

CLIMATE FINANCE IN THE PHILIPPINES

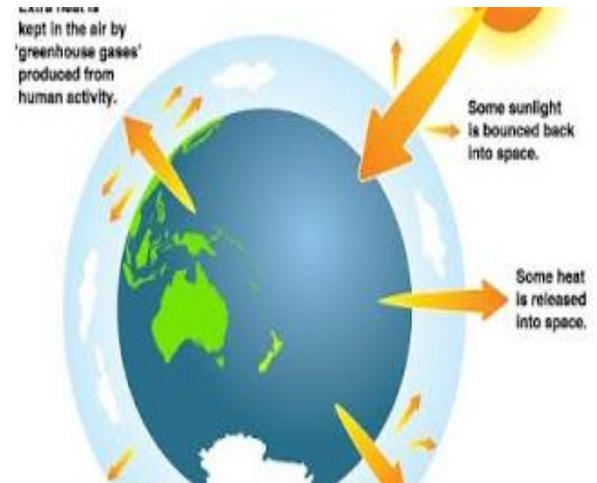


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CLIMATE FINANCE IN THE CONTEXT OF CLIMATE CHANGE

Scientific studies show that greenhouse gases (GHG) in the atmosphere is caused by human activities which bring up global warming resulting the following climate changes in the long term:

- Rising sea levels,
- Typhoons,
- Heavy rains,
- Prolonged droughts resulting in losses of lives,
- livelihood, properties, and the environment



WHAT IS CLIMATE FINANCE?

Climate finance refers to funding for climate-related activities such as **climate mitigation** and **climate adaptation**.

CLIMATE MITIGATION AND CLIMATE ADAPTATION

- ❖ **Climate mitigation** is the reduction of greenhouse gas emissions (GHG) into the atmosphere. This can be achieved, for instance, through the shift to renewable energy sources such as wind, solar, or waves.
- ❖ **Climate adaptation** refers to efforts undertaken by the government, civil society and the private sector to lessen the adverse impact of climate change or enhance the climate-resilience of households, firms and communities.

Dimensions of Climate Finance

- ❖ **National Dimension** – the flow of climate funds within the same country.
- ❖ **International Dimension** – the flow of climate funds across countries which is usually from developed to less-developed countries which are vulnerable to climate change.

POLLUTER'S PAY PRINCIPLE

It may be noted that there is an element of polluter's pay principle under the international arrangement since the industrialized countries and the large and rapidly industrializing countries like China, India and Russia account for most of the greenhouse emissions. China ranks first, followed by the US and other developed countries.

MAJOR PROVIDERS OF CLIMATE FUNDS

- Germany (largest)
- World Bank
- Asian Development Bank
- European Development Bank

The Philippines is a signatory of a number of international agreements related to the environment.



The most recent is the Paris Agreement of 2015 – an agreement to keep global temperature increase well below 2C and if possible, below 1.5C. Signed by 164 countries. The Philippines has to abide by the provisions of this agreements and take action to fulfill its commitments.



President Arroyo holds up a copy of the Climate Change Act of 2009 after she formally signed it into law at Malacanang's Ceremonial Hall.

Photo courtesy: philstar.com

In response to this commitment, the Philippines has over the years significantly overhauled its climate policy framework from a number of stand-alone laws passed during 1997-2008 to the current comprehensive, national integrated climate policy architecture guided by the **2009 Climate Change Act (CCA)**

