

International Financial Architecture Reform to Move Beyond Extractivism

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Summary

Rather than enabling countries to pursue alternative development pathways that maximize economic, community, and worker benefits while minimizing extraction, today's international financial architecture (IFA) reinforces extractivism.¹ Countries, particularly in the Global South, must generate foreign exchange under unequal conditions to service external debt, finance imports, and stabilize currencies, often through the export of primary commodities like minerals or fossil fuels. At the same time, resources flow out of producer countries through debt service, profit repatriation, and exposure to volatile capital flows. These dynamics limit fiscal and policy space and constrain structural transformation away from extractivism.

The IFA is defined by:

- **Financial volatility**, with deregulated capital flows that expose countries to sudden inflows and outflows, increasing macroeconomic instability and reinforcing reliance on export earnings to maintain external balances.
- **Conditional financing and austerity**, forcing reliance on the IMF, where financing is tied to policy conditions that prioritize fiscal restraint, deregulation, and privatization—limiting the ability of states to invest in structural transformation away from extractivism. Development finance institutions often replicate these approaches.

These conditions drive an extraction–export cycle:

Debt pressures reinforce reliance on extractivist commodity exports, including in sectors sometimes considered “green” like energy transition minerals, reinforcing environmental degradation, social harms, and underinvestment in diversification and sustainable development.

Yet pathways beyond extractivism require:

- Long-term investment

¹ Extractivism is an economic development model based on largely unfettered resource exploitation with highly unequal distributions of benefits and impacts.

- The ability to direct finance toward non-market goals
- Institutional autonomy

Therefore, a reorientation of the IFA is needed to move beyond extractivism:

- Reducing dependence on volatile external financing and expanding access to unconditional liquidity
- Scaling up public, concessional, and non-debt-creating finance that supports structural transformation
- Reforming global financial governance and debt mechanisms to reduce resource outflows and restore policy space

Introduction

Climate-safe, biodiversity-positive, and socially inclusive economic and industrial policy that does not rely on exploitative and extractivist models requires long-term investment, the ability to direct finance toward non-market goals, and sufficient policy autonomy to align development with local needs.² Yet for many countries in the Global South, these conditions are systematically constrained by the structure of the international financial architecture (IFA).³ Development strategies are shaped not only by domestic priorities, but by the need to secure foreign exchange in order to finance imports, service external debt, and stabilize currencies. In practice, this often reinforces reliance on primary commodity exports and other extractive activities, even where these undermine long-term development and climate goals.

These pressures are not incidental. They reflect a system shaped by the historical legacies of colonial extraction and unequal development, in which access to international liquidity, the cost of finance, and the conditions attached to it remain unevenly

² Jessica Dempsey et al., "Exporting Extinction: How the International Financial System Constrains Biodiverse Futures," Climate and Community Institute, May 2024, <https://climateandcommunity.org/research/exporting-extinction>; Moira Birss and Lara Merling, "Green Industrial Policy Needs a New Financial Architecture," Climate and Community Institute, October 2025, <https://climateandcommunity.org/research/green-industrial-policy-needs-a-new-financial-architecture>; 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>.

³ UNCTAD, "Growth, Debt and Climate: Realigning the Global Financial Architecture," Trade and Development Report, United Nations, 2023, https://unctad.org/system/files/official-document/trd2023_en.pdf.

distributed.⁴ As a result, countries face a dual constraint: the need to generate foreign exchange under adverse terms, and the simultaneous outflow of those resources through debt service, profit repatriation, and financial volatility.⁵

How the IFA locks in extractivism

At the core of the international financial architecture is a hierarchy of currencies that shapes how countries access finance and participate in the global economy. Countries occupy different positions within this hierarchy depending on their access to internationally accepted currencies and liquidity backstops.⁶ While a small number of them issue reserve currencies and benefit from deep financial markets, most countries in the Global South are positioned as users of foreign currency.

