

# **Green Industrial Policy Needs a New Financial Architecture**

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## Introduction

# Green industrial policy in much of the world will not get far under today's international financial architecture

In “Global Green Industrial Policy: Navigating Power Dynamics for a Pro-Working-Class, Pro-Development Green Transformation,” Isabel Estevez and Thea Riofrancos outline a vision for transformative green industrial policy (GIP) that not only addresses the climate and ecological crises but also advances structural development and social justice.<sup>1</sup> Their conception moves beyond conventional decarbonization strategies and focuses on reshaping economies and redistributing power in ways that are pro-working class and pro-development. Transformative GIP, as they define it, is environmentally holistic and socially embedded: it includes both the strategic build-up of green technologies and the wind-down of harmful sectors, and insists on aligning industrial transitions with local needs, democratic priorities, ecosystem protection, and the expansion of political autonomy.<sup>2</sup>

Yet the ability of countries in the Global South to pursue this kind of ambitious, redistributive, and pro-worker green transition is deeply constrained by the global financial system, among other structural challenges. The COVID-19 pandemic starkly illustrated the asymmetry of this system. While high-income countries mobilized large-scale stimulus packages and liquidity support in response to the crisis, many countries in the Global South lacked the fiscal space to do the same.<sup>3</sup> Their limited access to emergency support was not determined by whether they had saved or prepared for a crisis, but by their peripheral position within the international financial

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<sup>1</sup> Isabel Estevez and Thea Riofrancos, “Global Green Industrial Policy: Navigating Power Dynamics for a Pro-Working Class, Pro-Development Green Transformation,” Climate and Community Institute, September 2025, <https://climateandcommunity.org/research/global-green-industrial-policy>.

<sup>2</sup> See Estevez and Riofrancos (2025) for an overview of what constitutes pro-working class and pro-development green industrial policy.

<sup>3</sup> International Monetary Fund, “Fiscal Monitor: Strengthening the Credibility of Public Finances,” Fiscal Monitor, International Monetary Fund, October 2021, <https://www.imf.org/en/Publications/FM/Issues/2021/10/13/fiscal-monitor-october-2021>.



For decades, the international financial architecture (IFA) has shaped the terms upon which countries access public and private finance, and with it, the extent of their fiscal and policy space.

architecture.<sup>4</sup> The result was a prolonged crisis and an uneven recovery that deepened long-standing structural inequalities.<sup>5</sup>

These inequities are not limited to moments of crisis, however. For decades, the international financial architecture (IFA) has shaped the terms upon which countries access public and private finance, and with it, the extent of their fiscal and policy space.<sup>6</sup> This structure has roots in the legacies of slavery and colonialism, and it continues to reflect and reinforce longstanding economic and political imbalances.<sup>7</sup> These hierarchies enabled a handful of wealthy countries to generate substantial economic gains through resource extraction and emissions-intensive growth models.<sup>8</sup> Meanwhile, the impacts of the resulting climate instability have disproportionately fallen on the countries least responsible for the crisis and the new normal of rising temperatures, extreme droughts, and supercharged storms.<sup>9</sup> This inequity is compounded by an IFA that has locked many of these countries into cycles of debt and extractive economic models, constraining their ability to invest in resilience or shift to more sustainable pathways. Today, those same dynamics stand in the way of the kind of public investment, coordinated planning, and structural transformation that a just green transition demands.<sup>10</sup>

In the context of global climate negotiations, climate finance refers to funding from the global community to support climate mitigation and adaptation, and responses to loss and damage in the Global South. It has been framed as a key mechanism for financing a global energy transition under the United Nations Framework Convention on

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<sup>4</sup> Steffen Murau, Fabian Pape, and Tobias Pforr, "International Monetary Hierarchy through Emergency US-Dollar Liquidity: A Key Currency Approach," *Competition & Change* 27, no. 3–4 (July 1, 2023): 495–515, <https://doi.org/10.1177/10245294221118661>.

<sup>5</sup> Joseph Stiglitz, "Conquering the Great Divide," *Finance & Development Magazine*, International Monetary Fund, September 2020, <https://www.imf.org/en/Publications/fandd/issues/2020/09/COVID19-and-global-inequality-joseph-stiglitz>.

<sup>6</sup> UNCTAD, "Growth, Debt and Climate: Realigning the Global Financial Architecture," *Trade and Development Report*, United Nations, 2023, [https://unctad.org/system/files/official-document/tdr2023\\_en.pdf](https://unctad.org/system/files/official-document/tdr2023_en.pdf).

<sup>7</sup> Olúfemi O. Táiwò and Patrick Bigger, "Debt Justice for Climate Reparations," *Climate and Community Institute*, April 20, 2022, <https://climateandcommunity.org/research/debt-justice-for-climate-reparations/>.

<sup>8</sup> Patrick Bigger et al., "Reparative Fiscal Justice for Caribbean Climate Action," *Climate and Community Institute*, October 2024, <https://climateandcommunity.org/wp-content/uploads/2024/10/Caribbean-Fiscal-Justice-Report.pdf>; Olúfemi O. Táiwò, *Reconsidering Reparations*, 2nd ed. (Haymarket, 2025), <https://www.haymarketbooks.org/books/2538-reconsidering-reparations>.

<sup>9</sup> Bigger et al., "Reparative Fiscal Justice for Caribbean Climate Action"; Táiwò, *Reconsidering Reparations*.

<sup>10</sup> Lara Merling, Ivana Vasic-Lalovic, and Lorena Valle Cuéllar, "The Rising Cost of Debt: An Obstacle to Achieving Climate and Development Goals," *Center for Economic and Policy Research*, April 30, 2024, <https://cepr.net/publications/the-rising-cost-of-debt-an-obstacle-to-achieving-climate-and-development-goals/>.

Climate Change (UNFCCC).<sup>11</sup> In 2009, developed countries pledged to mobilize \$100 billion annually by 2020. They now claim to have met that goal in 2022, but the figures include loans and non-concessional finance, much of it delivered as debt rather than genuine, direct support.<sup>12</sup> Little of this finance, therefore, reaches developing countries in a form that supports long-term investment or policy autonomy. At the 29th Conference of the Parties (COP29) to the UNFCCC held in late 2024, governments adopted a new climate finance goal of \$300 billion per year. This new goal, however, still falls short of developing countries' stated needs and lacks a clear delivery mechanism to ensure scale, quality, or accessibility.<sup>13</sup>

These dynamics reflect deeper structural features of the international financial architecture—a system of institutions, rules, and norms that determines how global financial flows are governed and the type of support available for countries in crisis contexts.<sup>14</sup> This architecture includes the International Monetary Fund (IMF), the World Bank, regional development banks like the Inter-American Development Bank (IDB), credit rating agencies, international investors, and an array of legal and policy frameworks built around a narrow set of reserve currencies, primarily the US dollar.<sup>15</sup> Countries in the Global South face systemic disadvantages in this system: inadequate and unpredictable access to foreign exchange, high borrowing costs, externally imposed policy conditionalities, and lack of representation in the governance structures of these institutions.<sup>16</sup>

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<sup>11</sup> UNCTAD, "Considerations for a New Collective Quantified Goal: Bringing Accountability, Trust and Developing Country Needs to Climate Finance," United Nations, 2023, [https://unctad.org/system/files/official-document/gds2023d7\\_en.pdf](https://unctad.org/system/files/official-document/gds2023d7_en.pdf).

<sup>12</sup> OECD, "Climate Finance Provided and Mobilised by Developed Countries in 2013–2022," Climate Finance and the USD 100 Billion Goal, 2024, <https://doi.org/10.1787/19150727-en>.

<sup>13</sup> UNCTAD, "Considerations for a New Collective Quantified Goal: Bringing Accountability, Trust and Developing Country Needs to Climate Finance."

<sup>14</sup> See Ocampo (2017) for a detailed history of the evolution of the international monetary system since the Bretton Woods Conference in the aftermath of World War II. José Antonio Ocampo, *Resetting the International Monetary (Non)System*, online (Oxford Academic, 2017), <https://doi.org/10.1093/oso/9780198718116.001.0001>.

<sup>15</sup> Murau, Pape, and Pforr, "International Monetary Hierarchy through Emergency US-Dollar Liquidity."

<sup>16</sup> Luiz Fernando de Paula, Barbara Fritz, and Daniela M. Prates, "Keynes at the Periphery: Currency Hierarchy and Challenges for Economic Policy in Emerging Economies," *Journal of Post Keynesian Economics* 40, no. 2 (April 3, 2017): 183–202, <https://doi.org/10.1080/01603477.2016.1252267>.

The world is experiencing a period of rapid change in the global political and economic order. With this comes much uncertainty, and also opportunity.

This report builds on the vision of transformative GIP by examining the structural constraints imposed through financial subordination.<sup>17</sup> The first section provides an overview of the international financial architecture, showing how its rules and institutions create a hierarchy of access, affordability, and control. Countries in the Global South are systematically positioned at the margins of global finance, where access to liquidity, affordable credit, and policy space is shaped by their place in a hierarchy they did not design and do not control. It examines how the current system restricts policy space through debt dynamics, conditional lending, and limited access to foreign exchange.

The second part shows how these financial constraints shape real-world outcomes. It demonstrates how limited access to finance, often tied to both explicit and implicit conditions, restricts the policy choices available to Global South governments. These pressures limit investment in social and environmental priorities, while contributing to repeated cycles of extractive export dependence and underfunded climate efforts.<sup>18</sup> Meanwhile, international financial institutions continue to promote discredited market-based approaches and false solutions. Examples from Latin America help illustrate how these dynamics play out in practice.

The final section outlines key reforms needed to address these structural barriers and align global financial governance with the goals of a transformative green industrial policy.

The world is experiencing a period of rapid change in the global political and economic order. With this comes much uncertainty, and also opportunity. These conditions, along with the persistent shortcomings of the current financial order we describe in this report, make a strong case for reform to align the IFA with the climate, human rights, ecosystem protection, and development objectives of transformative green industrial policy.

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<sup>17</sup> Jessica Dempsey et al., "Exporting Extinction: How the International Financial System Constrains Biodiverse Futures, Climate and Community Institute, 2024, <https://climateandcommunity.org/research/exporting-extinction/>.

<sup>18</sup> Tess Woolfenden, "The Debt-Fossil Fuel Trap," Debt Justice, July 2023, [https://debtjustice.org.uk/wp-content/uploads/2023/08/Debt-Fossil-Fuel-Trap-Report\\_2023.pdf](https://debtjustice.org.uk/wp-content/uploads/2023/08/Debt-Fossil-Fuel-Trap-Report_2023.pdf).

# Part 1

## Global finance on uneven terms: how the IFA holds the Global South back

A country's ability to access [reserve] currencies shapes the terms of its global engagement, affecting borrowing costs, vulnerability to financial shocks, and the pace and direction of development.

