United Nations University
Institute for Integrated Management of Material Fluxes and of Resources

Resource Nexus Perspective: Recommendations for the International Financial Architecture for the 21st Century

Matthias Walz and Edeltraud Guenther
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United Nations University

UNU FLORES

Chapeau

This Resource Nexus Perspective, prepared for the Pact for the Future (Summit of the Future 2024) and the Fourth International Conference on Financing for Development (FfD) 2024, acknowledges the harsh reality: the global community has lost the "Save the World" game. However, it also presents a bold call to action for a return match with a renewed strategy. The essence of this new approach lies in shifting focus from finance to the real economy, particularly by empowering local production, trade, and value creation. Low- and middle-income countries in particular must harness their own resources and labor to build self-sufficient economies, while high-income nations and high nature-consuming countries must reorient towards economic practices that are globally sustainable. True global progress will only be achieved when the real economy takes precedence, leading to empowered, self-reliant communities capable of addressing the world's most pressing challenges.

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Resource Nexus Perspective: Recommendations for the International Financial Architecture for the 21st Century

Executive Summary

The current International Financial Architecture (IFA), shaped by institutions like the International Monetary Fund (IMF), World Bank, and Bank for International Settlements (BIS), is largely focused on financial stability and growth in high-income nations, leaving low- and middle-income countries vulnerable to global economic shocks and resource exploitation. This perspective outlines why the IFA must shift toward a bottom-up approach that reconnects finance with the real economy, fosters local empowerment, and supports integrated resource management. This is aligned with **Actions 49 - 54 of the Pact for the Future**, dealing with the international financial architecture. The aim of this perspective is to promote a more equitable and resilient global financial system that better supports both local economic development and environmental sustainability.

Key Recommendations for Reform

Reconnect Finance with the Real Economy: Focus financial systems on supporting productive sectors like agriculture, energy, and infrastructure in low- and middle-income countries to foster long-term stability and resilience.

- **Adopt a Bottom-Up Approach**: Empower low- and middle-income nations to manage their environmental resources and create value locally, reducing reliance on external economic forces.
- **Promote Wealth Redistribution**: Limit wealth concentration through global tax regimes and encourage policies that promote equitable resource use and sustainable development.
- **Support Local Financial Systems**: Foster local financial institutions and currencies that prioritize community needs and sustainability, enhancing local resilience.
- **Strengthen the UN's Role**: Focus the UN's mission on supporting local governance, integrated resource management, and regional alliances.

Why Reform the IFA?

Reconnecting Finance with the Real Economy: The current IFA is detached from the real economy, with speculative financial instruments often benefiting a wealthy minority while contributing to inequality and environmental degradation. Financial systems should support productive sectors like agriculture, energy, and infrastructure—especially in low- and middle-income nations. By grounding finance in these sectors, economies can build long-term resilience and reduce reliance on volatile global financial markets. The growing climate crisis and ecological degradation further highlight the importance of integrating environmental sustainability into financial systems. The financial sector must not only respond to economic crises but also ensure that financial practices contribute to sustainable development and long-term social stability (Pact for the Future, **Action 3**).

What Should Be Discussed

- How to ensure that **financial systems are reconnected with real economic** activities and support sustainable development.
- The **role of local governance** and the Resource Nexus in managing resources sustainably and creating resilient economies.
- Strategies for **addressing wealth inequality through financial reforms** and global tax regimes that redistribute resources more equitably.
- **Practical steps** for integrating bottom-up reforms with existing global financial regulations, ensuring that local and global financial systems are aligned with the SDGs.
- **Political steps** required to initiate a bottom-up approach and how to overcome resistance to change.

Local Empowerment and Integrated resource Management: A bottom-up approach that emphasizes local governance and control over environmental resources is essential for sustainable development. Low- and middle-income countries should leverage their environmental resources to foster local economic value and build self-reliant, resilient economies. This requires supporting local financial institutions—such as community banks and cooperatives—that prioritize sustainability and the needs of their communities. Local resource management, guided by frameworks like the Resource Nexus, ensures that resource extraction and distribution are aligned with both environmental and economic goals. Additionally, effective local governance of resources can reduce migration pressures by creating stable, sustainable livelihoods in rural areas, offering communities viable alternatives to leaving their homes in search of economic opportunities abroad. This connects to the Pact's call for removing all obstacles to sustainable development (Pact for the Future, Section 20, **Action 1**).

The UN can play a pivotal role in facilitating this shift by supporting coalitions of low- and middle-income countries, enabling them to negotiate better terms and retain control over their resources (Pact for the Future, Section 23, **Action 4**). Reforming the IFA in this way will ensure that financial flows directly benefit local economies and support sustainable resource use.

By implementing these reforms, the IFA can better promote global equity, sustainability, and long-term stability. The focus on empowering local communities and linking finance to real economic and ecological needs, thereby following human scale development, will lay the foundation for a more just and prosperous future.

Introduction

The key features of the International Financial Architecture (IFA) today are shaped by several elements, including the dominance of global institutions like the International Monetary Fund (IMF), World Bank, and Bank for International Settlements (BIS), which govern monetary policy and financial stability. Regulatory frameworks like Basel III aim to mitigate financial risks, though they often reflect the priorities of high-income nations. Global financial markets—dominated by stock exchanges, bond markets, and derivatives—drive capital flows, creating vulnerabilities for smaller economies. Private actors such as multinational banks and asset management firms wield significant influence over development paths, while crisis management mechanisms like the Financial Stability Board have emerged to enhance resilience, though they often prioritize advanced economies. Sustainability and climate finance have gained importance, but progress remains uneven, and governance structures still favor wealthier nations, perpetuating disparities in decision-making power.

The context for International Financial Architecture reform comprises institutions like the International Monetary Fund, World Bank, Bank for International Settlements, G7/G20, and global banks, whose primary concerns are global financial stability, inflation control, and economic growth. However, these institutions are increasingly confronted with the growing demand to address inequalities and incorporate sustainability into financial policy. The current debates on IFA reform revolve around how to balance financial stability with environmental and social challenges. There is heightened focus on integrating climate risks and the impacts of economic inequality into financial regulations and systems, which were historically designed with purely financial objectives in mind.

Attempts at IFA reform in the past, such as debt-for-nature swaps or the introduction of Special Drawing Rights (SDRs) for low-income countries, have shown mixed results. While some initiatives have succeeded in short-term relief or modest policy changes, they have often fallen short in terms of scalability and long-term sustainable impact, particularly for low- and middle-income nations. Reform efforts are heavily influenced by the needs and priorities of various actors, including global financial institutions and governments. For example, global banks, private financial institutions, the IMF, and leading economies like the G7 often prioritize financial stability and growth, with private companies typically motivated by profitability as a primary goal. This can sometimes lead to an overemphasis on short-term gains rather than long-term sustainability. Meanwhile, emerging economies and civil society groups advocate for reforms that address climate finance, sustainable development, and socioeconomic inequality, pushing for more balanced financial practices that integrate ecological and social considerations into global economic governance.

