THE MYTH OF SCARCITY: FINANCING LIFE OR SUSTAINING THE PRIVILEGES OF CLIMATE DEBTORS

CLIMATE FINANCE PROPOSALS FROM TAX JUSTICE AND THE INTERNATIONAL FINANCIAL ARCHITECTURE

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ÍNDICE

1. SUMMARY

This paper analyses why the climate finance gap in Latin America does not stem from a genuine scarcity of public resources, but rather from fiscal, financial, and governance choices that concentrate wealth, erode tax bases, and perpetuate dependence on debt financing.

Based on a mixed-methods approach, comprising a systematic literature review, a comparative analysis of fiscal measures, and semi-structured interviews with strategic stakeholders, the study demonstrates that, in the context of the Global North's failure to meet its climate finance commitments, alongside quality-related challenges associated with the predominant use of loans and limited access and transparency, the region can mobilize substantial resources through four main channels: the elimination of regressive subsidies and tax expenditures, the taxation of extreme wealth and rents generated in fossil fuel markets, the reduction of tax evasion and avoidance, and reforms in sovereign debt and international liquidity frameworks, with the ultimate objective of redirecting these resources towards vulnerable sectors.

The findings indicate that the revenue-raising potential of these measures is significant; however, their impact depends on intersectional equity criteria and on the political feasibility and willingness to implement them. At the national level, the current fiscal architecture continues to privilege high-income sectors and carbon-intensive activities, thereby constraining the State's capacity to finance adaptation, mitigation, and social protection. At the regional level, the lack of coordination and the limited deepening of information exchange and good practices in tax matters, as well as the absence of common standards, weaken the negotiating position of the Global South in international fora and facilitate a race to the bottom in taxation. At the global level, the rules governing international taxation, debt, and climate finance reproduce structural asymmetries that constrain the region's fiscal space.

The persistent climate finance gap is not solely the result of a lack of political will or technical constraints. On the contrary, it reflects a structurally produced scarcity embedded in the current international financial architecture. This system actively constrains the ability of countries in the Global South to mobilize public resources, while enabling wealth accumulation, tax evasion and avoidance, and the reproduction of extractive economic models. In this regard, the climate finance gap should be understood as a political outcome of global tax injustice and asymmetrical power relations in the international financial system, rather than as a neutral or inevitable condition.

The analysis concludes that advancing towards equitable climate finance requires integrating tax justice, climate justice, and a profound reform of the international financial architecture. A just transition in Latin America is not a technical challenge, but a political one: it requires political will, regional cooperation, the democratization of global governance, and an effective redistribution of power and resources. Far from the narrative of scarcity, this study demonstrates that viable alternatives exist to finance climate action without deepening debt-based and/or austerity-driven policies, and that the key lies in transforming the rules that currently produce and reproduce vulnerability and inequality.

2. KEYWORDS

Tax justice
Climate justice
Climate finance

Debt
International Financial Architecture
Just transition

Tax evasion
Fossil fuel subsidies
Tax reform

3. INTRODUCTION

The growing impacts of the climate crisis (from prolonged droughts to extreme events that destroy infrastructure and undermine land productivity, the safety of people and ecosystems, as well as food and water security, among others) have made climate finance a structural component of any sustainable development strategy in the Global South, both to advance mitigation measures for greenhouse gas emissions and to implement adaptation measures in response to the new scenarios faced by humanity and ecosystems. However, rather than constituting a mechanism for climate justice, the international climate finance system continues to deepen historical inequalities through unmet commitments, loans that exacerbate debt burdens, and conditional financing arrangements that reduce fiscal space to address the crisis.

In 2009, in recognition of their common but differentiated responsibilities, industrialized countries in the Global North committed to mobilizing USD 100 billion annually to support countries in the Global South in mitigation and adaptation to the impacts of the climate crisis. However, the target was met belatedly and only partially, while the majority of the resources mobilized took the form of loans rather than concessional or grant-based finance. According to the OECD, **nearly 70 % of climate finance between 2013 and 2022 was delivered in the form of debt**, implying that the most vulnerable countries must incur debt to address a crisis to which they have contributed very little. The case of Latin America and the Caribbean is even more concerning, given that the region receives, on average, 17 % of the total climate finance mobilized from countries in the Global North, of which 81 % is in the form of loans (OECD, 2024).

In 2024, during the COP29 in Baku, Azerbaijan, a new climate finance target of USD 300 billion annually was established, to remain in effect until 2035. Although countries in the Global South were calling for USD 1.3 trillion per year (demanding a strong component of public finance provision under favorable conditions) the agreed target reached only USD 300 billion annually. This amount may be sourced from a range of channels (including the private sector, South–South cooperation, and multilateral development banks, among others), while leaving open a call to scale up financing to USD 1.3 trillion per year (UNFCCC, 2024).

In 2025, during COP30, there were no major advances or commitments on climate finance, despite expectations from civil society and countries in the Global South for a clear roadmap to scale up climate finance flows from the Global North to the Global South to at least USD 1.3 trillion annually, and to prioritize the provision of public finance, debt-free, and with direct, simple, and rapid access for populations most vulnerable to climate change. Unfortunately, the outcomes of COP30 in terms of climate finance did not meet expectations.

This is compounded by the promotion of false solutions based on market mechanisms, such as carbon markets, which are the only area advancing in climate negotiations, and by the lack of transparency criteria for the recording and reporting of flows. Multiple reports warn that developed countries have artificially inflated their figures (by three to four times the amounts actually provided) through **permissive accounting practices**, such as reporting commercial loans as "climate aid" or reclassifying already committed funds (Oxfam, 2025).

A recent report by UNCTAD, which analyses the evolution of the relationship between climate finance, Official Development Assistance (ODA), and broader development finance flows, reaffirms that while aggregate figures suggest progress, a deeper analysis shows that a significant share of the reported increase may not represent new resources and can be largely explained by changes in accounting practices (UNCTAD, 2026).

This financing model, largely centered on debt, deepens what Latindadd has identified as a "climate austerity cycle": countries in the Global South must allocate increasing shares of their budgets to debt servicing, thereby reducing their capacity to invest in adaptation measures, energy transition projects, resilient infrastructure, and essential services. In Latin America, public debt servicing already exceeds 40 % of fiscal revenues in several countries (Latindadd, 2025). In countries such as Colombia, it has also been observed that while 20 % of the public budget in 2023 was allocated to debt repayment, only 0.5 % was directed to environmental issues (Latindadd, 2024).

This situation is further exacerbated by the fact that **actual climate finance flows received by the region remain insufficient**: while climate action needs in countries of the Global South are estimated at **USD 1.3 trillion annually by 2030** according to the Standing Committee on Finance's assessment of financial needs for Global South countries to meet their climate commitments by 2030 (UNFCCC, 2024b), effective investment continues to be fragmented, difficult to access, and, in many cases, regressive. It is important to note that this amount excludes the substantial loss and damage already being incurred by countries affected by the climate crisis and financed through additional debt. It is estimated that the amount required to cover loss and damage from climate change will reach USD 500 billion annually by 2030 (WRI, 2025).

At the same time, the dominant narrative persists in justifying the Global North's non-compliance by invoking a supposed **"scarcity of public resources"**. However, the evidence refutes this premise. In 2024, explicit and implicit fossil fuel subsidies reached USD 7.6 trillion—approximately 7.2 % of global GDP, or nearly six times the amount required to finance climate action measures—(Jota, 2025), while the international community continues to fall short of its minimum climate commitments. This is compounded by unjustified and regressive tax expenditures, which represent, on average, 4.3 % of global GDP (ECLAC, 2023), and by losses from tax evasion and avoidance exceeding USD 495 billion annually (TJN, 2025).

