# Climate, environmental and biodiversity finance

## Chapeau paper on our advisory services:

international environmental and climate finance, sustainable finance, green public finance, just transition finance, biodiversity finance, blue finance, adaptation finance and carbon markets

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## The challenge

**Climate change and ecosystem degradation are posing an increasing threat to people's livelihoods.** To better protect the climate and the environment, internationally coordinated efforts are needed to implement the Sustainable Development Goals (SDGs), the Paris Agreement on climate change and the goals of the Convention on Biological Diversity. This will sustainably transform our economic systems and way of life. Achieving these goals requires improved regulatory frameworks and the creation of incentive systems for sustainable, green business practices by companies and households, combined with the mobilisation of extensive public, private and international funding.

**The amount of funding required is enormous.** The Climate Policy Initiative (CPI) estimates that to achieve the agreed climate targets by 2030, annual climate finance will have to increase from around USD 1.3 trillion to USD 9 trillion. According to the United Nations Environment Programme (UNEP), the funding requirements in the area of biodiversity and ecosystem services will be around USD 700 billion per year up until 2030, which is also significantly greater than the approximately USD 200 billion currently available. **At the same time, considerably more private and public resources are still being used to support activities that are harmful to the climate and the environment.** According to UNEP, this amounted to some USD 7 trillion in 2022. Of this amount, USD 1.7 trillion was spent on subsidies in agriculture, energy and fisheries. Between 2021 and 2022, subsidies that harm the environment and the climate actually increased by 55% due to the pandemic.

The redirection of financial flows towards sustainable development can only be achieved through **coordinated efforts across public finance, financial markets, and international environmental and climate finance** by the relevant actors (from the relevant ministries, central banks, marketplaces, financial institutions and companies in the real economy).

**Fiscal and financial policy** have a pivotal role to play in creating enabling frameworks. Key instruments here are the reduction and removal of subsidies that harm the environment and the climate, the introduction of environmental taxes and carbon pricing, green bonds, payments for ecosystem services, national environmental funds and sustainable public investment – for example in resilient infrastructure and sustainable energy systems. **Challenges** are often posed by economic dependence on fossil fuel industries, political resistance and conflicts of interest, tight budgets, a lack of capacity within finance ministries to design and introduce such instruments, and the often limited fiscal scope of many partner countries.

**Financial markets** will play the key role in mobilising additional private resources. The latter can be achieved, for example, through the regulation of financial markets, customised financial services such as green credit lines, and the creation of transparency through reporting and disclosure obligations. **Challenges** lie in the insufficient integration of environmental and climate risks into decision-making processes and risk models, a lack of data to support financing decisions, inadequate disclosure and reporting standards, and a lack of capacity for the development of innovative financial products. Furthermore, short investment horizons, a perceived high risk of sustainable investments and the lack of standardised definitions of sustainability constrain the mobilisation of private capital. On the demand side, a further challenge is the limited number of financeable and scalable green business models and investment projects.

Finally, **international environmental and climate financing lines** such as the Green Climate Fund (GCF) and the Adaptation Fund and other instruments such as the International Climate Initiative (IKI) and the Mitigation Action Facility (MAF) also play an important role in supporting partner countries in implementing environmental protection and climate action projects. The central **challenge** here is that access to the resources provided by these instruments involves complex requirements when applying for and implementing the funding.

## Our approach

In the context of the German Government's cooperation with partner countries, GIZ provides support in **sustainably transforming financial systems and public finance in ways that promote protection of the climate, biodiversity and the environment, as well as adaptation to the impacts of climate change**. Our actions are guided by national and global environmental and climate goals and by the aim of strengthening environmental and climate finance holistically using an **integrated approach**. We harness **synergies** between projects and place a special focus on linking environmental goals with social and socio-economic aspects in order to help bring about a just transition. This is why we work across sectors with a **large number of public and private actors**: finance ministries, environment ministries and other sector ministries, tax administrations, audit institutions, central banks, parliamentary committees, subnational authorities, national and international financial institutions, and private sector, academic and civil society actors.