The key point of contact between financial and ecological systems lies in areas like climate risk, green finance, and resource management. As the impact of climate change becomes more apparent, these ecological challenges increasingly shape financial stability, influencing investment decisions, insurance markets, and global economic policies. This intersection highlights the necessity of incorporating ecological resilience into financial structures to create a more sustainable and balanced global financial system.

Natural resources and the processes of their extraction, processing, and global distribution form the foundation for satisfying the needs of all people. A key objective of the international financial architecture must be to ensure that these processes are conducted as fairly and efficiently as possible. While the current financial system operates efficiently, particularly in terms of liquidity and asset management, its increasing reliance on derivatives and other complex financial instruments has contributed to a significant disconnection from the real economy. This shift has amplified disparities in wealth distribution, allowing the wealthy to leverage financial mechanisms for their benefit and shape international financial and trade rules to their advantage. Such inequitable structures have historically been a source of environmental degradation, conflict and violence. The pressing question remains: **how can we reform the financial system to promote fairness and contribute to a more social and ecological just utilization of resources?**

A novel approach is emerging in the ongoing debate. Instead of focusing solely on the moral obligations of high-income countries and international solidarity to financially support less affluent nations in their efforts to adapt to and mitigate climate change, which is the idea of the New Collective Quantified Goal (NCQG), this perspective advocates for an innovative shift. Beyond top-down changes initiated by the UN or state alliances, there is a need to create legal and financial spaces that empower decentralized, smaller actors to autonomously transform the international financial architecture. By enabling these actors to engage in effective and impactful trade and finance agreements, they can contribute to a gradual transformation of larger systems (Pact for the Future, **Action 5,** Section 24).

Accelerating the achievement of the Sustainable Development Goals (SDGs) requires a bold, systematic political approach that emphasizes globally decentralized, widely dispersed actions. Local transformations in community infrastructure and businesses can drive rapid progress. Policies that prioritize “livelihood cases” over mere business cases can generate significant social value. By fostering self-reliance, local communities gain the power to negotiate legal structures with national and international decision-makers, including trade agreements, currency exchange mechanisms, and localization strategies such as the UN’s Local2030 Coalition. This decentralized approach has the potential to be a game changer in realizing the SDGs.

This analysis focuses on the critical factors influencing both social and ecological systems, employing a Social-Ecological Systems (SES) approach to reveal the interconnections essential for meaningful reform of the international financial architecture. While existing literature often emphasizes top-down reforms based on international solidarity, this study underscores the importance of a bottom-up approach that enhances local self-reliance and integrates financial systems with political structures and the environmental resources on which wealth depends, highlighting their interconnections as reflected in the Resource Nexus. This perspective acknowledges the challenges in designing and implementing these bottom-up reforms and in linking them with top-down international efforts. The subsequent sections will delve into the research question, outline the scientific approach, discuss the findings, and provide recommendations for addressing some of the most urgent challenges to reform the International Financial Architecture.

Method

To address the research question "**What circumstances need to be considered to connect the international financial architecture with the real economy?**" this study employed a diagnostic approach, drawing from social-ecological systems (SES) research. The international financial architecture is understood as a framework of institutions, policies, rules, and practices governing the global financial system. Recognizing that financial systems are dynamic entities embedded within broader economic and social systems, the analysis considers the interconnections between financial institutions, markets, and environmental resources. These connections, which link the financial system to global goods production and trade, can either exacerbate or mitigate pressing global challenges.

The study uses concepts from Social-Ecological Systems (SES) research to explore the interactions between financial and ecological systems, specifically focusing on how they influence and shape each other. By examining these complex interdependencies, the study sheds light on the broader impacts of international financial systems on economic, social, and environmental outcomes. Integrating insights from financial economics, policy considerations, and elements of the Resource Nexus framework, the analysis offers a robust foundation for understanding the systemic changes required for meaningful reform. While this perspective serves as a preliminary investigation, it already provides valuable contributions to the conversation, setting the stage for more in-depth exploration and action-oriented solutions.

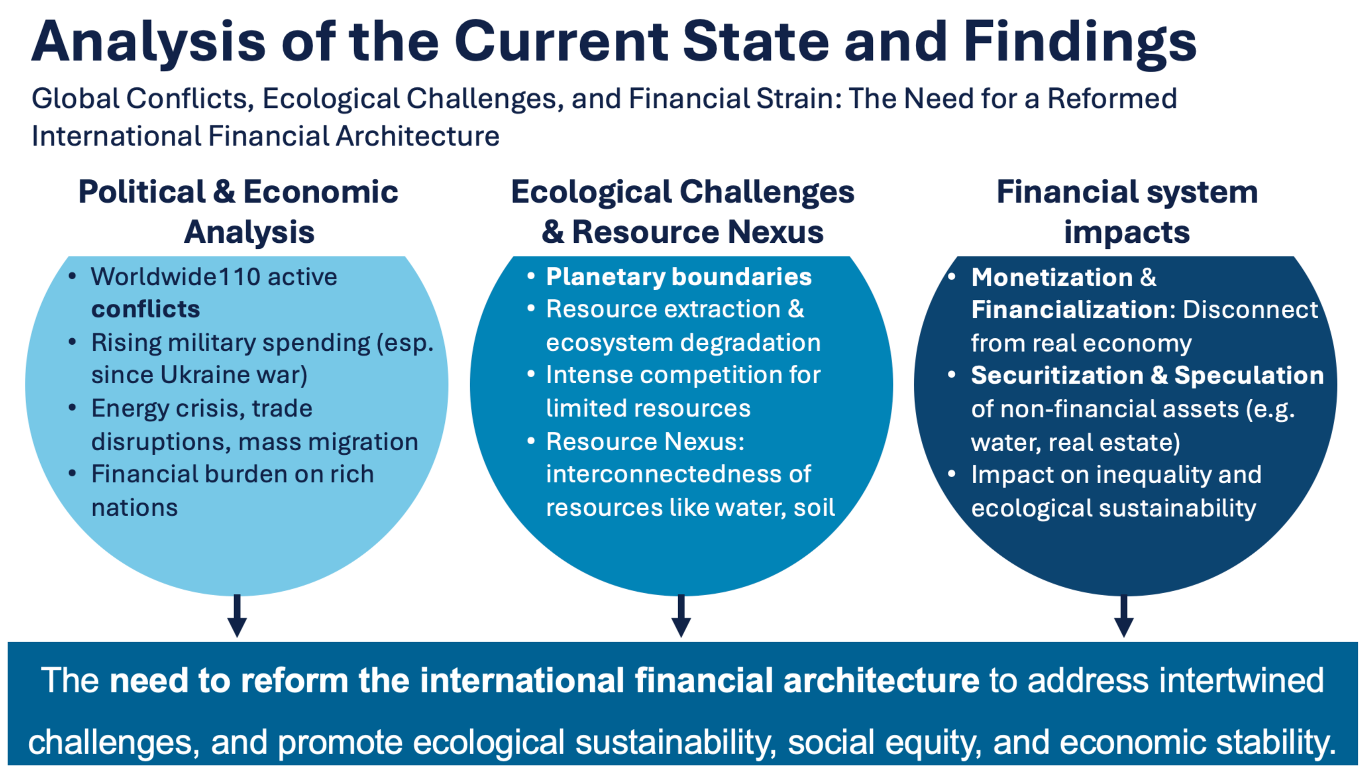
Analysis of the current state and findings