In Latin America, the situation is even more critical: several countries maintain highly regressive fiscal structures, with disproportionate tax burdens on consumption and limited taxation of capital, extreme wealth, and the most polluting activities. At the same time, **subsidies and tax incentives** that promote extractive and greenhouse gas emitting activities remain in place, contradicting both climate objectives and the principles of tax justice. In Amazonian countries, for example, companies responsible for deforestation receive substantial tax incentives (Christian Aid et al., 2022), while affected communities lack the resources to cope with the impacts of climate change exacerbated by corporate operations.

At the same time, while climate finance commitments remain stagnant, global military expenditure, for example, reached **USD 2.72 trillion in 2024**, the highest level ever recorded (SIPRI, 2024); this spending is increasing in the context of ongoing armed conflicts and their global escalation, with the world's major economies allocating unprecedented budgets to renewed cycles of rearmament and military modernization, even amid domestic fiscal constraints.

This unprecedented expansion in defence spending (occurring alongside the failure to meet climate commitments) demonstrates that the issue is not the absence of resources, but the political prioritization of their allocation. The decision to allocate public resources to warfare rather than to the protection of life, climate adaptation, and a just transition reveals that the limits of climate ambition are defined by States' priorities, not by their fiscal capacity.

This paper argues that **the scarcity of resources to finance climate action is not a natural condition, but a political consequence of fiscal, financial, and regulatory decisions that prioritize corporate interests and creditors over human rights and planetary sustainability.** Far from being a problem of insufficient global liquidity, it reflects an economic system that enables wealth concentration, the erosion of tax bases, capital flight, and unjust indebtedness, all of which structurally weaken the capacity of countries in the Global South to respond to crises.

Thus, this paper proposes to demystify "fiscal scarcity" and to advance a structural analysis that articulates three key dimensions for the region:

1. Tax justice

through progressive reforms that generate domestic resources in a sustainable and equitable manner, including taxes on large fortunes, extraordinary levies on extreme wealth, the taxation of rents from extractive industries, and the elimination of regressive tax expenditures (deductions, exemptions, etc.).

2. Climate justice

reflected in financing mechanisms that do not deepen inequalities, that respect the principle of common but differentiated responsibilities, and that incorporate criteria of historical reparation, as well as the "polluter pays" principle.

3. A new international financial architecture

based on a profound reconfiguration of global rules (including a United Nations Tax Convention, a United Nations Framework Convention on Sovereign Debt Resolution, and reforms to the governance of the IMF and International Financial Institutions) that ensures climate finance does not depend on debt, conditionalities, or corporate capture, and that seeks alternatives to existing instruments under the UNFCCC, which have proven to be insufficient, inaccessible, bureaucratic, and lacking in transparency.

By integrating these three dimensions, the aim is to demonstrate that a just transition requires not only new financial mechanisms, but also a structural transformation in how public resources are generated, mobilized, and distributed. This implies abandoning the logic of environmental and financial austerity that has characterized climate finance since its inception, and moving towards a model based on redistribution, fiscal sovereignty, and ecological reparation.

In sum, the climate crisis cannot be addressed with a model that reproduces the same patterns of inequality, extractivism, and financial subordination that generated it. Equitable climate finance requires **dismantling fiscal privileges, correcting global asymmetries, democratizing international financial governance, and relieving Global South States of unsustainable debt burdens** that constrain their capacity to act. This is not only technically and economically feasible, but also constitutes an indispensable condition for sustainability, equity, and the protection of life on a planet in crisis.

The structure of the document reflects this comprehensive approach. The following section presents a literature review that connects debates on tax justice, climate justice, and the international financial architecture, highlighting the analytical gaps that this study seeks to address. Subsequently, the methodology employed is detailed, combining a systematic literature review, a comparative analysis of fiscal measures, and semi-structured interviews with key stakeholders.

The results and discussion section examines the revenue-raising potential, political feasibility, and transformative potential of five central mechanisms: the elimination of regressive subsidies and tax expenditures, the taxation of large fortunes, fiscal measures targeting highly polluting corporations, the reduction of tax evasion and avoidance, and reforms in sovereign debt and international liquidity.

Finally, the conclusions synthesize the findings and outline pathways for advancing equitable climate finance based on progressive fiscal reforms and a more democratic financial architecture aligned with the climate and development challenges of the Global South.

4. LITERATURE REVIEW

4.1. Climate Justice and Structural Climate Finance Gaps

The literature agrees that climate finance gaps reflect historical asymmetries between the Global North and the Global South. Although the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) establishes that industrialized countries in the Global North should provide financial support for climate action in vulnerable countries of the Global South, this obligation has been systematically unmet.

The USD 100 billion annual commitments were not met for many years, and nearly 70 % of reported finance corresponds to loans—81 % in Latin America (Latindadd, 2023), many of them provided on commercial terms (Oxfam, 2025). The United Nations explicitly acknowledges that the international climate finance model "is broken" (United Nations, n.d.).

An additional widely documented concern is the growing asymmetry between adaptation needs and available resources. The Adaptation Gap Report 2023 and 2025 estimate that between USD 310 billion and USD 365 billion annually will be required by 2030–2035, while actual flows remain well below these levels and continue to prioritize mitigation (UNEP, 2023; 2025). In Latin America, the Inter-American Development Bank (IDB) estimates that the region may require between USD 470 billion and USD 1.3 trillion annually to meet its climate targets (Galindo-Paliza et al., 2024).

Qualitative evidence shows that this gap is not only due to insufficient resources, but also to institutional designs that hinder access to them. Experts from international organizations and civil society agree that the proliferation of private instruments, bureaucratic requirements, intermediaries, and perceived risk frameworks restricts the ability of vulnerable countries to access concessional finance, particularly for adaptation, which in 2022 was primarily financed through loans (60 %) (UNFCCC, 2024c).

This reinforces a growing trend: countries that have contributed the least to the climate crisis, and that are already highly indebted, must incur even more debt to finance climate action, including loss and damage, thereby deepening fiscal vulnerabilities and injustices inherent in the current neocolonial financial system, which uses debt as a mechanism of control and conditionality over countries in the Global South.

4.1.1. Debt, Austerity, and the "Climatization" of Structural Adjustment

There is a broad consensus in the literature regarding the direct link between debt and the climate crisis. The reliance on loan-based financing generates what various analyses describe as the **"climatization of debt"**: States take on credit obligations to finance responses to disasters or to meet international commitments (Latindadd, 2023). This cycle reduces fiscal space, increases exposure to regressive conditionalities imposed by the IMF, constrains investment in resilience, and deepens dependence on extractive industries to ensure debt repayment.

Recent studies warn that the solutions being promoted (such as disaster suspension clauses, debt swaps, or *blended finance* mechanisms) have a minimal impact on the overall debt stock and do not alter the underlying structure of the system (Debt GWA, n.d.). *The Climate Finance Shadow Report* (2025) notes that the growing reliance on private and market-based financing is worsening both the **quality** and the **accessibility** of climate finance for the Global South. Analyses by Latindadd and CDES Ecuador also reveal that debt-for-climate or debt-for-nature swaps are highly limited in addressing external debt challenges and environmental crises.

These instruments have become increasingly complex, with greater involvement of private intermediaries and the financial sector; they pose risks to sovereignty and present multiple limitations and challenges. For instance, the recent Galápagos debt swap exposed a lack of transparency and prior consultation with the local community of the municipality of Santa Cruz, generating controversies that led to a complaint before the Independent Consultation and Investigation Mechanism (MICI) of the Inter-American Development Bank (IDB) (Latindadd, 2025b).

The insufficiency of public finance occurs in parallel with a historic increase in global military expenditure, which reached **USD 2.72 trillion in 2023**, the highest level ever recorded (SIPRI, 2024). This comparison, widely cited in the critical literature, demonstrates that fiscal constraints are not natural, but rather the result of political priorities.