At first glance, international transactions and the currencies used to carry them out might seem like a technical or secondary concern. But in reality, access to the dominant currencies used in global trade and finance is a foundational requirement for participating in the global economy. Most cross-border exchanges, from purchasing equipment to repaying debt, rely on US dollars or a small group of other reserve currencies.<sup>19</sup> A country's ability to access these currencies shapes the terms of its global engagement, affecting borrowing costs, vulnerability to financial shocks, and the pace and direction of development.<sup>20</sup>

The set of institutions, norms, and practices that govern cross-border financial flows and provide mechanisms for global monetary cooperation that together make up the IFA are ostensibly designed to support financial stability and provide access to affordable, long-term finance.<sup>21</sup> In practice, the IFA has long failed to meet these objectives for much of the Global South.<sup>22</sup> This section unpacks how these structures have undermined structural transformation for decades, highlighting how their features entrench unequal global dynamics and constrain policy space.

### A global hierarchy of money: the built-in disadvantages at the system's periphery

At the core of the international financial architecture is a hierarchy of currencies that shapes how countries access finance and participate

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<sup>19</sup> Murau, Pape, and Pforr, "International Monetary Hierarchy through Emergency US-Dollar Liquidity."

<sup>20</sup> de Paula, Fritz, and Prates, "Keynes at the Periphery."

<sup>21</sup> UNCTAD, "Growth, Debt and Climate: Realigning the Global Financial Architecture."

<sup>22</sup> Jessica Dempsey et al., "Exporting Extinction: How the International Financial System Constrains Biodiverse Futures."

in the global economy. This hierarchy reflects deep power imbalances. Countries in the Global South are systematically positioned as dependent users rather than issuers of global money.<sup>23</sup> This makes it harder for their governments to increase spending during downturns or respond to shocks with public investment, which economists call countercyclical spending.

This asymmetry shapes the terms on which countries engage with the global economy and constrains the ability of many to pursue long-term development or industrial transformation. The following table outlines the implications of this hierarchy for financing GIP, categorizing countries into four tiers based on their access to reserve currencies and related financial privileges.

### Position in global currency hierarchy and implications for financing GIP

Tier	Countries in this tier	Access to reserve currencies	Implications for financing GIP
<b>1. Issuers of reserve currencies</b>	United States, Eurozone, Japan, UK, China	Full control over own currency, direct access to international markets, and management of central bank swap lines	Can finance large-scale green investment domestically and shape global supply chains and rules
<b>2. Swap line counterparties</b>	Canada, Switzerland, Australia, some EU states, select others	Access to US Federal Reserve or other central bank swap lines; strong market access	Can pursue green policy with fewer fiscal or currency constraints, though more exposed than Tier 1
<b>3. Middle-income countries with market access</b>	Brazil, Mexico, South Africa, Indonesia, India, and others	Market access, but at a high cost; it depends on credit rating and investor sentiment	Green policy efforts are often constrained by borrowing costs, debt service, and investor pressure
<b>4. Low-income and debt-distressed countries</b>	IMF and World Bank determine classification; includes countries like, Zambia, Sri Lanka, Haiti, and others	No direct market or central bank access; rely on the IMF and official creditors/donors	Minimal ability to finance or direct green industrial policy without external terms

<sup>23</sup> Dempsey et al., "Exporting Extinction: How the International Financial System Constrains Biodiverse Futures."



The US Federal Reserve not only issues the most sought-after reserve asset but also plays a central role in stabilizing financial systems in other high-income countries through central bank swap lines.

The small group of countries and jurisdictions in Tier 1 issue reserve currencies: the US dollar, euro, yen, pound, and renminbi. These countries have full control over their currencies, direct access to international capital markets, and the ability to extend central bank swap lines that provide liquidity to their allies during crises.<sup>24</sup>

At the top of this system sits the United States, whose currency serves as the primary global medium of exchange.<sup>25</sup> The Federal Reserve not only issues the most sought-after reserve asset but also plays a central role in stabilizing financial systems in other high-income countries and select other countries through central bank swap lines. The Trump administration has generated some uncertainty about the future of this system, but so far, the Federal Reserve has maintained these arrangements.<sup>26</sup>

Swap lines allow countries to borrow dollars directly in exchange for their own currencies, avoid balance-of-payments crises, and tap emergency liquidity directly without conditionality. The counterparties to such swap lines are in Tier 2. These countries do not issue reserve currencies but usually have strong market access and can tap into emergency liquidity from major central banks. While more exposed than Tier 1, they face few fiscal or currency constraints in pursuing green industrial policy.

Countries at the lower end of the system face higher borrowing costs and tighter budget constraints.<sup>27</sup> The Global South is further divided into countries that have direct access to international capital markets and countries that are restricted to official lenders.

Tier 3 includes middle-income countries with access to international markets, such as Brazil, Mexico, South Africa, Indonesia, and India. These countries can borrow from global markets, but typically at a high cost. Their access depends heavily on credit ratings and investor sentiment, which makes them vulnerable to shifts in either. As a result, their green policy efforts are frequently constrained by

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<sup>24</sup> Murau, Pape, and Pforr, "International Monetary Hierarchy through Emergency US-Dollar Liquidity."

<sup>25</sup> Murau, Pape, and Pforr, "International Monetary Hierarchy through Emergency US-Dollar Liquidity."

<sup>26</sup> Colby Smith, "Trump Says He Won't Fire Powell. His Fed Battle May Not Be Over Yet," *The New York Times*, April 23, 2025, sec. U.S., <https://www.nytimes.com/2025/04/23/us/politics/trump-jerome-powell-fed.html>.

<sup>27</sup> Karina Patrício Ferreira Lima, "Sovereign Solvency as Monetary Power," *Journal of International Economic Law* 25, no. 3 (September 1, 2022): 424–46, <https://doi.org/10.1093/jiel/igac029>.

borrowing costs, debt servicing obligations, and pressure from financial markets.

Tier 4 covers low-income and debt-distressed countries. These countries lack direct access to global financial markets or central bank support and must rely on the IMF, multilateral institutions, and bilateral donors. Their ability to finance or lead green industrial policy is severely limited and often comes with strict external conditions. The IMF, along with the World Bank, leads the debt sustainability assessment for this group, based on its assessment of which countries to include.<sup>28</sup>

An exception that briefly disrupted this hierarchy was the 2021 allocation of special drawing rights (SDRs) by the IMF. SDRs are an international reserve asset that can be exchanged for freely usable currencies like the US dollar. Because they are not loans and come without conditions, SDRs offer developing countries immediate liquidity without the usual trade-offs (explored in more detail later in this report).<sup>29</sup> Although the majority of SDRs were allocated to wealthy countries (which needed them the least) due to inequitable distribution rules based on countries' IMF quota shares, their issuance still demonstrated that alternative, agile, and unconditional mechanisms for global liquidity provision are possible. The limited use of this mechanism, however, reflects political asymmetries embedded in the current system.<sup>30</sup>

The dominance of the US dollar also extends beyond finance into legal and geopolitical control. Because most transactions are cleared through US-based institutions, the United States can unilaterally impose sanctions, freeze assets, and deny access to global payment systems.<sup>31</sup> This extraterritorial power reinforces the political authority

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<sup>28</sup> Ferreira Lima, "Sovereign Solvency as Monetary Power."

<sup>29</sup> Kevin Cashman, Andrés Arauz, and Lara Merling, "Special Drawing Rights: The Right Tool to Use to Respond to the Pandemic and Other Challenges," *Challenge* 65, no. 5–6 (November 2022): 1–23, [https://www.researchgate.net/publication/365074828\\_Special\\_Drawing\\_Rights\\_The\\_Right\\_Tool\\_to\\_Use\\_to\\_Respond\\_to\\_the\\_Pandemic\\_and\\_Other\\_Challenges](https://www.researchgate.net/publication/365074828_Special_Drawing_Rights_The_Right_Tool_to_Use_to_Respond_to_the_Pandemic_and_Other_Challenges).

<sup>30</sup> Lara Merling, Jon Sward, and Niranjali Amerasinghe, "Adapting Our Financial Architecture in a Crisis-Prone World: A Civil Society Proposal for Special Drawing Rights Reform," ActionAid and Bretton Woods Project, April 2024, <https://www.actionaidusa.org/wp-content/uploads/2024/04/CSO-SDRs-Reform-FINAL.pdf>.

<sup>31</sup> Michael Galant, "US Sanctions Policy: Frequently Asked Questions," Center for Economic and Policy Research, February 25, 2025, <https://cepr.net/publications/us-sanctions-policy-frequently-asked-questions/>.

For countries outside the core of the global financial system, securing the foreign currency needed to keep their economies running means navigating a narrow and often costly set of options.

of the United States and adds another layer of vulnerability for countries on the periphery.

The current structure of global monetary power does not merely reflect economic differences. It institutionalizes a highly uneven geography of privilege, where access to international liquidity depends on one's place in the system. For Global South countries, this hierarchy is not just a technical feature of international finance. It is a core barrier to achieving the public investment, long-term planning, and political autonomy that green industrial policy demands. The position in the hierarchy is a key determinant in terms of the space to pursue and finance green industrial policy domestically.<sup>32</sup>

For countries outside the core of the global financial system, securing the foreign currency needed to keep their economies running means navigating a narrow and often costly set of options. Building on this foundation, we turn to an analysis of how these dynamics unfold in practice for countries in the lower tiers of the global currency hierarchy, where most of the Global South is relegated.

## Constrained choices: the challenges of financing GIP at the periphery

The implications of being relegated to the lower tiers of the global financial system are far-reaching in terms of pursuing GIP. For much of the Global South, the structures of the IFA actively constrain the ability of states to design, finance, and implement green industrial transitions on their own terms. The limitations extend beyond financing challenges to restrictions in terms of policy autonomy as a result of both direct and indirect conditionality imposed through various features of the IFA.

## Financial volatility by design

Transformative green industrial policy requires a degree of economic stability and fiscal flexibility, especially during moments of crisis. Countries need the ability to manage shocks without being forced to abandon long-term planning or implement austerity. In other words,

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<sup>32</sup> Ferreira Lima, "Sovereign Solvency as Monetary Power."

While access to emergency liquidity is limited and conditional, as outlined above, the broader structure of global finance ensures that many countries in the Global South are also on the receiving end of unpredictable flows of private capital.

they need access to unconditional liquidity—quick-disbursing, non-penalizing financing that allows them to weather instability while protecting public investment, jobs, and social infrastructure.<sup>33</sup> But the availability and terms of that support vary dramatically across the global financial system.<sup>34</sup>

Countries have three main sources of emergency liquidity: bilateral central bank swap lines, regional financing arrangements (RFAs), and the International Monetary Fund (IMF). Without access to unconditional liquidity, countries must rely on the IMF, where assistance typically comes with policy conditions and reputational stigma.<sup>35</sup> Most countries in the global South are excluded from swap arrangements. RFAs—such as the Chiang Mai Initiative in Asia or the Latin American Reserve Fund—offer more regionally grounded alternatives. Their effectiveness is often limited by their structural constraints within the broader architecture. These include undercapitalization, narrow mandates, and political pressures that restrict their autonomy. These arrangements also continue to predominantly use the US dollar, collaborate with the IMF, and mirror its terms.<sup>36</sup>

While access to emergency liquidity is limited and conditional, as outlined above, the broader structure of global finance ensures that many countries in the Global South are also on the receiving end of unpredictable flows of private capital. These inflows and outflows, driven by external interest rates, global risk sentiment, and commodity price cycles, often come with no regard for local development priorities.