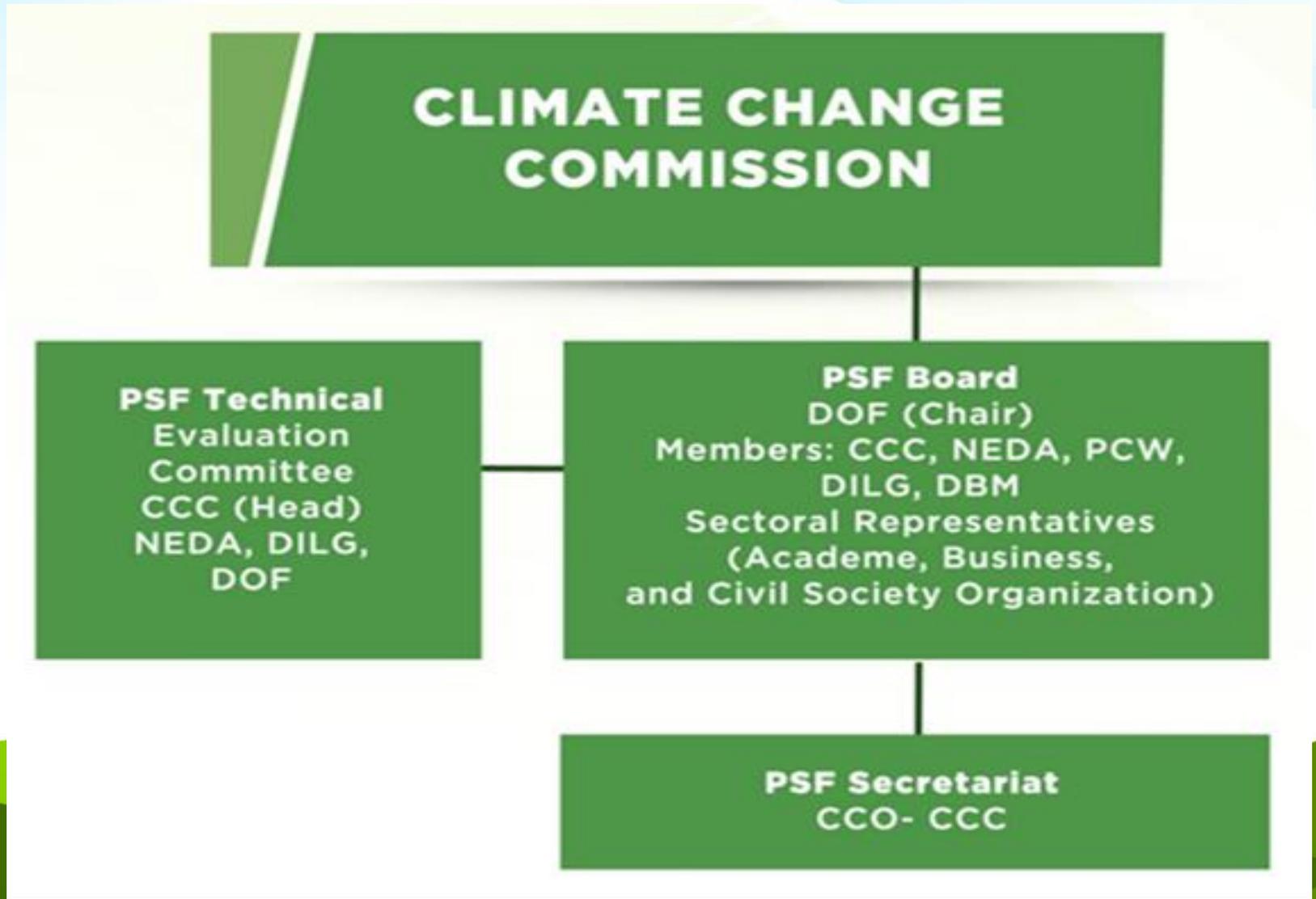


CLIMATE CHANGE COMMISSION (CCC)

