Financing Adaptation or Funding CHAOS?

Adaptation, Finance, and Philippine Climate Policy

A Climate Policy Report by the Institute for Climate and Sustainable Cities (iCSC) and Oxfam, July 2010

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List of Abbreviations

ADB	Asian Development Bank
AF	Adaptation Fund
AFB	Adaptation Fund Board
CCC	Climate Change Commission
CDM	Clean Development Mechanism
CER	Certified Emission Reductions
CIF	Climate Investment Funds
COP	Conference of the Parties
CTF	Clean Technology Fund
DDA	Domestic Direct Access
DENR	Department of Environment and Natural Resources
ETF	Environmental Transformation Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse Gas
GNI	Gross National Income
ICPI	International Climate Protection Initiative
ICRMP	Integrated Coastal Resources Management Project
IPCC	Intergovernmental Panel on Climate Change
LAMP 2	Second Land Administration and Management Project
LDCF	Least Developed Countries Fund
LDRMF	Local Disaster Risk Management Fund
LGU	Local Government Unit
MDB	Multilateral Development Bank
MIE	Multilateral Implementing Entity

MTPDP	Medium-Term Philippine Development Plan
NEEDS	National Environmental, Economic and Development Study for Climate Change
NIE	National Implementing Entity
NPS-ENRMP	Support for Environment and Natural Resources Management
NSF	National Survival Fund
ODA	Official Development Assistance
PBSP	Philippine Business for Social Progress
PPCR	Pilot Program for Climate Resilience
PRRM	Philippine Rural Reconstruction Movement
SCCF	Special Climate Change Fund
SCF	Strategic Climate Fund
UNCBD	United Nations Convention on Biological Diversity
UNCCD	United Nations Convention to Combat Desertification
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank

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Executive Summary

As the world reels from the devastating impacts of climate change, financing sources for climate resilient development are proliferating at a rate and scale that, from initial appearance, may all but surpass traditional flows of official development assistance (ODA). Unfortunately, the scale of resources pledged so far are far from the scale of financing required to meet the needs of developing countries like the Philippines. Worse, most of the pledges remain just that -- pledges virtually written on water, many recycled from previously announced commitments.

Among developing countries, mitigation efforts alone are estimated to cost US$140 to US$175 billion a year over the next 20 years, with associated financing needs of around US$265 to US$565 billion. Adaptation investments are projected to average US$30 to US$100 billion a year over the period 2010-2050. Distressingly, only US$2 billion of the total US$19 billion pledged funds thus far have been deposited into dedicated climate funds, while only US$700 million have been disbursed.

The failure of Copenhagen to deliver a fair, ambitious and binding deal on urgent mitigation and financing issues, and the threat of another dismal outcome, if not outright collapse, of international climate talks leaves vulnerable developing countries like the Philippines with little choice but to take urgent domestic action. The Philippines must make adaptation to climate change the national imperative. It must ensure that domestic policy measures are consistent with such a position.

Currently, governance chaos reigns over the administration of climate finance that has entered the Philippines, along with funds projected or programmed to come from abroad. As the table below shows, this has skewed domestic climate action towards the wrong priorities. More international climate finance has gone to mitigation efforts instead of adaptation activities. Worse, it appears most of the resources allocated for adaptation programs and projects have come in the form of loans. This is contrary to the position championed by the Philippines abroad, which calls for climate finance to be channelled neither as aid nor charity but as compensatory funding in context and by design.

Action based on immediate, near-term and long-term strategies is critical. Measures must address challenges related to selecting regions and communities in the country, that require urgent adaptation support based on mechanisms that ensure effective fund delivery, and fiduciary and transparency requirements that build public trust and ensure participation by civil society organizations and congressional oversight.

More to mitigation, and more loans? Comparative flows of direct grants and loans by major measure and funding category, 1992 to 2018, in millions of pesos.

