact. In Ecuador, cuts to the public healthcare system as a result of World Bank and IMF loan conditions meant women had to take personal debt to cover healthcare and household expenses. In Brazil, the bankarization of the most economically marginalised and the massive expansion of credit since 2003 has resulted in over half the adult population becoming indebted, with a third of household income now used to service debt commitments, and over half of all bank lending going to consumers as opposed to businesses. The burden of this debt falls disproportionately on women, especially when they are primary caregivers as they earn less than men and are more likely to depend on social welfare. Social welfare payments by the state have come to be used as collateral for obtaining private credit, in so doing regulating access to financial markets and enabling and driving the further indebtedness of those with the least income and wealth.
The Bank’s current focus on financial inclusion emerged in response to the failure of microcredit schemes to improve the lives of the economically marginalised. According to economist Milton Bateman, microcredit schemes are a means of capturing “an increasingly large part of the economic surplus of a poor community” – much as financial inclusion has proven to be.

The IFC, the Bank’s private sector arm, has been heavily involved in microfinance, investing $5.3 billion in the sector globally since 2011. In Cambodia, its financing backed an industry in which lenders pressured women to sell their homes to repay debt, even as the industry reaped record profits; in Jordan in 2019, more than 23,000 women were wanted by the police and risked a prison sentence for non-payment of debts of less than $1,400 each; in Sri Lanka, 200 women indebted to microfinance companies are estimated to have committed suicide in the three years to 2022.

The WBG is now strongly promoting fintech – ‘financial technology’ like mobile payments – for financial inclusion, but there is no evidence that fintech is immune from the problems caused by predatory lending practices that have blighted other schemes to promote financial inclusion and microcredit. Reality of Aid - Asia/Pacific’s April 2023 paper titled World Bank’s Digitisation of Aid: Multiplying threats for women and girls, highlights many potential serious problems with using fintech for poverty alleviation, from inadequate digital architecture, data protection and identity verification to the co-optation of digital systems by governments and businesses to forward their own interests. Further, the paper notes that digital systems are built on existing systems that are highly unequal and exploitative and so can aggravate marginalisation, inequality and exclusion.

The Bank has approached the issue of indebtedness resulting from financial inclusion and microfinance from the perspective of consumer protection. However, financial literacy education and consumer safeguards are unlikely to effectively counterbalance the dire need that drives economically marginalised populations to resort to high-interest rate loans to pay for essentials like medicines, and the fundamental power imbalance between lenders and borrowers caused by information asymmetry, rent seeking and moral hazard in financial sectors almost everywhere. Academics have long argued the evidence that financial inclusion actually benefits the economically marginalised is inadequate, and claims that it does benefit them are unjustified. The Bank has failed to make the connection between its unqualified support for financial inclusion and the admission of the authors of its own 2021 Global Findex Database, Leora Klapper and Pia Roman Tayag, that “while access to finance is growing globally, financial health and well-being are stagnating or even declining.”

A woman and child sitting on the floor.
EXPLAINER: The gendered impacts of financialisation

It is important to realise that the negative impacts of financialisation noted above are disproportionately gendered, and many have their roots in the austerity and cuts to social protection budgets first forced on Global South states by the Bank and the Fund under the 1980s and 1990s SAPs. In most of these countries, women and girls are more likely to be in insecure or low-paid employment and they are likely to comprise a significant portion of social services staff in the public sector.

They are also more likely to be primary carers and support dependents in single-parent households. As a result of the combination of these factors, and inherently unequal social relationships and treatment by the law, their social existence is more likely to be economically precarious and more dependent on public services like healthcare, education and social care. This also means that women are likely to act as ‘involuntary shock absorbers’, putting in additional unpaid domestic labour to compensate for cuts in public services and their reduced affordability after privatisation.

Cutting down public social spending on essential goods and services and replacing it with private alternatives means women bear a quadruple burden: Increased unpaid care work, reduced access to those services, reduced decent work opportunities, and indebtedness to afford private alternatives.