These fiscal constraints have differentiated social impacts. Feminist economics and related analyses (Latindadd, 2026) argue that austerity policies and debt burdens tend to shift the costs of adjustment onto households, disproportionately affecting women through increased unpaid care work and reduced access to public services. Therefore, constraints in climate finance are not gender-neutral: they reinforce pre-existing inequalities and undermine the sustainability of life, particularly in contexts where care systems are already under strain.

4.1.2. Insufficient Role of Multilateral Development Banks (MDBs)

OECD reports on climate finance also reveal concerning data regarding the role of multilateral development banks, noting, for example, that between 2016 and 2022, 89 % of the climate finance they provided was in the form of loans, of which 73 % were non-concessional (OECD, 2024), raising questions about their role in the sustainable development agenda. Civil society organizations and climate justice movements also question the priority that multilateral development banks assign to mobilizing private investment, which, for example, entails the use of public funds to provide guarantees that reduce risk for private actors—commonly referred to in English as “derisking.”

Another example is the use of blended finance, the promotion of market-based mechanisms such as carbon markets, and the financing of projects linked to fossil fuels, particularly those related to gas as a transition fuel, which has also been subject to criticism and undermines the achievement of the Paris Agreement (ODI, 2024).

4.1.3. Carbon Markets and Private Mechanisms: Structural Limits

There is extensive evidence on the limitations of carbon markets as a financing tool. Various studies identify persistent challenges: double counting, insufficient pricing, projects with low environmental integrity, corporate capture, and the absence of tangible benefits for communities (Ortega et al., 2025; Latindadd, 2025c).

Recent qualitative analyses concur that these markets have not succeeded in generating significant resources: after more than two decades, the flows mobilized remain marginal at the global scale. Moreover, countries in the Global South face asymmetries in bargaining power, limited institutional capacities, and technical dependencies on external consultancies.

Cases of deception involving Indigenous communities have also been documented, such as a recent case in Bolivia, in which leaders of the Cayubaba, Baure, and Esse Ejja Indigenous peoples (in the Bolivian Amazon) signed contracts with representatives of Kailasa, under which 481 000 hectares were leased for 1 000 years in exchange for an annual payment of between USD 28 000 and USD 180 000; these agreements were framed as part of a supposed carbon market-related business that was in fact fraudulent and became national news (Mongabay, 2025).

4.2. Tax Justice as a Structural Component of Climate Finance

Tax justice emerges as a central element for financing just transitions. The literature agrees that, without progressive tax systems, States cannot guarantee essential public goods for adaptation, mitigation, and social protection. Some relevant lines of work in this area include:

4.2.1. Regressive Tax Systems and Rent Capture

In Latin America, the tax structure remains regressive: in 2023, the tax-to-GDP ratio in Latin America and the Caribbean (22.5 % of GDP) was 11.6 percentage points below the OECD average (34.1 %), and nearly half of regional tax revenue continued to be concentrated in consumption taxes (49.7 %), while income taxation reached only 27.6 % and property taxes accounted for just 1.4 % of the total, confirming the limited role of taxes on wealth and extraordinary rents (ECLAC, 2025).
This structure reproduces inequalities and constrains the building of climate resilience. Studies on trade union movements and productive sectors, such as Christian Aid (2022), show that tensions between employment, extractivism, and a just transition generate forms of resistance that must be addressed politically.

4.2.2. Taxes on Large Fortunes and Polluting Corporations

A growing body of literature proposes taxes on wealth and capital as key pillars for financing the transition. It is estimated that a global minimum tax of 2 % on large fortunes could generate between **USD 300 billion and USD 390 billion** annually (Zucman, 2024).

Latindadd (2025) estimates that lowering the threshold to centi-millionaires or applying a 1% tax on millionaires would increase the revenue potential to up to 1.4 % of GDP annually. This would be equivalent to doubling current revenue from wealth taxes (0.7 % of GDP) or tripling the region's current public expenditure on climate mitigation.

The environmental literature agrees that it is necessary to tax fossil rents, windfall profits, and corporate emissions. Comparative experiences —such as the windfall profits tax on the hydrocarbons sector in Norway (Visión Desarrollista, 2022)— demonstrate significant revenue-raising potential. Moreover, recent evidence highlights that eliminating tax incentives for the extractive sector can mobilize more resources than creating new taxes, particularly in commodity-exporting countries (IMF, 2023).

On the other hand, organizations such as Global Forest Coalition indicate that applying a tax of just USD 1 per barrel of oil could generate USD 38 billion to finance climate action (GFC, 2025), ten times more than what the Tropical Forest Finance Facility (TFFF), a mechanism proposed by the government of Brazil during COP30, aimed to mobilize. This proposal was criticized by climate justice movements for placing the future of forests in the hands of financial markets rather than pursuing real solutions to deforestation and equitable financing alternatives.

4.2.3. Tax Evasion and Avoidance: Structural Resource Leakage

The State of Tax Justice 2025 estimates that tax evasion and avoidance generate global losses of approximately **USD 500 billion** annually (TJN, 2025). In Latin America, losses from tax evasion amount to **6.7 % of regional GDP** (ECLAC, 2025). These figures far exceed the level of international climate finance currently available.

Various studies emphasize that a significant share of these losses is linked to the tax practices of multinational corporations (including fossil fuel and extractive companies more broadly), as well as to national policies that allow harmful incentives inconsistent with countries' climate commitments, opaque free trade zones, and special regimes with limited ex ante and ex post evaluation of their impacts.

4.2.4. Regressive Subsidies and Tax Expenditures

According to the IMF, explicit and implicit fossil fuel subsidies reached **USD 7.6 trillion in 2022**, equivalent to **7.2 % of global GDP** (IMF, 2023). In Latin America, tax expenditures account for between 3 % and 5% of GDP, with a strong bias toward high-income sectors and extractive activities (ECLAC, 2023). The literature indicates that the removal of regressive subsidies (accompanied by social compensation mechanisms) is one of the measures with the greatest fiscal and climate potential.

4.3. International Financial Architecture: Limits and Alternatives

4.3.1. Asymmetric Governance and Conditionality

The Global South broadly agrees that the international financial architecture reproduces inequality and constrains the capacity of vulnerable countries to finance climate action. The IMF, the World Bank, the OECD, and the G20 operate under governance arrangements that privilege creditor interests, which are in turn the main contributors to the climate crisis or "climate debtors," thereby generating technological, financial, and political dependence (Agência Brasil, 2024; Bretton Woods Project, 2023).

The literature identifies the growing reliance on private finance (Latindadd, 2021), promoted as indispensable (World Bank, 2024), as a concerning trend due to its high cost, conditionalities, and moral hazard. The promotion of instruments and mechanisms that prioritize the role of private actors is increasingly present in multilateral spaces on financing for development and climate, such as guarantees, which involve the use of public resources to reduce risk for private investment.

Other reports also note that GDP-based indicators used to categorize countries are unjust and insufficient to capture the multidimensional vulnerability faced by countries in the Global South (Latindadd & Jubilee USA, 2021). For example, the fact that all countries in Latin America and the Caribbean are classified by the World Bank as "middle-income" or "high-income" (even Haiti) limits their access to international finance, often subjecting them to high levels of conditionality and restricting debt relief options; such indicators fail to capture structural challenges related to high levels of inequality, climate vulnerability, poverty, and informality.

4.3.2. Debt-for-Nature Swaps: Marginal Benefits and Risks

Comparative analyses of debt swaps show that their contribution to fiscal sustainability is marginal. For example, the widely publicized Galápagos debt swap (Latindadd, 2023) involved repurchasing bonds for USD 1 628 billion and issuing a new "blue bond" for USD 656 million, reducing the debt stock by only USD 972 million (approximately 1.5 % of Ecuador's total public debt at the time) (Statista, 2023). Moreover, studies on experiences in Ecuador, Belize, and Seychelles document contractual opacity, reliance on public guarantees, high financial costs, and limited participation of local stakeholders (Latindadd, 2023; CDES, 2023). Other studies confirm that debt levels in countries that implemented these operations were reduced by only around 3 % (Debt Justice, 2025).