Item	Grants	Loans	Total
Mitigation	636,385,385	491,635,179	1,128,020,564
Adaptation	369,847,995	586,592,639	956,440,634
Grand Total	**1,006,233,380**	**1,078,227,818**	**2,084,461,198**

Source: Draft Report, National Environmental, Economic and Development Study (NEEDS) for Climate Change, EMB-DENR, 2009 as presented in *The Philippine Strategy on Climate Change Adaptation 2010-2022*, Final Draft.

Corruption-proof, direct access by vulnerable communities -- one that targets the most vulnerable, such as women in agriculture -- to climate finance abroad and within the country is critical.

Coordinated action plans and strategies of national and local government units are essential. The role of government institutions, especially those operating under climate change-specific mandates, must be rationalized urgently if domestic financing streams are to be mobilized, consolidated effectively, and spent efficiently to raise the adaptive capacity of vulnerable communities. The Philippines must also take urgent steps to directly access untied finance from the Adaptation Fund, a non-donor-driven institution under the UN with funding modalities that, unlike other financial agencies, allow developing countries to avoid having to go through inefficient, bureaucratic, and conditionality-heavy multilateral financing from institutions such as the World Bank.

Recommendations:

1. Establish adaptation to climate change as the national priority. Ensure this position is reflected and mainstreamed in national and local policy measures, documents, processes, and programmes;

2. Ensure that the Philippine government continues to champion the Adaptation Fund (AF). The Philippines must call for all new adaptation finance contributions and pledges to be channelled towards the AF, and for AF principles, governance, and direct access modality to become the benchmark for future agreed adaptation funds;

3. Access the AF by helping the Philippine government designate a National Implementing Entity (NIE) fully compliant with fiduciary standards established by the AF Board and accepted transparency and accountability mechanisms. Craft the country proposal for the AF through a participatory, multi-stakeholder and multi-level process;

4. Establish a National Survival Fund that will democratize access to, and create predictable long-term finance streams for, urgent adaptation and disaster risk reduction projects and programs benefiting the most vulnerable, particularly women in agriculture;

5. Call for the immediate and comprehensive review of all climate finance that has entered country coffers. Monitor and where necessary, block proposed climate finance inconsistent with the international negotiating position of the Philippines, particularly adaptation finance extended as loans or with conditionalities; and

6. Call for the immediate revision of the Implementing Rules and Regulations of the Climate Change Act to ensure that the Philippine Climate Change Commission (CCC) exercises more effective, capacitating, and coordinative leadership over the country's climate action agenda. The CCC must:

   a. Act as the Philippine climate knowledge hub and lead capacity-builder, empowering local government units (LGUs) to craft long-term, climate-resilient development agendas;
   b. Act as the main climate finance information center, monitoring the amount, mode, and use of climate finance accessed from abroad and locally; and
   c. Exercise leadership by assuming the role of LGU and national department climate action rating agency. This will accelerate the interface between vulnerability-mapping efforts and the mobilization of domestic and foreign adaptation finance, based on registers of vulnerability and local government leadership indicators. Ratings will also greatly help point mitigation-driven finance to LGUs seeking to shift to low carbon pathways.

Section 1
Overview of Adaptation Funding in the Global Context

As the world braces itself from the devastating impacts of climate change, financing sources for climate resilient development are proliferating at a rate and scale that, from initial appearances, may all but surpass traditional flows of official development assistance (ODA). Unfortunately, the scale of resources pledged so far are far from the scale of financing required to meet the needs of developing countries like the Philippines. Worse, most of the pledges remain just that -- pledges virtually written on water, many recycled from previously announced commitments.[1]

Current financial flows for climate action simply do not match the scale of financing required to meet the needs of developing countries. Operationalizing innovative proposals aimed at tapping new fund sources -- such as annual direct subsidies enjoyed by fossil fuel companies and potential revenue streams from a tax on the trade of financial assets such as derivatives and currencies -- will take time. Until they are adopted, the prevailing sytem of climate fund governance will simply remain donor-driven, unjust and inefficient.