The instability is a direct consequence of an international system that encourages deregulation of private capital flows while limiting countries' ability to manage the consequences. Private capital flows, including portfolio investment, sovereign bond issuance, and foreign

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<sup>33</sup> Ocampo, *Resetting the International Monetary (Non)System*.

<sup>34</sup> Kevin P. Gallagher et al., "Safety First: Expanding the Global Financial Safety Net in Response to COVID-19," *Global Policy* 12, no. 1 (February 2021), <https://doi.org/10.1111/1758-5899.12871>.

<sup>35</sup> Marina Zucker Marques, Laurissa Mühlich, and Barbara Fritz, "Unequal Access to The Global Financial Safety Net: An Index for the Quality of Crisis Finance," School of Business & Economics Discussion Paper, Freie Universität Berlin, 2023, <https://www.lai.fu-berlin.de/homepages/fritz/publikationen/Fritz-Muehlich-Marques-2023-Unequal-Access-to-The-Global-Financial-Safety-Net-A-Index-for-the-Quality-of-Crisis-Finance.pdf>.

<sup>36</sup> W.W. Grimes, *Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism* (Routledge, 2013), 19–38.

Many countries in the Global South are discouraged or even legally restricted from using tools that could help them manage financial instability.

direct investment, have become some of the largest and most volatile sources of external finance for many developing countries. These flows increase during periods of global liquidity and investor confidence but tend to retreat sharply during times of crisis.<sup>37</sup>

Many countries in the Global South are discouraged or even legally restricted from using tools that could help them manage financial instability. Trade and investment agreements often include rules that limit a government's ability to regulate the movement of money in and out of the country.<sup>38</sup> This means Global South governments cannot easily slow down flows of speculative or short-term capital, even when those flows are putting pressure on their economies. As a result, these countries are more vulnerable to sudden changes in investor sentiment. Money can quickly leave during times of uncertainty, causing exchange rate swings, falling reserves, and sharp economic disruptions. These events deepen economic shocks, often forcing governments to devalue currencies, raise interest rates, or cut spending just as investment is most needed.

Borrowing from capital markets is often costly and carries significant risks, especially when bonds are issued in foreign currency. A depreciation in the domestic currency can make repayment much more expensive. Many countries rely on rolling over debt instead of repaying it, which creates further vulnerability to changes in global interest rates or investor sentiment.

Private investment also tends to bypass the sectors that are essential for green industrial transformation.<sup>39</sup> Sectors such as public transit, education, or climate adaptation are often overlooked because they do not provide quick or high financial returns. Even when countries manage to attract foreign direct investment, it is often concentrated in enclaves and shaped by the interests of foreign firms, with rules on investor protections and intellectual property embedded in bilateral investment treaties and free trade agreements, impeding local value addition and technology transfer. As a result, foreign investment can

<sup>37</sup> Alexander E. Kentikelenis, Thomas Stubbs, and Lawrence P. King, "IMF Conditionality and Development Policy Space, 1985–2014," *Review of International Political Economy* 23, no. 4 (July 3, 2016): 543–82, <https://doi.org/10.1080/09692290.2016.1174953>.

<sup>38</sup> Kevin P. Gallagher, "Policy Space to Prevent and Mitigate Financial Crises in Trade and Investment Agreements," G-24 Discussion Paper Series: Research Papers for the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development 58, United Nations, 2010, <https://digitallibrary.un.org/record/684417>.

<sup>39</sup> UNCTAD, "Growth, Debt and Climate: Realigning the Global Financial Architecture."



deepen dependency rather than contribute to structural transformation.

To cope with these vulnerabilities, many countries accumulate large foreign exchange reserves as a form of self-insurance.<sup>40</sup> But this strategy carries significant costs.<sup>41</sup> Resources that could support public investment or green industrial development are instead held in low-yielding assets, often in financial firms in the very financial centers at the top of the system. Even then, these reserves are rarely sufficient during systemic crises. Rather than reinforcing stability, this approach entrenches fiscal restraint and undermines long-term planning.<sup>42</sup>

The result is a system where financial volatility is normalized and the burden of managing it falls on countries with the fewest tools. Trade and investment rules continue to shield investor rights while limiting governments' ability to prevent crises or redirect capital toward national priorities. These constraints force many governments to prioritize market confidence over development, increasing their dependence on costly external borrowing or short-term foreign investment.

### **Austerity and debt traps: the IMF's gatekeeper role**

Affordable, long-term finance is essential for governments pursuing green industrial transformation. Building infrastructure, supporting new sectors, and steering structural change requires steady financing that aligns with development, biodiversity, and climate goals. But for many countries in the Global South, access to such finance is constrained by debt and credit assessments that reflect narrow, risk-averse priorities rather than developmental needs.<sup>43</sup>

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<sup>40</sup> de Paula, Fritz, and Prates, "Keynes at the Periphery."

<sup>41</sup> UNCTAD, "Growth, Debt and Climate: Realigning the Global Financial Architecture."

<sup>42</sup> Alberto Botta, Giuliano Toshiro Yajima, and Gabriel Porcile, "Structural Change, Productive Development and Capital Flows: Does Financial 'Bonanza' Cause Premature Deindustrialization?," *Industrial and Corporate Change* 32, no. 2 (April 1, 2023): 433–73, <https://doi.org/10.1093/icc/dtac056>.

<sup>43</sup> Richard Kozul-Wright, "How to Finance a Global Green New Deal," UNCTAD, November 7, 2019, <https://unctad.org/news/how-finance-global-green-new-deal>.

Transformative GIP depends on the ability to borrow and invest in ways that prioritize long-term societal returns over short-term fiscal targets.

In the current system, the IMF plays the role of lender of last resort for many countries in the Global South. IMF lending is typically conditional on a set of macroeconomic reforms that emphasize fiscal consolidation, liberalization, and structural adjustment. These conditions are core to how the IMF operates. Even as the Fund has adopted softer language in recent years, the substance of its programs continues to prioritize investor confidence and short-term balance-sheet stability over long-term development goals.

The IMF's Debt Sustainability Framework (DSF) plays a dominant role in determining how much countries can borrow and on what terms—not only from the IMF, but also from multilateral development banks, bilateral lenders, and private investors. It systematically undervalues the returns of public spending on climate resilience, biodiversity protection, and industrial development. It treats investment-oriented debt the same as debt for consumption and rarely considers the costs of inaction.<sup>44</sup> As such, the DSF prioritizes fiscal consolidation and market confidence over long-term investment, while ignoring environmental vulnerabilities.

Credit rating agencies reinforce this logic. Sovereign ratings reflect not only macroeconomic indicators but also alignment with IMF-backed reforms. Governments that pursue industrial policies or challenge investor protections are often penalized with downgrades. This increases borrowing costs, narrows policy options, and discourages experimentation.

Transformative GIP depends on the ability to borrow and invest in ways that prioritize long-term societal returns over short-term fiscal targets. But the current system treats such strategies as risky and penalizes governments for prioritizing development, climate action, or biodiversity protection over financial orthodoxy. These limits are not technical—they are political, and they reinforce a model in which public leadership is seen as a liability rather than a necessity.

Countries are left with few financing options beyond borrowing on unfavorable terms in foreign currency and under volatile conditions. As public finance is redirected to subsidize private returns and governments are discouraged from using domestic tools to stabilize

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<sup>44</sup> Lara Merling, Ivana Vasic-Lalovic, and Lorena Valle Cuéllar, "The Rising Cost of Debt: An Obstacle to Achieving Climate and Development Goals," Center for Economic and Policy Research, April 30, 2024, <https://cepr.net/publications/the-rising-cost-of-debt-an-obstacle-to-achieving-climate-and-development-goals/>.

No global mechanism exists for resolving sovereign debt in a way that prioritizes development, equity, or climate resilience, or that could promote a fair negotiation.

their economies, debt builds up without a corresponding expansion in productive capacity or fiscal space. These structural constraints—limited liquidity, volatile capital flows, restrictive debt frameworks, and conditional development finance—do not just limit the scope of public investment. Over time, they contribute directly to the accumulation of unsustainable debt.

When debt crises hit, the current architecture offers no fair or predictable recovery pathway. No global mechanism exists for resolving sovereign debt in a way that prioritizes development, equity, or climate resilience, or that could promote a fair negotiation.<sup>45</sup> Instead, countries in distress must navigate fragmented, ad hoc negotiations dominated by creditor interests. Relief is not automatic—it must be sought, and almost always depends on participation in an IMF program. Even when relief comes, it is often too little, too late. This locks governments into a vicious cycle (explored in more detail in Part 2): accept austerity and structural reforms in exchange for limited and temporary relief, with no guarantee of long-term recovery or debt sustainability.<sup>46</sup>

For many countries in the Global South, this means a stark trade-off. Debt service obligations must be met, often at the expense of public investment, social protection, or climate spending, while deepening reliance on extractive industries. The very fiscal space needed for green industrial policy is consumed by repayments or withheld by lenders waiting for policy “credibility.” Rather than enabling governments to build out public capacity, these arrangements encourage outsourcing development goals to the private sector, often under terms that undermine equity, resilience, and local accountability.

## Conditional public finance: when development lending limits development

Transformative green industrial policy requires public institutions that can invest strategically, coordinate across sectors, and drive change in the direction of social and ecological goals. Development finance institutions mirror the frameworks of the IMF, and access to

<sup>45</sup> UNCTAD, “Growth, Debt and Climate: Realigning the Global Financial Architecture.”

<sup>46</sup> Merling, Vasic-Lalovic, and Valle Cuéllar, “The Rising Cost of Debt.”

Countries are pressured to limit deficits, privatize assets, and reduce public spending—steps that directly contradict the state-led planning and investment needed for green industrial development.

concessional finance is commonly tied to compliance with IMF prescriptions that emphasize fiscal restraint and encourage governments to adopt private-sector-led approaches to development.<sup>47</sup>

Today's development finance ecosystem reinforces a market-led model that centers private profits over development outcomes.<sup>48</sup> Multilateral development banks (MDBs), bilateral development finance institutions (DFIs), and even international climate funds increasingly condition access to finance on policy commitments that reflect the dominant macroeconomic consensus and explicitly limit the state's ability to lead and implement alternative strategies.

Even when this conditionality is not explicitly stated, institutions assess "readiness" for funding through indicators like creditworthiness, institutional reform progress, or regulatory liberalization. These assessments systematically disadvantage countries that seek to maintain public control over key sectors or assert stronger developmental mandates. Countries are pressured to limit deficits, privatize assets, and reduce public spending—steps that directly contradict the state-led planning and investment needed for green industrial development.

Instead, public institutions are encouraged to take on risk, offer guarantees, and provide blended finance structures to attract private investment. Yet these arrangements often fail to deliver either developmental or climate outcomes. Projects selected for risk-adjusted returns tend to concentrate in lower-risk countries, more commercially viable sectors, or donor-prioritized areas. Meanwhile, public resources are used to subsidize profitability rather than expand public capacity or reduce inequality.

