Climate Finance *At A Glance*

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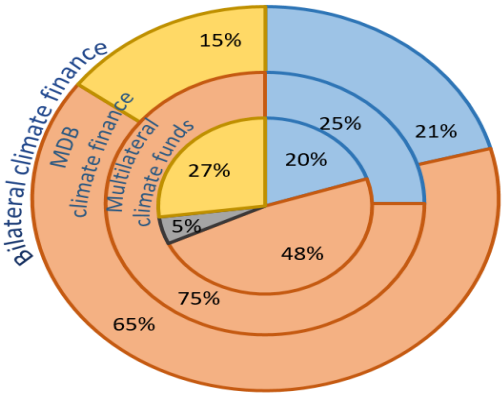
The Philippines has been on the firing line of climate change, enduring enormous losses one disaster after another. The country suffered from 317 extreme weather events during the last decade alone. From 2010 to 2020, it incurred damage worth at least PhP515.51 billion due to disasters, 98 percent of which are climate-related. Super typhoon Yolanda (Haiyan) in 2013 was the costliest, with loss and damage reaching PhP95.48 billion or 0.7 percent of gross domestic product (GDP). Without concerted action to halt global warming, highly vulnerable developing countries like the Philippines will continue to bear the brunt of the climate crisis. Climate finance plays a key role in helping the country adapt to the adverse impacts of climate change, avoid or minimize further loss and damage, and transition to a green and resilient economy. Faced with an increasingly tight fiscal space, the government should maximize access to climate finance promised by developed countries to developing nations.

What is climate finance? In a broader sense, climate finance refers to funds from public, private and alternative sources of financing to address climate change. For this brief, the term "climate finance" is used in the context of public financial flows from developed to developing countries. Under the United Nations Framework Convention on Climate Change (UNFCCC)[1] and its Protocols (Kyoto Protocol[2] and Paris Agreement[3]), to which the Philippines is a Party, climate finance is an obligation of the developed countries, being the major contributors to the concentration of greenhouse gases (GHGs) in the atmosphere accumulated since the Industrial Revolution. The UNFCCC recognizes the need for financial support to developing countries that have not contributed to the historical level of GHGs in the atmosphere but are disproportionately affected by the adverse impacts of climate change. Developing countries face greater climate impacts of higher temperatures, prolonged droughts, stronger typhoons and sea level rise, and have less capacity to withstand them. Climate change, thus, places additional burden on their already scarce resources, for which they need financial support. Moreover, developing countries have overriding priorities of poverty reduction and socio-economic development as recognized under the UNFCCC.

Climate finance is provided through bilateral and regional channels and multilateral institutions such as the Global Environment Facility (GEF), Green Climate Fund (GCF), Adaptation Fund (AF), UN agencies, and multilateral development banks (MDB). The UNFCCC established a financial mechanism to provide financial resources to developing countries. The operation of the financial mechanism was entrusted to international entities such as the GEF and GCF, as the operating entities of the financial mechanism. MDBs and UN agencies act as implementing or accredited entities[4] for the GEF and GCF, among other climate funds, thereby serving as intermediaries of climate finance.

Figure 1. Area of support of international public climate finance flows, 2017-2018



Source of data: 2020 Biennial Assessment and Overview of Climate Finance Flows, UNFCCC

**REDD-plus financing covers mitigation activities in the forest sector*

***Cross-cutting covers public flows contributing towards both adaptation and mitigation*

Scope of climate finance. Under the UNFCCC and its Paris Agreement, climate finance should support both climate change adaptation and mitigation costs of developing countries, including technology transfer and development

[1] The 1992 UNFCCC provides the foundation for multilateral action to combat climate change and its impacts on humanity and ecosystems.

[2] The Kyoto Protocol, adopted in 1997, provides for an obligation and individual legally binding emission reduction targets for developed countries.