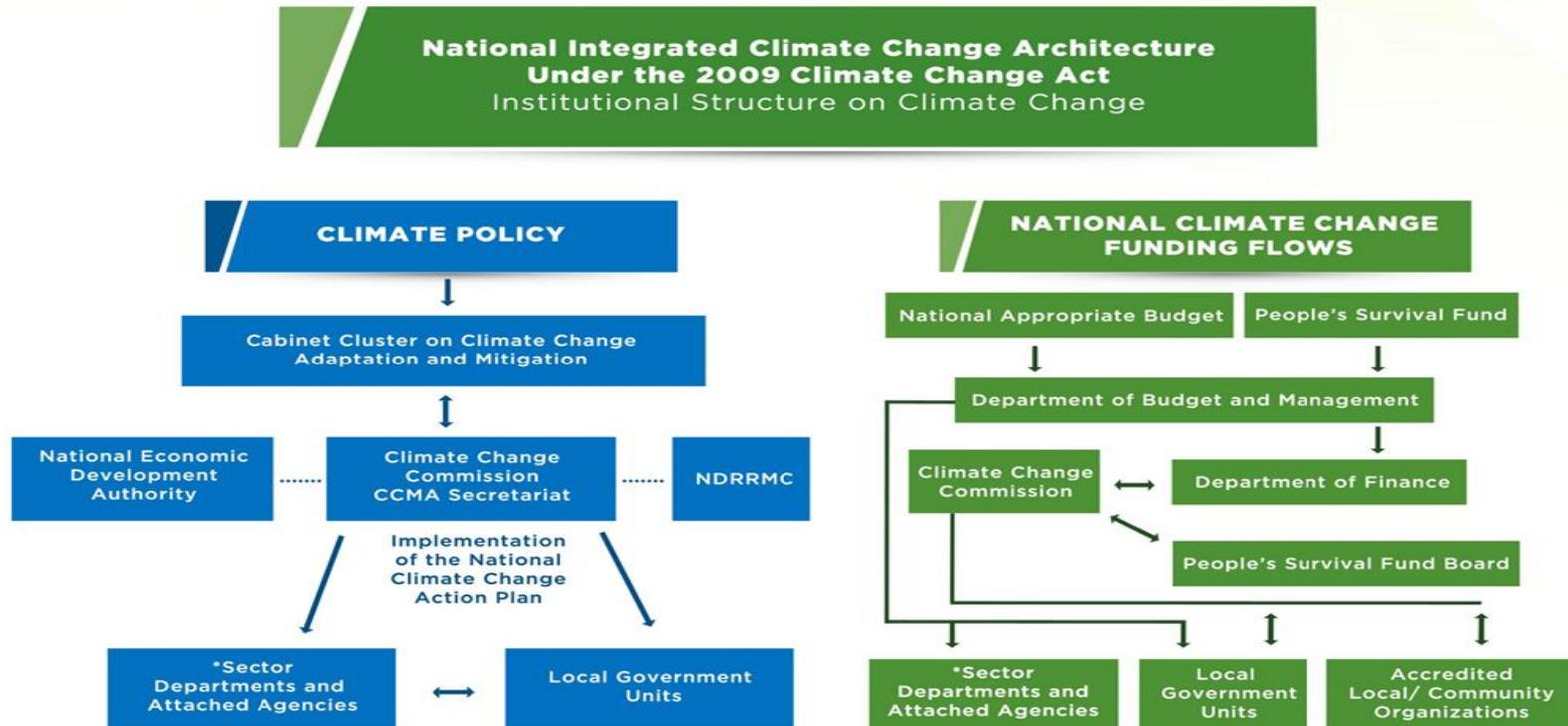
The CCA resulted in the establishment of the Philippine Climate Change Commission (CCC) under the Cabinet Cluster on Climate Change Adaptation and Mitigation (CCAM). The following are its tasks:

- coordinating policy integration and preparing the action plan that lays out strategies, initiatives, and activities to enable the country to meet the challenges of climate change.
- serving as the Secretariat of the CCAM which exercises oversight function over the CCC in terms of providing guidance and direction in recommending legislation and the formulation of environment-related policies.

ORGANIZATIONAL STRUCTURE OF THE CCC



Currently, the institutional structure on climate change is divided into **Climate Policy** and **Climate Finance**.



NDRRMC- National Disaster Risk Reduction and Management Council

*Department of Science and Technology (DOST), Department of Public Works and Highways (DPWH), Department of Agriculture (DOA) Department of Transportation and Communication (DOTC), Department of Energy (DOE), Department of Environment and Natural Resources (DENR), Department of Interior and Local Government (DILG)



❑ With the CCC as focal point, the **NEDA** and the **NDRRMC** hold dialogues to exchange inputs, feedback and recommendations for the effective implementation of the National Climate Change Action Plan (NCCAP).

❑ There is no direct reporting relationship among the three agencies, there is some formal level of interaction.