With concessional financing constrained and public borrowing costs pushed higher by credit ratings and debt sustainability assessments, countries often endeavor to attract foreign direct investment (FDI) as a primary source for real-sector investment. This shift is not benign. Efforts to attract FDI frequently involve offering tax incentives, weakening environmental and labor standards, or ceding strategic control over key sectors. Public investment is sidelined in favor of

<sup>47</sup> Kozul-Wright, "How to Finance a Global Green New Deal."

<sup>48</sup> Kozul-Wright, "How to Finance a Global Green New Deal."

A just green transition requires long-term, mission-oriented investment, the ability to direct finance toward non-market goals, and institutional autonomy to align development with local needs.

creating “investor-friendly” environments, even when these strategies have limited developmental returns.

For GIP, this model is fundamentally misaligned. A just green transition requires long-term, mission-oriented investment, the ability to direct finance toward non-market goals, and institutional autonomy to align development with local needs.<sup>49</sup> Instead of building national capacity to drive transformation, the current system pushes countries toward externally driven, fragmented, and often extractive models of growth that tend to further exacerbate the climate crisis and climate vulnerabilities. Read more about these vicious cycles in Part 2.

Together, the structural features discussed above amount to a financial system that restricts the space for the kind of long-term, public-led investment required for transformative green industrial policy. The following table provides a consolidated summary of the constraints that the international financial architecture imposes. It highlights how specific institutions, mechanisms, and rules generate instability, limit access to affordable and unconditional finance, enforce policy orthodoxy through market discipline, and offer no reliable exit from debt traps. These overlapping pressures systematically reduce the ability of states to direct investment, exercise policy autonomy, and pursue green industrial strategies aligned with local needs.

## Overview of constraints imposed on the Global South through the IFA

Implication	Elements	Constraint on GIP
<b>Financial instability</b>	IMF as lender of last resort; restrictive trade and investment rules	IMF lending imposes austerity, shrinking fiscal space for investment and limiting public planning; trade and investment agreements constrain the ability to regulate capital flows or direct investment away from speculation and toward productive investment

<sup>49</sup> Mariana Mazzucato, Sarah Doyle, and Luca Kuehn von Burgsdorff, “Mission-Oriented Industrial Strategy: Global Insights,” IIPP Policy Report, UCL Institute for Innovation and Public Purpose, 2024, <https://www.ucl.ac.uk/bartlett/publications/2024/jul/mission-oriented-industrial-strategy-global-insights>.



<b>Lack of unconditional development finance</b>	MDBs, bilateral DFIs, climate funds; IMF	IMF frameworks; shifts public funds to de-risk private investment rather than expand public capacity, and limits the role of the state
<b>Market discipline</b>	Credit rating agencies, sovereign bond markets	Penalizes state-led strategies and deviation from IMF-backed norms; raises costs and deters industrial policy
<b>Unsustainable debt burdens</b>	IMF as gatekeeper to debt relief	No fair debt restructuring process; IMF DSF and programs impose austerity and prioritize creditors over investments toward long-term goals

## Part 2

# The real-world consequences of a broken system: how the IFA drives underdevelopment, ecological and social harms, and false solutions

Part 1 explained how countries in the Global South face limited and conditional access to international currencies, are penalized for pursuing development strategies outside of market orthodoxy, and must navigate a financial system that punishes risk-taking with public resources while it rewards extractive and short-term gains.

Part 2 examines how those systemic features translate into real-world outcomes. Today's IFA creates two overlapping vicious cycles that trap Global South countries in debt, make them dependent on raw material exporting, and force them to adopt policies of austerity and repression. These vicious cycles constrain countries' ability to engage in transformative green industrial policy, perpetuate and even worsen the twin crises of climate change and biodiversity loss, and lead to social harms like increased income inequality and human rights abuses. The only path out of these cycles offered by the IFA is paved with market-based solutions, which often fail to deliver either sustainability or equity.

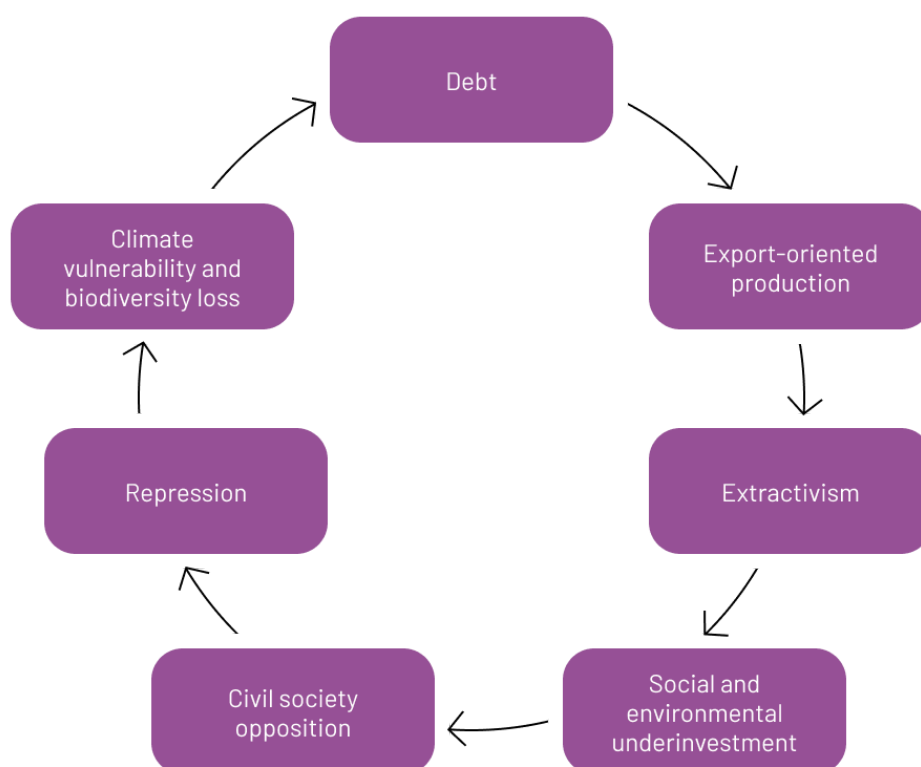
## The export-led development and commodity-extraction debt trap

The first vicious cycle of the IFA arises from the structure of global sovereign debt markets, which pushes countries into reliance on commodity exports—from fossil fuels to soy beans, with all the environmental and social harms these activities can cause—to generate export revenues to repay debts.<sup>50</sup> The following figure illustrates some of the ways this cycle traps countries into expanding commodity production for export, underinvesting in social and environmental development, and repressing civil society opposition to these dynamics. The resulting climate vulnerability and biodiversity loss then necessitate the assumption of more debt to finance disaster relief or adaptation, and the cycle begins again.

## The IFA's export-extraction vicious cycle

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<sup>50</sup> Biodiversity Capital Research Collective et al., "Beyond the Gap: Placing Biodiversity Finance in the Global Economy," Third World Network, 2021, <https://twon.my/title2/books/Beyond%20the%20Gap/BeyondTheGap%20complete%20report.pdf>; Woolfenden, "The Debt-Fossil Fuel Trap."



Despite these harmful outcomes, rare is the circumstance, even in a deep economic crisis, when creditors accept debt payment deferment, let alone offer cancellation. Scholars have likened this to “debt peonage” in which debtholders always end up on their feet while debtors—especially the poorest ones—toil and suffer.<sup>51</sup> When debt restructuring is offered, it is typically with conditions that continue to perpetuate extractivism. Suriname, for example, obtained a debt restructuring agreement with Eurobond holders, but only under the condition of developing offshore oil extraction, the royalties of which would guarantee partial payback for creditors.<sup>52</sup>

Part of what undergirds this vicious cycle is the fact that, as explained in Part 1, debt payments must generally be made in reserve currencies, particularly the US dollar. This puts pressure on debtor countries to intensify an unbalanced commodity export-led development model to earn those currencies. Yet commodity price volatility can impede the ability of exporting countries to count on

<sup>51</sup> Paul Krugman, “The Debt-Peonage Society,” *The New York Times*, March 8, 2005, sec. Opinion, <https://www.nytimes.com/2005/03/08/opinion/the-debtpeonage-society.html>; Biodiversity Capital Research Collective et al., “Beyond the Gap: Placing Biodiversity Finance in the Global Economy.”

<sup>52</sup> Projekta, “Suriname Country Report,” *Debt, Climate and Extractivism in Amazonian Countries*, Latindadd, 2023, <https://latindadd.org/informes/debt-climate-crisis-and-extractivism-in-amazonian-countries-suriname/>.

sufficient income to service sovereign debt, demonstrating the internal flaws in this logic.

Although some Global South countries have developed value-added export-led industries (most notably the so-called Asian Tigers and China), the political economy of most countries in the Global South remains dependent upon the export of primary commodities like fossil fuels, minerals, and various agricultural products—what is often called extractivism. In many cases, this is a legacy of colonial economic structures designed to provide commodities to Western markets, and, more recently, consolidated through the international financial architecture described in this report.<sup>53</sup>

These extractive industries bring environmental and social harms. The expansion of commodity agriculture production, for example, causes nearly 90 percent of global deforestation.<sup>54</sup> Fossil fuel production, in addition to driving the climate crisis, is repeatedly tied to violations of the rights of Indigenous peoples, to public health problems in local communities of all kinds, to irreparable damage to local ecosystems, and more.<sup>55</sup> Even mining for “green” products has environmental and social consequences: lithium mining can increase drought intensity, decrease ecosystem biodiversity, and threaten Indigenous sovereignty and community participation in projects that imperil cultural landscapes and economic livelihoods.<sup>56</sup>

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<sup>53</sup> Woolfenden, “The Debt-Fossil Fuel Trap.”

<sup>54</sup> Food and Agriculture Organization of the United Nations, “COP26: Agricultural Expansion Drives Almost 90 Percent of Global Deforestation,” Newsroom, November 6, 2021, <https://www.fao.org/newsroom/detail/cop26-agricultural-expansion-drives-almost-90-percent-of-global-deforestation/en>.

<sup>55</sup> Melissa Denchak, “Fossil Fuels: The Dirty Facts,” National Resources Defense Council, June 1, 2022, <https://www.nrdc.org/stories/fossil-fuels-dirty-facts>; World Health Organization, “9 out of 10 People Worldwide Breathe Polluted Air, but More Countries Are Taking Action,” May 2, 2018, <https://www.who.int/news/item/02-05-2018-9-out-of-10-people-worldwide-breathe-polluted-air-but-more-countries-are-taking-action>; Jennie C. Stephens, Noel Healy, and Stephanie Malin, “Fossil Fuels Are Bad for Your Health and Harmful in Many Ways besides Climate Change,” *The Conversation*, February 7, 2019, <http://theconversation.com/fossil-fuels-are-bad-for-your-health-and-harmful-in-many-ways-besides-climate-change-107771>.

<sup>56</sup> Thea Riofrancos et al., “Achieving Zero Emissions with More Mobility and Less Mining,” Climate and Community Institute, January 2023, [https://climateandcommunity.org/wp-content/uploads/2023/01/23\\_03\\_08\\_ENG-Lithium.pdf](https://climateandcommunity.org/wp-content/uploads/2023/01/23_03_08_ENG-Lithium.pdf).

The deep connection between debt and extractivism is also reinforced by fiscal tradeoffs, since the urgent pressure to make debt service payments draws resources from public programs to implement sustainable land use policies, climate mitigation programs, and more.