This position determines the terms on which countries can access finance.⁷ Those that do not issue internationally demanded currencies must rely on external financing, often in foreign currency and under more restrictive and costly conditions. Access to finance is shaped by credit ratings, investor sentiment, and the availability of official financing, which together influence borrowing costs and exposure to external shocks.

These structural asymmetries extend beyond borrowing costs: they are embedded in a broader set of institutional arrangements that govern how finance is provided, under what conditions, and for what purposes.⁸ 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

⁴ 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>; Olufémi O. Táiwò, *Reconsidering Reparations*, 2nd ed. (Haymarket, 2025), <https://www.haymarketbooks.org/books/2538-reconsidering-reparations>.

⁵ 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>.

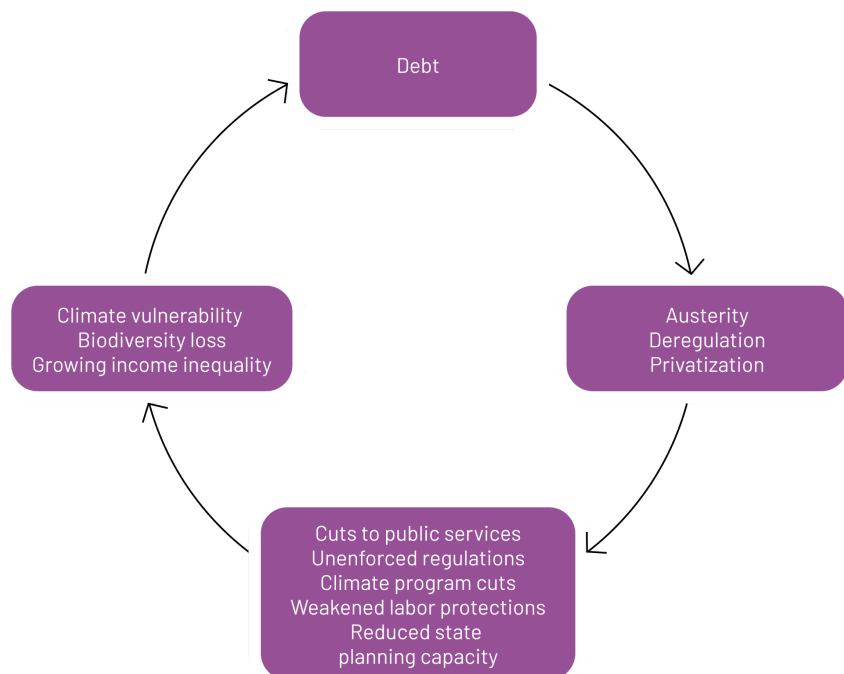
⁶ Steffen Murau, Fabian Pape, and Tobias Pffor, "International monetary hierarchy through emergency US-dollar liquidity: A key currency approach," *Competition & Change* 27, no. 3-4 (2023): 495-515.

⁷ Birss and Merling, "Green Industrial Policy Needs a New Financial Architecture."

⁸ Birss and Merling, "Green Industrial Policy Needs a New Financial Architecture."

avoid future emergency loans. Market fundamentalism and austerity budgeting define the conditions. This includes 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).⁹

The IFA’s vicious cycle of conditionality



Reliance on external finance also exposes countries to shifts in global financial conditions, including capital flow reversals, exchange rate pressures, and increases in global interest rates, all of which raise the cost of servicing and rolling over external debt. **Together, these pressures reinforce the need to secure foreign exchange through export earnings, often through the extraction of primary commodities like fossil fuels and minerals, linking financial constraints to extractive development patterns.**¹⁰

As summarized in the table below, these dynamics translate into reinforcing constraints on green development trajectories. Access to

⁹ 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>.

¹⁰ Dempsey et al., “Exporting Extinction.”

finance remains limited, costly, and pro-cyclical, exposing countries to volatility and financial instability. The provision of development finance is insufficient and often structured to prioritize private risk-sharing over the expansion of public investment capacity. At the same time, market-based and institutional pressures discipline policy choices.