**We support our partners** in mobilising and redirecting capital for a green and socially just transformation, improving frameworks for environmental and climate finance, and strengthening cooperation between private and public actors in order to make financial markets and public finance sustainable. We attach particular importance to the development and introduction of public and private finance approaches and instruments to protect the environment and the climate. Our holistic approach also includes considering the socio-economic consequences of a green transformation using appropriate instruments and compensation mechanisms. We also support partners in accessing international environmental and climate finance.

## Our services

In general, GIZ's services include context-specific **technical and policy advice, capacity development and networking**. To develop effective solutions together with our partners, we build on our extensive expertise from various specialist areas and advisory projects in more than 120 countries, particularly in the fields of climate change adaptation, climate action and environmental protection, financial sector reform, economic policy, public finance reform and administration. By deploying its own staff in partner countries, GIZ ensures continuous support for reform projects. Further key success factors include our long-standing, trustful **cooperation with key state actors** (especially finance ministries, environment and climate ministries, other sector ministries and central banks) in partner countries. They also include our cooperation with **research institutions and private sector actors**, whose knowledge and experience we integrate into project implementation. GIZ's close support of international climate and environmental dialogues, such as the climate and biodiversity COPs, also enables us to provide forward-looking advice that takes account of current political developments and challenges.

Finally, we support the sustainable **mainstreaming of professional expertise and process knowledge** for relevant target groups by processing and transferring knowledge, for instance through eLearning programmes.

GIZ advises partner countries on environmental and climate finance in relation to the following interlinked **focal areas**, which we combine to match the priorities of our commissioning parties and clients:

## 1. Sustainable finance (see separate advisory service sheet)

GIZ supports financial market players in taking sustainability issues into account when making financing decisions in order to steer private investment towards climate-friendly and environmentally sustainable activities. In line with the widely recognised definition of sustainability, environmental, social and governance (ESG) aspects play a role here. GIZ's advisory services cover areas such as the creation of regulatory frameworks and rules for climate-friendly, sustainable finance and improved environmental and climate risk management; support for uniform international standards (e.g. on sustainability reporting and disclosure in accordance with the ISSB standard); and the development and scaling of customised sustainability-oriented finance mechanisms and products.

## 2. Green public finance (see separate advisory service sheet)

GIZ advises partner countries on how to increase their contribution to achieving international and national climate action and environmental protection goals by greening their public finance. In particular, this includes introducing climate and environmental taxes, removing and reducing harmful subsidies, issuing green government bonds and practising green budget management.

## 3. Just transition finance (see separate advisory service sheet)

GIZ works with partner countries to develop finance strategies and instruments for a just transition to a climate-neutral economy. This also includes strengthening the necessary overarching cooperation and coordination structure and enhancing regulatory and policy coherence. Our advisory services include support for the development of overarching strategies; capacity development for analysing financing needs; the development of necessary financial instruments by private financial institutions and of finance mechanisms by the public sector to promote social equity; and identifying, strengthening and creating governance structures for monitoring instruments.

## 4. Carbon pricing and carbon markets (see separate advisory service sheet on carbon markets)

GIZ offers a wide range of services for the introduction and further development of carbon pricing instruments and carbon credit markets. These are tailored to the priorities and needs of partners. Our advisory services focus on the development of national strategies and enabling frameworks, capacity building for various actors, and the introduction and development of carbon pricing instruments and carbon market projects. We pay particular attention to social acceptance in the design of the instruments, for example by promoting integrity and transparency and taking socio-economic impacts into account.

## 5. Adaptation finance

To strengthen the resilience of partner country populations to the effects of climate change, GIZ provides advice on how to develop and introduce innovative finance instruments, for example to finance climate-resilient infrastructure and nature-based solutions or early warning systems. The integration of financing strategies into national adaptation plans, implementation at local level and the involvement of the private sector play a key role in this context. The effects of extreme weather and climate events increase the risks and place a strain on the livelihoods of the people affected, as well as on public funds and resources for disaster relief and reconstruction. To cope with the social, economic and environmental impacts of extreme events of this kind, GIZ offers services in the field of climate risk insurance and adaptive social protection.

