CLIMATE CRISIS, DEBT AND RECOVERY IN A CONTEXT OF MULTIPLE CRISES

A look from a Climate Justice perspective in Latin America and the Caribbean
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CLIMATE CRISIS, DEBT AND RECOVERY IN A CONTEXT OF MULTIPLE CRISES
A look from a Climate Justice perspective in Latin America and the Caribbean

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Main findings

Green, fair and sustainable recovery

- The opportunity of transformation offered by the post COVID19 economic recovery process in 2020 was not well used, since the process increased the inequality gap between rich and poor, with a negative impact that fell mainly on historically unprotected groups. On the other hand, investments and public spending were oriented towards traditional, highly extractive and polluting sectors, wasting the opportunity to address additional environmental crises, such as the climate crisis and the loss of biodiversity. There are estimates that indicate, for example, that in 2020, 33 countries in Latin America and the Caribbean (LAC) allocated only 0.5% of their environmentally sustainable spending on total recovery spending, significantly lower than the 19.2% calculated as the world average (UNEP, 2021).

Debt and climate crisis

- The context of multiple crises has led to an increase in debt levels in the Global South since 2020, which, if not addressed in a timely manner, could lead to a debt crisis in several countries.

- Public debt in LAC, both internal and external, increased from 67.9% to 77.4% of GDP between 2019 and 2020, and reached 71.8% of GDP in 2021 (IMF, 2022).

- In 2021, debt service in LAC represented 91% of total social spending (education, health, and social protection) (Martin and Waddock, 2022). Likewise, the current prioritization of debt service payments also puts pressure on the countries of the Global South to continue investing in extractive sectors, delaying the energy transition towards low-carbon models and generating conflicts in their territories, as well as negative socio-environmental impacts.

- Most LAC countries are middle-income countries, so they have more difficulties accessing debt relief mechanisms or financing under favorable conditions (LATINDADD, 2021b).

- This report shows that the climate crisis exacerbates the vulnerability of debt in the countries of the Global South, mainly affecting the most vulnerable groups. The report details five key aspects where this relationship is addressed, analyzing the specific case of LAC.

- In 2020, globally, loans were the main mechanism for channeling climate finance from international public sources (72%); in LAC, this figure was even higher, reaching 81% (OECD, 2022).
Globally, multilateral development banks (MDBs) channeled 91% of climate finance through loans (OECD, 2022), unfairly increasing debt levels in the Global South.

75% of the financing provided by MDBs was non-concessional (OECD, 2022), that is, with less favorable conditions, which is quite questionable given their role as “development banks”.

The fact that, globally, 62% of public climate finance for adaptation projects is also being channeled through loans, is equally of great concern.

Given the little fiscal space of Global South countries, faced with enormous damages and millions in economic losses as a result of extreme climatic events, these countries must choose to resort to more debt to recover.

Millions of dollars are flowing into sectors that accelerate the climate crisis instead of addressing it, such as investments in fossil fuels and the arms industry. Hence, money exists, however, the political will of the Global North to prioritize urgent issues such as the climate agenda is missing.

Given the failures of the current climate finance architecture – which continues to respond to a neo-colonial, unfair and undemocratic system – and recognizing the close relationship that exists between debt and the climate crisis, it will be very important to implement new solutions in order to mobilize the amount of resources based on the real needs of “developing” countries. These needs are estimated at around 5.8-5.9 trillion dollars until 2030 and correspond to the countries least responsible for the climate crisis, which are, however, the most affected by its impacts. This report analyzes some of the circulating proposals to address these multiple crises in a comprehensive manner.

Most of the solutions or recovery alternatives to these multiple crises, with the potential to address the growing debt problems, as well as the climate crisis, are out of the negotiations scope considered within the UNFCCC framework, and must be considered in other instances, under the umbrella of the United Nations.
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The multiple crises, in addition to the impacts of the war between Russia and Ukraine on prices, energy and food security at a global level, make it urgent to undertake immediate measures considering a comprehensive view of the economic, environmental, and developing agendas. These measures must be translated into real solutions that solve all the problems from a systemic and transforming perspective, recognizing that the current economic and financial systems prevailing globally are the main causes of the crises that humanity faces – both the climate crisis and the great inequality gap that disproportionately affects most of the population – putting its subsistence on the planet at risk. Unfortunately, this did not happen in the context of the post-COVID recovery process undertaken since 2020 in the region.

The level of indebtedness has increased in recent years in Latin America and the Caribbean (LAC). This puts 10 of the LAC countries very close to a very serious debt crisis situation, similar to the one that occurred in the eighties. Furthermore, even though the region is responsible for only 11% of the Greenhouse Gas (GHG) emissions that cause climate change, it turns out to be highly vulnerable to the negative impacts of the climate crisis, which in turn, is already taking lives and generating huge economic costs to the countries – covered in many cases with more debt.

On the other hand, LATINDADD has been analyzing from a climate and economic justice perspective the impact of climate finance committed by the countries of the Global North under the United Nations Framework Convention on Climate Change (UNFCCC). In this sense, non-compliance, insufficiency and problems regarding access and distribution between mitigation and adaptation have been observed; in addition to an increased debt for the countries least responsible for the climate crisis, an extremely unfair situation that must be denounced within the framework of common but differentiated responsibilities.

For all these reasons, this document constitutes a new contribution from LATINDADD in the context of a post-pandemic recovery, climate finance and its close relationship with debt in the region. The document is based on up-to-date data and considers the challenging context of multiple crises that humanity is facing, aggravated by the negative impacts of the Russia-Ukraine war. Likewise, this research analyzes alternatives and makes a general call for an urgent and immediate reform of the international financial architecture, considering the little time that humanity has left to address the climate crisis in a timely manner, as well as to advance towards the fulfillment of the 2030 Agenda of sustainable development. Time is running out; the future is now!
1.1 Climate crisis in the context of multiple crises

The world is experiencing a very complex moment, in which several crises have converged, including among others, the health crisis related to the Covid-19 pandemic, which, although it began in 2020, has not yet been fully controlled and continues to claim victims, posing challenges mainly for the most vulnerable countries. Also, the economic crisis that worsened as a result of the measures applied globally to control the spread of the pandemic, and which is now related to higher inflation levels triggered by the current war between Russia and Ukraine -that, among other things, caused the increase in the price of fossil fuels and fertilizers with very negative effects on food availability and food security-. Likewise, as a result of highly unsustainable development models, such as, capitalism and extractivism –historically perpetrated from the countries of the north to the countries of the Global South and fueled by high levels of consumption, especially in the Global North– the planet has also exceeded its natural limits, and it is currently facing two very serious environmental crises that put the lives of people and millions of species at risk: both, the climate crisis and the biodiversity loss, closely related to each other.