Analysis of current political and economic circumstances

The current global political and economic landscape is defined by a growing number of armed conflicts, with over 110 active wars worldwide. These conflicts place a heavy burden on national budgets, particularly for countries directly involved, and are driving governments, especially in wealthier nations, to increase military spending. The Ukraine war is a stark example, revealing the extent to which major power conflicts impact global financial markets. The associated sanctions, trade disruptions, and energy crises have demonstrated the deep interconnections between financial markets and resource flows, while also exposing the limitations of the current International Financial Architecture (IFA) in responding to the economic fallout of such conflicts.

As rich nations channel more funds into defense, alongside increasing investments in energy and resource security, other sectors, such as climate and development financing, may be deprioritized. Aggressive foreign policies have escalated global instability, spurring mass migration and the rise of nationalist movements across Europe, as seen in events like Brexit. Simultaneously, China is asserting its global influence, blending authoritarian politics with economic expansion. In response to these geopolitical uncertainties, countries like Germany are increasing military expenditures and securing energy resources, further reflecting the global shift toward prioritizing national security over other long-term development goals. A significant concern is the upcoming COP 29 negotiations on the New Collective Quantified Goal (NCQG) on climate finance (**Action 9, Section 28 c**), where new commitments will be made. However, given the financial strain from increasing military spending, high-income countries may fail to meet these obligations, much like the Nationally Determined Contributions (NDCs) under the Paris Agreement.

Economically, the outlook in 2024 shows mixed signals. While global GDP growth projections appear stable, with high-income countries expecting modest growth rates similar to the early 2000s, several structural challenges loom large. Increased military expenditures, the financial burden of aging populations, and the imperative to invest in outdated infrastructure, particularly in the context of climate change, pose significant fiscal pressures. These challenges are compounded by the influence of powerful industries that often prioritize profit over environmental and social considerations, further complicating the global push towards sustainable development.



This analysis, grounded in current geopolitical and economic data, highlights the critical need for a reformed international financial architecture that can address these intertwined challenges effectively.

Analysis of ecological challenges and Resource Nexus perspectives

Since the onset of industrialization in the 18th century, human activities have caused significant ecological disruptions, with the effects becoming more pronounced over time. By the 1970s, the scientific community had begun to fully comprehend and communicate the harmful consequences of these activities, culminating in the development of the planetary boundaries framework by Rockström et al. in 2009. This framework starkly illustrates the extent to which human actions have pushed the Earth's systems beyond safe operating limits, threatening the stability of the environment that sustains life.

The transgression of these planetary boundaries is not merely an environmental issue but has profound economic implications. The extraction, consumption, and management of environmental resources—such as soil, water, climate, and biota—are fundamentally tied to economic activities. This has often led to fierce competition for resources, sometimes resulting in the degradation or outright destruction of vital ecosystems. A poignant example is the Aral Sea in Central Asia, which was devastated by the overextraction of water for agricultural purposes, especially cotton production, leaving behind a barren landscape where once a thriving community depended on fishing.

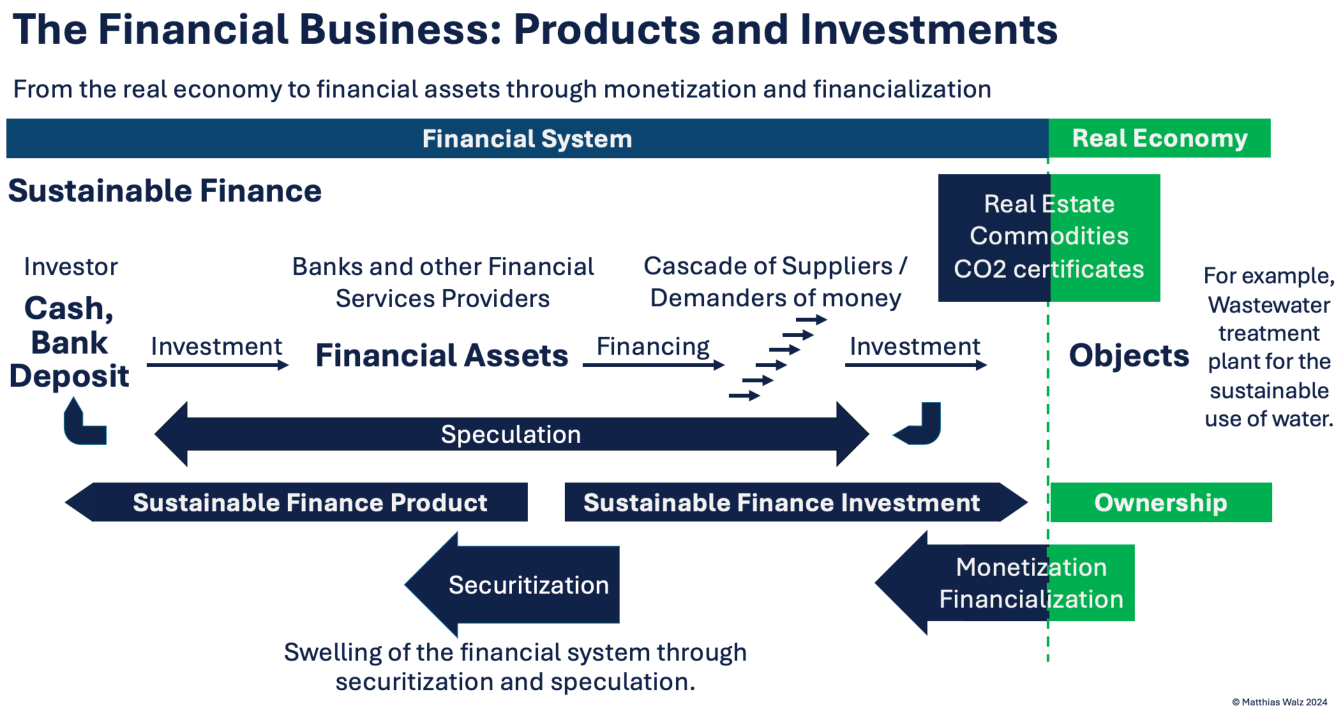
The Resource Nexus perspective offers a critical lens for understanding the interconnectedness and trade-offs between different environmental resources such as water, soil, biota, climate, material and space. It highlights how the financial system is inextricably linked to ecological challenges, influencing the competition over resources and the sustainability of their use. For instance, while the financial gains from natural resource extraction or agricultural expansion may seem appealing, these activities often exacerbate environmental degradation, pushing us further beyond planetary boundaries.