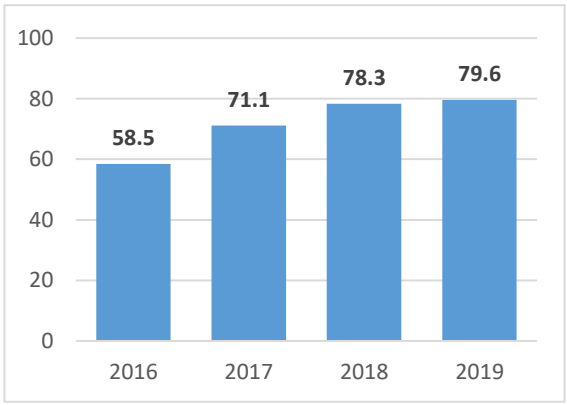
[3] The Paris Agreement, adopted in 2015, aims to limit the global temperature rise to well below 2°C above pre-industrial levels and to pursue efforts to limit the increase even further to 1.5°C.

[4] Accredited entities carry out a range of activities that include the development of funding proposals and the management and monitoring of projects and programmes.

and capacity building, in accordance with country needs and priorities. Adaptation measures range from establishing early warning systems, to making new infrastructure resilient, switching to more drought- or flood-tolerant crops, and restoring ecosystems to cope with climate change. Mitigation strategies that reduce or avoid GHG emissions in the atmosphere include adopting renewable energy sources, promoting sustainable transport, improving energy efficiency, and restoring forests and landscapes. Despite calls for parity between support for adaptation and mitigation, international public climate finance is currently skewed towards mitigation across all sources (Figure 1).

Scale of climate finance. In 2009, developed countries pledged to jointly deliver to developing countries an annual climate fund of US$100 billion by 2020. The latest report from the Organisation for Economic Co-operation and Development (OECD) estimates that climate finance provided and mobilized reached US$79.6 billion in 2019, while the US$100-billion annual goal by 2020 is unlikely to have been met (Figure 2). Even if it were achieved though, the US$100-billion target itself may now be inadequate. Annual adaptation costs in developing countries alone are estimated at US$70 billion in 2020 and projected to reach US$140–300 billion by 2030 and US$280–500 billion by 2050 (UNEP 2021). Meanwhile, the financial demand for mitigation of developing countries by 2030 is estimated at US$276.5 billion (Zhang & Pan, 2016). The Philippines, in particular, has asserted that the US$100-billion goal to be shared among developing countries should be re-examined.

Figure 2. Climate finance for developing countries (in billion US$), 2016-2019

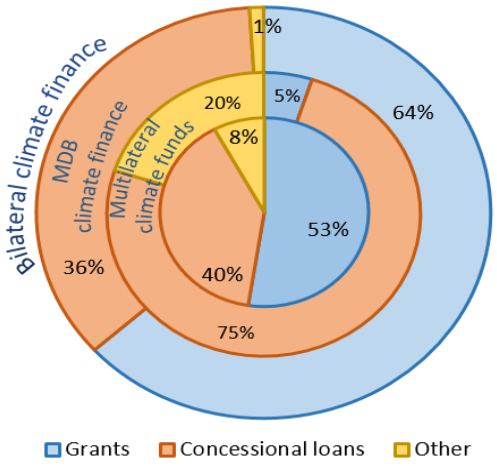


Source of data: OECD 2021

Based on the country's experience from pilot initiatives, climate risk assessments and early warning systems for 1,715 local government units already cost US$86.2 billion while according to the Department of Finance (DOF), the cost of implementing mitigation measures is estimated at US$4.12 billion from 2015 to 2030. This does not yet consider the cost of the Philippines' ambitious mitigation commitments of 75 percent emissions avoidance and reduction from business-as-usual for the period 2020 to 2030 under its first Nationally Determined Contribution (NDC).