The latest mitigation report published in 2022 by the Intergovernmental Panel on Climate Change (IPCC) shows that humanity has only until 2025 to reach the maximum peak of Greenhouse Gas (GHG) emissions to make it possible to timely face the climate crisis and limit the increase in temperature to 1.5°C1, a situation that would still be considered as a safe scenario for life, according to the goal set within the framework of the Paris Agreement (IPCC, 2022) and reaffirmed during the COP27 held in Egypt in 2022.

Although many countries, mainly from the Global North, have a “historic climate debt” –as internationally recognized– (see figure 1), extreme weather events are mainly affecting the countries of the Global South (see figure 2), which are less responsible for the emission of GHG and do not have enough resources to invest in climate action, nor to recover from these disasters that represent billions of dollars in losses and damages –in addition to other effects that cannot be accounted for economically.

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1 Under the Paris Agreement and the Glasgow Agreement, the international community committed to reducing global Greenhouse Gas (GHG) emissions by 45% by 2030, relative to 2010 levels in order to limit the increase in global temperature at 1.5°C. According to the IPCC, the maximum level of GHG emissions must be achieved by 2025, to subsequently change the trend towards the reduction that was initially set as a goal. The latter would leave humanity less than 3 years to achieve that goal.
In the framework of the common but differentiated responsibilities, recognized under the United Nations Framework Convention on Climate Change (UNFCCC), the countries of the Global North (mainly the United States, Russia, the European Union countries, China, and Japan) and the big oil corporations are primarily responsible for the climate crisis. Therefore, these actors should make the main efforts to reduce their investments in fossil fuels, change their productive and energy matrices, and reduce their consumption of resources and energy, in order to move faster towards new low-carbon development models. Likewise, these efforts should not deepen extractivism in the countries of the south, but rather guarantee a fair transition and a serious decarbonization process. It is also worth mentioning that when considering the income percentile of the population, there is a large and unfair gap. The latter was verified during the period between 1990 and 2015, in which the richest 10% of the world’s population produced 52% of the accumulated carbon emissions and only the richest 1% produced double the emissions than the poorest 50% (OXFAM, 2020).

These actors should also repair the historic climate debt they have left humanity with, channeling debt-free resources to countries that are least prepared to deal with the climate crisis –and which are suffering enormous damages and losses from climate events. The goal of mobilizing USD 100 billion annually from 2020 –as part of the climate finance commitment assumed by the countries of the Global North in 2009, in Copenhagen– has not yet been met and has proven to be highly insufficient to respond to the real needs to attend the climate crisis.

What is being done globally in terms of climate commitments and implementation is also highly worrying, since the actions are highly insufficient to achieve the objectives set within the framework of the Paris Agreement. In fact, the latest synthesis report from the UNFCCC reveals that, if the climate commitments of 193 countries were fully met, instead of reducing the GHG emissions by 45% by 2030 as established in the Paris Agreement, they would be boosting them by 11 %, leading to an increase in the planet’s temperature of more than 2.5°C (UNFCCC, 2022a).
Additionally, false solutions are being promoted under the UNFCCC and among the multilateral development banks, such as: carbon markets, carbon neutrality\(^2\), and carbon capture technologies; putting the private sector as the great savior; and promoting financial mechanisms that deepen neo-colonialism, such as, more loans and green bonds, instead of undertaking an urgent action that should be mainly led by the Global North, in order to carry out transformations in the capitalist/extractivist/consumerist development and international financial system.

Furthermore, the war between Russia and Ukraine is diverting the priorities and economic resources of the most polluting countries, towards the arms industry and fossil fuels, actions that could accelerate the climate crisis and weaken the climate agenda, while jeopardizing compliance with the Paris Agreement and the commitments to mobilize climate finance.

1.2. Climate crisis in Latin America and the Caribbean

Despite not being highly responsible for the climate crisis\(^3\), Latin America and the Caribbean (LAC) is one of the most vulnerable regions to the effects of climate change, negatively adding to its social and economic vulnerabilities, that were already having a huge impact on a large part of the population. These vulnerabilities were also exacerbated by the arrival of the pandemic and the uneven recovery that took place in the world. An example of this is the increasingly frequent occurrence of extreme weather events, such as hurricanes, prolonged droughts, storms, and frosts that are leading to flooding and are affecting food production throughout the region, damaging also the infrastructure. Further, current effects have to do with the retreat of glaciers, the spread of diseases such as dengue fever, and increasingly uncontrollable forest fires that affect several countries in the region (LATINDADD, 2021a). These crises have already claimed many lives, costing billions of dollars in loss and damage from extreme weather events. For example, in 2020, while Honduras was hit by hurricanes Eta & Iota – during the worst of the Covid-19 pandemic – 95 people died; 437,000 were affected, and economic losses exceeded USD 2,000 million in the span of just two weeks (IDB-ECLAC, 2021).

1.3. Has the region moved towards a green, fair and sustainable recovery?

The economy of Latin America and the Caribbean was the most affected in 2020, falling by almost 7% as a result of the COVID-19 pandemic (ECLAC, 2022a)-which not only had economic repercussions, but also many social impacts that increased the vulnerability of the region and disproportionately affected the most vulnerable and historically discriminated groups. Although the region’s economy recovered 6.3% in 2021 (ECLAC, 2022a), the figures are expected to reach 3.7% in 2022, and only 1.3% for 2023\(^4\). The pandemic has further aggravated the precarious day-to-day subsistence of a large part of the population, especially women, poor families and indigenous communities, who lack of adequate jobs and access to quality basic services.

