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Financing a Greener Future for the Philippines: Mitigating Climate Change through Sustainable Finance

Introduction

Though the effects of climate change are being felt all over the world, the situation is especially urgent in the Philippines. The country's location facing the western Pacific means it is met with an average of 20 typhoons per year,[1] while its archipelagic geography explains its many low-lying coastal communities. With rising sea levels, increasingly severe weather conditions, and warming temperatures, the country is in a highly vulnerable position. Enduring super typhoons sustaining winds from 250 kph to 260 kph such as Goni (2020) and Rai (2021), is becoming the new normal for locals. As such, the country was ranked 9th out of 180 countries most vulnerable to climate-related risks in a 2020 World Risk Report.[2]

Filipinos are already experiencing climate change today. From 2010 to 2019, the Philippines lost PHP463 billion worth of infrastructure, 98 percent of which was caused by climate-induced hazards.[3] The total damage in 2020 alone reached a staggering PHP113.4 billion.[4] Inflation rates have also increased because of typhoons that brought damage and losses to agriculture, with the general price level clocking a 4.5 percent average inflation from January to October 2021.[5]

The country's seas have become a dumping ground for waste. The Philippines is the third largest contributor of plastic waste, with 163 million plastic sachet packets, 48 million shopping bags, and 45 million thin-film bags being used and disposed of each day.[6] Plastic pollution, if left unchecked, stands to pose grave risks for communities, the economy, the environment, and the planet.

Laying the Groundwork

With the passing of the Climate Change Act in 2009, the Philippines established the Climate Change Commission (CCC), the leading policy-making body tasked to oversee development plans towards a more climate-resilient and climate-smart Philippines. The commission is responsible for programs such as Communities for Resilience, which strengthens the capacities of local government units (LGUs), as well as the Greenhouse Gas Inventory, which provides science-based technical information for policymakers.

The CCC is also actively campaigning for a plastic-free Philippines, as it provided expertise in crafting House Bill 9147, the Single-Use Plastic Products Regulation Act. House Bill 9147 was approved by the House of Representatives in July 2021, and is pending passage by the Senate.

This year, the CCC, led by Chair-designate and Finance Secretary Carlos G. Dominguez, facilitated the process that established the country's first nationally determined contribution (NDC) as part of the Philippines' commitment to the Paris Agreement on Climate Change. Though the Philippines is responsible for only 0.3 percent of global greenhouse gas emissions, the country put forward an ambitious commitment to reduce its greenhouse gas emissions by 75 percent by 2030, of which 2.7 percent is unconditional and 72.3 percent is conditional. The said commitment is referenced against a projected business-as-usual cumulative economy-wide emission of 3,340.3 metric tonnes of carbon dioxide equivalent (MTCO2e) for the same period.

With the NDC, the Philippines has set its sights on low-carbon development for the agriculture, waste, industry, transport, and energy sectors over the next decade. With these plans in place, the Philippines is gearing up to become a world leader in the reduction of carbon emissions and waste pollution.

To set these plans in motion, the CCC passed Resolution No. 2021-002 to create the Inter-Agency Technical Working Group (ITWG) on Sustainable Finance, or Green Force, led by the Department of Finance (DOF) and Bangko Sentral ng Pilipinas (BSP). Composed of government agencies that implement climate-related policy, the Green Force guides the development of environmental policies and facilitates sustainable investments through a whole-of-government, whole-of-country approach.

The ITWG is supported by the government of the United Kingdom (UK) through the ASEAN Low Carbon Energy Programme (ALCEP), a USD1.2 billion global development fund that supports inclusive development in partner countries, and contributes to the United Nations (UN) Sustainable Development Goals (SDGs).

In October 2021, the ITWG launched the Sustainable Finance Roadmap[7] and Guiding Principles,[8] the country's primary blueprint for transitioning to a low-carbon, climate-resilient economy. The master plan addresses policy and regulatory gaps in promoting sustainable investments through finance, implementing sustainable government initiatives, facilitating investments in public infrastructure, and developing projects that promote sustainable financing in the Philippines.