Established modes of climate finance have typically taken the form of grants and loans, channelled via several streams, including the financial mechanism of the Rio conventions,[2] particularly the Global Environment Facility (GEF); multilateral development banks such as the World Bank and the Asian Development Bank, and bilateral aid.[3]

Among developing countries, mitigation efforts alone are estimated to cost US$140 to US$175 billion a year over the next 20 years, with associated financing needs of around US$265 to US$565 billion. Adaptation investments are projected to average US$30 to US$100 billion a year over the period 2010 to 2050.[4]

Unfortunately, available climate-driven financing is far from adequate. Only US$19 billion has been pledged as of December 2009. Of this, only US$2 billion have been deposited into dedicated climate funds, and only US$700 million has been disbursed.[5]

Current sources of adaptation finance

The Copenhagen Accord was issued in December 2009 with the pledge of fast-start finance amounting to US$30 billion for the period 2010-2012, including a committment to raise the amount to US $100 billion per year starting 2020. The fast-track funds is currently the object of jockeying by institutions such as the World Bank, which is lobbying to manage huge portions, if not manage the entire sum pledged in Copenhagen.

The pledges remain under serious question, however, given the context upon which the promises were made and negative developing country experience with climate finance managed by donor-driven financing institutions.

[1] *David Adam, "Climate fund 'recycled' from existing aid budget, UK government admits," The Guardian-UK, 25 January 2010.*
[2] *These include the United Nations Convention on Biological Diversity (UNCBD), the United Nations Framework Convention on Climate Change (UNFCCC), the Stockholm Convention and the United Nations Convention to Combat Desertification (UNCCD)*
[3] *Process operationalization in Diagram 1 in Annex 1 of this report .*
[4] *World Bank,* World Development Report 2010: Development and Climate Change*, published November 2009*
[5] *Neil Bird,* Reforming Climate Change Finance*, Overseas Development Institute (ODI) Policy Brief, May 2010*

To begin with, portions of the pledged fast-track climate finance have yet to go through national budget appropriation processes. In addition, the Accord also states that the fast-start funds should have a "balanced allocation between adaptation and mitigation". Currently, there is no agreed definition of what constitutes a "balanced allocation." Many vulnerable countries are concerned that "the current balance is tilted towards mitigation."[6] Developing countries continue to resist the World Bank as the administrator of future climate funds, seeing the Bank as an institution serving donor interests.

AGAINST MULTILATERAL DEVELOPMENT BANK PARTICIPATION IN CLIMATE FINANCE

Opposition to MDB intervention, specifically World Bank participation, in climate finance continues to grow. The World Bank's administration of the $6.1 billion Climate Investment Funds (CIF) is under intense scrutiny by civil society organizations critical of climate change-driven MDB activities for a number of reasons:

Competition with the UNFCCC
There is concern that the CIF will compete with the UNFCCC's own financial mechanisms. NGOs are demanding that agreed sunset clauses attached to the establishment of the CIF be upheld to limit, and eventually phase out, MDB intervention in climate finance activities upon the creation of new UN funds and frameworks.

Donor driven/ lack of equal participation
CIF-generated pilot programs have been created through donor-driven, top-down processes. Meaningful participation of those most affected by climate change and civil society organizations is dismal.

Loans-vs-grants/ "polluter pays" principle
The efficacy of loans in climate financing is questionable. Developing countries and civil society groups continue to raise the issue of moral obligations. Climate financing must be delivered as grants. It must be consistent with the "polluter pays" principle.

Lack of real transformational development
The scale of investments in World Bank mitigation programmes, such as the Clean Technology Fund, are skewed toward technologies (i.e. 'clean coal') which are not truly transformational, as opposed to scaling up renewable energy activities. Public financing should be used to work towards making renewable energy a viable option for developing countries to meet their energy and development needs.

Poor climate performance
The lead MDB in the CIF -- the World Bank -- cannot be trusted to manage new climate finance. This is not just because of its donor-driven nature and its poor performance in governance, efficiency and conditionality-heavy lending practice. The World Bank operations are also driving up emissions among developing countries. World Bank fossil fuel lending is on the rise. In the fiscal year of 2008, the World Bank Group increased funding for fossil fuel projects by 102 percent compared with only 11% for new renewable energy (solar, wind, biomass, geothermal energy, small hydropower). In the last three years, the World Bank alone spent 19 percent more on coal than on new renewable energy.