\(^2\) The “carbon neutral” narrative can be a perverse incentive to big polluters who might prefer to offset their emissions rather than reduce them.

\(^3\) LAC contributes 11% of cumulative global GHG emissions (IPCC, 2022).

\(^4\) Based on ECLAC projections available in the following table: https://www.cepal.org/sites/default/files/pr/files/tabla_pib_2022-2023_es.pdf
The COVID-pandemic has reversed several years in terms of poverty and inequality, leaving an additional 11 million people in extreme poverty and increasing inequality (ECLAC, 2022b). However, the number of billionaires in the region has increased and their wealth has grown by 14% between 2019 and 2021 (ECLAC, 2022b).

Likewise, Latin American countries resorted to greater borrowing in order to fund their recovery, given their limited fiscal space and the heavy public financial costs of the pandemic, which reduced their tax collection and increased their spending.

Although the context was very unfavorable, it also offered the perfect opportunity to accelerate the transition towards newer, fairer, more sustainable, and resilient development models, recognizing that all LAC countries were facing a harsh climate crisis that continue affecting them. Thus, several civil society initiatives emerged, demanding a transformation of economic systems, within the context of a more comprehensive recovery, so that the future systemic changes do not fail to address the crises caused by the previous unsustainable development models —capitalism and extractivism—. Some examples of these initiatives included: the Transformative Reactivation, the Eco-Social Pact of the South, and Our Green America, all of which raised demands and proposals.

LATINDADD carried out a follow-up on how the economic recovery packages of 6 countries in the region were structured, observing that some of them, including Brazil and Ecuador, resorted to internal and external public debt through the issuance of bonds or loans from international organizations, given their reduced fiscal space. Thus, the economic and productive measures applied by the analyzed countries included: employment preservation through the protection of liquidity and the subsistence of the affected productive units with significant coverage, associated however with requirements and processes that excluded some key segments, such as, Small and Medium Enterprises (SMEs), and other informal ones. In the social field, the analyzed countries granted monetary and non-monetary transfers, with some limitations regarding: the standards to authorize benefits, and the control systems to guarantee the efficient use of resources. Moreover, some implementations that met the immediate needs of the emergency stand out; however, some groups with specific characteristics of vulnerability (indigenous populations, older adults, people in conditions of non-regular human mobility) did not benefit from targeted actions —or the beneficiaries were very few. The inclusion of a gender and environmental approach was also limited (LATINDADD, 2022).

Furthermore, other research estimated the percentage of the investments made in the context of the recovery process that could contribute to the fight against environmental crises, and thus be considered “green”. For example, an investigation by the UN Environment Program (UNEP) and the University of Oxford found that the 33 LAC countries allocated 318,000 million dollars to fiscal and stimulus measures in response to the Covid-19 pandemic in 2020, out of which only 46,000 million dollars were allocated to recovery expenses. From the latter, only 1,470 million dollars could be considered “green”, with barely 0.5% of environmentally sustainable spending —which is significantly lower than the 19.2% calculated as the world average (UNEP, 2021).

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5 The analyzed countries included: Argentina, Brazil, Chile, Colombia, Costa Rica and Ecuador.
The Latin American Observatory for Climate Action (OLAC, for its acronym in Spanish) also verified that the investments made by the countries were mainly directed towards highly extractive and polluting sectors—such as hydrocarbons, mining and agro-industry—and to gray infrastructure projects—those that do not contemplate sustainability and resilience principles—(OLAC, 2021).

Therefore, it can be concluded in general that the opportunity of transformation offered by the economic recovery process in 2020 was not well used, since the inequality gap between rich and poor was heavily increased, with a negative impact mainly for women, low-income families, indigenous communities and the informal sector, among others. In addition, investments and public spending were oriented towards traditional, highly extractive and polluting sectors, wasting the opportunity to address the environmental crises—such as the climate crisis and the loss of biodiversity, accelerated by the pandemic—instead of tackling them from a comprehensive and long-term perspective.

It must be recognized that humanity continues to face a context of multiple crises, further aggravated by the impacts of the war between Russia and Ukraine, so the recovery process will continue to offer an opportunity for transformation. In this sense, governments should make public investment decisions based on a comprehensive view of all the problems and crises that have converged, focusing their decisions on life and not profit, while prioritizing their support to the most vulnerable groups. If these authorities continue to solely focus on the economy and the short run, they will only accelerate the environmental crises, which cannot be reversed or solved if we overpass the point of no return.

1.4. Debt in Latin America and the Caribbean

Globally, 54 developing countries with severe debt problems have been identified, 10 of which are in Latin America and the Caribbean (Jensen, 2022).

Public debt in LAC in 2021, both internal and external, increased from 67.9% to 77.4% of GDP between 2019 and 2020, and reached 71.8% of GDP in 2021 (IMF, 2022). The detail of the public debt of 23 countries in the region is shown below:
In 2021, 66% of the external public debt of the LAC countries was owned by private creditors, 23% by public creditors, and the remaining 11% corresponded to use of IMF credits and the distribution of Special Drawing Rights (SDR) (World Bank, 2022).

The total debt of Latin America and the Caribbean as of 2021 reached almost USD 2 trillion, which represented 21% of the total debt of developing countries (World Bank, 2022). Likewise, the external debt service in the region is the highest among emerging and developing economies as a percentage of exports of goods and services (ECLAC, 2022a).

It is also important to consider that most Latin American countries are middle-income countries, so they have more difficulties accessing debt relief mechanisms, such as the Debt Service Suspension Initiative (DSSI), the Common Framework, created by the G20 in 2020, or other favorable conditions (LATINDADD, 2021b).

In a scenario of multiple crises, the debt burden increasingly restricts the resources available for states to address multiple crises. For example, in 2021 debt service in LAC represented 91% of total social spending (education, health and social protection) (Martin and Waddock, 2022). Furthermore, estimations reveal that in 2021 globally, the lowest-income countries spent five times more on external debt payments than on projects related to climate action (Debt Justice, 2021).