While it is recognised that this precarity means women and their dependents are more vulnerable to the effects of austerity, it is arguably the financialisation and subsequent commodification of essential goods and services that austerity enables what drives much of this disproportionately gendered impact.

Financial inclusion, hailed by the BWIs as a route to ‘women’s empowerment’, can facilitate indebtedness and heightens women and girls’ economic vulnerability. Women are also more likely to take on individualised and collective forms of debt – that often explicitly target them, like microfinance schemes – to pay household expenses and access services no longer affordable or free to them to cover their basic living expenses and those of their dependents.

The underlying logic of financialisation as promoted by the BWIs privileges financial capital and the holding of assets over labour, which also have gendered effects. In a highly financialised economy, assets usually increase in value while labour is squeezed, widening inequality and disproportionately affecting women, who tend to hold fewer assets and be over-represented in vulnerable, low-paid work.

By shifting economic influence and decision-making power from states to unelected and unaccountable financial interests, financialisation also further undermines the voice of structurally disempowered groups like women, increasing their exclusion from social, economic and environmental policymaking. These negative effects of the financialised forms of development promoted by the Bank and Fund stand in direct contradiction to their professed support for gender equality and poverty eradication, the Sustainable Development Goals, the human rights framework – including CEDAW and the International Covenant on Economic, Social and Cultural Rights – and the International Labour Organisation’s international labour standards and conventions. The immiserating and gender-specific effects of the BWIs’ promotion of financialised development are only likely to intensify going forward, as many countries now face default, increased levels of austerity, debt distress and the socioeconomic effects of the Covid-19 crisis.
5. Financialisation increases vulnerability to speculation in commodity and capital markets

A key characteristic of the financialised capitalism noted above is the massive amount of capital in global markets in search of opportunities for profit. This easily translates into what are, relative to the size of normal trading in commodity and currency markets, huge and potentially highly distortionary speculative capital flows.\(^{213}\) The opening up of domestic markets to international trade and the liberalisation of financial sectors that the World Bank and IMF have pushed in the Global South, coupled with the relative lack of reliance and vulnerability of these states’ economies owing to their relatively peripheral status in the global economic system, means they are particularly vulnerable to the effects of currency and commodity speculation. This wholesale liberalisation flies in the face of evidence that the sequencing and pacing of a state’s economic liberalisation and a strong regulatory apparatus are of critical importance and can lay the foundations for future economic growth and resilience in the face of economic shocks.\(^{214}\)

Global South states’ vulnerability to the effects of speculative capital flows into currency and commodity markets undermines their ability to act as duty bearers and fulfil their legally binding international human rights obligations.\(^{215}\) For the most economically marginalised these crises will severely impact their right to food, an adequate standard of living, development and the right to a life of dignity.\(^{216}\) These impacts will also be disproportionately gendered, as in most countries in the Global South women and girls are more likely to be more economically marginalised – they are more likely to be in insecure or low-paid employment, support dependents in single-parent households, and depend on social services that could be cut or reduced because of a fiscal crisis. All of this means that financialisation-driven increases in the prices of essentials like food will hit them especially hard.

5.1 The risk of uncontrolled capital flows

The IMF has acknowledged that unrestrained capital flows can be damaging for middle- and low-income economies. The Fund adopted its Institutional View on Liberalization and Management of Capital Flows in March 2012, accepting that capital flow management and macroprudential measures can prove useful as a last resort in response to potentially destabilising capital inflows.\(^{217}\) It later launched an updated version in March 2022, allowing for the pre-emptive employment of controls on capital inflows, for instance in response to a gradual build-up of external debt.\(^{218}\) but this still fell short of what was required to prevent damaging capital outflows.\(^{219}\) It also left states no leeway to use capital controls to realise domestic policy objectives, and gave no consideration to the role of source countries in regulating these flows.\(^{220}\) World Bank loans have actually stipulated a reduction in financial transaction taxes, a measure that would help to curb the speculative excesses of capital markets.\(^{221}\)