Ecuador provides an example of how difficult it can be to escape this cycle. After defaulting on sovereign debt payments in 2008, few creditors would extend new credit to the country. One willing creditor was China, which agreed to extend financing in exchange (in part) for guaranteed oil shipments.<sup>57</sup> The two countries inked several iterations of these oil-for-loan deals in subsequent years.<sup>58</sup> Yet the fluctuation of oil prices meant that the deals ended up costing Ecuador more than it had originally bargained for, leading future governments to seek to renegotiate the deals.<sup>59</sup>

The deep connection between debt and extractivism is also reinforced by fiscal tradeoffs, since the urgent pressure to make debt service payments draws resources from public programs to implement sustainable land use policies, climate mitigation programs, and more.<sup>60</sup> A comprehensive review of the environmental consequences associated with IMF programs from 2000–2020 in borrowing countries found that IMF loans are, on average, associated with a 9.2 percent increase in the level of annual deforestation, due in part, the researchers argue, to incentives from the IMF to exploit natural resources.<sup>61</sup> The Jubilee Debt Campaign found that, as of 2021, “lower income countries spend five times more on debt payments than on dealing with climate change.”<sup>62</sup> Separate analysis found that debt service payments by Global South countries consume, on average, 42 percent of budget revenue, and that total rises to 53 percent in the lowest-income countries.<sup>63</sup> Furthermore, countries may be forced to take on additional debt after major climate disasters destroy infrastructure, especially when Global

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<sup>57</sup> Eduardo Garcia, “Ecuador Set to Receive \$1 Billion Loan from China-Report,” Reuters, August 17, 2009, sec. U.S. Markets, <https://www.reuters.com/article/markets/us/ecuador-set-to-receive-1-billion-loan-from-china-report-idUSN17375457L>.

<sup>58</sup> Joshua Schneyer and Nicolas Medina Mora Perez, “Special Report: How China Took Control of an OPEC Country’s Oil,” Reuters, November 26, 2013, <https://www.reuters.com/article/us-china-ecuador-oil-special-report/special-report-how-china-took-control-of-an-opec-countrys-oil-idUSBRE9AP0HX20131126>.

<sup>59</sup> Alexandra Valencia, “Ecuador Seeks Renegotiation of China Oil Sales, Loans,” Reuters, October 24, 2017, sec. U.S. Markets, <https://www.reuters.com/article/markets/us/ecuador-seeks-renegotiation-of-china-oil-sales-loans-idUSL2N1M21G5/>.

<sup>60</sup> Biodiversity Capital Research Collective et al., “Beyond the Gap: Placing Biodiversity Finance in the Global Economy.”

<sup>61</sup> Timon Forster, Rishikesh Ram Bhandary, and Kevin P. Gallagher, “The International Monetary Fund and Deforestation,” Task Force on Climate, Development and the International Monetary Fund, Boston University, October 2024, <https://www.bu.edu/gdp/files/2024/10/TF-WP-014-FIN.pdf>.

<sup>62</sup> Debt Justice, “Lower Income Countries Spend Five Times More on Debt than Dealing with Climate Change,” October 27, 2021, [https://debtjustice.org.uk/wp-content/uploads/2021/10/Lower-income-countries-spending-on-adaptation\\_10.21.pdf](https://debtjustice.org.uk/wp-content/uploads/2021/10/Lower-income-countries-spending-on-adaptation_10.21.pdf).

<sup>63</sup> Matthew Martin and David Waddock, “Resolving the Worst Ever Global Debt Crisis: Time for an Ambitious Initiative?,” Norwegian Church Aid, June 2024, <https://www.kirkensnodhjelp.no/sites/default/files/2024-10/ferdig-time-for-a-nordic-initiative-lowres-ny-september.pdf>.



North countries continue to default on financial promises and slow-walk financial transfers for climate change loss and damage.<sup>64</sup>

Unsurprisingly, local communities, Indigenous nations, environmental groups, unions, economic human rights organizations, and other human rights defenders in those countries frequently critique these outcomes and organize against them. In Ecuador, parallel to the negotiation of the debt-for-oil deals described above, a civil society initiative to protect portions of Ecuador's mega-diverse Amazon rainforest territory from oil drilling pushed then-President Correa to develop a program, dubbed the Yasuní-ITT Initiative, to secure international funding to maintain in the ground the crude oil in the ITT (Ishpingo-Tambococha-Tiputini) field inside Yasuni National Park, one of the most biodiverse places on the planet.<sup>65</sup> The program sought \$3.6 billion in international grants, estimated to be half of the current value of the oil in the ITT field, in exchange for not developing the field and to implement social and environmental programs, including renewable energy development. Though greeted with much attention and fanfare on the international stage, the program failed to come anywhere close to its goal and was ended in 2013.<sup>66</sup> Local organizations and Indigenous peoples, however, did not give up on the dream of Yasuní free of oil drilling, and, through massive protests and political organizing, succeeded in passing a national referendum to ban oil drilling in Yasuní (though without the international financial support originally sought by the Yasuní-ITT initiative).<sup>67</sup>

Civil society pushback against the austerity and social underinvestment arising from the export-extraction vicious cycle is often met with suppression by the national government. Governments may criminalize activists and organizers,<sup>68</sup> or otherwise

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<sup>64</sup> Woolfenden, "The Debt-Fossil Fuel Trap."

<sup>65</sup> Ivonne Yanez, "Un Llamado Eco-lógico para la conservación, el clima y los derechos," *Acción Ecológica*, September 26, 2005, <https://www.accioneologica.org/un-llamado-eco-logico-para-la-conservacion-el-clima-y-los-derechos/>.

<sup>66</sup> Benjamin K. Sovacool and Joseph Scarpaci, "Energy Justice and the Contested Petroleum Politics of Stranded Assets: Policy Insights from the Yasuní-ITT Initiative in Ecuador," *Energy Policy* 95, no. 171 (2016): 158–71, <https://doi.org/10.1016/j.enpol.2016.04.045>.

<sup>67</sup> Dan Collyns, "Ecuadorians Vote to Halt Oil Drilling in Biodiverse Amazonian National Park," *The Guardian*, August 21, 2023, sec. World News, <https://www.theguardian.com/world/2023/aug/21/ecuador-votes-to-halt-oil-drilling-in-amazonian-biodiversity-hotspot>.

<sup>68</sup> Moira Birss, "Criminalizing Environmental Activism," *NACLA Report on the Americas* 49, no. 2 (2017): 315–22, <https://doi.org/10.1080/10714839.2017.1373958>.

Globally, the extractive sectors and agriculture commodity production are the industries most associated with the murder of what scholars call “environmental defenders.”

harass them, and they might turn a blind eye to—or even collude with—the threats and violence performed by non-state actors.<sup>69</sup>

One of the most well-known cases in Latin America is that of Berta Cáceres, an Indigenous Lenca leader of an organization of Lenca and non-Indigenous communities in rural Honduras that opposed the construction of a hydroelectric dam financed in part by the Inter-American Development Bank and FMO, the Dutch development bank. After years of threats and criminalization attempts, Cáceres was murdered in her home in 2016.<sup>70</sup> Local and international attention and pressure have led to the conviction of several people for Berta’s murder, including the head of the dam company.<sup>71</sup>

At the time of Cáceres’ murder, Honduras was run by an authoritarian, pro-business government. But even more democratically minded governments may crack down on civil society opposition to extractivism and/or allow non-state actors to do so. Globally, the extractive sectors and agriculture commodity production are the industries most associated with the murder of what scholars call “environmental defenders.”<sup>72</sup> Latin America is the most dangerous place for this kind of civil society mobilization—85 percent of documented murder cases of environmental defenders in 2023 took place in the region, a statistic on trend from previous years.<sup>73</sup> When Indigenous peoples lead protest movements, which they do more than other groups, violence and repression are much higher.<sup>74</sup> Environmental conflicts also occur over conservation areas and renewable energy infrastructure.<sup>75</sup> These data demonstrate the

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<sup>69</sup> “Missing Voices: The Violent Erasure of Land and Environmental Defenders,” Global Witness, September 10, 2024, <https://globalwitness.org/en/campaigns/land-and-environmental-defenders/missing-voices/>; John H. Knox, “Environmental Human Rights Defenders: A Global Crisis,” Universal Rights Group, February 2017, <https://www.universal-rights.org/urg-policy-reports/environmental-human-rights-defenders-ehrds-risking-today-tomorrow-2/>.

<sup>70</sup> Nina Lakhani, “Who Killed Berta Cáceres? Behind the Brutal Murder of an Environment Crusader,” *The Guardian*, June 2, 2020, sec. World News, <https://www.theguardian.com/world/2020/jun/02/who-killed-berta-caceres-behind-the-brutal-of-an-environment-crusader>.

<sup>71</sup> “Remembering Berta Cáceres: Seven years on, the fight for justice continues,” Global Witness, March 2, 2023, <https://globalwitness.org/en/campaigns/land-and-environmental-defenders/remembering-berta-caceres-seven-years-on-the-fight-for-justice-continues/>.

<sup>72</sup> Arnim Scheidel et al., “Environmental Conflicts and Defenders: A Global Overview,” *Global Environmental Change* 63 (July 1, 2020): 102104, <https://doi.org/10.1016/j.gloenvcha.2020.102104>.

<sup>73</sup> “Missing Voices: The Violent Erasure of Land and Environmental Defenders.”

<sup>74</sup> Scheidel et al., “Environmental Conflicts and Defenders.”

<sup>75</sup> Scheidel et al., “Environmental Conflicts and Defenders”; Caroline Avan and Blanca Racionero Gómez, “2025 Global Analysis,” Transition Minerals Tracker, Business & Human Rights Resource Centre, May 2025, <https://www.business-humanrights.org/en/from-us/briefings/transition-minerals-tracker-2025-global-analysis/>.

importance of transformative green industrial policy that is socially embedded in and aligned with local needs, as Riofrancos and Estevez argue in their report.