Although there have been some debt relief initiatives adopted since the start of the pandemic, such as the Common Framework or the DSSI, as previously mentioned, the response to date has been insufficient. In fact, several countries would need a comprehensive sovereign debt restructuring to restore debt sustainability (Jensen, 2022).
It is also important to mention that the debt sustainability analysis methodologies of multilateral institutions such as the International Monetary Fund (IMF) do not adequately include climate and sustainability variables.

For all these reasons and given the current financial architecture, LATINADD questions the continued promotion of instruments such as loans and bonds under non-concessional conditions, which accumulate debt in countries of the Global South. The foregoing is particularly worrying considering that these countries have historically faced growing indebtedness and great fiscal constraints, which will never allow them the opportunity to reach adequate levels of development, unless the vicious cycle of indebtedness stops.

As will be seen later, another highly worrying element that links the level of debt to the climate crisis has to do with the large amount of money that enters the countries of the Global South, through loans, as part of the climate finance commitments carried out by the Global North, increasing the levels of indebtedness of the former, unfairly. In addition, a large part of the economic losses that Global South countries are experiencing, given the climate crisis, must be covered with more debt due to their little fiscal space.

For all these reasons, this document aims to be a contribution from the LAC region, to better understand the close relationship between the climate crisis and debt through a climate finance analysis carried out under a lens of climate, economic and social justice, in the context of multiple crises. These crises not only generate obstacles, but represent the perfect opportunity to accelerate the transition towards clean energy and systemic transformations, within a process of continuous economic recovery – in the context of a post-pandemic and the war between Russia and Ukraine, which has also increased the price of fossil fuels, whose burning is the main emitting factor of carbon dioxide (CO2) that aggravates climate change.
Although it is quite critical to acknowledge that there is no universal definition of climate finance, nor a single methodology to account for it, agreed internationally up to date, the UNFCCC Standing Committee on Finance indicates that: “Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases (mitigation) and aims at reducing vulnerability of, and maintaining and increasing the resilience (adaptation) of, human and ecological systems to negative climate change impacts.” (Permanent Financing Committee, 2014). This funding may come from public, private, national or international sources.

In this sense, and recognizing the fiscal limitations that countries have –mainly from the Global South– to invest in climate change mitigation and adaptation measures, international climate finance becomes relevant and should be a way for the Global North to repair their historic climate debt.

Although in 2009, during COP15 in Copenhagen, countries most responsible for the climate crisis committed towards a collective climate finance goal of USD 100 billion annually, these resources were supposed to be mobilized towards the most vulnerable countries as from 2020. However, this objective has not yet been achieved up to date. Even worse, the way in which this funding has been channeled is also quite questionable, as will be seen below.

According to the latest report on climate finance from the Organization for Economic Cooperation and Development (OECD), in 2020 developed countries managed to mobilize approximately USD 83.3 billion globally to the global south, which is obviously below the initially established goal of USD 100 billion. According to a delivery plan, submitted by Canada and Germany, the target is expected to be met by 2023.

The following graphs and figures show how this financing was distributed by region, by impact and by type of financing:

*Graph 2. Climate finance between 2016 and 2020 (in billions of dollars)*

Source: (OECD, 2022)
As seen in figure 3, if the average annual flow of climate finance mobilized between 2016-2020 by region is analyzed, it is evident that LAC only receives approximately 17%, with Asia being the most benefited region (42%).

If analyzed by type of impact, and according to Graph 3, in 2020 there was still a significant gap between climate finance for mitigation projects (67%), compared to climate finance for adaptation (24%), initiatives that are urgently required in regions such as LAC.

According to graph 4, 82% of the climate finance registered in 2020 by the OECD corresponds to public financing, mainly from multilateral entities and funds (44%), followed by bilateral public entities (38%).
Also, figure 4 reveals that 73% of these resources in Latin America and the Caribbean are allocated to mitigation projects, while the priority should be adaptation, considering the current needs and effects of the climate crisis on these countries and within them, since the impacts are heavier on historically discriminated population groups.

*Figure 4. Distribution of climate finance by region and impact (2016-2020, %)*

Climate finance is important to move towards a low carbon and climate resilient development. However, in low- and middle-income countries with fiscal constraints, this funding is still insufficient, hardly accessible and slow (a project can take up to 5 years to be approved). Also, in these countries the funds are mainly channeled to mitigation projects, and through unfair debt-increasing loans to countries of the Global South, as will be discussed in more detail in the next section.

Also, the fact that multilateral bodies such as, the World Bank and other multilateral development banks (MDBs) are promoting the issuance of green bonds –which is nothing more and nothing less than another debt generation mechanism– rises significant concern.

It is important to mention that currently, within the framework of climate change negotiations under the UNFCCC and based on what is determined by the Paris Agreement, a new process (still in force) was opened to establish a New Collective Quantified Goal on Climate Finance (NCQG) by 2025, based on real needs and scaling the initially committed amount of USD 100 billion per year.

This process opens an interesting opportunity to position the issue of debt within the framework of the UNFCCC, since the topic had not been mentioned until this year during the negotiations on climate change. In this understanding, it would be important to acknowledge the close relationship between debt levels and the climate crisis, with an emphasis on the quality of climate finance and the use of loans as the main instrument to channel it towards more vulnerable countries, in order to request a transformation of the current global climate finance architecture and the international financial system.

6 It is estimated that “developing countries” will require USD 5.8–5.9 trillion for the period until 2030, in order to address the climate crisis, so the amounts linked to the current commitments to mobilize climate finance (USD 100 billion annual) are quite short and insufficient, and should be increased (UNFCCC, 2022b).
2.1 Relationship climate crisis and debt

For the purposes of this analysis, the most critical part lies in the quality of financing, that is, how the resources are mobilized towards the beneficiary countries.

Then, graph 5 reveals that there were no changes compared to previous years and that loans remained being the main mechanism for channeling climate finance from international public sources (72%). Grants represented only 25% of the international public climate finance mobilized towards countries most vulnerable to the climate crisis. It can also be seen that multilateral development banks, such as the World Bank and the Inter-American Development Bank (IDB) channeled 91% of climate finance through loans, unfairly increasing the debt levels of the countries of the Global South.