Do loans count as climate finance? Oxfam (2020) argues that climate finance flows are overstated by a huge margin as loans offered to developing countries were counted at their full face value, instead of being measured in their grant-equivalent[5] terms. In 2017 to 2018, concessional loans[6] accounted for 36 to 75 percent of public climate funds (Figure 3) while 64 and 94 percent of adaptation finance from bilateral support and multilateral climate funds, respectively were grants-based (Figure 4). Under the UNFCCC, developed countries should provide new and additional financial resources, the intent of which is to ensure that no Official Development Assistance (ODA) funds would be diverted by developed countries to meet their obligations under the UNFCCC (Climate Analytics, 2010). Hence, climate finance should be over and above the ODA flows to developing countries. The Philippines has actually been advocating for adaptation finance to solely be in the form of grants, and not loans. As many developing countries have chronic poverty problems compounded by the economic scarring brought by the Coronavirus Disease 2019 (COVID-19) pandemic, prospective financial resources for climate action, especially for adaptation, should not add to the debt burden. Debt-based climate finance does not serve the purpose of delivering climate justice[7] for developing countries and the future generations.

Figure 3. Financial instrument of international public climate finance flows, 2017-2018



Source of data: 2020 Biennial Assessment and Overview of Climate Finance Flows, UNFCCC

[5] When a loan offers an interest rate below the market rate, the grant equivalent can be calculated as equal to the difference between net present discounted values of the interest rate charged and the market rate.

[6] Concessional loans are offered on more generous terms than market rates through features like zero or low interest rates, extended repayment schedules, and provision for interest rate modifications.

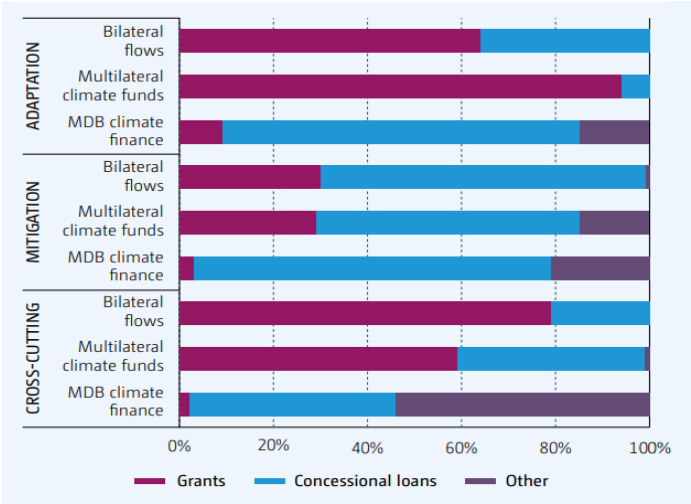
[7] Climate justice upholds the principles of equity and "common but differentiated responsibility", which recognizes the different capabilities and differing responsibilities of countries in addressing climate change. Those who are affected the most, but contributing the least, are also facing an additional burden from responses to climate change that worsen their situations further.

Speed of climate finance. The timely delivery of financial resources enables developing countries to address their urgent adaptation needs and to transition swiftly towards a low carbon, climate resilient development pathway. However, the Philippines has observed that intermediaries for channeling climate funds such as MDBs are among the major hurdles to swiftly accessing climate funds. Developing countries are unable to comply with their corporate rules and protocols such as prerequisite processes and policy requirements to trigger release of tranches, which lead to disbursement issues and delays. To ensure that committed funds from developed countries can be directly accessed by developing countries and reach the intended beneficiaries in a timely manner, the Philippines pushed for a direct access modality for the GCF and AF as an alternative to accessing funds through intermediary institutions.[8] In the international climate negotiations, the country leads the call for a clear, facilitative, transparent and streamlined process for accessing climate finance.

Climate finance and domestic budget allocation. Climate finance complements the country's own resources, which are far from adequate to address the Philippines' adaptation and mitigation needs. From 2016 to 2022, PhP1.59 trillion has been tagged as climate budget[9] by national government agencies, which represents 5.8 percent of the total appropriations during the said period. About 94.5 percent and 4.5 percent of the climate budget were for adaptation and mitigation, respectively (Figure 5). In developed countries, particularly in the European Union (EU), the overall climate budget target is 30 percent of the EU expenditure for the period 2021-2027 from the 20-percent level for the period 2014-2020 (European Council, 2020).