### **Lack of fiscal and policy autonomy constrains decarbonization and leads to environmental and social harms**

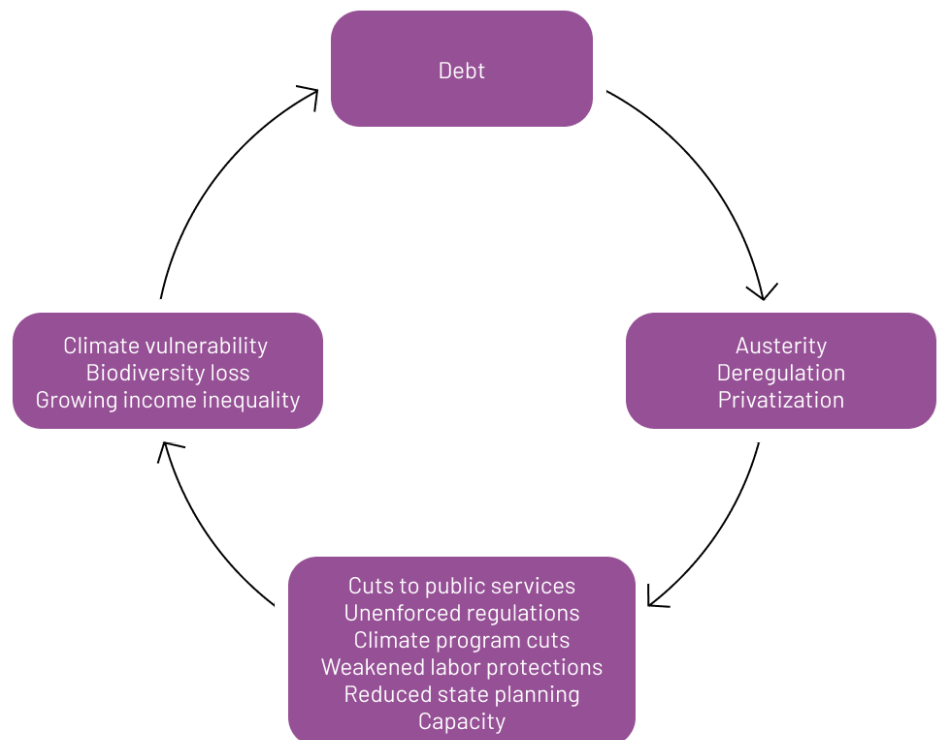
While the centrality of sovereign debt to the IFA creates a vicious cycle that locks countries into extractive commodity production for export, a separate though overlapping vicious cycle arises from the conditions lending institutions attach to loans and other financial instruments.

As described in Part 1, IFA institutions like the World Bank and the IMF have almost always placed rigid and far-reaching conditions on borrowing countries. Traditionally known as structural adjustment programs, the sets of conditions imposed by these lenders are framed as necessary policy changes to enable the country to pay off existing loans, re-enter private capital markets on more favorable terms, and avoid future emergency loans. Market fundamentalism and austerity budgeting define the conditions: drastic cuts to public spending (e.g., cuts to environmental protection and climate mitigation programs), deregulation of private enterprise (e.g., reduced pollution oversight), reduction of the state's role in the economy (e.g., less large-scale planning), and the privatization of public enterprises (e.g., of state energy companies, the privatization of which limits state power to wind down fossil fuel production).<sup>76</sup> Here, too, the resulting climate vulnerability, biodiversity loss, and, often, growing income inequality, necessitate the assumption of yet more debt.

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<sup>76</sup> Kentikelenis, Stubbs, and King, "IMF Conditionality and Development Policy Space, 1985–2014."

## The IFA's vicious cycle of conditionality



The evidence that IMF policies lead to economic growth is inconclusive at best,<sup>77</sup> and the IMF itself acknowledged that “fiscal consolidations” (i.e., austerity programs) “do not reduce debt ratios.”<sup>78</sup> What evidence does indicate, however, is that the overwhelming result of these programs is drastic cuts to social services like healthcare and education, which in turn contribute to rising income inequality and negative public health outcomes.<sup>79</sup> Such cuts can also weaken domestic markets, both because of consumers’ reduced spending capacity (in part the consequence of rising inequality) as well as reduced government support for domestic industry. The IFA’s

<sup>77</sup> Hippolyte W. Balima and Anna Sokolova, “IMF Programs and Economic Growth: A Meta-Analysis,” *Journal of Development Economics* 153 (November 1, 2021): 102741, <https://doi.org/10.1016/j.jdevco.2021.102741>.

<sup>78</sup> “World Economic Outlook 2023: A Rocky Recovery,” International Monetary Fund, 2023, <https://meetings.imf.org/en/IMF/Home/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>.

<sup>79</sup> “The IMF’s Renewed Supply-Side Push: Four Decades of Structural Adjustment and Austerity Conditionality,” International Trade Union Federation, May 21, 2020, [https://www.ituc-csi.org/IMG/pdf/imf\\_s\\_renewed\\_supply-side\\_push.pdf](https://www.ituc-csi.org/IMG/pdf/imf_s_renewed_supply-side_push.pdf); “Market Fundamentalism and the World Bank Group: From Structural Adjustment Programmes to Maximizing Finance for Development and Beyond,” International Trade Union Federation, May 21, 2020, [https://www.ituc-csi.org/IMG/pdf/market\\_fundamentalism\\_and\\_the\\_world\\_bank\\_group.pdf](https://www.ituc-csi.org/IMG/pdf/market_fundamentalism_and_the_world_bank_group.pdf).

Not only do the policy constraints directly imposed by IFA lending inhibit many countries from engaging in industrial policy, but the lack of alternative financing sources beyond this debt-commodity cycle ties countries' hands even further.

deregulation requirements center around facilitating private economic activity, and can include everything from reducing the minimum wage to weakening pollution control regulations.<sup>80</sup>

Another common condition of IFA lending is the privatization of state-owned enterprises and the investment of public resources into export-oriented industry. Conditions for development finance agency support often require countries to provide tax incentives for private enterprise, or to establish public-private partnerships (PPPs), as in the case of the IMF's 2016 loan to Tunisia, a condition of which was the implementation of a PPP law to facilitate private investment in infrastructure.<sup>81</sup> Lending may also come with conditions on loosening labor rights protections, both as a way to benefit private companies and incentivize private investment,<sup>82</sup> and to reduce spending on public sector wages, as in the conditions on a 2010 IMF loan to Honduras.<sup>83</sup>

Here, too, civil society opposition emerges. Scholars have documented protests around the globe to IFA-imposed reforms, some of which successfully moved governments to push back on certain conditions.<sup>84</sup> In Ecuador, for example, then-President Lenin Moreno walked back austerity-oriented cuts to fuel subsidies after massive protests led by Indigenous organizations objected to the massive blow the subsidy cuts would have for the poor.<sup>85</sup> Many of those same groups also led the organizing to pass the Yasuní drilling ban referendum described above.

Not only do the policy constraints directly imposed by IFA lending inhibit many countries from engaging in industrial policy, but the lack of alternative financing sources beyond this debt-commodity cycle ties countries' hands even further. High sovereign debt levels make

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<sup>80</sup> Thomas Stubbs and Alexander Kentikelenis, "International Financial Institutions and Human Rights: Implications for Public Health," *Public Health Reviews* 38, no. 1 (November 30, 2017): 27, <https://doi.org/10.1186/s40985-017-0074-3>.

<sup>81</sup> Miriam Brett, "The IMF and PPPs: A Master Class in Double-Speak," Bretton Woods Project, April 4, 2019, <https://www.brettonwoodsproject.org/2019/04/the-imf-and-ppps-a-master-class-in-double-speak/>.

<sup>82</sup> Vincent Lloyd and Robert Weissman, "How International Monetary Fund and World Bank Policies Undermine Labor Power and Rights," *International Journal of Health Services* 32, no. 3 (2002), <https://doi.org/10.2190/WMC9-0WWJ-8QWR-UFPC>.

<sup>83</sup> Kentikelenis, Stubbs, and King, "IMF Conditionality and Development Policy Space, 1985-2014."

<sup>84</sup> Bernhard Reinsberg, Thomas Stubbs, and Louis Bujnoch, "Structural Adjustment, Alienation, and Mass Protest," *Social Science Research* 109 (January 1, 2023): 102777, <https://doi.org/10.1016/j.ssresearch.2022.102777>.

<sup>85</sup> Alexandra Valencia, "Ecuador's Moreno Scraps Fuel Subsidy Cuts in Big Win for Indigenous Groups," Reuters, October 15, 2019, sec. World, <https://www.reuters.com/article/world/ecuadors-moreno-scraps-fuel-subsidy-cuts-in-big-win-for-indigenous-groups-idUSKBN1WT26H/>.



multilateral finance institutions reluctant to provide more loans, and while financial markets may happily provide credit, they will do so only at punishing interest rates that perpetuate these vicious cycles.

Argentina's attempts to renegotiate with bond investors demonstrate the direct and steep financial costs associated with private investment capital. After a financial and political crisis in 2000–2001, the country defaulted on \$100 billion in sovereign debt (a significant portion of which had been racked up by the country's military dictatorship<sup>86</sup> and from the IMF<sup>87</sup>). At that point, private market investors (primarily hedge funds) offered to buy some of the debt from original investors at a very steep discount. Although some of the resulting creditors demonstrated a willingness to renegotiate the terms of debt repayment with Argentina, some of the hedge funds, which came to be known as "vulture funds," refused and sued the country in US courts in pursuit of full repayment of the original debt along with past interest. Though a US judge ruled in favor of the vulture funds, Argentina's government refused to pay. It was only after the election of then-President Macri, who in 2016 agreed to repay creditors 75 percent of what they owed, that the legal battle ended.<sup>88</sup>

## Greenwash: The false promise of private finance for green development

Though the promotion of private investment has long been a central tenet of the IFA, the IFA's evolution in the context of growing climate instability has further prioritized private finance. Deemed the "Wall Street Consensus" by scholar Daniela Gabor, this approach stems from the belief that private finance is necessary for climate action due to a lack of public resources, and that states—particularly states in the Global South—should restructure their financial systems to

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<sup>86</sup> Debt Justice, "Argentina," March 7, 2013, <https://debtjustice.org.uk/countries/argentina>.

<sup>87</sup> Paul Blustein, "IMF Says Its Policies Crippled Argentina," *The Washington Post*, July 30, 2004, <https://www.washingtonpost.com/wp-dyn/articles/A25824-2004Jul29.html>.

<sup>88</sup> Sunlight Foundation, "Influence Abroad: American Vulture Funds Feed on Argentina's Debt Crisis," May 2, 2016, <https://sunlightfoundation.com/2016/05/02/influence-abroad-american-vulture-funds-feed-on-argentinas-debt-crisis/>; Martin Guzman and Joseph E. Stiglitz, "Argentina's Griesafault," *Project Syndicate*, August 7, 2014, <https://www.project-syndicate.org/commentary/joseph-e-stiglitz-and-martin-guzman-argue-that-the-country-s-default-will-ultimately-harm-america>.

“de-risk” private investment in social and environmental sectors like education and climate adaptation.<sup>89</sup>

As such, market-based mechanisms are promoted as one of the few solutions to climate and biodiversity finance needs, despite the near-absence of accountability mechanisms for private finance.<sup>90</sup> Nevertheless, very little international lending or development aid finance is offered that is not connected to a market-based mechanism or “public-private partnership.”

Because of the debt cycles in which many Global South countries are trapped, private finance often requires incentives from public financial institutions. To fully “de-risk” the private investment, those incentives may take the form of reduced environmental and social regulations like pollution controls or requirements to consult with local communities, the consequences of which can deepen underdevelopment and climate maladaptation.

Argentina provides a clear example. The country dismantled all its agricultural regulatory boards, including the national forest conservation agency, in an effort, overseen by the World Bank, to ramp up its soybean production for export. Yet soybean production is a significant contributor to deforestation in biodiverse Argentina,<sup>91</sup> meaning it pushes the country’s—and the world’s—climate change and biodiversity loss mitigation goalposts further away. And, ironically, climate-driven droughts that have hit Argentina in recent years<sup>92</sup> make the possibility of paying off debts with soybean export income also more distant.