**Graph 5. Global public climate finance by type of instrument 2016-2020 (in %)**

![Graph 5](Source: (OECD, 2022))

From a climate justice perspective, it is quite unfair that the least responsible for this crisis pay for the historic climate debt of the Global North. The countries of the Global South are suffering both in terms of the disproportionate negative impacts, and in terms of the financing they receive, since 72% of public climate finance that comes in the form of loans to these countries must be paid, in many cases, with high interest rates associated with the level of risk and climate vulnerability of they face.

For example, Graph 6 reveals the degree of concessionality granted by climate funds and multilateral development banks (MDBs), globally. The graph also reveals that in the case of MDBs, 75% of the financing is non-concessional, that is, with less favorable conditions for the borrowing countries, which is quite questionable given these institutions’ role as "development banks".

**Graph 6. Proportion of concessional and non-concessional climate finance mobilized by Climate Funds and Multilateral Development Banks (MDBs) in 2020 (%)**

![Graph 6](Source: (OECD, 2022))
This situation is much worse for Latin America and the Caribbean, considering that all the countries in the region – including Haiti – have been “graduated” by the World Bank, and are considered “middle or high income”, based on an indicator linked to the Gross Domestic Product (GDP), which is insufficient to truly reflect the degree of multidimensional vulnerability and all the social, economic and climate challenges that the assessed countries face.

The role of the multilateral development banks was highly questioned and criticized during COP27, which even led to a call to reform the role of these institutions, in order to increase their participation channeling funds that do not lead to more debt, and to streamline the processes to access these resources (UNFCCC, 2022b).  

Likewise, figure 5 shows the proportion of loans by region, revealing that Latin America and the Caribbean is the second region where loans are mostly used (81%), after Asia (88%).

*Figure 5. Distribution of climate finance by region and instrument used (2016-2020, %)*

Likewise, it is very worrying that, globally, 62% of climate finance for adaptation is also being channeled through loans (see graph 7), especially, since these types of projects are not profitable, so it would be difficult to guarantee a return that allows paying those loans. Therefore, adaptation measures should be financed through non-reimbursable public funds (grants).
In this sense, it can be said that the climate crisis exacerbates the vulnerability of debt in the LAC countries, mainly affecting the most vulnerable groups, which implies that more and more injustice is accumulating in the world (EURODAD, 2020).

Therefore, it is evident that there is a clear relationship between debt and the climate crisis, linked mainly to five fundamental factors:

a) Greater debt service or debt payment, which implies:
   - Less fiscal resources to finance climate change mitigation and adaptation measures;
   - Less chances of having liquidity to recover after catastrophes;
   - Less possibilities of financing other population needs/rights.

b) Greater debt implies more pressure to overexploit natural resources and greater investments in extractive activities (hydrocarbons, mining, agro-industry) in countries of the Global South, which entail:
   - Further deepening of the extractivist model and greater limitations for a transition towards new low-carbon and climate-resilient models;
   - An acceleration of the climate crisis instead of addressing it, limiting the fulfillment of climate commitments by the countries of the Global South assumed within the framework of the Paris Agreement;
   - Greater socio-environmental impacts and conflicts with local communities.

c) There is a correlation between climate vulnerability and fiscal risks, associated with:
   - A greater possibility that risk rating agencies reduce a country’s rating, leading to negative effects when obtaining financing – mainly, from international sources;
   - Higher borrowing costs (higher interest rates) for countries;
   - Greater macroeconomic volatility;
   - Higher risk of debt unsustainability;
   - Lower prospects for long-term growth.
d) When the climate finance received is channeled mainly through credits, both from the public (bilateral and multilateral) and the private sectors, the levels of indebtedness increase.

e) Much of the damage and economic losses related to extreme weather events affecting the countries of the Global South must be covered with more debt, given the limited fiscal space that these countries have.

Even the IMF acknowledges this close relationship between debt and the climate crisis in a recent publication, indicating that “…on the one hand, climate change can exacerbate debt vulnerabilities by adversely impacting countries’ productive capacity and their tax base, creating fiscal costs (including for reconstruction after natural disasters) and making external borrowing more expensive. On the other hand, debt problems reduce fiscal space for climate mitigation and adaptation investments and hence exacerbate climate change and/or the adverse implications of climate change.” (Chamon, Klok, Thakoor and Zettelmeyer, 2022).

There is evidence that shows that developing countries spent more on paying their debt than on health, education and social protection combined, in 2020 (UNICEF, 2021). On the other hand, as mentioned before, LAC is the region that pays the most for its external debt service as a percentage of its exports of goods and services (ECLAC, 2022b). In 2021, debt service in LAC represented 91% of its total social spending (education, health, and social protection) (Martin and Waddock, 2022).

There is also evidence that states that, in 2022, the interest rate on long-term public debt charged to countries in the region such as Brazil reached 13% by mid-year, while this rate for northern countries such as the United States, reached only 3% in the same period (ECLAC, 2022c).

Graph 8. Long-term interest rate of public debt, January 2019- September 2022
During COP27, held between November 6th and 18th 2022 in Sharm El-Sheikh, Egypt, the participants highlighted the need to seek financing alternatives that could address comprehensively the potential debt crisis in which several low- and middle-income countries find themselves, given the convergence of crises and the current neocolonial financial system that promotes loans under non-concessional or unfavorable conditions—especially for middle-income countries, such as most of the LAC countries.

In that sense, there were not only arguments, but also proposals related to: debt restructuring; the use of debt swaps for climate action, especially in the face of extreme weather events; the creation of an IMF debt-for-climate swap program, proposed by the new president of Colombia, Gustavo Petro; and even an initiative presented by Egypt, in its capacity as president country, called “Sustainable Debt Coalition”, which is not part of the binding commitments to all countries or “parties” of the UNFCCC, but sets a good precedent to deal with the issue in a comprehensive manner together with the search for other climate crisis solutions (LATINDADD, 2022).

Additionally, the Community of Latin American and Caribbean States (CELAC) presented a declaration of Latin American countries where the issue of financing was mainly addressed, including the issue of debt and swaps as possible alternative sources for debtor countries (CELAC, 2022). The Barbados government’s proposal, called the Bridgetown Initiative, was also put on the table. This initiative supported by France included alternatives linked to reforming the financial architecture, through, for example, a new issuance of SDR in order to promote the energy transition; the request for a more active role on the part of the multilateral banks during the granting of concessional financing; and some immediate liquidity injection measures, such as the elimination of surcharges by the IMF (BARBADOS, 2022).