Massive capital outflows hit Global South economies hard in 2022, as investors moved assets to what they saw as safer havens or simply chased higher returns following the decision of the US Federal Reserve to raise interest rates seven times in 2022, from 0.25 to 4.5 per cent. This caused outflows of capital from emerging markets, reaching $70 billion in the ten months to October,\(^ {222}\) which depleted the foreign currency reserves of Global South states, provoking severe balance of payments crises, and has led to a building wave of debt crises as countries do not have the foreign reserves to pay off their debts or even purchase food imports.\(^ {223}\) This has contributed to what civil society organisations have described as “the worst ever global debt crisis”,\(^ {224}\) with the cost of debt servicing for countries in the Global South doubling.\(^ {225}\)

As these were capital outflows, the IMF’s updated Institutional View did little to head off the financial crises across the Global South. The freedom of international finance to move capital out of countries in pursuit of its own interests, supported by the IMF in its Institutional View, came at a significant potential cost to Global South states. Further, the IMF has not acknowledged the potential risks trade and investment treaties pose to states in the Global South.\(^ {226}\) These treaties often prohibit capital controls and allow investors resort to dispute settlement resolution mechanisms that are generally regarded as biased in their favour if capital controls that can restrict the extraction of profit are imposed.\(^ {227}\) Competing narratives about the potential benefits of capital controls on short-term outflows backed by solid evidence have largely been disregarded.\(^ {228}\)

Moreover, the IMF’s focus on short-term capital flows misses the pernicious effect of capital account liberalisation at the heart of the current structure of globalised financialised capitalism – the long-term effects of the routine extraction of capital from Global South economies. Global South states paid $400 billion in debt service in 2021,\(^ {229}\) more than twice the amount they received in official development aid. The seriousness and scale of this wealth extraction was even recognised by former World Bank President David Malpass.\(^ {230}\) The $2.2 trillion a year extracted from Global South states by Global North corporate and financial interests dwarfs the size of aid and inward investment.\(^ {231}\) This extraction of capital has clearly impacted the economic development of Global South states by draining the real sectors of their economies of productive investment, which inflows of speculative short-term capital in search of quick and easy returns will do little to correct. American University Professor Rick Rowden argues that the much-heralded recent economic growth in Africa is neither sustainable nor proof that the continent is finally ‘developing’, as investment is flowing to sectors of the economy with easy profits but diminishing returns like extractives and services, while commodity dependence is increasing and the continent de-industrialises.\(^ {232}\)

Without significant investment in the real economy, Global South states have little chance of achieving the economic transformation necessary to achieve the levels of wealth enjoyed by Global North states, significantly improve the ability of their populations to avail themselves of the human rights they are guaranteed under international law, or undertake the expansionary spending needed to meet climate goals and the SDGs.
5.2 Speculation in globalised markets

Financialisation has also had a massive effect on global commodity markets.275 The opening of global markets, the increased amount of financial wealth in the global economy, and the wholesale commodification of goods and services has enabled speculation and made it potentially much more lucrative for investors.

States in the Global South that have liberalised and deregulated their domestic markets are especially vulnerable to these speculation-driven shocks, and the low-tax regime promoted by the Bank and Fund typically also constrains Global South states’ fiscal space to mitigate the effect of these shocks. The vulnerability of Global South states to speculative shocks has had profound consequences for human rights because, as noted previously, the rise in the prices of goods and services that liberalisation, deregulation and commodification generally facilitate means, in effect, their redistribution away from those least able to afford them. When financialisation-driven commodification affects goods and services that are fundamental rights, like the right to safe drinking water and sanitation,276 housing,277 health278 and adequate food,279 this can directly violate people’s right to enjoy them without discrimination.