These dynamics constrain the ability of countries to mobilize stable, long-term finance and align it with domestic development priorities. Rather than supporting structural transformation, the current system reinforces short-term adjustment pressures and dependence on external financing, limiting the policy space required for structural transformations away from extractivism.

Overview of constraints imposed on the Global South through the IFA¹¹

	Elements	Constraint on State Policy
Financial instability	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
Lack of unconditional development finance	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
Market discipline	Credit rating agencies, sovereign bond markets	Penalizes state-led strategies and deviation from IMF-backed norms; raises costs and deters industrial policy
Unsustainable debt burdens	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

¹¹ Birss and Merling, "Green Industrial Policy Needs a New Financial Architecture."

The IFA's structure incentivizes extraction, harms to communities, and sacrifice zones

The structures described above create a vicious cycle that traps Global South countries in debt, can increase their dependence on extractive exports, and pushes them to implement policies of austerity that restrict their policy space. This constrains the ability of countries to engage in transformative policy, leads to social harms like increased income inequality and human rights abuses, and worsens the twin crises of climate change and biodiversity loss.¹²

The vicious cycle arises from the structure of global sovereign debt markets, which pushes countries into reliance on commodity exports—from fossil fuels to minerals to soybeans, with all the environmental and social harms these activities can cause—to generate export revenues to repay debts.¹³ This traps countries into expanding commodity production for export, underinvesting in social and environmental development, and repressing civil society opposition to these dynamics. 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.¹⁴ Even mining for “green” products has environmental and social consequences. For example, 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.¹⁵ 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.

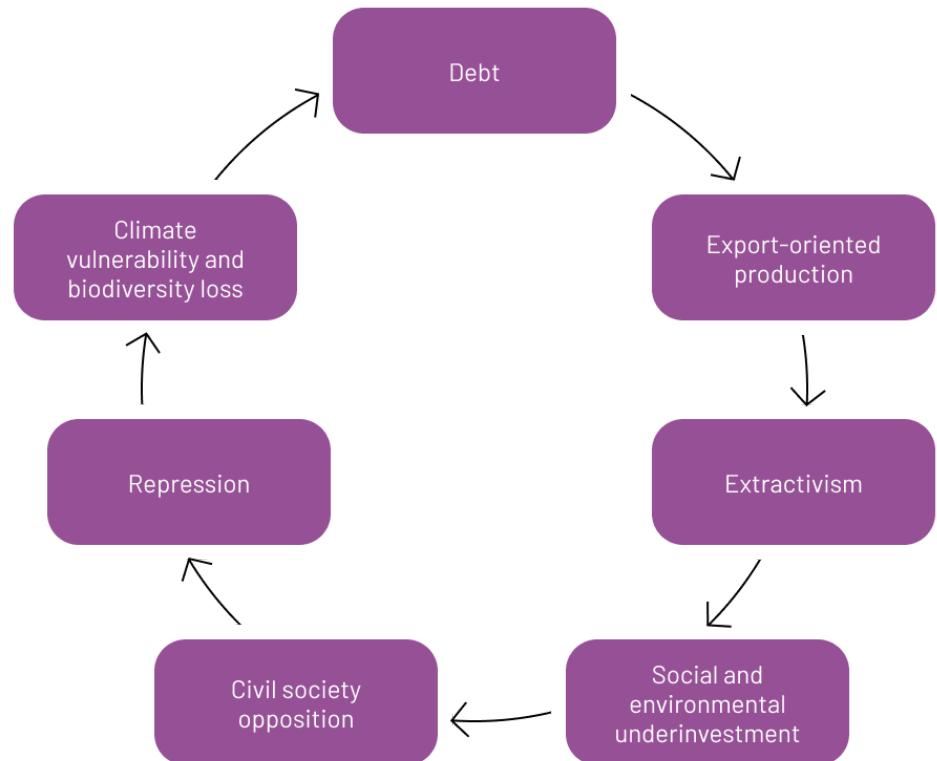
¹² Birss and Merling, “Green Industrial Policy Needs a New Financial Architecture.”