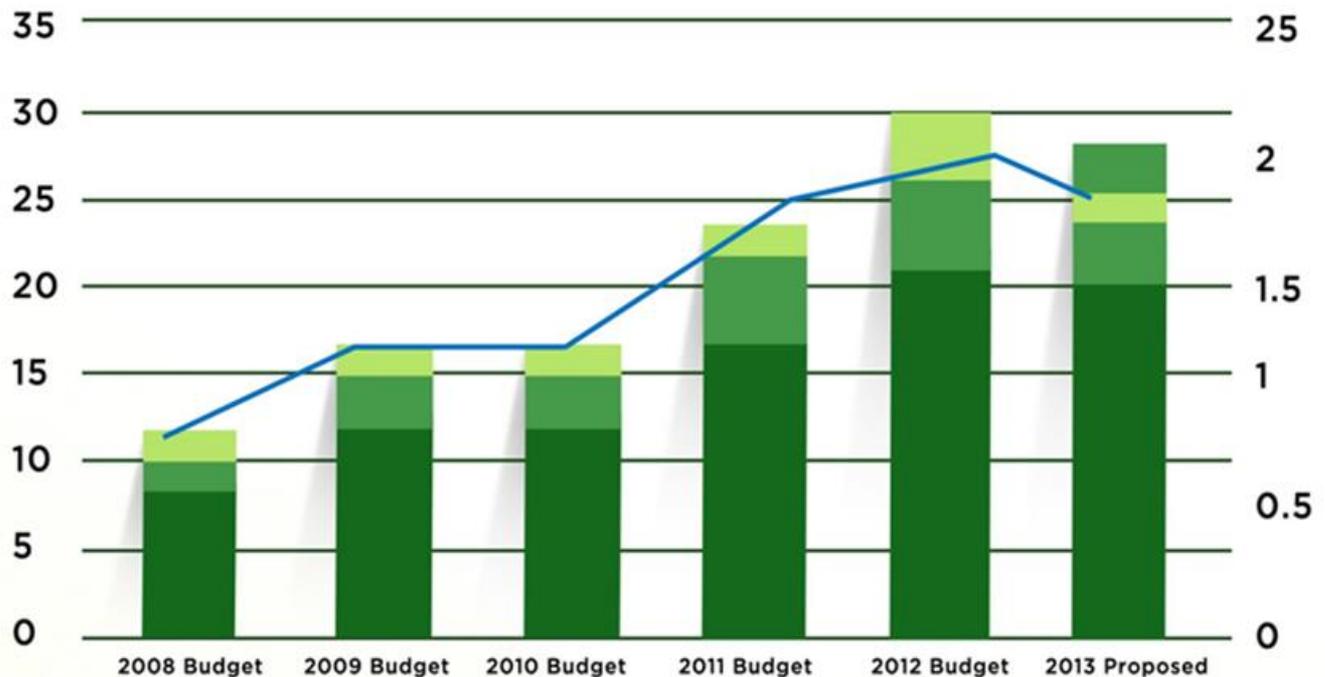
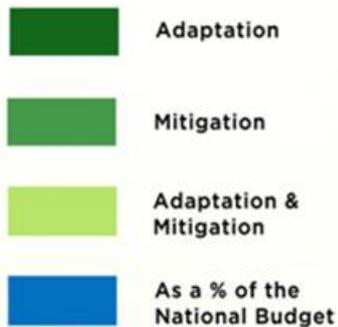
❑ **National Climate Change Action Plan (NCCAP)**

The CCC is mandated to formulate a National Framework Strategy on Climate Change (NFSCC) which serves as the Government's road map for climate action.

On August 16, 2012, Republic Act 10174 was approved creating the **People's Survival Fund** (PSF) to supplement the annual budget appropriation. Sourced from the national budget, at least **P1.0 Billion** is intended for LGUs and accredited local/community organizations to implement climate change adaptation projects that will better equip vulnerable communities to deal with the impacts of climate change. The PSF is administered by the People's Survival Fund Board (PSFB) headed by the DOF Secretary.

The Philippine Government has increased its climate appropriations by 2.5 times in real terms and on the average 26% annually, outpacing the estimated 6% growth of the national budget.

