



Environment and climate change

Environmental finance

The challenge

All over the world, the degradation of natural resources continues. Countries around the globe declare their intention to maintain species diversity, tackle climate change, conserve water and soil resources and use forests more sustainably. Nevertheless, practical action at national and local level often lags behind these statements of intent. This is illustrated by the fact that less and less money is being earmarked in public budgets for the corresponding measures. The relationship between costs and environmental benefit has become a key criterion. This calls not only for more legislation but also for the development of instruments that create economic incentives. Such instruments have a steering effect in that they create the optimum relationship between cost to the economy and environmental benefit.

Our approach

In developing countries the competition for funding for effective environmental policies is particularly keen. We support our partners to create and mobilise sources of funding for sustainable environmental policies and resource use. The development of environmental policy instruments that operate by means of economic incentives requires detailed understanding of governance structures and processes. It requires experience in policy design, skills in assessing costs and benefits and in the structuring of advisory processes at every level of intervention. GIZ has extensive experience in this policy field, which is a relatively young in developing countries.

Our services

Our services in connection with environmental finance range from local schemes of payments for environmental services to instruments for financing conservation of global goods such as biodiversity and climate. We support our partners in political and administrative reform processes (ecological tax reform removal of environmentally harmful subsidies), in the introduction of innovative instruments (payments for environmental services, environmental funds, certification) and in establishing the institutional framework required for the use of project-related mechanisms such as the Clean Development Mechanism. 'Environmental finance' encompasses the promotion of ecological tax and finance reform along with payments for environmental services (PES), environment and nature conservation funds as well as access and benefit sharing (ABS) arrangements in partner countries. We are currently developing further options, such as certification and labelling – for example through climate certificates – together with methods of financing nature conservation projects.

The benefits

The goal of environmental finance is an ambitious one: to make environmental protection feasible – financially as well as in other terms. This is particularly important in regions with limited economic resources but with a high diversity and large amount of plant and animal species.

Ecological tax and finance reforms create incentives to protect the environment, using a wide range of tax- and price-related instruments. At the same time they generate additional revenue for the national budget. When successfully implemented they promote behaviour patterns and measures that alleviate environmental problems such as water and air pollution. In addition, they can mobilise funds



for activities such as water supply and wastewater disposal, health care and education

In addition payments for environmental services create direct incentives for sustainable land use and ecosystem conservation, turning ecosystem-protection and sustainable use of resources more attractive and more profitable for land owners and users. The following example shows how such approaches can operate in practice.

An example from the field

Regulations on the conservation of forest ecosystems in Viet Nam were not initially associated with sufficient economic incentives. A strategy to provide payments for environmental services was therefore put in place in April 2008.

A regional initiative aims to secure water regulation, soil protection and the conservation of ecosystem diversity. More than 7,000 officially accredited forest owners provide these services. For this they receive between 100,000 and 121,000 Vietnamese dollars annually.

Part of the strategy is an agreement between the providers of such services and their beneficiaries (for example, water and electricity users). The agreement is monitored by a steering committee. The money is paid to providers who have been certified by the steering committee or who commit contractually to using specific land and forestry management practices.

Four companies make payments for conservation of the forest ecosystem. This secures the quality and quantity of running water and reduces costs otherwise caused by erosion. The level of the payments is based on the benefit arising from better land management and additional productivity.

GIZ is supporting the process on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). It advises on the identification of appropriate environmental services and ensures fair negotiations between service providers and beneficiaries. In addition GIZ works with the partners involved to develop methods of rigorous and participatory monitoring.

Through the agreement the providers become economic benefits for protecting the ecosystem, that at the same time benefit other sectors, which make use of the services coming from it. The payments to providers secure their livelihood and ensure the restoration of a well-managed forest.

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