To set the plan in motion across the different regions of the country, the DOF launched the 16 new members of the CCC's National Panel of Technical Experts[9] in October 2021. The consulting body, made up of practitioners, professionals, and academicians from different fields of expertise and representing the various regions of the country, will provide the government with fresh ideas and practical advice based on their grassroots experiences.

Greenifying the Banking System

Banks serve a pivotal role in greenifying financial infrastructures. With the implementation of the Sustainable Finance Roadmap, banks now have a guide for adopting new practices in data collection and the prudential reporting of green and sustainable financing. Banks are now more empowered to execute innovative ways to mobilize funds for sustainable development as well as pandemic recovery.

The Sustainable Finance Roadmap complements the BSP Monetary Board's sustainable finance policy framework,[10] passed through Resolution No. 415 dated March 19, 2020. The resolution lays out the BSP's expectations on the integration of sustainability principles in the corporate governance framework, risk management systems, and strategic management systems for all banks within its scope.

Private banks have also begun implementing their own sustainability initiatives. The Bank of the Philippine Islands (BPI) and Banco de Oro (BDO) have launched Sustainable Energy Finance (SEF) Desks, which are channels for evaluating and monitoring sustainable energy projects. BPI has also created a Sustainable Funding Framework for issuing green, social, and/or sustainability bonds, as well as loans for selected projects. In addition, BPI has adopted voluntary reporting of sustainability performance.

Similarly, the Land Bank of the Philippines (LBP) crafted an umbrella program to cover all of its climate-change related products and services, including the Carbon Finance Support Facility, Renewable Energy Lending Program, and Go Green Inclusive Financing for small and medium enterprises and LGUs. Meanwhile, the Development Bank of the Philippines (DBP) rolled out a Green Financing Program (GFP), which supports environmental protection and the country's green growth strategy.

Disaster Risk Protection

Mitigation and adaptation are necessary to prevent future disasters, and the Philippines is proactive in addressing the costs of climate change. To help support the country's 110 million people from the increasing frequency and intensity of natural disasters, the DOF formulated the Philippine Disaster Risk Financing and Insurance (DRFI) Strategy in 2015. Prioritizing the poor and vulnerable, the DRFI is a framework for implementing financial solutions against natural disasters at national, local, and individual levels.

Under the DRFI Strategy, the Second Disaster Risk Management Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) supports disaster risk reduction and management by strengthening investment planning and regulation, and enhancing the country's financial capacity to manage natural risk. This is aligned with the DRFI's mandate to develop sustainable financing mechanisms and maintain sound fiscal health.

On the CCC's end, the National Climate Change Action Plan (NCCAP) outlines the country's agenda for adaptation and mitigation for 2011 to 2028. Prioritizing food security, ecosystem and environmental stability, water sufficiency, human security, climate-smart industries and services, sustainable energy, and capacity development, NCCAP details key actions that enhance the capacity and resilience of communities and natural ecosystems to climate change.[11]

Doubly achieving climate mitigation and sustainable transport objectives, the government has been heavily investing in modern infrastructure projects. To date, the Duterte administration's Build, Build, Build (BBB) program has the highest budget allocation on infrastructure across administrations with an estimated budget of PHP8 trillion from 2017 to 2022. The program has overseen and completed the construction of 214 airport projects, 451 seaport projects, 11,340 flood mitigation structures, 451 commercial and social/tourism seaport projects, 222 evacuation centers, 26,264 kilometers of road, and 150,149 classrooms, among others.[12]

In 2019, the World Bank issued two tranches of catastrophe-linked bonds (CAT bonds) to capital market investors in order to provide the country with a maximum insurance coverage of USD225 million (USD75 million for earthquakes and USD150 million for tropical cyclones) over a period of three years.

Another component of the government's overall disaster risk finance strategy, the Parametric Risk Insurance Policy Program enables the Government Service Insurance System (GSIS) to provide catastrophe risk insurance to the national government and participating provinces. The World Bank acts as an intermediary to transfer GSIS's risk to a panel of international reinsurers. Unlike indemnity-based insurance, which makes payments based on actual loss, the Parametric Risk Insurance Policy Program aims to provide immediate liquidity upon the occurrence of severe earthquakes and typhoons.