Climate Appropriations Based on the NCCAP Classifications



Agencies, Departments and Sectors Involved in pursuing the Climate Action Road Map

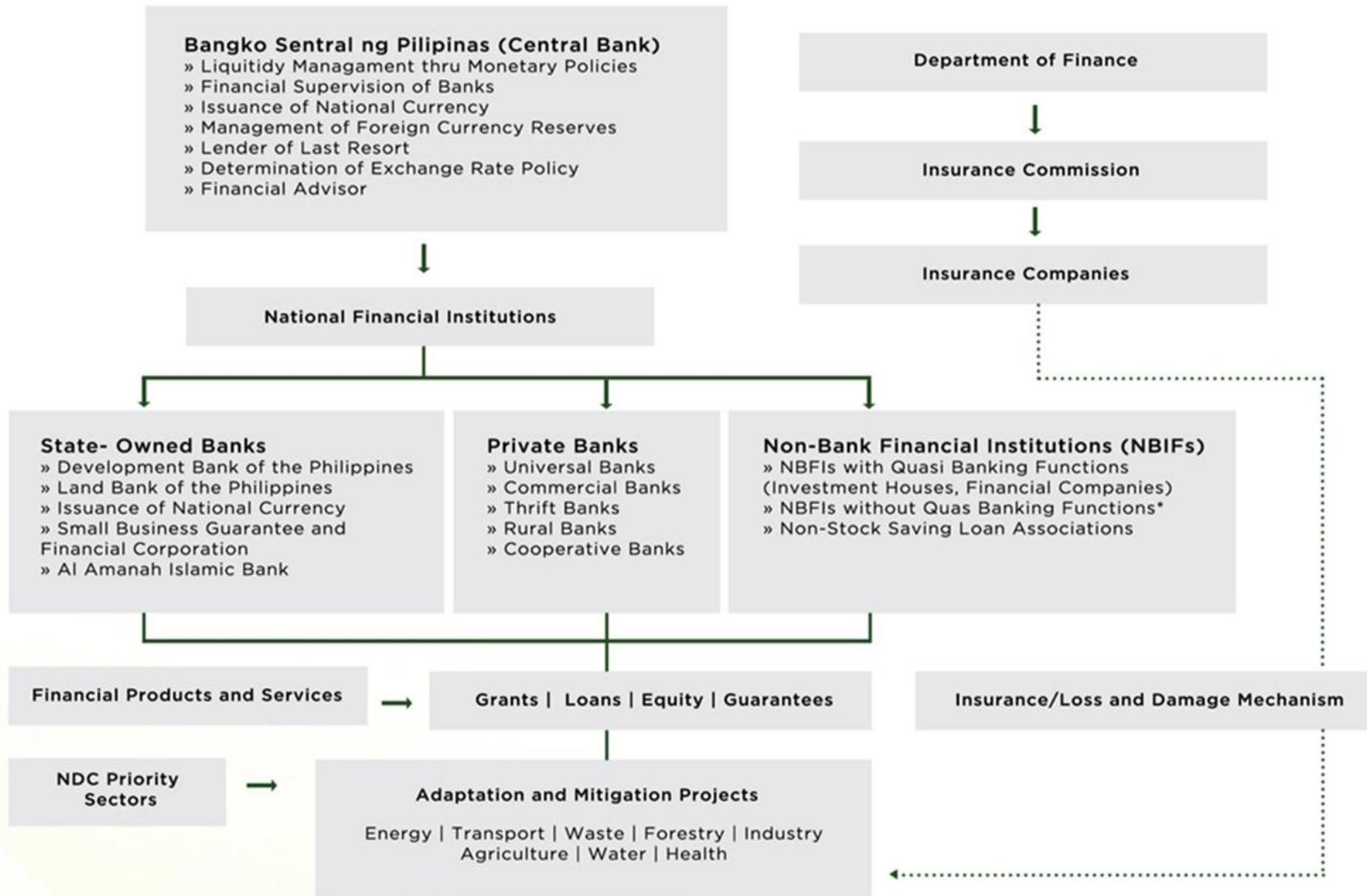
- The Philippines' climate change agenda is pursued by the following:
 - Department of Science and Technology (DOST)
 - Department of Public Works and Highways (DPWH)
 - Department of Agriculture (DA)
 - Department of Transportation and Communication (DOTC)
 - Department of Energy (DOE)
 - Department of Environment and Natural Resources (DENR)
 - Local Government Units (LGUs).