4.3.3. Transformative Alternatives

Recent literature and the work of networks and organizations engaged in justice advocacy propose structural mechanisms that could scale up public climate finance, such as:

United Nations Tax Convention: It would enable the curbing of harmful tax competition, the redistribution of taxing rights, and the increase of revenue mobilization in the Global South (GATJ & RJF-LAC, 2025).

- ***United Nations Framework Convention on Sovereign Debt:*** A proposal for transparent, binding, and sovereign debt restructuring processes (Eurodad, 2024), and a demand from social movements in the lead-up to the Fourth International Conference on Financing for Development (FfD4) in Seville in 2025 (Latindadd, 2025d).

- ***Issuance of Special Drawing Rights (SDRs) with a climate mandate:*** Analysts suggest new large-scale allocations (exceeding USD 500 billion) distributed according to climate vulnerability rather than historical quotas (Arauz & Basich, 2024). SDRs enable the mobilization of liquidity without increasing debt, through mechanisms that can be rapidly deployed, and could therefore serve as an agile, non-conditional climate finance instrument (Latindadd, 2023).

- ***Debt moratorium or cancellation in response to extreme events:*** Proposed as an automatic mechanism for countries exposed to hurricanes, floods, or severe droughts (Latindadd, 2024c).

- ***Concessional finance and climate "roadmaps":*** Various global platforms propose frameworks to scale up guaranteed public finance, improve transparency, and direct resources toward a just transition and adaptation.

However, the reorientation of the international financial system is not limited to institutional design, processes, and decision-making. If these alternatives are already available and are part of ongoing decision-making processes, why are climate funds predominantly channeled as loans rather than grants? What role do multilateral development banks play in reinforcing extractive rather than sustainable logics? Why is it important to reform governance within international financial institutions to give greater participation to countries in the Global South? Why does the private sector continue to be promoted as the primary solution to close the climate finance gap? These questions shape a growing field of research that seeks to repoliticize the financial debate, recognizing that the way climate finance is structured has concrete distributive consequences.

These structural constraints are not accidental. They reflect the interests of powerful actors (including governments in the Global North, transnational corporations, and financial institutions) that benefit from maintaining a fragmented and unequal global fiscal and financial system.

Efforts to scale up climate finance through progressive fiscal instruments have faced systematic political resistance, particularly in spaces where decision-making power remains concentrated. This demonstrates that advancing towards equitable climate finance is not merely a technical challenge, but fundamentally a political contest over the redistribution of power at the global level.

4.4. Gaps in the Literature

Despite the richness of the approaches and proposals reviewed, significant gaps remain in the literature that this research seeks to address. First, there is thematic fragmentation: studies on climate justice are rarely articulated with those on tax justice, and both only infrequently engage in depth with the institutional dynamics of the global financial architecture. This prevents the development of comprehensive approaches that combine the progressive realization of human rights, national and international redistribution, ecological sustainability, and social equity.

Second, there are few initiatives that combine estimates of potential tax revenue with climate finance needs across different scenarios. Although there are simulations of estimated tax revenue losses due to offshore financial wealth (TJN, 2024b), the impacts of taxes on ultra-high net worth (Zucman, 2024), or the removal of subsidies (IMF, 2023), these analyses tend to remain in thematic silos or to reflect conditions and realities of the Global North, and therefore do not provide a unified and generalizable strategic vision for achieving a fiscally coherent climate transition.

Finally, there is a lack of politically viable tax transition proposals. While the theoretical benefits of climate-oriented fiscal reforms are widely acknowledged, few studies explore how to implement them in contexts of high political inequality, institutional weakness, or corporate pressure. Experiences such as the solidarity contribution on large fortunes in Argentina and Bolivia in the context of the pandemic (Latindadd, 2021), the issuance of SDRs, and debt restructurings and swaps in recent decades offer valuable lessons that could be incorporated into more just, inclusive, and sustainable proposals; however, their design features and impacts have not been sufficiently systematized in the comparative literature.

From a feminist economics perspective, progressive fiscal instruments are not only revenue-raising mechanisms, but also tools to redistribute resources and reduce structural inequalities, including those based on gender. By taxing wealth concentration and extractive sectors, these measures can contribute to a more equitable allocation of resources that supports both climate action and care systems.

For strategic purposes, the fiscal instruments analysed in this report can be grouped into three categories according to their political feasibility and transformative potential:

High-feasibility instruments (short term)

Measures that can be implemented at the national or regional level using existing institutional frameworks, such as windfall profit taxes on fossil fuel companies and the strengthening of mechanisms to combat tax evasion and avoidance.

Transformative instruments (medium term)

Measures that require greater coordination but have high redistributive potential, such as wealth taxes and financial transaction taxes.

Structural instruments (long term)

Measures that depend on reforms in global governance, such as international tax cooperation under the United Nations framework and mechanisms to address illicit financial flows in a systemic manner.

This classification aims to facilitate the identification of entry points for political action across different time horizons.

The expansion of fiscal space through progressive taxation is closely linked to broader reforms in the international financial architecture. Limited domestic resource mobilization often compels countries to resort to borrowing, which in turn reinforces conditionalities and fiscal constraints that limit climate action.

Breaking this cycle requires simultaneous action on taxation, debt restructuring, and financial governance, underscoring the need for an integrated approach to equitable climate finance.

Table 1.

Summary of analysed experiences

Experience	Fiscal / Financial Instrument	Main Objective	Estimated Amount Mobilized	Limitations / Critiques	Lessons for Future Proposals
1. Solidarity contribution on large fortunes (Argentina, 2021)	Single and progressive tax	Emergency revenue mobilization to address the pandemic	USD 2.264 billion	Temporary measure; legal challenges; low replicability	Design permanent and progressive taxes on large wealth holdings
2. Extraordinary tax on wealth (Bolivia, 2021)	Tax on wealth holdings exceeding BOB 30 million	Redistribution to address the effects of the pandemic	USD 23–27 million	Limited coverage; exceptional nature	Improve asset registries and broaden tax bases
3. Issuance of Special Drawing Rights (IMF, 2021)	Non-repayable international allocation	Strengthen reserves and provide macroeconomic support	USD 650 billion globally; USD 14 billion in Latin America and the Caribbean	Unequal distribution (two-thirds to Global North countries, one-third to the Global South); no climate conditionality	Link the issuance of global liquidity to redistributive and climate commitments
4. Debt-for-nature swaps (Belize, 2021; Ecuador, 2023 and 2024)	Conditional renegotiation for environmental purposes	Finance environmental conservation and debt relief	USD 250 million (Belize); USD 1.1 billion (Ecuador)	Financial conditionality; limited local participation	Ensure sovereignty, transparency, and participation in debt swaps
5. Debt restructurings in response to the external debt crisis (2023)	Renegotiation of external debt principal and/or interest	Address the growing external debt crisis in developing countries	USD 100 billion (Argentina, 2020); USD 200 billion (Greece, 2012)	Inadequate international responses; few effective relief mechanisms; creditor-led processes; unequal outcomes	Structural reforms in the international financial architecture; equitable debt relief mechanisms; fair multilateral frameworks (United Nations).

Sources: 1. El Comercio, 2021a; 2. El Comercio, 2021b; 3. CEPR & Latindadd, 2024; 5. ONU, 2023

5. METHODOLOGY

The research adopts a mixed-methods approach designed to overcome the fragmented analyses that often characterize studies on taxation, debt, and climate finance. Rather than examining each instrument in isolation, the approach seeks to identify structural tensions, political barriers, and real opportunities for mobilizing resources from a tax justice and climate justice perspective in the Global South.