Climate finance received by the Philippines. Based on a 2020 adaptation finance tracking report of the Institute for Climate and Sustainable Cities (ICSC) and CARE International, among other civil society organizations,[10] 623 climate-related projects amounting to US$4.34 billion were committed to the Philippines from 2013 to 2017. The report assessed 18 projects worth US$2.19 billion and found that 93 percent were in the form of loans, which were mainly for flood risk management and post-disaster funding requirements. Meanwhile, grants amounting to US$153 million were for building institutional capacity and early recovery and rehabilitation (Figure 6). The report further pointed that US$770 million of the US$2.10-billion adaptation finance was over-reported, mainly due to a reporting practice of attributing the entire amount to adaptation even if it is a minor objective of the project or the project did not contribute directly to adaptation objectives (Figure 7).

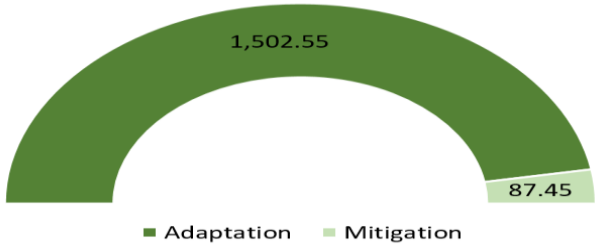
Figure 4. Characteristics of international public climate finance flows, 2017-2018



Source: Technical Report of the 2020 Biennial Assessment and Overview of Climate Finance Flows, UNFCCC

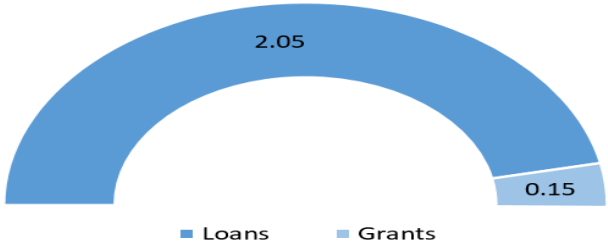
**Cross-cutting covers public flows contributing towards both adaptation and mitigation.*

Figure 5. Climate-tagged budget (2016-2022) in billion PhP



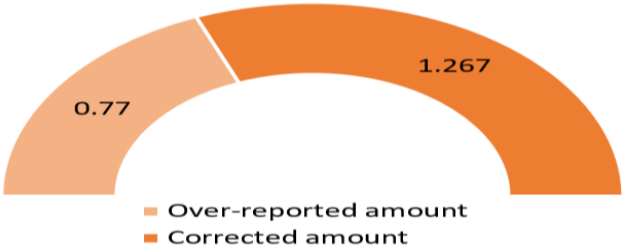
Source of data: CCC

Figure 6. Financial instrument of assessed climate finance flows (2013-2017), in billion US$



Source: Climate Finance Adaptation Study Report: Philippines, CARE International

Figure 7. Over-reporting of adaptation finance (2013-2017), in billion US$



Source: Climate Finance Adaptation Study Report: Philippines, CARE International

[8] The GEF, the largest funding mechanism for global environment conservation initiatives, is accessible by only 18 designated international organizations including the Asian Development Bank (ADB) and World Bank.

[9] Appropriations tagged for climate action, either for adaptation or mitigation.

[10] Care International, ACCORD, Institute for Climate and Sustainable Cities, and Partners for Resilience.