Research in Resource Nexus Finance seeks to address these issues by exploring how finance can be leveraged to promote sustainable economic activity within these boundaries. For example, UNU-FLORES' studies on Nigeria's Lake Chad region demonstrate the necessity of integrated financing strategies that consider the complex interplay between agriculture, water resources, and ecosystem services. These strategies must not only address the immediate financial needs but also build the capacity of local institutions to manage resources sustainably, thus highlighting the urgent need for a reformed financial architecture that supports ecological resilience and sustainability from the ground up.

Analysis of the impacts and possibilities for the financial system

Throughout the 20th century, the global financial system has exerted an increasingly profound influence on the global economy and the daily lives of individuals. This influence was starkly highlighted during the global financial crisis of 2008, which underscored the extent to which the financial system had become decoupled from the real economy. One of the driving forces behind this decoupling has been the expansion of speculative activities and the monetization and financialization of previously non-financial assets and activities. For instance, the rise of high-frequency trading and the proliferation of financial derivatives have introduced new layers of complexity and risk into the financial markets.

The process of monetization, where objects or activities that were once freely accessible are now given a monetary value, further illustrates this shift. A simple example is the transformation of a water spring, once freely accessible, into a commoditized resource requiring payment for use. When monetization is coupled with financialization, such as through investments in the modernization of that water source, the financial system further entrenches its influence over real assets. Securitization then allows these financial interests to be bundled and traded as separate assets, which often leads to speculation that can distort the true value and utility of the resources.



As a result, the financial market's assets have ballooned to a value far exceeding that of the real economy's assets. This disconnect is evident in various sectors, such as real estate, where speculation has driven rental prices in cities like Munich far beyond what would be justified by the actual value of the properties. The financial system, thus, plays a critical role in determining how environmental resources are utilized and valued, often with negative consequences for both the economy and the environment.

Moreover, the financial system has contributed to significant social issues, including rising inequality, conflicts, poverty, and hunger. These impacts are well-documented in the literature, highlighting the financial system's broad and often detrimental influence. However, the potential exists for the financial system to contribute positively to the development of a sustainable and fair economy—one that operates within planetary boundaries while ensuring social justice. Achieving this requires a fundamental rethinking of the financial system, moving away from practices like speculation, monetization, financialization, and securitization, which have contributed to the current ecological and social crises. For example, a UNU-IAS study is investigating how the decentralization of taxes can contribute to the revitalization of local economies.

The International Financial Architecture is structurally flawed in promoting fairness and sustainability due to its prioritization of financial stability over social equity and environmental concerns. The disproportionate control of high-income countries, particularly in institutions like the IMF and World Bank (**Action 50, Section 78**), shapes policies that often impose fiscal austerity on lower-income nations, exacerbating poverty and environmental degradation. This is evident in IMF structural adjustment programs that prioritize market liberalization at the expense of social welfare. Additionally, the IFA neglects the integration of ecological factors into financial systems, as seen in ongoing investments in fossil fuels despite international climate goals. Empirical evidence, such as the Global Inequality Report, which highlights that the richest 10% control 76% of global wealth, and Intergovernmental Panel on Climate Change (IPCC) assessments showing escalating climate impacts, underscores the IFA's failure to address growing global inequality and ecological crises.

Solving these problems requires a new way of thinking, one that transcends the current financial system. This means eliminating greenwashing and replacing it with genuinely sustainable finance. A reformed financial system must make economic activity not only efficient but also socially fair and ecologically sound. Overcoming the challenges posed by public and private debt, corruption, crime, taxes, and the complex interplay of exchange rates and interest rates will be essential in creating a financial architecture that supports sustainable development.

Reflections on the three analyses

Reflecting on the three analyses—political and economic circumstances, ecological challenges and the Resource Nexus, and the impacts and possibilities of the financial system—provides a critical foundation for considering the necessary reforms to the international financial architecture. To effectively drive change, it is essential to clarify what aspects of the system need alteration, how those changes can be implemented, and why they are necessary. The analyses presented above offer valuable insights into the current global situation and reveal significant barriers to reform, yet they also highlight key areas where intervention could be most impactful.

From a global perspective, there is a clear **deficiency in political will** to enact and enforce effective climate and environmental protection laws, compounded by insufficient funding. Ecological challenges have often been addressed in isolation, without fully grasping the interconnectedness and scale of the problems. The dominance of the financial economy over the real economy exacerbates these issues, as key actors within the financial system often prioritize private gain over public good, equality, and the well-being of future generations.

The SES research approach underscores the cyclical nature of these challenges: political conflicts fuel the military-industrial complex, which in turn impacts economic and ecological systems, creating further political repercussions. Since industrialization, economic gains have been unevenly distributed across regions, while environmental degradation has intensified both locally and globally. Despite the knowledge available in the 1970s regarding the ecological state of the planet, there was a missed opportunity to mitigate these negative trends with relatively little economic cost. Today, the window for achieving a sustainable improvement in the quality of life has narrowed significantly, and the economic cost of doing so has risen dramatically.

The international financial architecture (IFA), encompassing the institutions, policies, rules, and practices that govern the global financial system, is deeply intertwined with the international financial market. This market is dominated by a powerful financial complex characterized by speculation, monetization, financialization, and securitization. To protect people and preserve ecological systems, the current financial system would need to undergo significant curtailment. However, given the economic and political power wielded by the international financial industry, and the broader political landscape, the likelihood of achieving meaningful and far-reaching reform in the near future from top down remains low.

In conclusion, while the need for reform is clear, the path forward is fraught with challenges. The analyses above provide a roadmap for understanding these challenges and identifying where efforts might be most effectively directed. However, without a significant shift in political and economic priorities, the prospects for achieving the necessary reforms remain uncertain.