The methodological strategy combines three components:

- Systematic literature review,
- Comparative analysis of secondary data, and
- Semi-structured interviews with key stakeholders.

This triangulation allows not only for estimating the revenue-raising potential of different measures, but also for examining their conditions of feasibility within an international financial architecture marked by profound power asymmetries.

5.1. Documentary Review and Comparative Analysts

A systematic review was conducted of approximately thirty documents produced between 2015 and 2025, including:

- Reports from international organizations (ECLAC, IMF, World Bank, OECD, United Nations);
- Indexed academic literature (Google Scholar, SciELO, JSTOR);
- Studies and reports from specialized civil society networks (Latindadd, Tax Justice Network, Eurodad, Oxfam, Debt Justice).

The selection was guided by four criteria:

a. **thematic relevance** (intersections between taxation, debt, and climate),
b. **methodological quality and currency,**
c. **relevance to public policy debates,** and
d. **regional focus**, with priority given to Latin America and the Caribbean.

Based on this review, a comparative analysis matrix was developed for five key fiscal and economic measures, which were assessed at the national, regional, and global levels:

- Selective removal of fossil fuel subsidies;
- Taxes on extreme wealth and fossil rents;
- Reorientation of regressive expenditure.
- Reforms in the international tax system
- New issuance of Special Drawing Rights (SDRs) and reforms within the IMF
- Debt cancellation and/or restructuring and reforms in the international financial architecture

For each measure, estimated amounts, relevant pilot experiences, identified risks, and enabling conditions for implementation were systematized.

5.2. Semi-Structured Interviews with Strategic Stakeholders

With the aim of contrasting quantitative evidence with qualitative insights on political feasibility and governance, semi-structured interviews were conducted with experts in fiscal policy, climate negotiators, civil society representatives, academics, and public officials with direct experience in tax reforms, climate finance, carbon markets, debt management, and the international financial architecture.

The interviews enabled the identification of:

- Structural tensions between climate targets and fiscal constraints,
- Asymmetries between the Global North and the Global South in markets, negotiations, and regulations,
- Risks of private capture and opacity in financing mechanisms,
- Institutional limitations in implementing progressive reforms,
- Positive or emerging experiences of regional coordination.

In line with ethical principles, the information was systematized and incorporated in anonymized or aggregated form, prioritizing its role as an interpretative input rather than as an individual citation.

5.3. Cross-Cutting Analytical Criteria

The analysis of each measure was structured around three criteria:

- **Revenue-raising potential:** capacity to mobilize new resources under realistic scenarios.
- **Intersectional equity:** differentiated impacts across social groups, territories, sectors, and generations.
- **Political and institutional sustainability:** feasibility of adoption, durability over time, and coherence with international governance frameworks.

These criteria respond to the need to evaluate not only how much a measure can raise, but also whether it can do so in a fair, stable, and politically viable manner.

5.4. Hybrid and Explanatory Approach

Beyond its technical dimension, this methodology enables the construction of a cross-cutting narrative that identifies common patterns:

- Contradictions between fiscal and environmental priorities,
- Capacity gaps between regions,
- Asymmetries in the financing architecture,
- Mechanisms that reproduce indebtedness without generating resilience.

This hybrid approach (rigorous, comparative, and at the same time interpretative) seeks to illuminate not only the figures, but also the political and structural bottlenecks that determine whether climate finance can truly be equitable for countries in the Global South.

5.5. Limitations of the Study

Three types of limitations are identified:

- **Methodological:** heterogeneity in the calculation bases and assumptions of existing studies.
- **Institutional:** uneven availability of data, particularly on tax evasion, implicit subsidies, or the actual beneficiaries of fiscal measures.
- **Political:** opacity in negotiation processes, swaps, or financial agreements, which constrains independent verification.

These limitations do not weaken the analysis; rather, they underscore the need for structural reforms in transparency and governance so that the fiscal instruments analysed can fulfill their intended function.

6. RESULTS AND DISCUSSION

The study's findings show that the fiscal instruments analysed have significant potential to mobilize new and additional resources for climate finance. However, their effectiveness depends on how they are articulated at each level of governance (national, regional, and global) and on their capacity to transform structures that currently reproduce inequality, financial dependence, and climate vulnerability. The results are presented by sphere of action and analysed according to the three pillars established in the introduction: revenue-raising potential, intersectional equity, and political and institutional sustainability.

6.1. National Level: Strengthening the Domestic Fiscal Architecture to Finance the Transition

At the national level, three critical bottlenecks emerge: fossil fuel subsidies, progressive taxation, and regressive expenditure. These mechanisms determine whether a country can expand its fiscal space without increasing debt and whether it is able to implement climate measures with social legitimacy.

6.1.1. Selective Removal of Fossil Fuel Subsidies

- **Revenue-raising potential:** High but dependent on design; the region subsidizes more than USD 100 billion annually (IEA, 2024).
- **Equity:** Highly sensitive; without compensatory measures, it can be regressive.
- **Sustainability:** Requires social compacts and gradual implementation.

Fossil fuel subsidies are one of the most visible contradictions between fiscal policy and climate action. In Latin America, these subsidies disproportionately benefit high-income sectors and fuel-intensive industries, such as private transport, freight transport, agro-industry, and export-oriented agribusiness. Various regional studies estimate that households in the highest quintile capture a substantially larger share of energy subsidies (in some analyses, up to six times more than households in the lowest quintile) and that a significant portion is also captured by large industrial and corporate consumer (Di Bella et al., 2015).

Some studies indicate that diesel subsidies in the agricultural sector (particularly in export-oriented economies) reduce operating costs, but their impact on productivity, employment, and technological transition is limited or poorly documented (Di Bella et al., 2015). Similarly, in urban private transport, fuel subsidies benefit those who consume more (such as households with more vehicles or higher incomes) and increase congestion and emissions. For example, the IMF notes that the use of diesel and gasoline in transport accounted for between 15–20 % of global fossil fuel subsidies in 2022 (IMF, 2023).

This implies that the removal of subsidies (if designed without compensatory measures) can produce regressive effects, but not because the subsidy itself is progressive, but because poorer households have fewer alternatives for mobility and energy. Precisely for this reason, the experts interviewed emphasized that the key is not to remove the subsidy in the abstract, but to do so alongside a simultaneous redistributive package that includes:

- Targeted cash transfers or rebates,
- Social energy tariffs,
- Transitional support for small rural producers (not export-oriented agribusiness),
- Improvements in public transport and sustainable mobility,
- Targeted measures for small-scale freight transport and cooperatives.

Comparative experiences show that **countries that remove subsidies without clear alternatives for dependent sectors face significant political crises**, while those that do so alongside redistributive reforms, tariff transparency, and social dialogue achieve greater stability. In sum, the removal of fossil fuel subsidies can free up substantial resources for climate action, but only if a distinction is made between vulnerable sectors and **high-consumption groups that currently capture regressive rents incompatible with a just transition**.

6.1.2. Taxes on extreme wealth and fossil rents

- **Revenue-raising potential:** Very high; between 1–3 % of GDP if wealth taxes, windfall profit taxes, and extractive rents are combined.
- **Equity:** Highly progressive in structure and effects.
- **Sustainability:** Depends on transparency, beneficial ownership registries, and tax oversight.

The analysis confirms that the extreme concentration of wealth and emissions in Latin America (where the top 10 % holds more than 75 % of wealth and accounts for over 45 % of emissions) is not only a socioeconomic characteristic, but also a direct obstacle to the climate transition. This group also concentrates ownership of multiple vehicles, large landholdings, extractive investments, and participation in carbon-intensive sectors (agribusiness, mining, and fossil-based infrastructure).