EXPLAINER: Profiting from hunger

The spike in global food prices, which hit Global South populations especially hard in 2022, offers a strong argument about the harm that financialisation can inflict on economically marginalised populations and their human rights278 when national markets, in this case for food and agricultural products, are open to unrestricted speculation.279 While this happened at the time of Russia’s invasion of Ukraine, a major food exporter, commentators remarked that there was a disconnect between market fundamentals and prices.280 With the UN Food and Agriculture Organisation (FAO) indicating that though stocks were expected to fall in 2023, there was “an overall comfortable supply level.”281 Further, food, fertiliser and energy prices had begun rising even before the invasion.282

The rapid rise in food prices was not a food supply crisis, it was rather a food price crisis,283 driven at least in part by speculation.284 Institutional investors such as pension funds invested billions in buying up commodities in 2022,285 increasing demand and thereby prices for beyond what market fundamentals supported. The world’s four largest grain companies, which control at least 70 per cent of the global market,286 reaped huge profits in 2022,287 along with investment banks288 and commodity traders.289

These profits came at the expense of the world’s most economically marginalised people, and its poorest states. According to the World Food Programme (WFP), 333 million people are food insecure in the 78 countries it works in, an increase of almost 200 million compared to before the Covid-19 pandemic.290 According to the WFP, this insecurity is driven by climate change, conflict, economic shocks and soaring prices – and two of these four drivers can be affected by financialisation-enabled speculation.

A July 2022 joint statement signed by the IMF, the World Bank Group, the Food and Agriculture Organisation, and the World Trade Organisation raised the alarm about the global food crisis and made recommendations to address it, but made no mention whatsoever about the role of financial speculation in creating the crisis, and included no suggestion that the activities of speculators and the bumper profits they made should be problematised, regulated or taxed.291

The links between food insecurity and social unrest are well documented,292 and the World Bank has warned that this food crisis will even impact future generations through malnutrition.293 Further, the opening of domestic food markets in the Global South may have had significant and negative effects beyond just destabilising states and making life harder for millions of the economically marginalised.294 Richard Grabowski, Professor Emeritus of Economics at Southern Illinois University Carbondale argues that high food prices have even played a critical role in Africa’s deindustrialisation, as they have raised the price of labour even while it is physically abundant.295

The World Bank and the IMF have both contributed indirectly to the food crisis and its human rights consequences. Over decades, they have worked to financialise the global agricultural sector through their support for privatisation,296 market-led land reforms and financial deregulation, opening domestic agricultural sectors to international agribusiness. A 2019 study estimated that between 1980 and 2014, 43 per cent of IMF loan programmes included food and agriculture conditionalities, most of which pushed pro-market reforms that shrunk states.297 The World Bank’s now-defunct Enabling the Business of Agriculture rankings promoted large-scale land acquisition by foreign investors.298 According to the Catholic Agency for Overseas Development (CAFOD), the World Bank forces poor farmers in Global South states to buy seeds and fertilisers from global agribusiness corporations, and introduces agricultural subsidy programmes to enable them to do so.299 Decades of pro-market reforms and financialisation have produced a de-facto concentration of ownership within the global agricultural sector300 and negatively impacted both food sovereignty, food security and the environment.301 The idea that large scale industrialised agriculture is necessary to feed the world has also been exposed as a myth.302
EXPLAINER: Housing is a right not an asset

The financialisation of real estate has transformed housing and land from a human right into an investment that has become the leading store of wealth in the world, distorting normal economic activity by pulling investment away from productive enterprises to bid up house prices for the profit of investors. This has had a significant impact on the affordability of housing around the world, with profound social consequences.

According to Leila Farhani, former UN Special Rapporteur on the right to adequate housing, financialisation of housing markets around the world has made states’ housing policies accountable to investors rather than to human rights, noting that “there’s a huge difference between housing as a commodity and gold as a commodity. Gold is not a human right, housing is.”

In many countries, the price of houses is no longer driven by demand for homes, but by the demand for housing assets among global investors. House price booms driven by speculative finance have been linked to the serious misallocation of resources and economic downturns that are more severe. In the Global South, speculative investment has displaced informal settlements to build luxury housing, and even when these settlements are upgraded for their residents, it has usually been through PPPs, which transform housing from a social good for those who live in it into commodities for the accumulation of someone else’s wealth.