The Post Disaster Stand-by Loan (PDL) Phase 2, on the other hand, was designed to quickly disburse Japanese funding in support of the government's response efforts in the event of a national calamity or health emergency. Signed on September 15, 2020, four tranches in the aggregate loan amount of JPY50 billion have since been disbursed through the Japan International Cooperation Agency (JICA). The tranches have been instrumental in helping the government meet its financial requirements as it distributed emergency cash aid to families affected by the Enhanced Community Quarantine (ECQ) and Modified ECQ (MECQ) in the National Capital Region (NCR) and nearby provinces.

The fourth and final tranche amounting to JPY10 billion (or around PHP4.6 billion) was approved by the Japanese government after the declaration of ECQ in the NCR in August 2021.[13]

On the local level are the Local Disaster Resilience Insurance Fund (LDRIF), the 2021 Indemnity Insurance under National Disaster Risk Reduction and Management (NDRRM) Fund, and the Philippine City Disaster Insurance Pool (PCDIP). While all three are designed to act as funding during times of disaster, the PCDIP specifically targets vulnerable cities.

Lastly, on an individual level, the DRFI Strategy broadens private property catastrophe risk insurance and microinsurance coverage. In other words, the DRFI empowers poor and vulnerable households and owners of small and medium-sized enterprises to quickly restore and bounce back after a disaster.

Funding a Low-Carbon Economy

The Securities and Exchange Commission (SEC), through Memorandum Circular No. 9 series of 2019, released guidelines on the issuance of sustainability bonds under the ASEAN sustainability bonds standards. The guidelines also connect local issues with the global green, social, and sustainability bond market. As of September 2021, the Philippines has issued USD4.77 billion in ASEAN-labelled green, social, and sustainability bonds.[14]

Designed to serve the climate finance needs of developing countries, the Green Climate Fund (GCF) is the largest global fund to address climate change. The People's Survival Fund (PSF), meanwhile, is an annual special fund for the adaptation programs and projects of LGUs.

In addition, the government is eyeing the leveraging of the country's greatest asset—its people. The majority of the Philippines' population belongs to the working age cohort of 15 to 64,[15] with a median age of 25. This demographic advantage, in addition to increasing consumption and total output, gives the country greater capacity to operationalize sustainable investments as it gears towards attaining its NDC. Through the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law, bigger income-tax deductions are provided for labor force training, resulting in a highly-skilled workforce that is fully capable and adapted to green jobs.

Tapping into Renewable Energy

To truly make a dent in carbon emissions, the Philippines must reduce its reliance on coal, which accounts for 46 percent of global carbon dioxide emissions. In 2020, the government enacted a moratorium on greenfield coal power plants to shift investors to clean energy sources and green technologies. Through the moratorium, the Department of Energy (DOE) will no longer issue permits for new coal projects. In addition, coal-fired power plants in Mindanao are slated to be acquired and repurposed to hydropower. With this initiative, more investments are expected to be made by companies that are ready to expand in areas powered by renewable energy.

With the support of the Asian Development Bank (ADB), the Philippines and Indonesia jointly launched the Energy Transition Mechanism (ETM) facility during the 26th UN Climate Change Conference of the Parties (COP26). A public-private finance vehicle, the ETM will reduce coal-fired power generation through accelerated plant retirement and boost the growth of renewable energy in an equitable, scalable, and market-based manner.

The government is set to pilot the ETM project in Mindanao, where the decades-old Agus-Pulangi hydropower plant complex is currently undergoing rehabilitation in order to improve its generating capacity. Ultimately, the government plans to gradually acquire coal-fired power plants in Mindanao and repurpose them through the ETM facility.

There is still a long way to go in the shift to clean energy. The Philippines has vast renewable energy resources that have not yet been fully maximized; it can potentially produce 4,790 megawatts (MW) in geothermal reserves,[16] 10,500 MW in hydropower, 76,600 MW in wind energy, and 4,449.54 MW in biomass projects.[17] The Philippine seas have a whopping theoretical capacity of 170,000 MW,[18] with more than twenty-two potential locations identified by the DOE.

At the same time, many RE projects are already underway, with USD4.8 billion already invested in solar energy projects, USD43 million in waste-to-energy projects, and USD300 billion in foreign investments in the biomass industry.