6.1.2.1 Taxes on Extreme Wealth

The tax on extreme wealth has significant effects on sectors that accumulate large physical and financial assets, such as:

- **export-oriented agribusiness**
  (which concentrates land, machinery, and financial capital),
- **investors in fossil fuels,**
- **real estate and logistics conglomerates** (including freight transport),
- **high-income families with diversified asset portfolios**.

These taxes do not affect small producers or medium-sized enterprises; they target wealth holdings above the 99th percentile, where the strongest correlation between wealth accumulation and carbon intensity is found (Alvaredo et al., 2022).

In this regard, although proposals such as a global minimum tax of 2 % on large fortunes have gained traction in international debates, their real value for Latin America and the Global South lies **in their adaptation to patterns of wealth concentration and to the region's administrative capacities**.

The global estimate (between USD 300 billion and USD 390 billion annually) serves as a benchmark, but the distributive effects and revenue-raising potential in middle-income countries depend on different thresholds and tax bases. Thus, a regional adaptation that lowers the threshold to centi-millionaires or applies a 1 % tax on millionaires could mobilize up to 1.4 % of GDP annually, equivalent to **doubling current revenue from wealth taxes and tripling regional expenditure on climate mitigation** (Latindadd, 2025).

This demonstrates that global proposals require differentiated designs to capture highly concentrated wealth, reduce capital flight, and translate their potential into real climate investment in Latin America.

Likewise, there is a narrative risk: if it is presented as a technocratic measure to temporarily close fiscal gaps, it loses legitimacy; if it is framed as part of a strategy of **ecological redistribution and socio-environmental reparation**, it can generate broad social consensus.

6.1.2.2. Taxes on Fossil Rents and Windfall Profits

In sectors characterized by **rents not linked to productivity**, such as oil and gas, metal mining, highly mechanized agribusiness, freight transport with high externalities, refineries, and petrochemicals, taxes on windfall profits and fossil rents play a redistributive and corrective role.

A temporary or permanent tax on extraordinary rents during periods of high prices (such as that implemented by the European Union) could mobilize substantial resources without reducing productive investment (GATJ, 2025). In Europe, these measures generated EUR 28 6 billion in 2022–2023.

In Latin America, where fossil fuel profit margins exceeded historical averages between 2021 and 2024, the potential is even greater. Interviewed experts highlighted the need for these taxes to be part of a broader package that includes strict environmental regulation and the elimination of regressive exemptions, many of which benefit high carbon footprint sectors (e. g., diesel exemptions for large agro-exporters or private transport fleets).

6.1.3. Reorientation of Regressive Expenditure and Efficiency of Climate Spending

- **Revenue-raising potential:** Medium but immediate.
- **Equity:** High progressive impact.
- **Sustainability:** Requires budgetary reforms and transparency.

The region continues to allocate a considerable share of its budget to expenditure lines that not only fail to contribute to the climate transition, but actively hinder it. The following categories are identified:

- Tax incentives for emission-intensive agribusiness,
- Increasing expenditure on road infrastructure for private transport,
- Energy support programs for high-consumption industries (cement, steel, petrochemicals),
- Permanent exemptions for fuels used by large-scale freight transport companies,
- Implicit transfers to extractive value chains.

Regional data show that revenues from non-renewable natural resources can reach between approximately 0.5 % and 4 % of GDP in certain producing countries, and that the use of tax incentives and subsidies for the extractive sector generates concentrated benefits, without broad evidence of equivalent improvements in employment or innovation (OECD, 2025).

a) Reorientation towards vulnerable sectors and genuinely sustainable productive activities

Comparative evidence shows that a significant share of public expenditure in Latin America continues to be channelled toward activities that **reproduce vulnerability, dependence on fossil fuels, and low structural productivity**, rather than strengthening sectors that can generate sustainable employment and climate resilience in the short, medium, and long term. Strategically reorienting expenditure is therefore a mechanism with high redistributive and climate impact.

The reorientation of expenditure involves prioritizing **vulnerable sectors** (such as small rural producers, low-income households, transport cooperatives, and communities affected by climate events) and productive sectors with high sustainable potential, such as agroecological agriculture, the local bioeconomy, distributed renewable energy, community-based water infrastructure, and care services.

These sectors can absorb public resources more efficiently, generate local employment, and reduce dependence on carbon-intensive activities. In the case of **small-scale agriculture,** for example, interventions such as efficient irrigation infrastructure, technical assistance, agroecological practices, agroforestry systems, climate-adapted seeds, and access to green finance have direct impacts on productivity and the reduction of post-harvest losses. This contrasts with tax incentives directed at **highly mechanized and export-oriented agribusiness**, which capture large diesel subsidies without generating proportional improvements in innovation or employment.

Similarly, in the **transport** sector, reorienting expenditure toward clean public transport and electrification generates significant collective benefits: it reduces costs for vulnerable households, improves air quality, and lowers emissions. This is far more efficient than allocating resources to road infrastructure primarily used by private vehicles, whose use is highly correlated with higher incomes.

Another key area is **nature-based solutions (NbS)**, including ecosystem restoration, community forest management, watershed conservation, and soil protection. These sectors offer strong climate and social returns, yet they remain underfunded relative to extractive activities that receive preferential treatment in the form of exemptions, special contracts, or tax incentives. It is important to clarify that promoting this type of measure should not lead to the "financialization" of nature.

Finally, the reorientation of expenditure toward **care, health, and social protection systems** (particularly in vulnerable rural, coastal, and peri-urban areas) also functions as social climate infrastructure. Investments in health, education, care, and robust public services reduce structural vulnerabilities to extreme events and accelerate adaptive capacities.

In sum, reorienting expenditure toward vulnerable and genuinely sustainable productive sectors is not merely a budgetary decision: it is a strategy of tax, climate, and social justice. It allows for the expansion of fiscal space without austerity, reduces inequalities, and, at the same time, finances a just transition with social and political legitimacy.

b) Strategic Sectoral Approach

The effectiveness of expenditure reorientation depends on clearly differentiating sectors according to their economic role, their climate footprint, and their **real capacity for transformation**. A strategic sectoral approach makes it possible to avoid generalized responses (which are often regressive or politically unviable) and to direct resources toward areas where they generate greater resilience, sustainable productivity, and social legitimacy.

In the case of **export-oriented agribusiness,** the evidence suggests that energy subsidies and tax incentives tend to reduce operating costs without producing equivalent improvements in innovation, employment, or climate efficiency. Therefore, these sectors should transition from generalized benefits toward conditional incentives tied to decarbonization, water-use efficiency, and environmental traceability, thereby prioritizing convergence with international sustainability standards.

In **urban private transport**, the orientation of expenditure toward road infrastructure and fuel subsidies primarily benefits higher-income households, while vulnerable households face greater mobility barriers and congestion-related costs. Reorientation should prioritize **clean public transport, fleet electrification, and active mobility**, with criteria of territorial accessibility and appropriate pricing.

Freight transport presents heterogeneous realities: large companies concentrate diesel consumption and generate significant externalities, while cooperatives and small-scale transport operators depend on this sector for their livelihoods. A differentiated policy allows subsidies or transitional support to benefit the most vulnerable actors, while large operators internalize their environmental costs through pricing schemes or specific taxes.

In the case of energy-intensive industrial sectors (cement, steel, petrochemicals), the evidence indicates that energy subsidies prolong inefficient production models and delay investment in clean technologies. Expenditure reorientation should focus on technological transition pathways, energy efficiency, and industrial electrification, avoiding inertial subsidies that do not improve competitiveness or sustainability.

Finally, sectors such as local agri-food value chains, the forest economy, Indigenous economies, nature-based solutions, the care economy, and distributed renewable energy offer high social and climate returns, yet are often underfunded. Directing resources toward these areas strengthens territorial resilience, reduces structural inequalities, and creates sustainable employment, thereby consolidating a climate transition grounded in distributive justice.

c) Climate Expenditure Rules

A just climate transition requires not only mobilizing new resources, but also ensuring that expenditure labeled as climate-related is genuinely effective, equitable, and transparent. International evidence shows that, in the absence of clear rules, climate expenditure tends to fragment into isolated projects, concentrate in less vulnerable sectors, and, in some cases, be channelled toward initiatives that neither reduce emissions nor strengthen resilience.