Consequences for the UN and the international financial architecture

The consequences of the current global political and economic situation for the United Nations (UN) and the international financial architecture are profound, necessitating an urgent reassessment of strategies and structures. The challenges faced by the German government, unable to fulfill its climate change commitments due to the economic and political fallout from the Ukraine conflict, reflect a broader trend among economically powerful nations. This trend threatens the funding of UN initiatives, particularly those related to climate and environmental protection. In response, the UN must adapt to this new global era by realigning its approach, especially within the context of the proposed UN2.0 reform.

A critical component of this realignment involves prioritizing local ownership, extraction, and distribution of natural resources, which are essential for fostering sustainable development. The Resource Nexus framework, which examines the interconnectedness and trade-offs between various resources such as water, soil, climate, space, material and biota, provides a vital perspective for this endeavor. By integrating Resource Nexus thinking into the international financial architecture, the UN can help ensure that resource management is both sustainable and equitable, addressing the root causes of environmental degradation and social inequality.

The international financial architecture, a cornerstone of global governance, is particularly vulnerable in this new era. The risk of paralysis, indecision, and stalemate at UN assemblies and conferences could delay critical reforms, creating a power vacuum where individual states or alliances might withdraw their influence, further weakening the UN's ability to address global challenges. Given the urgency of the climate crisis and its irreversible consequences, it is imperative that solutions are pursued, even in the face of diminished international solidarity.

To counteract the lack of global cooperation, the UN should emphasize the importance of local and regional alliances, particularly in the governance of environmental resources. Local ownership and management of resources can empower communities to extract and distribute resources in a way that aligns with their needs and environmental sustainability. By integrating these efforts into the broader economic framework, local resource governance can enhance economic resilience by creating a more stable and inclusive economic base rooted in sustainable practices. The Resource Nexus framework is crucial in linking these localized resource management strategies to the real economy, as it underscores the interdependencies between environmental resources (such as water, soil, and material) and economic activities. This approach can ensure that resource use is not only ecologically sound but also economically viable, leading to long-term growth and stability. By bringing local interests to the forefront at major UN conferences, the UN can foster a bottom-up approach to problem-solving, where economic and environmental sustainability are balanced through the Resource Nexus, benefiting both local economies and global markets.

An example of localized governance that balances environmental sustainability and real economic impact is Nepal's Community Forestry Program. Under this initiative, local communities are empowered to manage and allocate forest resources based on their needs, with an emphasis on sustainable practices. The communities decide how to use revenues generated from sustainable forestry, reinvesting them in local infrastructure, education, and other public services. The program has proven successful in improving both ecological outcomes and local livelihoods by providing economic benefits through the sale of timber, firewood, and non-timber forest products. This model ensures that communities take responsibility for resource management, while also addressing broader economic and social goals, offering a more adaptable and inclusive framework for integrated resource governance in other regions.

The UN must integrate this emphasis on local governance and Resource Nexus thinking into the reform of the international financial architecture. While past demands from poorer countries for greater support from wealthier nations have often gone unmet, the current global situation makes it even more unlikely that these demands will be fulfilled. Nevertheless, the UN should continue to advocate for these demands while simultaneously paving the way for self-help initiatives at the local level. By leveraging the international financial architecture to support local economic value creation and integrated resource management, the UN can empower communities to address their own challenges, fostering resilience and equity in an increasingly fragmented global landscape.

Facets in a new global financial architecture

A new international financial architecture must be fundamentally reimagined to ensure the functioning of the economy at local, regional, and global levels. This architecture must prioritize ecological, social, and economic stability and sustainability in an integrated manner. Moving beyond the "finance for development" paradigm, the focus shifts to making local development the cornerstone of creating ecological, social, and economic value. This reorientation is crucial for aligning financial systems with the needs of communities and the planet.

The importance of local ownership, extraction, and distribution of natural resources cannot be overstated in this new framework. The Resource Nexus perspective, which emphasizes the interconnectedness and trade-offs between different resources, should guide financial decisions to ensure that local development does not come at the expense of long-term sustainability. By adopting Resource Nexus thinking, the international financial architecture can support the sustainable management of resources, fostering resilience in local economies while contributing to global ecological balance.

Facets of a New Global Financial Architecture

Promoting **bottom-up reforms** to integrate local economies into the real economy

Current developments in the financial world, such as the adoption of Environmental, Social, and Governance (ESG) criteria and frameworks like Task Force on Climate-related Financial Disclosures (TCFD) and the Principles for Responsible Investment (PRI), are positive steps toward this goal. These initiatives help ensure that investments and loans are directed toward projects that have a positive ecological and social impact. The new financial architecture must make these criteria central to its operation, clearly distinguishing between investments that create value and those that destroy it. For example, investments in renewable energy, sustainable agriculture, and community-based projects should be prioritized, while those in fossil fuels, extensive monoculture farming, and overconsumption should be phased out.

To support this vision, the international financial architecture must be closely aligned with local production and trade. By promoting local value creation, local financial flows can be harnessed to improve local infrastructure, education, health, and basic consumer needs. The use of local currencies alongside national and global currencies can reinforce this process, ensuring that the benefits of economic activity are felt at the community level. This approach would also help build robust local and national financial markets, making them less dependent on external forces and more resilient to global economic shocks.

The concept of ownership within this architecture must also be redefined to serve the global community's interests. The financing and safeguarding of trade activities should be fair and aligned with ESG criteria, ensuring that intellectual property rights do not lead to financial exploitation or structural dependencies. Such dependencies can exacerbate inequalities and lead to conflicts, unrest, and even wars. Therefore, a fair and just international financial system must prioritize the equitable distribution of resources and knowledge.

Decentralization is another key facet of the new financial architecture. Moving away from centralized structures, the system should empower local financial service providers, particularly those based on cooperatives. These institutions, such as local public and cooperative banks, can establish holding banks regionally and then cooperatively across regions to achieve economies of scale and scope. Models like the Raiffeisen system and microfinance networks offer valuable lessons in how decentralized financial institutions can effectively serve local communities while contributing to broader economic stability.

Decentralized financial systems could empower local banks and cooperatives to reduce dependence on external markets and global financial fluctuations. By prioritizing local governance and reducing reliance on dominant international financial powers, food producers in low- and middle-income countries could have more control over their financial destiny and avoid the risks associated with market volatility, especially given their reliance on international buyers for their products. For example, with greater local financial infrastructure, the female shea butter producers of Kpugi, Ghana, could establish direct trade relations with buyers in the cosmetics industry, reducing their vulnerability to exploitative middlemen who often control access to international markets. Direct partnerships with buyers who value ethical and sustainable sourcing would provide consistent income streams while supporting environmentally sustainable production methods.

Central banks, in this new architecture, would be reduced to providing essential central services, with as much business as possible being handled by decentralized banks and service providers in accordance with the principle of subsidiarity. This shift would ensure that financial services are more responsive to local needs and conditions, fostering greater economic independence and self-reliance among local actors.