Funding of Climate Change Agenda

- ❑ The Department of Budget and Management (DBM) formulates the annual national budget that ensures the appropriate prioritization and allocation of funds to support climate change-related programs and projects.
- ❑ **Republic Act 10174** established the **People's Survival Fund (PSF)** to supplement the annual budget appropriation. The **PSF** is sourced from the national budget of which at least P1.0 Billion is intended for LGUs and accredited local/community organizations.

- While the climate appropriation corresponds to 0.3% of the GDP, it falls below the Stern Review recommendation that countries should expend at least 2% of GDP to implement climate action, resulting to a climate finance gap of 1.7%. The Philippines' GDP as of 2016 is 304.9 billion USD, which makes the ideal climate finance budget to be 6.08 billion USD.
- The Philippines' INDC sets a target of 70% emission reduction by 2030.

ASPIRATIONAL NATIONAL FINANCIAL CLIMATE CHANGE INITIATIVES



CLIMATE FINANCE CHAMPIONS

❖ **Bangko Sentral ng Pilipinas**

- ❑ BSP could serve as the anchor and champion for mobilizing domestic private sector climate finance. Its over-all functions include:
 - liquidity management through monetary policies
 - financial supervision of banks
 - issuance of national currency
 - management of foreign currency reserves
 - lender of last resort
 - determination of exchange rate policy
 - financial advisor of government
 - oversight function
 - prudential regulation and supervision of banks in promoting the development of new green products and services
 - nurturing of sustainable financial market practices

❖ **Private Sector**

The private sector is prepared to take certain risks, but hesitate to take risks to overcome country specific barriers to investments needed for climate-friendly technologies and projects. Public funds are essential for unlocking needed private climate finance by taking on risks that private market will not bear.

❖ **National Development Banks or State-Owned Banks**

Some national financial institutions offer a menu of financial products and services such as grants, loans, equity, and guarantees to support adaptation and mitigation projects of the NDC priority sectors.

❖ **Insurance Companies**

Supervised by the Insurance Commission under the DOF, insurance companies are also essential actors in the climate finance framework to ensure that loss and damage from climate change and extreme events are minimized.

EXISTING LOW CARBON, CLIMATE RESILIENT FINANCIAL PRODUCTS/SCHEMES

Following are the banks and organizations that pioneered in lending to low carbon, climate resilient financial products:

- Development Bank of the Philippines (DBP) – Green Financing Program
- Land Bank of the Philippines (LBP) – Credit Line for Energy Efficiency and Climate Protection (CLEECP)
- Bank of the Philippine Islands (BPI) – Sustainable Energy Finance (SEF)
- Banco de Oro (BDO)
- China Banking Corporation (Chinabank)
- BPI Globe BanKo