Source: The Bretton Woods Project

To date, there are at least 21 separate climate fund arrangements to support climate change activities. The new funds, which all target both mitigation and adaptation, include the Environmental Transformation Fund (ETF) of the United Kingdom, Japan's Cool Earth Partnership (Cool Earth), the International Climate Protection Initiative (ICPI) of Germany, and the Climate Investment Funds (CIF) created under the World Bank.

In September 2008, ten countries, namely Australia, France, Germany, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States pledged a total of more than $6.1 billion to the CIF. This includes a Clean Technology Fund (CTF), a Strategic Climate Fund (SCF), and the Pilot Program for Climate Resilience (PPCR), which represents a $642.5 million allocation to support adaptation activities.

[6] *Athena Ballesteros, "More than $30 billion in fast-track finance: do the numbers add up?" World Resources Institute paper published in blogs.worldbank.org, 14 June 2010. See <http://blogs.worldbank.org/climatechange/more-30-billion-fast-track-climate-finance-do-numbers-add>*

Climate funds under UN auspices form another portion of available finance.

In 2001, the seventh Conference of the Parties (COP) established three funds to support adaptation activities in developing countries: the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) under the UNFCCC, as well as the Adaptation Fund (AF) under the Kyoto Protocol.

The LDCF and SCCF under the UNFCCC are operational and managed by the GEF and provide funding to eligible countries to meet additional costs related to adaptation. Remaining costs are borne either by the recipient country and/or by other bilateral or multilateral donors. The LDCF and SCCF are also supported by non-mandatory developed country payments.

As of April 2010, US$223 million had been pledged under the LDCF, while another US$148 million was committed to the SCCF. The funds are grossly inadequate fiscally and in terms of accessibility.

Problems of baseline avoidance

Tracking and monitoring climate finance is also difficult in the absence of a common reporting system. Thus, many of the pledges appear recycled as finance "restated or renamed commitments made in the past." An example, is the Hatoyama Initiative from Japan, which closely "resembles the previously announced Japanese Cool Earth Partnership, and countries such as the United Kingdom and the United States are counting previous commitments to the Climate Investment Funds (CIFs) as part of their fast-start finance pledge."[7]

There is a need to answer basic questions regarding "new and additional" funding: "new" in relation to when? "Additional" to what?

Operating with clear funding baselines is critical. Without baselines, counting promises of 'new and additional' funding do not have any basis.

To most developing countries, new and additional funding should start after developed countries "have contributed 0.7 per cent of their gross national income (GNI) to 'official development assistance' (ODA), a measure of aid defined by the Organisation for Economic Co-operation and Development. Such a threshold "takes into account past pledges by developed countries."

However logical this is, there remains strong resistance to the approach, particularly from the US, which is already contributing 0.2 percent of its GNI to ODA. There is also the tendency from countries which have exceeded the 0.7 percent target (e.g. Sweden and Denmark) to divert existing ODA commitments "and call them new and additional." In addition, there is the question of whether baselines will be set in inflation-adjusted currencies - if this is not taken into consideration, developing countries might end up receiving a fraction of what they should be getting.

Wrong entities and mechanisms?

From the experience of developing countries, governing structures and financing mechanisms of entities preferred by developed countries for current climate finance -- particularly adaptation finance -- such as the GEF, have only compounded the problem.