Finally, the new international financial architecture must promote global solidarity while advancing the economic independence and self-reliance of local communities. By supporting local ownership and integrated resource management through the Resource Nexus framework, the financial system can play a pivotal role in achieving a more equitable and sustainable world. Financial technology (fintech), governed as a public good, can enhance these efforts by improving financial transparency, inclusion, and operational efficiency. By leveraging fintech to direct resources and investments toward local needs, it can help achieve sustainable resource management, bolster economic resilience, foster financial inclusion, and address the long-term health of both the global economy and the planet.

To summarize, arguing for a bottom-up reform of the International Financial Architecture (IFA) is compelling because it empowers local communities and nations to have greater control over their resources and financial systems, aligning development with their unique social, environmental, and economic needs. This approach promotes self-reliance, resilience, and sustainable growth, particularly for low- and middle-income countries, which are often disproportionately affected by top-down, one-size-fits-all policies. Empirical evidence from grassroots initiatives shows that local resource management fosters sustainable practices and equitable wealth distribution, which contrasts with the negative impacts of IMF structural adjustment programs that impose external solutions. Furthermore, bottom-up reforms create accountability and transparency, as decision-making originates closer to the affected communities.

Top-down reform approaches to the International Financial Architecture (IFA) are primarily characterized by large-scale institutional change initiated by global entities such as the IMF, World Bank, G7, and the Bank for International Settlements (BIS) (**Action 50, Section 78**). These reforms generally aim to enhance global financial stability by ensuring liquidity during crises and establishing comprehensive regulations for cross-border financial flows. Central elements include global macroeconomic policies to prevent financial crises, standardized financial regulations for greater transparency and accountability, and crisis response mechanisms like debt restructuring for countries facing insolvency. Another critical component is conditional lending, often tied to structural adjustment programs that require borrower nations to implement specific policy reforms. Recently, blended finance has emerged as an additional tool, combining public and private capital to address development challenges and scale up investments in sectors like infrastructure, climate finance, and sustainable development, further diversifying the financial landscape.

While these reforms can create a stable international environment, they often overlook local contexts, contributing to criticism for their lack of inclusivity and alignment with specific national or regional needs. Thus, synergies between bottom-up and top-down reforms are possible and beneficial. While bottom-up efforts prioritize local adaptation and resource management, top-down reforms, such as those driven by global institutions like the G7 or IMF, can provide the necessary framework for ensuring that financial stability and global regulations support these localized efforts. By combining the global reach and regulatory power of top-down approaches with the flexibility and inclusiveness of bottom-up initiatives, the IFA can be restructured to support fairness, environmental sustainability, and social equity on both local and global scales.

Conclusion and Recommendations

Conclusions

The reimagined international financial architecture must shift from a top-down to a bottom-up approach, focusing on empowering low- and middle-income countries to build their futures on the sustainable and equitable use of their natural resources. This shift is essential for reducing global inequalities and supporting local economies, in line with **Action 40 of the Pact for the Future**, which calls for **transforming global governance** to tackle today's challenges. The United Nations can play a pivotal role in facilitating this transformation by supporting low- and middle-income nations in effectively harnessing their resources and promoting local economic value creation.

High-income countries must also undergo significant changes, moving away from exploitative practices that have historically disadvantaged low- and middle-income nations. By reducing wealth concentration and promoting fairer wealth distribution within and between nations, global inequality can be addressed. This transformation will require a monumental and historic redistribution of wealth, a task that the UN should prioritize. This aligns with the Pact's commitment to eradicating poverty and inequality (Pact for the Future, **Action 2, Section 21**).

A crucial component of this approach is the emphasis on local value creation. By focusing on the local use of resources, communities can generate more economic value within their regions, enhancing self-reliance and reducing dependency on external economic forces. This local empowerment is vital for building resilient economies that are better equipped to withstand global financial fluctuations.

However, achieving such ambitious reforms faces significant obstacles, especially considering the current UN governance structure and the urgency of the global challenges at hand. The likelihood of meaningful reform is low under the present conditions, but the need for change remains critical. The Pact for the Future emphasizes the **need for reforms to renew trust** in global institutions (Pact for the Future, **Section 67**), the UN must honestly face the realities of today's world.

Key Recommendations

1. **Ground Financial Reform in the Real Economy:**
    - Ensure that the international financial architecture directly supports real economic activities, particularly in low- and middle-income countries, by tightly linking financial instruments to productive investments in industries such as agriculture, energy, and infrastructure. This reduces the detachment of financial systems from the real economy, which has escalated with speculative instruments like derivatives.
    - Encourage countries to utilize their natural resources as a basis for value creation and sustainable development. By aligning financial activities with the management and use of local resources, economies can foster long-term resilience and economic stability.

- Explicitly prioritize financial systems that promote equitable wealth distribution and local economic benefits, particularly through transparent governance, resource stewardship, and inclusive financing mechanisms.

By embedding finance into the real economy—where productive sectors such as agriculture, energy, and infrastructure take center stage—low- and middle-income countries can strengthen their economic resilience and contribute to global stability. Past reforms have often fallen short because they allowed finance to become detached from real economic needs, with speculative instruments like derivatives diverting capital from sustainable investments. To correct this, strategies like creating local bond markets, tied to natural resources, are essential to funding development in a way that directly benefits communities. This approach ensures that financial systems actively promote inclusive growth, transparency, and equitable wealth distribution, while fostering long-term economic stability through responsible resource management.

2. **Adopt a Bottom-Up Approach to Financial Reform:**
   - Encourage low- and middle-income countries to leverage their natural resources as the foundation for both economic and financial activities, reversing the current paradigm where financial interests often dictate resource use.
   - Support local ownership and equitable distribution of natural resources to ensure sustainable development, economic self-reliance, and local value creation.
   - Promote investment in industries that directly utilize and add value to local resources, such as agriculture, energy production, and manufacturing, creating a stable economic base that is less vulnerable to global market fluctuations.

The bottom-up financial reform strategy emphasizes how natural resources can serve as foundational assets for low- and middle-income countries. This approach addresses the current imbalance in the IFA, where financial interests often dictate resource use without adequately benefiting local economies. By using financial measures such as blended finance, green investment funds, and microfinance for specific local projects—such as sustainable agriculture or infrastructure—low- and middle-income countries can better capture the value of their resources and reinvest in local economic development. This makes finance more tied to the real economy, channels capital into sectors that support sustainable growth, resource management, and equitable wealth distribution.

3. **Strengthen the Mission and Mandate of the United Nations:**
   - The UN should focus on core tasks, streamline its budget, and form strategic partnerships where financial resources are provided by partners, with the UN maintaining a mandate under international law.