¹³ Biodiversity Capital Research Collective et al., “Beyond the Gap: Placing Biodiversity Finance in the Global Economy,” Third World Network, 2021, <https://twn.my/title2/books/Beyond%20the%20Gap/BeyondTheGap%20complete%20report.pdf>; Woolfenden, “The Debt-Fossil Fuel Trap.”

¹⁴ Biodiversity Capital Research Collective et al., “Beyond the Gap.”

¹⁵ 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.

The IFA's extraction-export vicious cycle



The only path out of this vicious cycle offered by the IFA is paved with market-based solutions not necessarily divorced from extractivism. This is what scholar Daniela Gabor calls the “Wall Street Consensus.” It stems from the belief that private finance is necessary for climate action due to a lack of public resources, and that states should restructure their financial systems to “derisk” private investment in social and environmental sectors like education and climate adaptation.¹⁶ Yet, because of the debt cycles in which many Global South countries are trapped, this derisking often requires incentives from public financial institutions. These incentives frequently involve weakening environmental and social safeguards like pollution controls or requirements to consult with local communities, the consequences of which can deepen extractivism and continue the cycle.

¹⁶ Daniela Gabor, “The Wall Street Consensus,” *Development and Change* 52, no. 3 (2021): 429–59, <https://doi.org/10.1111/dech.12645>.

The way forward: a fundamental reorientation of the IFA

The constraints described above are not only financial. They are rooted in a broader pattern in which countries must generate foreign exchange under unequal conditions, often through the export of primary commodities. This reinforces a dual form of extraction: resources flow out through trade structures that prioritize raw material exports, and through financial channels in the form of debt service, profit repatriation, and exposure to volatile capital flows.

As long as countries remain dependent on external finance and foreign exchange earnings on these terms, new financial flows risk reinforcing existing patterns of extractivism rather than enabling structural transformation. Addressing this requires shifting the IFA to support the retention and productive use of resources, through reforms across three interrelated areas.¹⁷

Goal 1: Access to liquidity and macroeconomic stability tools

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

1. Increased access to unconditional liquidity, like expanded role and volume of special drawing rights (SDRs), fairer distribution criteria, and universal access to central bank swap arrangements, along with better-resourced and independent regional financing arrangements (RFAs).
2. The option to regulate capital flows in ways that prioritize financial stability and channel investment toward productive sectors.

¹⁷ For more on this vision, see Birss and Merling, "Green Industrial Policy Needs a New Financial Architecture."

Goal 2: Fiscal and policy autonomy

Countries need predictable, affordable, long-term, and grant-based public finance to carry out transformative economic and industrial policy. This requires:

1. Ending conditionality as a gateway to public finance, such that countries can define their investment strategies, labor and environmental standards, and regulatory approaches without penalty.
2. Scaled up public, grant-based, and concessional finance.
3. The rewriting of debt rules to align with the Sustainable Development Goals and the realities of climate and biodiversity vulnerability, and to be reflective of the levels of responsibility for the climate crisis held by each country.
4. Debt relief that restores fiscal space, supports public investment, and enables long-term, inclusive development.

Goal 3: Equitable voice in global economic governance

To achieve this, structural shifts in decision-making power are needed to create a truly fair and inclusive system of global financial governance. This must include:

1. Democratic decision-making across global economic institutions to establish fairer rules on international taxation, curb illicit financial flows, and ensure that all countries have a seat at the table.
2. A permanent multilateral debt resolution mechanism under the auspices of the United Nations that ensures equal participation of debtor countries, operates transparently, and places development, climate resilience, and social well-being on equal footing with creditor repayment.

Without such changes, pathways beyond extractivism remain largely out of reach; countries receive financing while remaining structurally dependent on extractive export models and exposed to financial outflows. A reformed architecture must instead enable countries to move along pathways beyond extractivism and toward regenerative, circular, truly sustainable economies that advance land rights, support working people, and maintain diverse ecosystems.