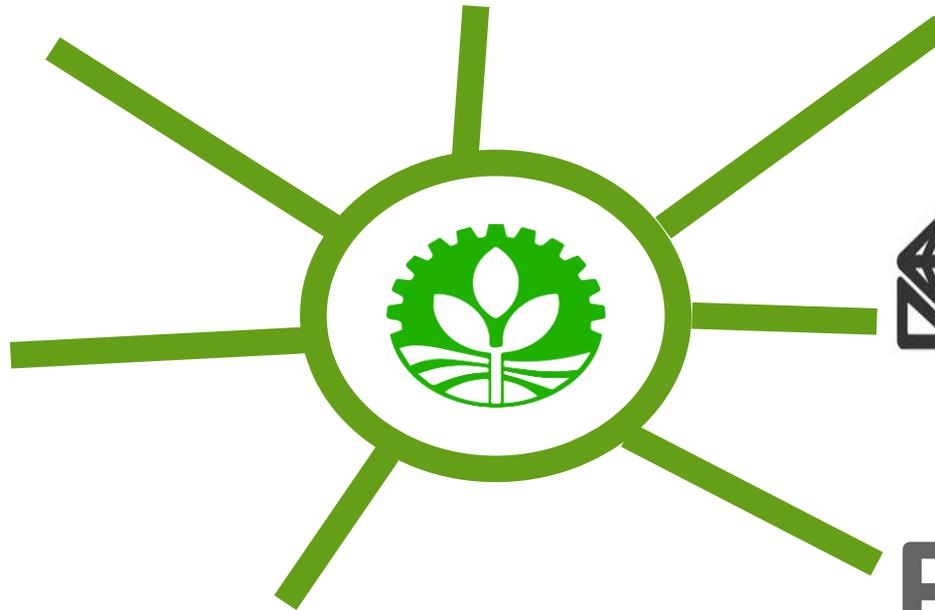
Philippine Banks with GF product



LANDBANK



BPI



Metrobank

BC CHINABANK



BankOü

A Savings Bank

EXTERNAL FINANCIAL SUPPORT FOR LOW CARBON, CLIMATE RESILIENT DEVELOPMENT

- Other financial support to promote low carbon, climate resilient development comes from international agencies and multilateral/bilateral sources including the following.



NON-BANK GREEN FINANCE PROGRAMS

- United Nations Environment Programme (UNEP)
- German Development Cooperation (GTZ) / Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ)
- European Chamber of Commerce of the Philippines (ECCP)
- Association of Development Financing Institutions (ADFIAP)
- Energy Efficiency Practitioners Association of the Philippines (ENPAP)
- Philippine Business for the Environment (PBE)
- Industrial Environmental Management (IEM) Knowledge Network



- **Fiscal incentives** for low carbon, climate resilient development exist **for project developers**. These are enumerated in RA 9513 as follows:

 <p>1. Income tax holiday</p>	 <p>2. Duty-free importation of RE machinery, equipment and materials</p>	 <p>3. Special realty tax rates on equipment and machinery</p>	 <p>4. Net operating loss carry-over (NOLCO)</p>	 <p>5. Corporate tax rate</p>
 <p>6. Accelerated depreciation</p>	 <p>7. Zero percent value-added tax rate</p>	 <p>8. Cash incentive of renewable energy developers for missionary electrification</p>	 <p>9. Tax exemption of carbon credits</p>	 <p>10. Tax credit on domestic capital equipment and services</p>

- **Non-Fiscal Incentives include:**

 <p>1. Employment of foreign nationals</p>	 <p>2. Simplification of customs procedures</p>	 <p>3. Importation of consigned equipment</p>	 <p>4. Privilege to operate a bonded manufacturing/trading warehouse</p>
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FINDINGS/RECOMMENDATIONS

- Existing policies need to incentivize low carbon investments.
- National financial institutions need to incentivize low carbon investments.
- The government should mandate the allocation of funds for green projects similar to the Agri-Agra Law.
- The government should give tax credit to banks that lend to green projects.
- Most capacity building support for green projects come from multilateral institutions such as the Green Climate Fund (GCF), IFC, USAID, and GIZ.

- Capacity building support is needed in improving local knowledge on climate change and successful green technologies, how to prepare viable project proposals, and how to access international funds.
- The government, through the Climate Change Commission, should play a stronger role in engaging all key government agencies such as the BSP, DENR, DOE, DOST DPWH, DOTC, DILG, and DA and other key stakeholders.
- Public awareness on climate change should be promoted.

- The BSP may adopt the best practices of the central banks of other countries, such as coming up with specialized schemes to incentivize the banks (e.g. risk-sharing scheme) which is being done by the Central Bank of Pakistan.
- Banks' limited readiness to access international funds
- High cost of green technologies and inadequate knowledge on green technologies

CONCLUSIONS

Climate finance is relatively new in the Philippines and its promotion and development cannot be pursued in isolation. In order to be successful, climate finance initiatives should address the intertwining challenges faced by climate change impact mitigation.

At this stage climate finance in the Philippines is a work in progress. Nevertheless, if the recommendations are implemented, indications are clear that the Philippines will meet its target by 2030.