The final document of COP27, called the “Sharm El-Sheikh Implementation Plan”, also calls for reforming the role of multilateral development banks and the international financial system, mentioning, for example, “...the need to increase climate finance and to channel it through grants, guarantees and non-debt instruments—given the current levels of indebtedness” (UNFCCC, 2022b).

2.2 Damages and losses derived from the climate crisis

Another issue of great concern for Global South countries is the issue of loss and damage, which has been consolidated as a common flag or joint demand from vulnerable countries as part of the climate change negotiations under the UNFCCC. The latter refers to all economic losses and damages, as well as to the intangible ones (e.g., effects on cultural practices), which are being faced as a consequence of the impact of extreme weather events.

In 2022, during COP27, it was recognized that the climate crisis is having immediate impacts, which will be increasingly devastating if adequate measures are not taken in this decade. Moreover, during this event, a very important step was taken, through the approval of the creation of a financial mechanism to channel additional climate finance, which allows covering damages and losses in countries vulnerable to the climate crisis.
crisis. Although the process that could take several years, it has been recognized that the climate crisis is having devastating impacts and is disproportionately affecting the countries least responsible for the problem – especially, population groups that have historically suffered discrimination, such as: women in all their diversity, children, youth, indigenous peoples, Afro-descendants and local communities, people with disabilities and sexual diversity, small rural producers, migrants, lower-income households and the elderly.

According to the Vulnerability Atlas, developed between LATINDADD and JUBILEE USA, the economic loss since 2000 in 26 Latin American countries exceeds USD 122 billion, a figure that could be significantly underestimated due to the lack of reporting on losses and damages derived from extreme weather events in past years. Furthermore, a recent report from the V20 group, which brings together the 58 most vulnerable countries, including Costa Rica and Colombia, indicates that, in the last two decades, the countries in this group lost approximately USD 525 billion due to extreme weather events.

Likewise, it is worth noting a representative case during COP27 and throughout 2022: that of Pakistan, which due to severe floods faced the death of more than 1,700 people, the affectation of 33 million people, the displacement of 8 million people (Reliefweb, 2022) and an economic loss estimated at 40 billion dollars, which the government has not been able to cover – not even with the international support received – and even less considering the limited concessionality of the debt given its condition as a middle-income country (LATINDADD, 2022). From a climate justice perspective, it is important to mention that Pakistan is responsible for less than 1% of the GHG emissions that cause the climate crisis, and yet it is highly vulnerable to its impacts (UN NEWS, 2022).

In the absence of fiscal resources to recover from extreme weather events, and given the lack of an operational financial mechanism for damages and losses, countries in the Global South have no choice but to resort to more debt, further aggravating the serious debt problem that was previously explained.

For this reason, the constitution of the new fund for damages and losses, approved during COP27, should consider the channeling of additional public resources, coming from the main countries responsible for the climate crisis to those facing extreme weather events, through agile mechanisms and windows with direct access, so that the resources are channeled through instruments other than debt (for example, grants). Given the difficulties of the current climate finance architecture, it will be important to look for different alternatives, which could even be established outside the UNFCCC.
3. Analysis of proposals to address the climate crisis, debt problems in lac and how to achieve a green, fair and sustainable recovery, in a context of multiple crises

As part of the evaluation carried out by LATINDADD on the results of COP27, it was observed that millions of dollars are flowing towards sectors that will accelerate the climate crisis instead of addressing it. These resources include, for example, investments in fossil fuels (globally in 2021 USD 697.2 billion were spent on these subsidies) and in the arms industry (globally in 2021 military expenditures exceed USD 2 trillion, and during the current war between Russia and Ukraine, these expenditures are very likely to increase much more) (LATINDADD, 2022). The following graph compares these with the climate finance mobilized in 2020:

**Graph 9. Comparison of financing flows (in US dollars)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate finance 2020</td>
<td>83.3 billions</td>
</tr>
<tr>
<td>Fossil fuel subsidies 2021</td>
<td>697.2 billions</td>
</tr>
<tr>
<td>Military expenses 2021</td>
<td>2 trillions</td>
</tr>
</tbody>
</table>

Source: Prepared by the author based on (OECD, 2021), (OECD, 2022), (SIPRI, 2022)
In this sense, it is evident that there is enough money, what is lacking is the political will to prioritize urgent issues such the climate crisis in such a critical moment, especially, since this is the last opportunity that humanity has to guarantee its own future in the planet.

Next, a brief analysis of some proposals that have emerged to address the climate crisis and the debt crisis simultaneously will be presented. These proposals could contribute to achieving a green, fair and sustainable recovery, in the face of the current multidimensional crisis. These represent an opportunity to accelerate the transition towards new development models that promote social, economic and climate justice:

1. Non-reimbursable climate finance
2. Total and/or partial debt cancellation in the event of extreme weather events
3. Debt-for-climate swaps
4. Debt relief for a green and inclusive recovery
5. New issuance of Special Drawing Rights (SDR)
6. Fiscal measures (Green taxes / Big polluter taxes / Phasing out of fossil fuel subsidies / Wealth taxes)