The UN must facilitate a strong coalition of low- and middle-income countries, enabling them to collectively negotiate better terms and secure their rights to their resources. Strengthening the UN's Mission focuses on overcoming the governance failures (Pact for the Future, **Action 5, Section 24**) that have resulted in unsustainable resource exploitation and inequality. By forming a coalition of low- and middle-income countries, this reform directly addresses the disconnection between international finance and the real economy. It ensures that financial support is tied to projects that enhance the ecological sustainability of regions. The Resource Nexus perspective emphasizes that environmental resources, which are crucial for real economic activities, must be governed equitably to avoid the depletion of shared resources like water and soil. This reform could include advocating for new frameworks that integrate ecological costs into international financial decisions, ensuring that financial flows support both local economies and sustainable resource use.

4. **Promote Wealth Redistribution:**
   - Advocate for policies that limit extreme wealth accumulation and promote the redistribution of wealth, both globally and within nations, to reduce inequality (to be included in Pact for the Future, **Section 23, Action 4**).
   - Encourage high-income countries to transition away from practices that exploit low- and middle-income nations, focusing instead on building sustainable economies that benefit all social strata.

Promoting wealth redistribution tackles the evidence that global financial systems concentrate wealth and undermine equitable resource distribution. Linking this to the real economy, financial reforms like global tax regimes (e.g., financial transaction taxes or taxation on excess wealth) can help reallocate funds from speculative markets back into sectors that support productive, real-world economic activities, such as agriculture and renewable energy.

5. **Enhance Local Financial Systems and Value Creation:**
   - Support the development of local financial institutions, such as cooperatives and community banks, that prioritize local needs and sustainability, and improve access to finance for underserved communities.
   - Promote financial inclusion by ensuring that local populations, particularly those in low- and middle-income countries, can access a wide range of financial services.
   - Introduce and promote local currencies to strengthen local economies, reduce dependence on global financial markets, and foster economic resilience.
   - Encourage local value creation through the sustainable use of local resources, thereby increasing community self-reliance and economic stability.

Enhancing local financial systems is crucial to reconnecting financial markets with the real economy, particularly in low- and middle-income nations. Supporting local financial institutions enhances financial inclusion and improves access to local financing opportunities, while local currencies reduce dependence on volatile global markets. This recommendation is deeply aligned with the Resource Nexus, as it focuses on value creation through sustainable resource use, such as water management, regenerative agriculture or energy-efficient technologies. Local economies that are able to invest in and govern their environmental resources create circular, resilient systems that benefit both their ecological environment and long-term economic health.

Example: In Ghana, the formation of cooperatives among female shea butter producers demonstrated the power of organizational innovations. Through training, provision of equipment, and storage facilities, these cooperatives allowed producers to improve their market position by delaying sales, increasing bargaining power, and boosting income. The success of these innovations lies in their alignment with local cultural norms, allowing women to continue shea production without drastic changes to their traditional practices. Collaboration within the cooperatives also facilitated better access to finance and improved resilience against market fluctuations.

6. **Prepare for Resistance and Seek Strategic Alliances:**
   - Acknowledge the potential resistance from current UN governance and other entrenched interests and strategize accordingly.
   - Form alliances with nations and organizations that are aligned with the goals of ecological, social, and economic sustainability to build momentum for reform, for example like UN's Local2030 Coalition (Pact for the Future, **Action 5, Section 25**).

Preparing for resistance recognizes that entrenched global financial interests, such as large banks and organizations like the IMF, may resist changes that shift power towards local or regional governance structures. From the perspective of the real economy, opposing top-down control allows local industries and markets to grow in ways that are more attuned to resource limitations and ecological realities. Resource Nexus thinking would argue that resistance must be overcome by showcasing how aligning financial systems with real-world resource constraints (e.g., energy availability) can build economic resilience and reduce global financial instability, as ecological degradation directly impacts economic growth.

7. **Focus on Feasible Reforms:**
   - While comprehensive change is the ultimate goal, prioritize reforms that are realistic and can be implemented in the short term, ensuring that progress is made even in the face of resistance.

Focusing on feasible reforms is essential in reforming the International Financial Architecture because smaller, realistic changes can gain traction and demonstrate progress, even amidst resistance from established global financial players. This incremental approach allows reformers to target tangible improvements, especially in a bottom-up model where low- and middle-income countries can benefit directly. For instance, supporting national development banks in financing sustainable projects tied to local resources, such as soil (agriculture), water or energy, can foster economic independence without challenging the entire financial system. Such focused reforms make finance more responsive to local needs and help build the foundation for broader changes.

Concrete Financial Reforms for Economic and Social Development in Low- and Middle-Income Countries

By implementing targeted reforms to key financial institutions, the international community can reshape the global financial architecture to better support the economic and social development of low- and middle-income countries. **Amending Basel III** to lower capital requirements for loans tied to infrastructure, renewable energy, and resource management would incentivize private investment in these regions, driving sustainable growth and resilience.

> Example: Based on work with the International Finance Corporation (IFC) in fragile and conflict-affected countries, it was found that locally owned banks and private sector investors tend to stay engaged even during crises, showing a higher risk tolerance than foreign investors. However, this may not hold for agriculture due to climate risks. Adjusting Basel III regulations could help better account for the unique risks of environmental- and climate-related projects, ensuring that mitigation and adaptation efforts do not negatively impact a bank's solvency assessment, which in turn would increase the risk appetite of investors for these types of sustainable projects.

Additionally, **reforms to the IMF's Special Drawing Rights (SDRs) (Action 53, Section 81)**, allocating additional resources to countries facing economic and environmental challenges, would provide essential liquidity to support development efforts. The IMF could create a new class of SDRs or another financial instrument designated for climate finance and sustainable development that would be distributed interest-free to eligible countries.

> Example: In Bangladesh, with additional SDR funds, a project could be established to provide community-based micro-finance, supporting rural communities in adopting climate-smart agricultural practices and improving access to water resources for irrigation, enhancing resilience to climate shocks and rising sea levels. These efforts would strengthen sustainable livelihoods and support economic development in vulnerable regions. Under current SDR rules, Bangladesh would face significant challenges in financing the proposed climate-resilient projects. SDRs, while offering liquidity, are distributed based on countries' IMF quotas, which disproportionately favor wealthier nations. This means that low- and middle-income countries like Bangladesh receive a much smaller share of SDR allocations. Furthermore, current SDRs come with an interest component, making it difficult for Bangladesh to finance large-scale, non-revenue-generating projects like climate adaptation without incurring significant debt. The lack of interest-free SDRs further limits their capacity to finance such projects sustainably.