Reinforcement of this narrative of private finance as the only solution has led to the development of new iterations on financial products that claim to provide a “win-win” for investors and Global South countries. One such example is debt-for-environment swaps (also known as debt-for-nature or debt-for-climate swaps). The logic of the debt swap model is that a portion of a country’s foreign debt is

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<sup>89</sup> Daniela Gabor, “The Wall Street Consensus,” *Development and Change* 52, no. 3 (2021): 429–59, <https://doi.org/10.1111/dech.12645>.

<sup>90</sup> “Accountability Resource Guide: Tools for Redressing Human Rights & Environmental Abuses in International Finance and Development,” Accountability Counsel, August 2015, <https://www.accountabilitycounsel.org/wp-content/uploads/2017/08/ARG-V8.pdf>.

<sup>91</sup> Jessica Dempsey et al., “Exporting Extinction: How the International Financial System Constrains Biodiverse Futures.”

<sup>92</sup> Nicolás Misculin, “‘It Won’t Come Back’: Argentina Farmers Battle Drought and a Shrinking Harvest,” Reuters, February 3, 2025, sec. Commodities, <https://www.reuters.com/markets/commodities/wilted-leaves-argentinas-farms-signal-bigger-hit-soy-corn-harvest-2025-02-03/>.

forgiven in exchange for the country making investments in local conservation or climate mitigation efforts. In practice, the swaps are complicated financial instruments with involvement from private investment firms, multilateral development banks, conservation mega-NGOs, and more, all of which want a payout for their involvement.

While these mechanisms do provide financing, the use of the funds is not exactly of the country's choosing: these swaps are provided only on terms and for projects that the financing and/or organizing entities control, like recalling elements of structural adjustment programs. Furthermore, there is often a "scalar mismatch" between the amount of debt of low- and middle-income countries and existing or currently proposed swaps, and this mismatch is likely to continue—or even grow—if the IFA stays the same.<sup>93</sup>

A recent and much-celebrated example is the swap Ecuador entered into to exchange some of its sovereign debt for a program to support conservation in the Galápagos Islands. The Inter-American Development Bank (IDB) provided an \$85 million guarantee to improve the swap's credit rating and attract private investment. The Galapagos Life Fund, a foundation created (in the tax haven of Delaware<sup>94</sup>) to manage the funds, is overseen only in part by the national government. Local organizations in the Galápagos, in a formal complaint with the IDB's independent oversight mechanism, allege a lack of transparency, local community governance, evidence of conservation outcomes, and community benefits in the deal.<sup>95</sup> Additionally, the scale of the swap pales in comparison to Ecuador's sovereign debt burden—the forgiven debt amounts to an estimated 1.6 percent of overall debt.<sup>96</sup>

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<sup>93</sup> Patrick Bigger, "Debt for Environment Swaps," Climate and Community Institute, December 2022, <https://climateandcommunity.org/wp-content/uploads/2023/12/debt-swap-brief-2.pdf>.

<sup>94</sup> Nicole Sadek, "'Delaware Is Everywhere': How a Little-Known Tax Haven Made the Rules for Corporate America," *International Consortium of Investigative Journalists* (blog), June 27, 2022, <https://www.icij.org/inside-icij/2022/06/delaware-is-everywhere-how-a-little-known-tax-haven-made-the-rules-for-corporate-america/>.

<sup>95</sup> "IDB Investigation Mechanism accepts complaint against Galapagos Debt Swap filed by local communities," *Latindadd*, September 17, 2024, <https://latindadd.org/arquitectura-financiera/idb-investigation-mechanism-accepts-complaint-against-galapagos-debt-swap-filed-by-local-communities/>.

<sup>96</sup> Sarah Glendon, "Ecuador's \$650 Million Debt-for-Nature Swap Targets Galápagos Protection," *Columbia Threadneedle Investments*, June 15, 2023, <https://www.columbiathreadneedle.com/en/gb/intermediary/insights/ecuadors-650-million-debt-for-nature-swap-targets-galapagos-protection/>.

Colombia, on the other hand, recently rejected a debt-for-climate swap plan due to concerns that refinancing some of its sovereign debt would negatively impact the country's credit and therefore its ability to attract future credit or investment from global markets.<sup>97</sup>

Another version of the Wall Street Consensus approach to "green" finance for Global South countries is through Just Energy Transition Partnerships (JETPs). Launched at the Glasgow COP in 2021, JETPs were presented as an ambitious model aimed at helping middle-income countries move away from dirty energy (primarily coal) and toward renewable energy generation and storage. In a context of rising domestic power demand, insufficient green energy infrastructure, and competing domestic priorities, JETPs, promoters argue, would provide an "incentive" to prioritize energy system decarbonization. However, JETPs are only designed to provide a small fraction of the financing for these decarbonization projects—their primary purpose is to "crowd in" commercial debt and equity investments. A club of industrialized countries, called the International Partners Group, provides the bilateral financing (a mix of grants and loans); some multilateral development banks and philanthropies also participate.<sup>98</sup>

So far, JETPs have begun, haltingly, in four countries: South Africa, Senegal, Indonesia, and Vietnam. While promoters have hailed them as essential support for nationwide energy system decarbonization overhauls—South Africa's JETP, for example, includes plans for coal plant decommissioning, EV production, and "green" hydrogen<sup>99</sup>—results thus far have been mixed. While the massive scale of such an endeavor is a likely explanation for these mixed results, so too are the expectations, scrutiny, and lack of coordination of the IPG members and other financing participants; the belief that private financing will adequately fill gaps in public

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<sup>97</sup> Natasha White, "Colombia Turns Down Debt-for-Nature Deals Over Ratings Anxiety," Bloomberg News, March 17, 2025, <https://www.bloomberg.com/news/articles/2025-03-17/colombia-turns-down-debt-for-nature-deals-over-ratings-anxiety>.

<sup>98</sup> Clara Ferreira Marques, "Just Energy Transition Partnerships (JETPs) and How They Work," Bloomberg Green, August 15, 2023, <https://www.bloomberg.com/news/articles/2023-08-15/what-are-just-energy-transition-partnerships-jetps-and-how-do-they-work>; Grant Hauber, "Financing the JETP: Making Sense of the Packages," Institute for Energy Economics and Financial Analysis, December 22, 2023, <https://ieefa.org/resources/financing-jetp-making-sense-packages>.

<sup>99</sup> Ferreira Marques, "Just Energy Transition Partnerships (JETPs) and How They Work"; UK Presidency COP 27, "Political Declaration on the Just Energy Transition in South Africa," February 11, 2021, <https://webarchive.nationalarchives.gov.uk/ukgwa/20230106144924/https://ukcop26.org/political-declaration-on-the-just-energy-transition-in-south-africa/>.

financing;<sup>100</sup> measures to “sustainably manage” public utility debt and encourage “policy reform” in energy markets;<sup>101</sup> and reports of silencing of civil society critics<sup>102</sup>—obstacles that call to mind problems with other IFA models.

## Social and environmental race to the bottom even with “reforms”

Although the World Bank and IMF have reported changes to their practices in recent years in response to criticism of austerity conditions, and the urgency of climate action, research shows that IFA solution sets still assume “that improving the functioning of markets for private sector entities will trickle down to income growth”<sup>103</sup> and continue to result in familiar social and environmental harm.<sup>104</sup>

Similar to the rhetorical adjustments that IFA institutions made to structural adjustment conditionality, many such institutions have implemented social and labor safeguard policies after decades of criticism and organizing by organizations in Global South countries as well as allies in the Global North.

These safeguard systems are rife with limitations, however, even for projects that might, at first glance, appear to fit into green industrial policy. The Hidroituango hydroelectric dam in Colombia demonstrates such limitations. Initiated in 2009 by the local government of Antioquia Department, the regional public utility company, and minority private shareholders, the project was designed to be the country’s largest hydroelectric dam. Communities that would be affected by construction quickly began registering

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<sup>100</sup> Hauber, “Financing the JETP.”

<sup>101</sup> UK Presidency COP 27, “Political Declaration on the Just Energy Transition in South Africa.”

<sup>102</sup> Michael Copley, “Vietnam Faces Criticism for Arresting Climate Activist as It Closes Clean Energy Deal,” *NPR*, June 3, 2023, sec. Climate, <https://www.npr.org/2023/06/03/1179728649/hoang-thi-minh-hong-arrest-vietnam-climate-deal>.

<sup>103</sup> “Market Fundamentalism and the World Bank Group: From Structural Adjustment Programmes to Maximizing Finance for Development and Beyond.”

<sup>104</sup> Alexandros Kentikelenis and Thomas Stubbs, *A Thousand Cuts: Social Protection in the Age of Austerity* (Oxford, New York: Oxford University Press, 2023); Kentikelenis, Stubbs, and King, “IMF Conditionality and Development Policy Space, 1985–2014.”

Social embedness is a key feature of transformative green industrial policy in no small part because the imposition of development activities without the consent, let alone meaningful consultation of local communities, Indigenous peoples, and marginalized groups, is a “key root cause” of threats and attacks.

opposition and organizing, however—an obvious early warning sign about the project’s lack of social embeddedness.<sup>105</sup>

Nonetheless, and even as dam opponents were threatened and murdered—and in a socio-political context in the country in which the use of political violence to silence dissent is common—in 2012, the Inter-American Development Bank (IDB) approved \$2 million in technical assistance to the project. In subsequent years, civil society opposition was met with further threats, criminalization, and intimidation, and yet in 2016, the IDB approved \$400 million in additional financing along with a \$700 million syndicated loan package.<sup>106</sup> Civil society groups filed a complaint with the IDB’s independent accountability mechanism in 2018, alleging the Bank’s failure to comply with its environmental and social safeguards, but in 2019, the IDB’s Board and management announced it would not approve an internal investigation into the allegations.<sup>107</sup> The independent monitoring body did continue its investigation, however, and found that the IDB failed to comply with many of its own environmental and social safeguard policies, including requirements to meaningfully consult with communities affected by the dam’s construction.<sup>108</sup>

Social embedness is a key feature of transformative green industrial policy in no small part because the imposition of development activities without the consent, let alone meaningful consultation of local communities, Indigenous peoples, and marginalized groups, is a “key root cause” of threats and attacks.<sup>109</sup> The organizing led by these communities and their allies also impedes the completion of

<sup>105</sup> For more on social embedness as a key feature of transformative GIP, see Estevez and Riofrancos, “Global Green Industrial Policy: Navigating Power Dynamics for a Pro-Working Class, Pro-Development Green Transformation.”

<sup>106</sup> Coalition for Human Rights in Development, “Uncalculated Risks: Threats and Attacks against Human Rights Defenders and the Role of Development Financiers,” May 31, 2019, <https://us.boell.org/en/2019/05/31/uncalculated-risks-threats-and-attacks-against-human-rights-defenders-and-role>.

<sup>107</sup> Center for International Environmental Law, “Inter-American Development Bank Washes Its Hands of Responsibility for Dangerous Hidroituango Dam and Related Human Rights Violations in Colombia,” Center for International Environmental Law (blog), September 4, 2019, <https://www.ciel.org/news/inter-american-development-bank-washes-its-hands-of-responsibility-for-dangerous-hidroituango-dam-and-related-human-rights-violations-in-colombia/>; Center for International Environmental Law, “Communities Affected by Hidroituango Dam in Colombia File Complaint at IDB,” Center for International Environmental Law (blog), June 5, 2018, <https://www.ciel.org/news/communities-hidroituango-dam-colombia-file-complaint-idb/>.