For this reason, it is essential to establish **climate expenditure governance frameworks** that ensure coherence, traceability, and impact. First, **climate-tagged budgets** make it possible to identify how much is invested in mitigation and adaptation, who the beneficiaries are, and whether public expenditure reflects national transition priorities. Countries that have adopted climate budgets (such as Peru, Nepal, or France) show substantial improvements in planning and inter-institutional coherence.

Second, **climate and socio-environmental audits** are essential to prevent the capture of expenditure by high-income sectors or polluting industries. This requires independent oversight mechanisms (including fiscal oversight bodies, citizen observatories, and territorial participation) that assess not only budget execution, but also distributive impacts and consistency with climate commitments.

A third key element is the adoption of **territorial and intersectional equity criteria**. Climate expenditure tends to concentrate in urban areas or in sectors with greater technical capacity to formulate projects, leaving rural and Indigenous communities, as well as regions facing higher climate risks, behind. To correct these asymmetries, expenditure rules must prioritize vulnerable territories, sectors with lower economic resilience, and populations in situations of poverty or structural exclusion.

Likewise, the incorporation of monitoring and impact evaluation mechanisms makes it possible to ensure that investments produce verifiable results in emissions reduction, adaptation, job creation, and the strengthening of local capacities. Without these mechanisms, climate expenditure risks becoming a nominal budgetary label without real effects.

Finally, climate expenditure rules must align with principles of transparency, non-regressivity, and fiscal coherence, avoiding the allocation of resources to initiatives incompatible with a just transition (such as fossil fuel subsidies, infrastructure for private transport, or incentives for carbon-intensive extractivism) and prioritizing investments in community resilience, distributed energy transition, sustainable mobility, care, and the bioeconomy.

Taken together, these elements enable climate expenditure to be transformed into a **redistributive, verifiable instrument oriented toward the protection of life and territories,** thereby strengthening the political and fiscal sustainability of the transition.

6.2. Regional Level: Building Collective Power and Shared Rules

At the regional level, the findings indicate that countries in Latin America and the Caribbean face common challenges (cross-border tax evasion, opaque markets, bargaining asymmetries, and debt pressures) that no country can resolve in isolation. Regional integration therefore becomes an indispensable pillar for expanding fiscal space, strengthening resilience, and increasing the negotiating power of the Global South.

6.2.1. Regional Tax Coordination and Common Standards

Tax fragmentation across countries generates a race to the bottom in incentives, effective rates, and special regimes. This facilitates aggressive tax planning by large corporations, including extractive, agro-industrial, and logistics value chains operating across multiple jurisdictions. Regional coordination can close these gaps through:

- **Effective minimum tax rates** for high incomes and large wealth holdings,
- **Common standards on tax incentives**,
- **Automatic exchange of information within the region**,
- **Frameworks to prevent harmful tax competition**.

While spaces such as the Latin America and the Caribbean Tax Platform (PTLAC) have made progress, interviewed experts note that high-level political support is still lacking to make these measures binding. A pragmatic approach is to build a common voice in global spaces for tax and climate negotiations. The region continues to enter fragmented into fora such as the OECD, the IMF, the G20, the UNFCCC, or discussions on the United Nations Tax Convention, which reduces its capacity to influence global standards that directly affect its fiscal space and its prospects for transition.

An articulated regional position (based on principles of climate justice, common but differentiated responsibilities, and international fiscal redistribution) would make it possible to defend shared interests, prevent countries from negotiating from a position of weakness, and increase the political power of the Global South vis-à-vis rules that are currently designed in highly asymmetrical contexts. This political convergence is key to transforming PTLAC from a space for exchange into a regional actor with real influence in the international fiscal and climate architecture.

6.2.2. Regional Governance to Promote Fair and Transparent Climate Finance

Regional governance could correct information asymmetries between countries in the Global North and South through:

- Latin American sustainability taxonomies,
- Independent regional platforms for monitoring climate outcomes,
- Joint negotiation in strategic sectors (forests, biodiversity, bioeconomy) for the management of climate finance for regional projects.

This would prevent countries from competing against each other to attract funding and would help ensure greater transparency.

6.2.3. Integration of Debt and Climate Policies in Regional Blocs

The analysis shows that current debt-for-nature or climate swap mechanisms are not achieving significant relief: they minimally reduce the debt stock, lack democratic consultation, and reinforce private financial vehicles. A regional response would make it possible to:

- Establish common and public criteria to evaluate climate-related debt operations, for example, Latindadd developed a set of principles for negotiating new debt swaps that could be useful (Latindadd, 2025e),
- Ensure contractual transparency and parliamentary oversight,
- Prioritize real reductions in the debt stock over costly buybacks,
- Avoid offshore jurisdictions and opaque structures,
- Coordinate technical support from regional development banks.

The creation of a regional mechanism for reviewing climate-linked debt would strengthen collective bargaining power, reducing dependence on external creditors and avoiding fragmented solutions that reproduce financial subordination.

The region has the opportunity to transform three key fronts: fiscal rules, climate integrity, and debt governance. Coordinated action would make it possible to capture resources currently lost, rebalance power vis-à-vis global actors, and build an architecture compatible with a just transition. Without coordination, each country will continue to face alone the constraints imposed by deeply asymmetrical global structures.

6.3. Global Level: Reforming the Rules That Structure Scarcity and Inequality

At the global level, the study's findings confirm that the so-called "climate finance gap" is not explained by a lack of resources, but by an international regime that concentrates wealth, decision-making power, and fiscal capacity in high-income countries (which are also the main climate debtors), while imposing severe constraints on vulnerable countries that, despite not being highly responsible for causing the climate crisis, are highly exposed to its impacts. Three structural fronts shape this dynamic: international tax governance, the debt system, and the multilateral financial architecture.

6.3.1. Reform of the International Tax Architecture: Towards a United Nations Tax Convention

The global tax system continues to be shaped by rules developed outside democratic and inclusive spaces. Under current standards, countries in the Global South capture only a fraction of the value generated within their territories, while facing tax evasion, avoidance, and aggressive tax planning by corporations and high-net-worth individuals.

The United Nations Tax Convention represents a historic opportunity to:

- Redistribute taxing rights among jurisdictions more equitably,
- Establish global effective minimum taxes that could capitalize climate funds,
- Combat cross-border tax avoidance more effectively,
- Strengthen transparency in beneficial ownership and financial flows,
- Align tax rules with principles of climate justice.

However, there is a risk that the process becomes "technocratized," remains superficial and non-binding, or becomes anchored in paradigms inherited from the OECD. For this reason, the active participation of countries in the Global South, civil society, and the articulation between tax justice and climate justice movements are key elements to ensure that the Convention incorporates differentiated responsibilities, redistributive principles, and coherence with global climate action.

6.3.2. Reforming the Role of SDRs and the IMF in a Context of Climate Crisis

Special Drawing Rights (SDRs) have extraordinary potential to alleviate fiscal pressures and finance climate action measures. However, their use remains constrained by political blockages and financial rules designed to protect the interests of creditors and shareholders.