Coupled with **changes to the World Bank's voting structure**, giving greater influence to countries disproportionately affected by economic inequality and climate change, these measures would ensure that global finance also serves the needs of low- and middle-income economies. By adopting these recommendations, the international community can work towards a financial architecture that promotes global equity, sustainability, and resilience, ensuring a more just and prosperous future for all. Through a focus on local resource use and value creation, communities can become more self-reliant, building the foundation for long-term economic stability and independence.

Glossary:

The glossary in this perspective contains special terms and designations as well as references that are used in the text.

- **Action:** Specific actions outlined in the UN's Pact for the Future, revision 4, to address global challenges particularly in 1) Sustainable development and financing for development, 2) International Peace and Security, 3) Science, technology and innovation and digital cooperation, 4) Youth and Future Generations, and 5) Transforming global governance.
- **Bank for International Settlements (BIS)**: An international financial institution that fosters monetary and financial cooperation between central banks globally.
- **Basel III**: A global regulatory framework developed by BIS to strengthen regulation, supervision, and risk management within the banking sector.
- **Climate risk**: The financial, environmental, and social risks posed by climate change and extreme weather events.
- **Financial Stability Board**: An international body (hosted by the BIS) that monitors and makes recommendations about the global financial system to promote financial stability.
- **Global financial system**: The worldwide framework of legal agreements, institutions, and economic actors that together facilitate international flows of financial capital.
- **Global Inequality Report**: A report that assesses income and wealth inequality across the globe, highlighting disparities between countries and regions. (https://wir2022.wid.world/)
- **Human scale development**: An approach to development that focuses on meeting human needs at a local and sustainable level, emphasizing well-being over economic growth. (https://w.wiki/BEXK)
- **International Finance Corporation (IFC)**:The IFC is a member of the World Bank Group focused on private sector development in developing countries.
- **International Monetary Fund (IMF)**: A major international financial institution of the United Nations that provides financial assistance, surveillance, and advice to member countries to maintain global financial stability.
- **Local2030 Coalition**: A UN initiative aimed at advancing the localization of the Sustainable Development Goals (SDGs) through partnerships with local actors. (https://www.local2030.org/)
- **Local currencies**: Currencies used within specific regions or communities to encourage local trade and economic stability, often supplementing national currencies.
- **Microfinance** (in this Perspective meant as microfinance from public institutions): Financial services, such as small loans, offered to low-income individuals or small businesses lacking access to traditional banking.
- **Monetization**: The process of converting non-revenue-generating assets or activities into sources of revenue.
- **Nepal's Community Forestry Program**: A successful initiative that empowers local communities in Nepal to manage forests sustainably, improving both ecological and economic outcomes.(https://w.wiki/_roWF)
- **Principles for Responsible Investment (PRI)**: A UN-supported framework that encourages investors to incorporate environmental, social, and governance (ESG) factors into their decision-making.
- **Raiffeisen system**: A cooperative banking model that originated in Germany in the 1850ies by Friedrich Wilhelm Raiffeisen, focusing on local savings and credit institutions to serve community needs. It promotes self-reliance, community support, and democratic control, emphasizing mutual aid and sustainable development. https://w.wiki/BFeV

- **Resource Nexus:** A Resource Nexus approach does not necessarily include all environmental resources; in most conditions, they address fewer resources. A Resource Nexus approach includes at least two resources from the two layers (i.e., the first layer of key environmental resources, and the second layer of resources are derived from and composed of key environmental resources)

  First layer resources:
  - **Resource biota**: Biota is a resource comprising of the living plant, animals and microorganisms in a region or habitat. Trees are part of biota and timber therefore is a material that is derived.
  - **Resource climate**: Climate are the weather conditions in a region over a long period. It incorporates features like temperature, precipitation, humidity and wind. Atmospheric greenhouse gas emissions are drivers of climate change. The atmosphere is strongly connected to climatic conditions. Clouds, for example, affect global temperatures. One could argue that the sun is a resource, but it envisaged in this paper to be part of the climate system.
  - **Resource material**: Material is an environmental resource and includes primary elements that are needed to manufacture and produce goods and extracted from the earth (e.g., steel, gas, coal, oil) and secondary raw material.
  - **Resource soil**: Soil is an environmental resource, supporting the life of plants and micro-organisms. It largely is the upper layer of the earth, in which plants grow.
  - **Resource space**: Space is also presented as an environmental resource. Compared to the earlier groupings, 'land' is replaced with 'space'. Planning issues on land and sea are increasingly connected through the planning and management of these resources. A resource like 'space' would therefore acknowledge such interdependencies.
  - **Resource water**: Water is the liquid resource from rainfall, among others in rivers, lakes and seas.

  Second layer resources:
  - includes (i) sea, (ii) food, (iii) waste, (iv) energy and (v) land.

  Source: Brouwer, F., Caucci, S., Karthe, D. et al. Advancing the resource nexus concept for research and practice. SNF 31, 41–65 (2023). https://doi.org/10.1007/s00550-024-00533-1

- **Rockström, Johan et al. 2009**: Groundbreaking study that introduced the concept of planetary boundaries, outlining limits for sustainable human activity. (https://doi.org/10.1038/461472a)
- **Shea butter producers of Kpugi in Ghana**: A group of female entrepreneurs in northern Ghana engaged in harvesting and processing shea nuts into shea butter, fostering local economic growth.
- **Social-Ecological Systems (SES) research**: A research approach by Nobel prize winning Elinor Ostrom, that examines the interaction between ecological systems and human societies, often used for sustainability studies. (https://doi.org/10.1126/science.1172133)
- **Special Drawing Rights (SDRs)**: An international monetary reserve asset created by the IMF, serving as a supplementary foreign exchange reserve for member countries.
- **Task Force on Climate-related Financial Disclosures (TCFD)**: A global framework that provides recommendations for corporate disclosure on climate-related financial risks, created by the Financial Stability Board (FSB).
- **UNU-FLORES' studies on Nigeria's Lake Chad region**: Case Study of Northern Nigeria and Lake Chad on Climate Change, Security, and the Resource Nexus. (https://doi.org/10.3390/su131910734)
- **UNU-IAS study on Revitalizing Local Economies:** A case of Japan's Furusato Nozei Program and its Digital Transformation Impact on Tax Decentralization, Economic Growth, and Sustainable Development. (https://unu.edu/ias/brief/revitalizing-local-economies-case-japans-furusato-nozei-program-and-its-digital)

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Contact:

Dr. Matthias Walz | Senior Scientist for Sustainable Finance

United Nations University
Institute for Integrated Management of Material Fluxes and of Resources (UNU-FLORES)
Ammonstrasse 74, 01067 Dresden, Germany
Tel: +49 351 7999 3803 | Email:od_flores@unu.edu Web: flores.unu.edu
Join us on: Facebook | Twitter | YouTube | LinkedIn

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