To continuously attract foreign investment, the Philippine government has introduced incentives such as full foreign ownership, multi-year income tax holidays, and zero duty on equipment imports. Additionally, under the CREATE Law, RE firms are set to benefit from income-tax deductions for research and development activities. This enhanced deduction is designed to boost innovation in areas such as power generation and battery technology.

The RE sector also stands to receive generous, performance-based tax incentives under the Strategic Investment Priorities Plan of the CREATE Law.

During the virtual Philippine Economic Briefing on November 24, 2021, Secretary Dominguez showcased to Japanese investors that, in addition to areas such as infrastructure development, manufacturing, and digital technology, renewable energy is one of the key areas where the Philippines can further strengthen its partnership with Japan. The Philippine business landscape has been vastly transformed through rapid digitalization, the corporate income tax (CIT) reform law, measures to further improve the ease of doing business, and the sustained modernization of the country's infrastructure. Secretary Dominguez stressed how these initiatives, coupled with the decline of COVID-19 infections in the country, are leading to the country's shift to a "new and better" post-pandemic recovery.

Prior to these improved conditions, relations between the two countries were already highly positive. On top of being the Philippines' biggest provider of official development assistance, Japan has supported the country's infrastructure development through 26 ongoing loans for big-ticket projects. Despite the COVID-19 pandemic, foreign investment inflows from Japan increased by 45 percent compared to the pre-pandemic period, making it the Philippines' second largest source of foreign direct investment (FDI) under the Duterte Administration.

The Philippines at COP26

With Secretary Dominguez leading the delegation, the Philippines was one of the 192 countries that gathered at the COP26 from October 31 to November 13, 2021. Held in Glasgow, Scotland, the conference was an opportunity for world leaders, climate experts, and activists to negotiate and collaborate on how best to accelerate action on reversing the devastating effects of the climate crisis.

The Philippines has shifted global discussions on climate change from a focus on general scientific findings to practical actions that may be immediately undertaken on the ground. Secretary Dominguez also called for climate justice as he delivered the Philippines' national statement: "Those who have polluted and continue to pollute the earth's environment through unthinking industrialization starting two hundred years ago must pay for the grants, investments, and subsidies needed for the most vulnerable countries to adapt to climate change."

In his intervention at a ministerial dialogue on November 4th, Secretary Dominguez emphasized the three-point blended approach to climate finance. While grants ought to be used to improve the capacity of local communities in climate-vulnerable areas, investments should focus on programs and projects that will unlock business opportunities, create new jobs, and lead to energy self-reliance in the long run. Subsidies will help address the financial costs and risks of communities transitioning to a climate-resilient economy.

Secretary Dominguez underscored that multilateral development banks (MDBs) are the best channels for climate finance given their extensive vetting and monitoring processes that would encourage private sector participation. MDBs could also be tapped with the COP for a harmonized set of guidelines to determine the viability and sustainability of climate projects as well as to set transparency and accountability standards.

Conclusion

The Philippines' plans for fighting climate change are certainly ambitious, and the next ten years will be the ultimate test to cut carbon emissions and transition to a low-carbon, climate-resilient society. While the DOF is leading the way, the country will require the active participation of the private sector in mobilizing finance for a green and resilient recovery. The international community, through MDBs and foreign investors, will certainly play an important role. As climate risks continue to compound every year, cooperation between the government and various stakeholders will be key in truly making a lasting difference in the fight against climate change.

Photo 1: Image taken on December 17, 2021, shows houses in Surigao City in Surigao del Norte province destroyed by Super Typhoon Rai (local name Odette).
PHOTO COURTESY: Erwin Mascarinas of Armed Forces of the Philippines

Photo 2: Rescue workers evacuated residents on December 16, 2021, from their flooded homes amid heavy rains brought by Super Typhoon Rai in Cagayan de Oro City.
PHOTO COURTESY: Philippine Coast Guard

Photo 3: The Philippine Coast Guard Aviation Force captured the devastating aftermath of Super Typhoon Rai (local name Odette) during an aerial survey on December 17, 2021, in Surigao City, Surigao del Norte.

Photo 4: The Philippine Coast Guard District Northeastern Mindanao rescued residents of Tubay, Agusan del Norte during Super Typhoon Rai (local name Odette).

Notes

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