The findings suggest five lines of reform:

- **Recognize SDRs as balance sheet assets** to facilitate their channeling and direct use to finance climate action, or to be directed toward climate funds, such as the Adaptation Fund, which provides 100 % grants for measures that enhance resilience in countries in the Global South and currently faces capitalization constraints.
- **Establish climate vulnerability and risk criteria** to guide new SDR allocations, prioritizing countries highly exposed to the impacts of the climate crisis rather than quota-based allocations.
- Promote **reform of IMF governance t**o enable countries in the Global South to have greater participation in financing decisions and in the resolution of debt-related issues.
- **Improve Debt Sustainability Analyses (DSAs)** and other instruments used by the IMF so that they adequately incorporate criteria related to the climate crisis and the financing needs required to advance the transition agenda in countries of the Global South.
- **Establish multilateral rules** (ideally within the framework of the UNFCCC) to ensure that their use is non-conditional and primarily oriented toward financing adaptation, resilience, loss and damage, and processes of a just, inclusive, and people-centered energy transition.

Interviews with experts confirmed that IMF conditionality remains a central barrier: even countries most affected by climate crises face programs that prioritize fiscal consolidation over essential public investment for resilience, and in several cases the IMF pressures debtor countries to invest in the fossil fuel industry to ensure debt repayment, which negatively affects the energy transition agenda.

6.3.3. Global Alignment between Debt, Climate, and Human Rights

Solutions currently promoted as "innovative" (such as debt swaps, blue bonds, and blended finance) often reproduce dynamics of dependency, deliver limited reductions in the debt stock, and show low climate effectiveness. Many reinforce private intermediation structures, reduce sovereign control, and shift financial risks onto states.

The findings in this area suggest moving towards:

- The creation of a multilateral and global framework for sovereign debt resolution mechanisms under the auspices of the United Nations **(Framework Convention on Sovereign Debt)** to ensure fair, timely, and orderly resolution of debt crises and an equitable burden-sharing process involving all creditors.
- **Restructuring mechanisms based on climate and development needs,** with fairness in negotiation and not conditional on oil exploitation, as occurred in the case of Suriname (Latindadd, 2024),
- **Elimination of offshore jurisdictions and private arbitration clauses** in climate-related instruments,
- Operational recognition of ecological debt in financing and reparation processes, so that debt relief can serve as a potential tool, particularly for countries in the Global South that are highly vulnerable to the climate crisis, and in recognition of the historical climate and ecological debt of countries in the Global North, which are the primary financial creditors.
- Prioritization of **climate finance that is predominantly public and highly concessional or provided in the form of grants,** especially to finance adaptation measures and to cover loss and damage resulting from climate impacts.
- In the event of extreme climate events, trigger the **suspension, cancellation, or moratorium of debt payments**, in addition to channeling grant-based financing for the recovery of the affected country.
- International Financial Institutions (IFIs), particularly Multilateral Development Banks (MDBs), are called upon to **increase concessional financing for climate action measures** in countries of the Global South, moving away from prioritizing private investment and instead channeling public finance more directly to countries and groups most vulnerable to the impacts of the climate crisis. It will be important to expand direct access windows and streamline access procedures to financing, especially for adaptation measures.

- Base access to favorable financing conditions and debt relief on an **appropriate assessment of multidimensional vulnerability**, ensuring that countries currently classified as middle-income solely on GDP-based criteria used by the World Bank are not left behind, as such classifications obscure structural challenges such as high levels of inequality and climate vulnerability.

A global debt framework that incorporates equity, transparency, and participation would make it possible to align fiscal sustainability with climate survival, breaking current cycles of debt and austerity.

The necessary transformations in tax governance, the use of SDRs, and the international financial architecture are not technical add-ons: they are structural conditions for a just climate transition. Without these reforms, any national or regional effort will remain constrained by global rules that deepen inequality and restrict the fiscal space of the Global South. Reforming these structures is therefore an imperative of climate, fiscal, and human rights justice.

6.4. Political Feasibility and Pathways for Advocacy

The political feasibility of progressive fiscal instruments varies across levels of governance and institutional spaces. Some measures (such as windfall profit taxes) have already been implemented in various jurisdictions, demonstrating their short-term feasibility. Others, such as global taxes on wealth or financial transactions, require greater international coordination and face stronger political resistance.

However, there are key multilateral spaces through which these proposals can be advanced. Within the framework of the UNFCCC, discussions on scaling up climate finance (particularly in relation to the Baku to Belém Roadmap) open opportunities to position public fiscal solutions that do not generate debt. Likewise, the Financing for Development process and negotiations toward a United Nations Tax Convention constitute strategic spaces for advancing structural reforms in global fiscal governance.

However, progress in these areas will depend on the ability of countries in the Global South and civil society to build coalitions and challenge existing power asymmetries.

7. CONCLUSIONS

The analysis developed throughout the document demonstrates that the challenge of climate finance is not (as it is often presented) a problem of scarcity of public resources, but rather one of fiscal structure, governance, and the distribution of power. Latin America and the Caribbean do not face a financial void, but rather a system that extracts more resources than it returns, exacerbates vulnerabilities, and limits the capacity of states to respond to the climate crisis.

At the national level, fiscal space can be significantly expanded through the gradual elimination of poorly designed fossil fuel subsidies (from a cost–benefit perspective), taxes on extreme wealth and windfall rents, as well as the reorientation of regressive tax expenditures toward vulnerable and sustainable productive sectors. These measures have high revenue-raising potential, but their effectiveness depends on sector-specific designs, their coherence with distributive justice criteria, and the ability to build broad political agreements that ensure their continuity.

At the regional level, the study shows that the main limitations do not stem solely from budgetary constraints, but from institutional and political fragmentation. Regional tax coordination, the establishment of common standards, and joint governance of debt processes are indispensable conditions for avoiding a race to the bottom in taxation and for strengthening the region's negotiating capacity. Spaces such as PTLAC show potential, but need to evolve into platforms capable of articulating a common voice in global spaces, influencing international tax norms, and aligning with principles of climate justice.

Finally, at the global level, the findings point to the need to transform systemic rules that currently reproduce inequalities: the international tax and financial architecture, particularly mechanisms related to debt. Without structural reforms aimed at strengthening multilateralism (including a United Nations Tax Convention, a Framework Convention on Sovereign Debt, and a redefinition of the role of the IMF and other international financial institutions), national and regional efforts will remain subordinated to frameworks that prioritize financial stability and the economic interests of creditors over climate resilience, human rights, and life. Tax justice and climate justice therefore converge in the demand to democratize global governance.

The results allow for a cross-cutting conclusion: a just transition is not merely a technical financing challenge, but a political project of redistribution and democratic construction. The proposed measures should not be understood as isolated instruments, but as part of a comprehensive, multi-level package capable of mobilizing resources, protecting the most vulnerable populations, promoting sustainable productive transformations, and challenging the asymmetries of the international financial system.

Closing the climate finance gap in Latin America and the Caribbean is possible. It requires, however, challenging the narrative of scarcity and recognizing that the real gap lies between what the region produces and what it is able to retain; between those who benefit most from the current economic order and those who face its most severe impacts; between a global system that enables concentrated wealth and emissions and the needs of millions of people who require protection, public services, care, and resilience.

The proposals developed in this report are particularly relevant for upcoming political processes, such as COP31 of the UNFCCC and debates within the United Nations system on financing for development. These spaces represent critical opportunities to move from debt-based and market-driven approaches toward public, equitable solutions aligned with climate justice.

Ultimately, scaling up climate finance is not a problem of resource availability, but of political decisions. The current system enables the concentration of wealth and the continuation of extractive and consumption-driven economic models, while constraining the fiscal capacities of the countries most affected by the climate crisis.

Advancing toward equitable climate finance therefore requires confronting these structural inequalities through ambitious fiscal reforms, more democratic global governance, and a reorientation of economic priorities toward the sustainability of life. Without these transformations, efforts to close the climate finance gap will remain insufficient and unjust.

The region has the resources, knowledge, and alliances to move forward: what is at stake is not technical feasibility, but which future we choose to finance and whom fiscal policy should serve in times of climate crisis.

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CLIMATE FINANCE PROPOSALS FROM TAX JUSTICE AND THE INTERNATIONAL FINANCIAL ARCHITECTURE

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