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Positive aspects</th>
<th>Negative aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Non-reimbursable climate finance (grants, subsidies, seed capital) and new fund for damages and losses</td>
<td>It would not lead to an increase in debt in the Global South countries and would support the request to reinforce climate finance as a “reparation mechanism” that must be undertaken by the countries historically responsible for the climate crisis, especially, considering its serious effects on the most vulnerable (and less responsible) countries. Ideally, this type of financing should be mainly aimed at financing adaptation measures and covering damages and losses, in the context of the new fund approved during COP27.</td>
<td>It depends on the political will of Global North countries, the Climate Funds and the MDBs, who until now have not shown much willingness to opt for this possibility. Unfortunately, the numbers reveal that, in 2020, only 25% of public climate finance reached Global South countries as grants. And in fact, the MDB data is more discouraging, since only 7% of this financing was channeled through grants. The establishment of a new fund to cover loss and damage opens an important possibility, but if mandated by the UNFCCC it risks taking too long to consolidate (maybe years). And it would be negative if it turned out to be the same as the other bureaucratic funds, with very little direct access granted to non-state actors and with problems for its capitalization.</td>
</tr>
<tr>
<td>2. Total and/or partial cancellation of the debt in the event of extreme weather events</td>
<td>The fact that the number of extreme climate events and their level of affectation are on the rise, sets an important precedent for climate change negotiations, since these are not future problems, but rather current ones with serious and disproportionate impacts on the least responsible countries and groups. That is why, during COP27, there were arguments to address the climate crisis and the potential debt crisis in a comprehensive manner, with measures seeking to solve both problems and recognizing that the debts of the Global South have increased a lot in the last two years. Likewise, there were political proposals as well as others from civil society, aiming to cancel the debts of the Global South, so these countries could use their fiscal resources to address the climate crisis, especially after an extreme climate event. LATINDADD has promoted this type of measures, for example, through the request for a moratorium and debt restructuring for the rescue and reconstruction in Central America, after hurricanes Eta and Iota in 2020. On the other hand, the Bridgetown initiative presented by the Barbados government establishes that a global mechanism is required to raise subsidies for reconstruction, in the event of any climatic disaster that has affected a country.</td>
<td></td>
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<tr>
<td></td>
<td>The debt of the countries of the South is not only with countries of the North or with the MDBs (with whom it would, perhaps, be a little easier to negotiate this type of measure, if creditors had some political will). Most of the external public debt of the South (66% in 2021) is owned by private creditors, with whom this type of agreement would be hardly reached. For this reason, CSOs working on economic justice, that are part of the “No Climate Justice without Debt Justice” global campaign, demand and proposes, among other things, the creation of an arbitration mechanism within the United Nations to resolve debt issues, which includes public and private creditors.</td>
<td></td>
</tr>
</tbody>
</table>

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7 LATINDADD is part of this global campaign together with 241 civil society organizations and networks around the world.
3. Debt-for-climate swaps

Lately, these types of measures have been more and more proposed, and some documents that analyze them have been recently published, such is the case of a recent IMF research document.

Proposals that go beyond bilateral or tripartite swaps have also emerged.

During COP27, there was also a proposal from Pakistan and the Secretary of the United Nations, to implement debt swaps in case of extreme weather events, which would allow fiscal resources to be channeled to address the emergency.

Likewise, during COP27, there were even more ambitious proposals, such as the one suggested by the president of Colombia, Gustavo Petro, in which he recommended the IMF should implement a debt swap program for investments in mitigation and adaptation to climate change, aimed at all “developing” countries.

Experiences so far have shown that the debt portion subject to swap has been small, and its negotiation could potentially entail time and high administrative costs in many cases.

Another problem could be linked to the fact that a large part of the debts is owned by private and multilateral creditors, who are not usually part of these debt swap agreements.

There are also governments in the region that mistrust these mechanisms from the perspective of sovereignty and climate justice, since it is difficult to know which country would account for the emission reductions obtained, resulting from projects funded by those released debt resources.

Also, this mechanism would mean accepting the legitimacy of the debt, instead of questioning its origin and illegitimate use.

There may also be risks of affecting local populations, if they do not participate in the decision-making process.
4. Debt relief for a green and inclusive recovery

It is very positive that there is already a very complete proposal developed by the Center for Global Development Policy at Boston University, the Heinrich Böll Foundation and the Center for Sustainable Finance at SOAS at the University of London, especially since the proposal has been socialized with the IMF, WB and other instances.

Hence, this proposal suggests the IMF and the WB should carry out an improved analysis of debt sustainability, including issues related to climate change and sustainability, to determine whether a country would need debt restructuring and relief.

In addition, this proposal suggests to create a Green and Inclusive Recovery Guarantee Fund administered by the World Bank, in close cooperation with regional development banks. This fund would provide credit enhancements for new bonds that private creditors could swap for old debt at a significant haircut.

Governments receiving debt relief would commit to implementing reforms that align their policies and budgets with the 2030 Agenda for Sustainable Development and the Paris Agreement, and would develop their own Green and Inclusive Recovery Strategy. In addition, these governments would also commit to improving debt transparency, adopting sustainable borrowing practices, and strengthening public debt management capacity and domestic resource mobilization.

A portion of the restructured rebates would be channeled through a Green and Inclusive Recovery Fund (or an already existing national fund for this purpose) that the government would use to invest in any SDG-aligned spending of its choice (VOLZ, U., AKHTAR, S., GALLAGHER, KP., GRIFFITH-JONES, S., HAAS, J., AND KRAEMER, M., 2020).

A few negative aspects worth mentioning:

- The potential complexity and flexibility of the IMF and the World Bank to substantially improve their debt sustainability analyzes shortly, in order to incorporate elements linked to the 2030 Agenda and the climate crisis.
- The time it could take to establish this new fund and its governance.
- The political will of the boards of multilateral development banks to establish the guarantee fund.
- The level of interest from the private sector to participate in the initiative, acquiring new bonds that could be exchanged for old debt.
5. **New issuance of Special Drawing Rights (SDR)**

The issuance of SDRs in 2021 for 650 billion dollars, set an important precedent regarding the speed and effectiveness that can be achieved if there is political will to carry out a SDR issuance. This type of issuances allows to increase liquidity while avoiding to build the countries' debt up. Also, this type of issuances do not entail any IMF conditionalities on the recipient country, allowing the resources to properly respond to a crisis context, such as the current one.

Four negative aspects worth mentioning:

- The political will of the countries (especially, that of the controlling shareholders within the IMF Board of Directors) to carry out a new issuance focused on addressing the climate crisis, given the current context of multiple crises.

- The current distribution criteria, which takes into account the countries shareholding within the IMF, and which LATINDADD believes should be based on some multidimensional vulnerability index, and on real financing needs.

- The lack of knowledge and understanding of various recipient countries, who in some cases did not use the SDR from the 2021 issuance, because they believed those SDR could create debt and/or they could entail IMF conditionalities. However, the latter were not true.