- The UN funds (LDCF, SCCF) utilize GEF funding mechanisms, which carry "unclear guidance and high transaction costs."[8] A comprehensive review of GEF-managed funds for adaptation revealed that GEF "does not provide adequate operational guidance (in the form of programming papers),

[7] *Athena Ballesteros, "More than $30 billion in fast-track finance: do the numbers add up?" World Resources Institute paper published in blogs.worldbank.org, 14 June 2010. See <http://blogs.worldbank.org/climatechange/more-30-billion-fast-track-climate-finance-do-numbers-add>*

[8] *Jessica M. Ayers and Saleemul Huq, "Supporting adaptation to climate change: what role for official development assistance?" paper delivered at the DSA Annual Conference 2008 'Development's Invisible Hands: Development Futures in a Changing Climate.' 8th November 2008, Church House, Westminster, London.*

making it difficult for developing countries to apply for project funding. In addition, although funding through the GEF is not formally conditional, requirements attached to funding include burdensome reporting and co-financing criteria." [9]

The GEF increased reporting conditions and created additional criteria such as "global environmental benefits" and "incremental costs" which were tied to burdensome co-financing requirements. Together, the conditions hindered access to urgently needed funds.

- As GEF monitor M.J. Mace observed, meeting the "global environmental benefits" criterion is almost impossible to meet because "the need for adaptation arises from a global cause, but the remedy must yield local benefits. Thus the requirement of global benefits is an absurd limitation in the adaptation context."[10]

- The co-financing criteria, in particular, proved most problematic. Under fund rules, the LDCF and SCCF will only meet costs of "additional adaptation needs" imposed on a country by climate impacts while costs "associated with baseline development activities (that would occur anyway in the absence of climate change) must be supported by co-financiers.[11]

However, as adaptation finance monitors have observed, "distinguishing 'additional' costs of climate change impacts from baseline development needs is extremely complex if not impossible." In addition, "many countries cannot afford to meet the baseline development costs so the offer of funding for the additional cost is futile."[12]

- Because resources channeled through the GEF is "disbursed through implementing agencies such as the UNDP, the UNEP and the World Bank", more layers of bureaucracy was added to the process, further inhibiting access to funding and delaying the implementation of urgent activities.[13]

No country-ownership, democratic governance wanting

In most cases, the involvement of potential recipient countries in the fund design has been limited. Many decision-making processes have taken place among donor countries, resulting in a low sense of ownership over the GEF.[14] GEF Council members from countries with the largest contributions, such as the United States, United Kingdom, Japan, Germany, France, Canada, Italy and the Netherlands, carry the most clout -- with the five largest donor countries exercising virtual veto power (i.e., the United States, United Kingdom, Japan, Germany, France).[15]

Intended to be more flexible, accessible, and democratic than the GEF Trust Fund, the LDCF and SCCF ended up under the management of the GEF through decisions taken in the ninth Conference of the Parties (COP 9). Despite strong reservations, developing country parties chose to go along with the decision because of the desire for quick progress on accessing funding for urgent adaptation projects.[16]

Non-predictable, fragmented, unjust

Climate funds from bilateral and multilateral sources are often short-term and subject to changes "as a result of political or economic shifts in the donor country."[17]

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9 ibid.
10 Mace, M., "Adaptation under the UN Framework Convention on Climate Change: The International Legal Framework" in Adger, W N, Paavola, J, Huq, S and Mace, J. (eds) Fairness in Adaptation to Climate Change, MIT Press, 2006 (cited in Solomon, ActionAid December 2007).
11 Jessica M. Ayers and Saleemul Huq, "Supporting adaptation to climate change: what role for official development assistance?" paper delivered at the DSA Annual Conference 2008 'Development's Invisible Hands: Development Futures in a Changing Climate.' 8th November 2008, Church House, Westminster, London.
12 ibid.
13 ibid.
14 See, for instance, Müller, B., Nairobi 2006: Trust and the Future of Adaptation Funding, EV 38, Oxford Institute for Energy Studies, January 2007. Available at: www.oxfordenergy.org/pdfs/EV38.pdf (cited in Solomon, ActionAid December 2007)
15 Streck, C. 2001. "The Global Environment Facility: A Role Model for Global Governance?" Global Environmental Politics, May 2001, Vol. 1, No. 2, Pages 71-94 (cited in Solomon, ActionAid December 2007).
16 Solomon, Ilana (with Jessica Ayers), Compensating for Climate Change: Principles and Lessons for Equitable Adaptation Funding, Discussion Paper, ActionAid, December 2007.
17 ibid.