Treating housing as an asset rather than a right radically transforms the availability of affordable housing, restructuring neighbourhoods, cities and transportation patterns, and particularly disadvantaging women and economically marginalised groups with the least ability to afford it.

Historically, the World Bank’s policies on housing and urban development, including on informal settlements, have influenced policy in many Global South states. Currently, the Bank’s housing finance policy explicitly endorses financialisation. On the international level it is linked to its capital markets agenda, which seeks to mobilise global finance for its client countries, and on the domestic level to policies expanding credit and deepening markets to reach more potential consumers.
6. Alternatives to financialisation: Give Global South states what they need to govern effectively

The gradual reorientation of states in the Global South – from their prescribed role under international law as duty bearers with the responsibility to respect, promote and realise human rights,112 to instead serve the needs of international finance – has seen the ability of states to run their economies in the interests of their own populations contract and atrophy. Giving Global South states the space to implement their own policies and restoring their administrative and fiscal capabilities could significantly enhance development and human rights outcomes. It would also give many Global South states the opportunity to escape from the debt and global inequality traps in which they find themselves. While debt forgiveness or at least significant debt relief for states struggling with debt burdens is essential and can provide an economic lifeline, without a systemic change that affects the factors that drive the chronic indebtedness of Global South states this is likely to be only a temporary solution.

Increasing the policy space Global South states have to administer their economies in the interest of their own populations would mean recognising the injustice of putting the interests of business, and in particular, finance capital, before people. It would mean challenging the pro-business bias of Investor-State Dispute Settlement (ISIDS) mechanisms,113 including the World Bank’s International Centre for Settlement of Investment Disputes (ICSID). It would also mean a fair agreement on international tax cooperation114 and financial transaction taxes,115 effective action against illicit financial flows,116 and recognising that capital controls can be useful policy tools for Global South states.117 And not least, it would also mean calling out the injustice of Global South states being forced to borrow at higher interest rates, and – critically – arguing for increasing the resources Global South states have available through grants, concessional lending and domestic taxation, to allow them to provide better public services instead of being forced to rely on private sector investment.

6.1 The future is public

Repeated attempts by the Bank to ‘crowd in’ private sector development finance have failed.121 A 2020 report commissioned by the European Parliament concluded that private funds are insufficient to plug the funding gap to realise the Sustainable Development Goals (SDGs).122 This funding gap could be at least partly filled if Global North countries met their official development aid commitment of 0.7 per cent of GDP, formalised in a 1970 UN resolution, and which Oxfam estimates would have contributed an additional $6.5 trillion by 2021.123 The commitments Global North countries made in 2009 to mobilise $100 billion per year in additional funding by 2020 for developing countries’ climate change adaptation and mitigation efforts have also fallen short.

In the face of the failure of the private sector to provide efficient and effective social services and public goods, there is a growing movement to take back public services from the private sector. Article 2 of the International Covenant on Economic, Social and Cultural Rights (ICESCR) obliges all states to use their maximum of available resources – i.e. all resources at their disposal – to progressively realise the rights set out in the Covenant.124 Further, putting control over development in the hands of investors violates people’s right to participate in their own development embodied in the UN resolution on the Right to Development.125

There is a growing body of evidence that the provision of essential goods and services like infrastructure, education, healthcare and social welfare is done best, and most cost-effectively, by democratically-run well-funded states.126 The idea that the private
sector is efficient and the public sector isn’t has been used to justify the notion that the private sector should get a lot of money to do what well run public sectors are perfectly capable of doing. Further, there are also many essential functions that can only be performed by the state, like regulating markets and guaranteeing rights.

Yet, many states in the Global South have had their budgets and consequently their capacities to regulate private sector activities in the interest of their own populations severely constrained by IMF and WBG programmes. And even if they had the capacity, any attempt to limit the ability of private investors to extract profit from their investment is likely to have serious consequences for any state that challenges the interests of financialised capitalism. The small-government platform for business and investment the Bank and Fund’s programmes have pushed states in the Global South to become ill-suited to realising the right to development, managing the green transformation, running a coherent industrial policy or even, given the record of the last four decades, their own economic development.