<sup>108</sup> Independent Consultation and Investigation Mechanism, “MICI Concludes Its Investigation into the Ituango Hydroelectric Project,” Inter-American Development Bank, October 17, 2023, <https://mici.iadb.org/en/news/mici-concludes-its-investigation-ituango-hydroelectric-project>; Independent Consultation and Investigation Mechanism, “Compliance Review Report,” Inter-American Development Bank, October 17, 2023, <https://www.iadb.org/document.cfm?id=EZIDB0000559-1002559224-56507>.

<sup>109</sup> Coalition for Human Rights in Development, “Uncalculated Risks.”

development projects that are not socially and ecologically embedded.<sup>110</sup> It is difficult to imagine these problems going away, however, under an IFA that prioritizes austerity, cuts to social services, and returns on private investment while trapping governments in direct and indirect cycles of debt and commodity-driven extractivism.

## Part 3

### A vision for a GIP-aligned IFA

If green industrial policy is to become a viable, sovereign-led development strategy in the Global South, then the underlying financial architecture must be fundamentally reoriented.

The international financial architecture of today is not a neutral framework. It is a system of rules, norms, and institutions that structurally disadvantages countries in the Global South, especially when it comes to accessing international currencies, responding to external shocks, and financing long-term development strategies. These are all essential preconditions, critical to the successful implementation of climate-safe, biodiversity-positive, and socially inclusive industrial policy.

As outlined throughout this report, the current system's mechanisms result in limited access to unconditional liquidity, volatile capital flows, restrictive borrowing frameworks, and entrenched policy conditionality. These collectively undermine the policy space and fiscal capacity to pursue transformative green industrial policy.

The outcomes are systemic: recurring debt cycles, underinvestment in public goods, reduced fiscal and policy space, increased pressure on the climate and biodiversity, financialization of nature, deepening of extractive industries, restrictions on civil society activity, and limited autonomy. These are not design flaws; they are embedded features of the current financial order. If green industrial policy is to become a viable strategy for the Global South, then these constraints must be directly addressed.

If green industrial policy is to become a viable, sovereign-led development strategy in the Global South, then the underlying financial architecture must be fundamentally reoriented. In this

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<sup>110</sup> Moira Birss and Kate Finn, "The Business Case for Indigenous Rights," *Stanford Social Innovation Review*, May 30, 2022, [https://ssir.org/articles/entry/the\\_business\\_case\\_for\\_indigenous\\_rights](https://ssir.org/articles/entry/the_business_case_for_indigenous_rights).



section, we set out a vision for a transformed international financial architecture—one that enables, rather than obstructs, structural transformation in developing countries. We propose a set of overarching goals and principles to guide this shift, laying the groundwork for a coordinated strategy to support inclusive, sustainable, and self-determined green industrialization.

## Goal 1: Access to liquidity and macroeconomic stability tools

### Expanded access to unconditional liquidity

Countries must have access to emergency liquidity without being forced into austerity or structural reform programs. At present, most Global South countries can only access crisis support through IMF programs, which come with significant policy strings attached. Instead, liquidity should be made available through mechanisms that do not impose conditions. This includes expanding the role and volume of special drawing rights (SDRs), establishing fairer distribution criteria, and making access to central bank swap arrangements universal, along with better-resourced and independent regional financing arrangements (RFAs). These tools can provide critical breathing room in times of crisis without reinforcing cycles of dependency or imposing external control over domestic policy.

### All countries have the option to regulate capital flows in the public interest

The liberalization of capital accounts, often undertaken under IMF programs or free trade agreements, has left many countries exposed to volatile and speculative capital flows. Sudden reversals can trigger currency crises and drain reserves, forcing governments to abandon long-term planning in favor of short-term crisis management. Countries must be able to reintroduce and enforce capital account regulations that prioritize financial stability and channel investment toward productive sectors. Trade and investment agreements should not interfere with the ability of countries to protect public interest or impose their preferred development model by blocking regulations that are crucial to protecting the public interest.

Countries must be able to reintroduce and enforce capital account regulations that prioritize financial stability and channel investment toward productive sectors.

## Goal 2: Fiscal and policy autonomy

### End conditionality as a gateway to public finance

Public development finance—whether through multilateral development banks, bilateral DFIs, or climate funds—should not depend on adherence to macroeconomic policy prescriptions rooted in liberalization, privatization, and austerity. These conditions limit the ability of governments to pursue industrial policy, regulate strategic sectors, or maintain public ownership of essential infrastructure. Instead, access to finance must be delinked from ideologically driven structural adjustment programs and tied to developmental and ecological goals. Countries should have the autonomy to define their investment strategies, labor and environmental standards, and regulatory approaches without penalty.

### Scale up public, grant-based, and concessional finance

The current IFA channels public finance, including climate finance, through restrictive, debt-based frameworks and passes off responsibility for investment to private capital markets that are often risk-averse and poorly aligned with long-term development outcomes. Global South countries need predictable, affordable, long-term, and grant-based public finance to carry out transformative green industrial policy. Access to grants and concessional finance must be expanded to all developing countries and based on broader criteria beyond income classifications.

### Reframe debt rules to support transformation

The frameworks used to assess debt sustainability prioritize fiscal consolidation and creditor repayment over development needs, public investment, and climate resilience. They routinely underestimate the developmental returns of public spending and fail to account for the escalating costs of inaction. Debt sustainability assessments must be redefined to align with the Sustainable Development Goals and the realities of climate and biodiversity vulnerability. At the same time, a more just approach to debt relief is urgently needed. The climate crisis has been driven by high-emitting countries, yet its most severe impacts fall on countries least responsible and least equipped to respond, many of whom are locked into debt and extraction cycles by the current financial order. Debt relief should be accessible without requiring IMF program

Global South countries need predictable, affordable, long-term, and grant-based public finance to carry out transformative green industrial policy.

A fair and inclusive system of global financial governance is a prerequisite for the realization of all other goals outlined here.

participation and should reflect both historical responsibility and current needs. Relief must be designed to restore fiscal space, support public investment, and enable long-term, inclusive development.

### **Reframe debt sustainability and enable just debt relief**

The climate crisis has been primarily fueled by a handful of wealthy countries that have reaped extraordinary profits by ravaging ecosystems for natural resources and filling the atmosphere with greenhouse gases.<sup>111</sup> These are the same countries that benefit from the current IFA structure. Meanwhile, the climate instability caused by these actions has largely fallen on the countries least responsible for climate change and least capable of adapting to the new normal of rising temperatures, extreme droughts, and supercharged storms,<sup>112</sup> at the same time that the IFA has locked these countries into the debt and extraction cycles described in this memo. As such, wealthy countries and IFA institutions should offer debt relief. Debt relief must not be contingent on IMF program participation, and debt sustainability must be assessed in relation to climate and biodiversity vulnerability, adaptation needs, and development rights.

## **Goal 3: Equitable voice in global economic governance**

### **Extend democratic decision-making across global economic institutions**

A fair and inclusive system of global financial governance is a prerequisite for the realization of all other goals outlined here. Without structural shifts in decision-making power, efforts to expand fiscal space, align finance with development and climate priorities, or secure debt justice will remain constrained by institutions where the rules reflect the interests of dominant creditors and high-income countries. The governance structures of the IMF and World Bank, based on weighted voting, give disproportionate influence to a handful of countries—most notably the United States—while sidelining the voices of the majority. This imbalance must be corrected. Rules governing finance, debt, taxation, and capital flows must be determined through inclusive and transparent multilateral processes, grounded in principles of equality and shared

<sup>111</sup> Patrick Bigger et al., “Reparative Fiscal Justice for Caribbean Climate Action”; Olúfẹmí O. Táíwò, *Reconsidering Reparations*.

<sup>112</sup> Bigger et al., “Reparative Fiscal Justice for Caribbean Climate Action”; Táíwò, *Reconsidering Reparations*.

An equitable and sustainable global transition demands a financial architecture that supports, rather than obstructs, development grounded in justice, resilience, and democratic control.

responsibility. In this spirit, high-income countries should support ongoing efforts, especially at the United Nations, to establish fairer rules on international taxation, curb illicit financial flows, and ensure that all countries have a seat at the table.

### **Establish a fair and independent debt resolution mechanism**

Today, debt crises are resolved through creditor-controlled and ad hoc processes—typically led by the IMF—that prolong stagnation and entrench dependency. What is needed is a permanent multilateral mechanism under the auspices of the United Nations, along the lines of longstanding proposals for a UN Sovereign Debt Resolution Mechanism (SDRM). Such a process would ensure equal participation of debtor countries, operate transparently, and place development, climate resilience, and social well-being on equal footing with creditor repayment. It must be shielded from the political influence of dominant financial actors and governed by principles of equity and shared responsibility.

## **Conclusion**

As this report has shown, the current international financial architecture is structurally misaligned with the needs of countries seeking to implement transformative green industrial policy. Rather than enabling the long-term investments and coordination needed for a just transition, the IFA disciplines policy autonomy, fuels debt dependency, and promotes market-based models ill-suited for the public-led transformations that climate justice demands. Yet this is not an argument for despair. Today's crises are opening up new opportunities to reimagine how the global financial system works and who it serves.

None of the reforms we propose are technocratic fixes. Each represents a shift in power away from financial institutions and creditors and toward governments and societies seeking to chart their own development paths. Achieving these changes will require both political will and collective pressure. But without them, green industrial policy will remain aspirational for many countries in the Global South. An equitable and sustainable global transition demands

We must embed financial reforms within a larger political project that reclaims public power, centers policy autonomy, and repositions finance as a tool, not a master.

a financial architecture that supports, rather than obstructs, development grounded in justice, resilience, and democratic control.

While reform of the core institutions remains essential, alternative strategies are already emerging. South–South cooperation and regional financial arrangements offer important spaces for institutional experimentation, whether in the form of regional development banks with different lending mandates, payment systems that bypass dominant reserve currencies, or efforts to mobilize public investment through national development banks and sovereign funds.<sup>113</sup>

Still, uncertainty looms large. The shifting global order is marked by geopolitical rivalries, macroeconomic instability, and competing visions for the future of multilateralism. It is not yet clear whether this flux will give rise to greater solidarity and redistribution or further entrench inequality and fragmentation. In this context, the stakes for transformative green industrial policy are especially high.

Climate-resilient development cannot succeed within a financial system that continues to siphon resources from the public to the private and from the South to the North. Nor can it be achieved by siloing climate finance from broader economic governance reforms.

What is needed is a coordinated push to align global financial rules, institutions, and instruments with the goals of inclusive, democratic, and climate-aligned development. We must embed financial reforms within a larger political project that reclaims public power, centers policy autonomy, and repositions finance as a tool, not a master.

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<sup>113</sup> Jaya Mehta, “The Struggle for Alternatives: Possibilities of South–South Cooperation in a Crisis-Ridden World,” *Focus on the Global South* and Joshi-Adhikari Institute of Social Studies, May 2025, <https://focusweb.org/publications/the-struggle-for-alternatives-possibilities-of-south-south-cooperation-in-a-crisis-ridden-world/>.