The disjointed approach taken by donor governments and donor-driven institutions in discussions surrounding the architecture of international climate finance have tended to fragment efforts to address climate change, making fund sourcing, delivery, and access by vulnerable countries more difficult. Furthermore, participation by civil society and groups from the most vulnerable communities in climate finance decision-making remains terribly wanting.

Donor-driven climate finance skews developing country climate action towards priorities that may be different to national imperatives, particularly in cases where countries like the Philippines have not formulated long-term climate action plans.

The Philippine experience is particularly demonstrative of the situation. As Table 1 shows, looking at the combined total of funds that have entered the Philippines and finance still projected to come for the period 1992 to 2018, more resources have been and will be allocated towards mitigation activities compared to adaptation efforts. Worse, a larger part of adaptation finance is allocated as loans.

Adaptation finance coming in as loans, however concessional, remains a fundamental issue to developing country interests. At the most basic level, it is contrary to the compensatory framework of climate finance discussions driving international climate negotiations.

Table 1. Comparative flows (in US dollars) of total direct grants and loans by major measure and by funding category, 1992-2018

	Grants	Loans	Grand Total
Adaptation	**369,847,995**	**586,592,639**	**956,440,634**
Bilateral	59,636,121	378,988,524	438,624,645
GEF	254,500	--	254,500
Multilateral	157,255,460	41,500,000	198,755,460
Multilateral GEF	152,169,088	166,104,115	318,273,203
NGOs	185,000	--	185,000
Private/Foundations	347,826	--	347,826
Aid/relief	**2,418,874**	--	**2,418,874**
Bilateral	378,450	--	378,450
Multilateral	2,040,424	--	2,040,424
NGOs	--	--	--
Private/Foundations	--	--	--
Both	**83,448,507**	**9,344,512**	**92,793,019**
Bilateral	22,705,528	9,344,512	32,050,040
Multilateral	41,742,979	--	41,742,979
NGOs	--	--	--
Private/Foundations	19,000,000	--	19,000,000
Mitigation	**636,385,385**	**491,635,179**	**1,128,020,564**
Bilateral	71,617,180	110,522,125	182,139,305
GEF	3,580,105	--	3,580,105
Multilateral	544,160,302	329,427,855	873,588,157
Multilateral GEF	11,965,000	51,685,199	63,650,199
NGOs	62,798	--	62,798
Private/Foundations	5,000,000	--	5,000,000
Grand Total	**1,092,100,761**	**1,087,572,329**	**2,179,673,090**

Source: Draft Report, National Environmental, Economic and Development Study (NEEDS) for Climate Change, EMB-DENR, 2009 as presented in The Philippine Strategy on Climate Change Adaptation 2010-2022, Final Draft, Department of Environment and Natural Resources.

Clearly there is a pressing need for new and additional funding that is commensurate to the scale imposed by the climate crisis, based on country-driven climate action plans utilizing mechanisms that deliver more effective, efficient and predictable funding.

In most cases, developing countries have persistently expressed the need to gain direct access to much needed climate finance managed by institutions far more sensitive to the urgent adaptation needs of developing countries.

Two approaches are critical. First, the Philippines must focus on accessing the UN-formed Adaptation Fund, which is governed by a board with developing countries in the majority, and which has the historic direct access modality. Second, the Philippines must begin taking steps to mobilize finance largely from domestic sources. It cannot and should not wait for developed country climate largesse before it takes urgent and enduring climate action.

Section 2
Direct Access to Adaptation Funds

The Adaptation Fund (AF) is the first financial instrument under the UNFCCC and its Kyoto Protocol that is not based solely on voluntary contributions from donor countries. The AF has the potential to generate greater resources because "it is funded by a 2-percent levy on Clean Development Mechanism (CDM) transactions. Currently, revenue generated from the CDM levy is projected to be between US$160-US$950 million.[18] Discussions are also ongoing regarding the application of levies on international air travel, which is projected to generate around US$4-10 billion annually. At present, the AF has begun to receive bilateral funds, with Spain contributing US$60 million recently. [19]

The Adaptation Fund Board, at its 9th Meeting on March 23-25 2010 in Bonn, Germany, formally operationalized the much-touted Direct Access modality of the Kyoto Protocol's Adaptation Fund.[20] As observers have noted, "it is now for the first time possible for developing countries to attain direct financial support from a multilateral climate fund without the need to take the detour via the World Bank or similar multilateral institutions." Demands for "direct access" stem largely from developing country frustrations with the GEF. With the confirmation of the legal capacity of the Adaptation Fund Board (AFB) to discharge its functions (via CMP Decision 1/CMP.4, paragraph 11), the stage is now set to test its direct access modality.