There is an argument that Global South states need private investors to fund and run essential projects because they do not have the capacity to do so themselves. But starved of revenues by an unfair global tax system, with inadequate levels of official development assistance (ODA) and seeing their economies buffeted by fluctuations in commodity prices, the Global South faces insurmountable difficulties in building the capacity to invest in and develop their own economies. While it is true that being well resourced does not guarantee a state will be well run or efficient, being poorly resourced does guarantee it won’t. The World Bank, the IMF and their major shareholders should recognise that modern financialised capitalism has deleterious effects on Global South countries, reducing their resilience to economic shocks and increasing the vulnerability of those with the least income and wealth, and that they can and should act to mitigate those negative effects, and drive the economic transformation of the Global South.

Further, if an economy can afford to pay for an infrastructure project via user fees high enough for a private company to make profits, Paddy Carter, Head of Development Economics Research and Policy at British International Investment notes, “then it should also be able to afford to pay those fees to a government-run airport or to pay via taxation.”

6.2 The funding gap that isn’t

The World Bank’s notion that there is a gap in funding between what is needed to fund development and the public funds that are available is predicated on the emaciation of public sectors in the low-tax states. Over the last four decades, this model has not only failed to produce the economic transformations of Global South economies that were promised, but it has also led to wave after wave of debt crises. Institute for Policy Dialogue’s Isobel Ortiz and United Nations Children’s Fund’s (UNICEF) Matthew Cummins have argued that there are viable alternatives to starving states of the resources they need to govern and meet their human rights obligations. They argue that governments should employ counter-cyclical policies and avoid austerity, which aggravates economic slumps, weakens social protection and hinders the realisation of human rights especially for the most vulnerable. Ortiz and Cummins argue that when cuts in expenditure need to be made, they should protect social spending while cutting military expenditure, bank bailouts and spending that benefits the wealthiest and most powerful, and taxes should be imposed or raised on high personal incomes, corporate profits, financial transactions and natural resource extraction. A key complement to boosting the capacities of Global South states is a global taxation convention that would give them a fair share of the global tax take. The November 2022 vote in the UN General Assembly is the first step in this direction. A stronger fiscal position would also allow Global South states to lessen their reliance on short-term highly mobile speculative capital for financing. This taxation should be progressive – i.e. its burden should predominantly fall on the wealthy. The burden of consumption taxes (as opposed to taxes on luxuries) like value added tax (VAT), which the IMF and World Bank generally favour, is regressive because it falls disproportionately on those with the least income and wealth, who consume a larger share of their income and therefore pay a larger share of their income in VAT. As noted above, the IMF favours regressive taxation because it is “less distortionary” and easier to administer, and while the Bank acknowledges that progressive taxes can help address inequality, its Development Policy Finance (DPF) tends to prescribe value-added taxes. The Fund is opposed to windfall taxes on extraordinary profits, for instance those garnered by oil companies during oil price booms, as they can be distortionary and increase risk to investors, who “prefer a stable, predictable tax regime.” A financial transaction tax would be another source of revenue for Global South states, and could reduce the volatility of short-term capital flows without discouraging long-term investment. Gresham College Professor and Special Advisor on Climate Change for the Inter-American Development Bank (IDB) Avinash Persaud notes that such a tax in the UK could take the “froth” out of the markets, making them more stable and attractive to long-term investors, and compares it to other transaction costs the industry already charges. David Boyd, UN Special Rapporteur on the issue of human rights obligations relating to the enjoyment of a safe, clean, healthy and sustainable environment recently calculated that $7 trillion a year could be raised to fund the SDGs, without resorting to private finance – starting with a global wealth tax. Without grants and increased revenue from taxation, it is hard to imagine Global South states being able to repay the loans needed to achieve the SDGs. However, in much of the Global South, this movement to bring back public services faces obvious headwinds given decades of IMF- and WBG-prescribed austerity and projections of its vigorous expansion.