The Green Climate Fund. The GCF is the world's largest multilateral climate fund. The Philippines, on behalf of the Group of 77 (G-77),[11] led the negotiations for its establishment as an operating entity of the financial mechanism of the UNFCCC in 2010. Fully operational in 2015, the GCF mobilizes climate finance in the form of grants, concessional loans, equity, and guarantees, aiming to deliver equal amounts of funding to mitigation and adaptation over time in grant equivalence.[12] The GCF launched its initial resource mobilization in 2014 and gathered pledges worth US$10.3 billion. As of 30 March 2022, the committed amount allocated for 192 approved projects is US$10.2 billion, of which US$2.5 billion was already disbursed. Pledges from 30 countries contribute US$9.87 billion to the GCF's first replenishment, of which US$5.29 has been confirmed.

The GCF's eight strategic result areas are: 1) energy generation and access; 2) transport; 3) buildings, cities, industries and appliances; 4) forests and land use; 5) health, food, and water security; 6) livelihoods of people and communities; 7) ecosystems and ecosystems services; and 8) infrastructure and the built environment.

Is the Philippines getting enough from the GCF? The Philippines has obtained GCF approval for four (4) funding proposals amounting to US$89.6 million: 1) Multi-Hazard Impact-Based Forecasting and Early Warning System (MH-IBFEWS) for the Philippines (Access entity: LANDBANK); 2) Climate Investor One (Access entity: FMO Netherlands); 3) ASEAN Catalytic Green Finance Facility (ACGF) "Green Recovery Program" for post-COVID-19 infrastructure (Access entity: ADB); and 4) Global Fund for Coral Reefs Investment Window (implemented with Pegasus Capital Advisors LP).

Yet, of the 128 developing countries with approved projects, the Philippines ranks 87th in terms of total amount of approved financing. On a per capita basis, the country further drops to 115th in rank. Thus far, it has only secured US$0.82 per capita vis-à-vis the median value of US$5.91.

Under the amended Climate Change Act (Republic Act No. 10174), Congress mandated a coordination mechanism among government agencies and stakeholders concerned to ensure transparency and coherence in the administration of climate funds. In the 17th Congress, a resolution[13] was filed directing the Senate Committees on Finance and Climate Change to look into the capacity of the government to access climate finance and demonstrate its capability to utilize these resources effectively. The government admits that "there is difficulty, both in the government and private sectors, in preparing high-quality project proposals on climate change adaptation and mitigation that will merit financial support (CCC, 2020)." From 2015 to 2021, the agency tasked for strategic oversight on GCF access and implementation, the Nationally Designated Authority (NDA), was changed four times—from the Climate Change Commission (CCC) to the Department of Environment and Natural Resources (DENR), then back to the CCC, and finally to the DOF. Intuitively, this frequent transfer of responsibility affects the government's capacity to strategically plan and access more climate funds expeditiously.

The way forward. The government should step on the accelerator and take advantage of the climate finance resources pledged for urgent climate action. Congress, in exercise of its oversight function, should conduct a more thorough assessment of the government's demonstrated capacity to access, coordinate the implementation, and monitor and evaluate climate finance from the GCF and other sources or channels. It should inquire on the quality of climate finance received by or committed to the Philippines, so as not to drive the country deeper into debt. Is there a coherent climate finance strategy to deliver these resources to priority interventions with dispatch? Does the country have a comprehensive accounting of the climate finance flows to the national and local governments? Has the government quantified the country's support needs? Are the internal procedures within the bureaucracy in processing climate finance, especially grants, facilitative or inhibitory? What are the barriers to access and how can these be overcome? To what extent have the government assessed the effectiveness of adaptation and mitigation interventions funded by climate finance? These are a number of questions to consider as the Philippines endeavors to obtain and benefit from its rightful share of climate finance.

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[11] The G-77 is the largest aggrupation of developing countries in the United Nations.

[12] In Decision 3/CP.17 (2011), the Conference of the Parties (COP) to the UNFCCC requested the GCF Board to balance the allocation of the GCF resources between adaptation and mitigation activities.

[13] Proposed Senate Resolution No. 369 filed on May 8, 2017 by Senator Loren Legarda.