RECENT DEVELOPMENTS

- **BSP is now more active in advocating Climate Finance among Philippine private banks** by hosting a high-level forum on Enhancing Environmental, Social and Governance Practices in the Philippine Banks in 2018.
- **ADFIAP is now conducting capacity building programs on climate change and green financing for the Philippine banking sector**
- **The Philippines is now applying the “Helsinki Principle No. 4” which takes climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices.**

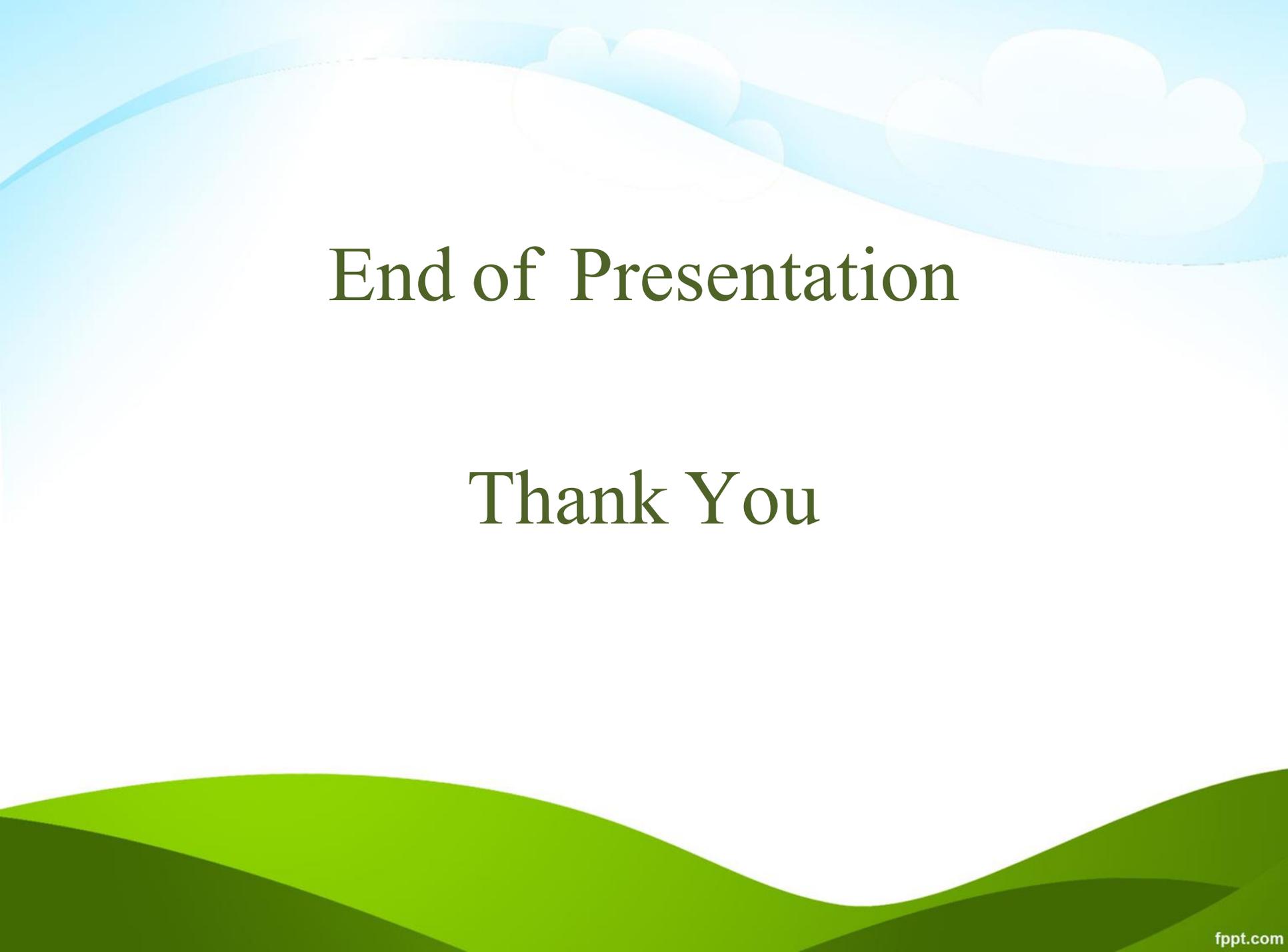
Helsinki Principle 4

Cabinet Cluster on
Climate Change Action
Mitigation Risk Reduction



Green Force :
Sustainable Finance
Interagency Council

Climate Change Adaptation and Mitigation



End of Presentation

Thank You