Financialisation, human rights and the Bretton Woods Institutions
7. Considerations for civil society advocacy

The logic of financialisation has colonised development and, as it runs through almost everything the Bank and Fund do, a financialisation lens can be incorporated into almost all the economic justice advocacy and campaigning work targeting them. Under the tutelage of the World Bank and IMF, many Global South states have been or are being transformed into bankable landscapes, with their development needs repackaged as investment opportunities that can be bundled together, de-risked and securitised into new asset classes to tempt investors. An appreciation of the dynamics of financialisation will give civil society organisations a stronger understanding of financialised capitalism, the current global economic system, and how it affects the issues of social and economic justice they work on. It will allow them to better understand the origins and wide-ranging implications of Bank and Fund policies and operational landscape and enable more in-depth and structural critiques of their policies.

There are many different potential entry points for advocacy work on financialisation targeting the Bank and Fund, many of which have been highlighted in this report. These can be separated into two broad categories: Challenging the international architecture of financialised capitalism and confronting the financialisation of particular sectors and issues. Framing concerns in terms of human rights339 and gender,340 based on the fundamental considerations of whether a policy or reform reduces, maintains, or increases gender inequalities, and whether it furthers or impedes the realisation of human rights, especially among the most economically marginalised, is likely to be especially impactful. Also worthy of consideration is the question of who a policy or reform empowers, who profits from it, and at whose expense.

In addition to engaging in discussions to reform the highly financialised architecture of the international economy, civil society actors can also advocate for measures that would buffer Global South states against the vicissitudes of this highly financialised economic landscape. This could include supporting regional initiatives for economic cooperation and finance, and measures that would increase the autonomy of national economies from international finance, like stronger capital flow controls and improved domestic resource mobilisation – taxation – that lessens states’ dependence on international capital. This could include progressive income, wealth and financial transaction taxes, and should be used to fund effective and inclusive social protection floors.

Challenging the financialisation of particular sectors depends on an understanding of the dynamics of financialisation in that particular sector, and its negative impacts. In many sectors, the critical financialisation-related issue is the commodification of goods and services, turning them into financial products and creating bankable landscapes, full of opportunities for investment and profit. The impact of this on different sectors can be multifaceted and complex. The financialisation of agriculture, for instance, has enabled financialisation-driven speculation on a massive scale and has likely led to several food price crises over the last 15 years. However, financialisation has also driven market-led land reforms, the large-scale deregulation of agricultural sectors and the entry of global agribusiness corporations, either dispossessing local farmers and undermining both food sovereignty and security or locking farmers into buying their seeds from the large corporations. Though these may seem to be separate issues, financialisation is a key driver of both, and their effects compound to worsen food security. A financialisation lens could link both issues and permit a more comprehensive critique of their combined effect on vulnerable populations and communities, with better tailored recommendations.

A financialisation lens can also be useful to link other issues, for instance the financialisation of housing, water, food and medical care, noting their combined impact of the rising cost and potentially decreased availability of these essentials on vulnerable populations and those with the least income and wealth. Meanwhile the financialisation-driven deregulation of labour laws and the cutting of social protection puts pressure on their incomes, driving them into debt, available to them under financial inclusion schemes. The underlying driver of all these factors, which compound each other in their impact, is that financial interests are searching for opportunities for profit, converting the daily lived reality of vulnerable populations in the Global South into bankable landscapes.

Note to readers: There are many other areas this report has not been able to cover that would benefit from a financialisation lens, for instance greenwashing private financing, prioritising private profit over the green transition itself.
Endnotes


Financialisation, human rights and the Bretton Woods Institutions


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Financialisation, human rights and the Bretton Woods Institutions


**Financialisation, human rights and the Bretton Woods Institutions**


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Bretton Woods Project
33-39 Bowling Green Lane
London EC1R 0BJ
United Kingdom

Tel: +44 (0)20 3122 0610
Email: info[at]brettonwoodsproject.org
www.brettonwoodsproject.org
@brettonwoodspr
facebook.com/BrettonWoodsProject