## 6. Biodiversity finance (see separate advisory service sheet)

GIZ works with partner countries to secure sustainable finance for the protection, restoration and sustainable management of biodiversity. This includes the development and implementation of instruments such as environmental funds, payments for ecosystem services, biodiversity credits and biodiversity bonds but also the reduction and removal of subsidies that are harmful to biodiversity and the integration of biodiversity into taxonomies.

## 7. Access to international environmental and climate finance

To improve access to international environmental and climate finance, GIZ supports partner countries in developing and implementing projects financed by instruments including GCF, IKI, MAF, GEF and the Adaptation Fund. GIZ advises on institutional and human capacity development in national climate finance structures. We also advise on the development and management of environmental and climate finance facilities.

## 8. Blue finance (see separate advisory service sheet)

GIZ supports the public and private sectors in improving access to finance and investment to support sustainable practices in blue economic sectors. Examples of these sectors include sustainable fisheries, aquaculture, tourism, marine conservation, coastal infrastructure and desalination. GIZ advises on a wide range of measures, such as developing needs-based financial instruments, building enabling frameworks and supporting local actors and companies in accessing finance for blue business models.

Our integrated approach involves delivering **services in the following areas to meet actual needs**:

- Support for the participatory development of national **finance strategies** for protecting the environment, the climate and biodiversity as a contribution to a just transition
- Introduction and further development of **green and blue financial market regulation**, based on international standards, principles and taxonomies
- Development of **project pipelines of investment-ready projects** that contribute to climate action and environmental protection, including through incubation programmes and matchmaking between investment-ready projects and potential investors
- Development and scaling of **financial services** for environmentally sustainable and climate-friendly projects and companies (e.g. green and blue loans, green and blue bonds)
- Capacity development for the **management of climate and environmental risks** at the level of finance ministries, financial market regulators and financial institutions
- Development and implementation of **fiscal incentives** for climate-friendly and environmentally sustainable economic activity (e.g. reduction and removal of subsidies that harm the environment and the climate, environmental taxes)

- Advice on **green budget planning**, implementation and evaluation (e.g. introduction of climate and environmental markers) and green public investment
- Advice on the sustainable design of **public procurement systems** (green/sustainable public procurement)
- Development and introduction of **carbon pricing** mechanisms
- Advice on the development of further **innovative instruments** such as debt for nature swaps and biodiversity credits
- Capacity development of national institutional structures for climate and environmental finance (**climate finance readiness**)
- Development and implementation of **complex project strategies** in relevant international funding lines and competitions, e.g. **GCF, MAF, IKI**
- Advice on the gender-responsive design of finance instruments and the participation of women and minorities in decision-making processes

## An example from the field: Improving conditions for investment in climate action in Rwanda

A new climate and environmental finance project in Rwanda is combining green fiscal policy and sustainable finance approaches. Up until 2030, Rwanda needs around USD 11 billion for climate change mitigation and adaptation, 60% of which is to be covered by private investment and international capital. The Rwandan Government is focusing on ambitious reforms that will align the financial sector more closely with sustainability goals, attract foreign investment and promote sustainable economic growth. The Sustainable Finance Roadmap (2022) and the Climate and Nature Finance Strategy aim to make Rwanda a climate and sustainable finance hub. Nevertheless, there is currently a lack of effective framework conditions for channelling capital systematically into sustainable projects.

The project will strengthen the Rwandan partners, especially the Ministry of Finance and Economic Planning, through three components:

- Strengthening the capacity of the Ministry of Finance and Economic Planning for interministerial cooperation and regulatory coherence
- Strengthening analytical and technical skills for sustainable financial and economic policy
- Integrating sustainability issues into the financial sector in order to steer capital towards sustainable activities

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