- The current mechanism to redistribute unused SDRs to countries in most need, called the ‘Resilience and Sustainability Fund (RST)’ uses loans that create debt and conditionality, and do not solve the underlying problem.

Under the Bridgetown initiative, Barbados has also proposed a new USD 650 billion SDR issuance or other long-term and low-interest instruments to support a multilateral agency, in order to accelerate private investment in the transition to low-carbon models. LATINDADD shares the need for a new SDR issuance (ideally using a different distribution criteria), however, it also observes that the priority should not be mitigation, but adaptation, as it is a more urgent issue for the Global South.
### 6. Tax measures:

- **Green taxes**
- **Taxes on big polluters**
- **Phasing out subsidies for fossil fuels**
- **Wealth taxes**

Green taxes could be a very interesting mechanism to generate resources to address climate change, under the “the polluter-pay” principle which, in turn, would limit or discourage the carbon emissions from highly polluting sectors.

For example, international agreements could be approved to tax corporations related to fossil fuels, in order to capitalize on some agile climate funds such as the Adaptation Fund, or the new fund for damages and losses.

There is also potential to implement more green taxes within each country’s national tax regimes.

Likewise, the possibility of promoting the progressive elimination and rechanneling of subsidies that go to fossil fuel industries should be analyzed, in order to redirect these resources towards investments in climate action.

Also, given that, in general, the rich pollute the most, wealth taxes could be a good alternative.

Fiscal measures must be progressive and must guarantee that the new taxes are not redirected, nor do they fall on the population groups with the lowest income, or on those most vulnerable to the climate crisis.

The following problems were observed:

- Fiscal measures are outside the discussions and negotiations that take place within the UNFCCC, therefore, other spaces should be sought, ideally within the framework of the United Nations.
- A recent LATINDADD study on green taxes in the region identified that there are very few cases in which the proceeds from green taxes collected are duly invested in environmental or climate issues (LATINDADD, 2022c).
- The progressive elimination of subsidies is a sensitive issue, avoided by many governments, because it could potentially lead to social upheavals.
- Likewise, given the heavy economic dependence of the countries of the South on extractive sectors, such as hydrocarbons, these tax measures are a sensitive issue. For this reason, it will be necessary to come up with a clear plan for decarbonization, long-term energy and economic just transition.

Source: Prepared by the author
The opportunity of transformation that arose from the post COVID19 economic recovery process that began in 2020 in LAC was not fully used, since this process increased the inequality gap between rich and poor, with a negative impact that fell mainly on women, low-income families, indigenous communities and the informal sector, among others. Furthermore, investments and public spending were oriented towards traditional, highly extractive and polluting sectors, wasting the opportunity to address environmental crises—including the climate crisis and the loss of biodiversity that were accelerated by the pandemic—instead of tackling them from a more comprehensive and long-term perspective.

The multiple crises, added to the impacts of the war between Russia and Ukraine on prices, energy, and food security globally, makes it urgent to take immediate measures based on a comprehensive view of the economic, environmental and development agendas. These measures must be translated into real solutions that solve the problems from a systemic and transforming perspective, recognizing that the current economic and financial systems globally prevailing are the main causes of many of the crises that humanity faces, which put at risk their very subsistence on the planet. In other words, humanity continues to face a context of multiple crises, aggravated by the impacts of the war between Russia and Ukraine, so the recovery process, which should not only be economic, will continue to represent an opportunity for transformation that should not be wasted.

On the other hand, the international measures and commitments established to fight against the climate crisis are highly insufficient and unfulfilled in terms of climate finance. In fact, this analysis shows that the current climate finance architecture is generating more problems than helping solving them, mainly considering the following issues:

- Globally, in 2020, 72% of public climate finance was channeled through expensive loans; in Latin America and the Caribbean loans represented 81% of total public climate finance received.
- The climate finance received by the region is directed mainly towards mitigation projects (76%), when the priority in the Global South should be adaptation (which only receives 18%).
- Multilateral Development Banks play a highly insufficient and criticized role, channeling 91% of the global climate finance through loans, mainly non-concessional (75%).

4. Conclusions
• Local actors have problems directly accessing global climate finance, given the centralization of resources in national governments and the participation of intermediaries.

• The great complexity and diversity of processes to apply to the existing funds discourages the Global South countries to resort to them (for example, a project can take up to 5 years to be approved).

• The lack of transparency. There is no single internationally agreed methodology or concept on climate finance that makes it possible to standardize the accounting of flows from the Global North to the Global South. So the latter has been depending on the level of trust and expectation, sometimes unmatched by the Global North.

• There is lack of political will of the Global North to mobilize sufficient, accessible, and non-debt creating climate finance, as well as to effectively reduce its GHG emissions. So far the Global North has only promoted false solutions, such as: carbon markets, very expensive technology for carbon capture, and promoting low-intensity fuels, such as natural gas, which have not solved the root problem. The money is already there, but the political will is lacking to redirect these resources away from the arms and fossil fuel industries, towards measures to mitigate and adapt to climate change.

Given the flaws in the current climate finance architecture –which continues to respond to a neo-colonial, unfair and undemocratic system– and recognizing the close relationship that exists between debt and the climate crisis, it will be very important that new solutions are implemented to mobilize the amount of resources based on the real needs of “developing” countries (estimated at 5.8-5.9 trillion dollars until 2030) especially because, although these countries are the least responsible for the climate crisis, they are still the most affected by its impacts.

These solutions and/or recovery alternatives to the multiple crises, with the potential to address the growing debt problems, as well as the climate crisis, are outside the negotiation space of the UNFCCC, and must be considered in other instances under the United Nations umbrella.

This analysis summarizes some of the alternative proposals that are being promoted by civil society movements focused on economic justice, as well as by United Nations organizations and some of the governments of the Global South that, during COP27 held in Egypt, made visible the close relationship between debt and climate, as well as the urgency to reform the international financial architecture.

LATINDADD will continue working deeper into this issue and strengthen its advocacy work in all the national, regional and international instances in which it participates, recognizing that “time is running out, the future is now!”, and that urgent and real solutions must be implemented as soon as possible, before it is too late for humanity.


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