Direct Access under the Adaptation Fund

The direct access modality, billed as "a new and innovative feature in international development finance," was designed by the AF Board to provide eligible Parties "a simplified and accelerated way to access and manage funds."[21] Ostensibly, direct access would "enable national and sub-national developing country institutions to take direct responsibility for the programming of resources at the country level by entering into grant and loan agreements with the Fund" without having to rely on Multilateral Implementing Agencies, such as Multilateral Development Banks (e.g., World Bank) and UN Agencies (e.g., UNDP).

The experience of massive socio-economic dislocation brought about by MDB-sponsored Structural Adjustment Programs in the 80s and 90s is one reason. Another is the prospect of perpetuating the extension of "business as usual" climate finance processes and practice, that have severely delayed, inhibited or prevented the financing of urgent adaptation programs in developing countries. The AF, particularly its direct access modality, provides such a path. Through the direct access modality, a country which has a designated National Implementing Entity (NIE) accredited by the AF would have the opportunity to sidestep inefficient, high transaction cost and donor-driven MDBs like the World Bank; and ineffective, high transaction cost and bureaucratic implementing agencies such as the UNDP.

With direct access, country ownership of adaptation projects and programs is central,

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[18] *Jessica M. Ayers and Saleemul Huq, "Supporting adaptation to climate change: what role for official development assistance?" paper delivered at the DSA Annual Conference 2008 'Development's Invisible Hands: Development Futures in a Changing Climate.' 8th November 2008, Church House, Westminster, London.*

[19] *"Spain contributes 45 million Euros to the Adaptation Fund," Adaptation Fund press release, 28 April 2010. See <http://www.adaptation-fund.org/node/420>*

[20] *"The Adaptation Fund, established by the Parties to the UN Framework Convention on Climate Change (UNFCCC), is mandated to finance concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol and to allow direct access to the Fund by those Parties. The total amount of funds to be made available for eligible developing country Parties will depend on the market-based monetization of Certified Emission Reductions (CERs) which are the AF's main source of revenue. The total available resources is expected to be between USD 250-350 million by 2012. Funding from other sources such as donations may also supplement the proceeds of the monetization of CERs."*

[21] *"The Adaptation Fund Issues the First Call for Project Proposals," 8 April 2010, available at http://adaptation-fund.org/node/322*

along with the enhanced potential of adaptation finance reaching the most vulnerable communities with appropriate urgency.

The Direct Access modality promotes predictability of fund sources, a higher degree of democratic governance, including civil society participation. It fulfills minimum developing country needs for a finance framework anchored on sustainable, non-ODA compensatory funding and eliminates economic or climate policy conditionality, particularly in the way the NIE is structured within the overall NIE-based funding flow. The AF also contains acceptable standards of accountability and transparency and considers access by the most vulnerable as a priority.

As an international climate resource pot, the Adaptation Fund offers advantages compared to the other bilateral adaptation finance sources:

(a) Stability: While current funding sources for the Adaptation Fund remain limited for now, it is projected to grow due to the likelihood of greater transactions in CDM activities and the anticipated levies that will be imposed on aviation and maritime travel. It has also begun to accept bilateral money which, upon blending with AF funds, ceases to be ODA in nature because it is not the contributor of funds that will determine the use of the resources but the AF Board.

(b) Pooling: The Adaptation Fund provides "a more effective means of pooling the necessary resources," which gives "countries most historically responsible for pollution and with the capacity to give" the opportunity to [together] fund the adaptation requirements of the most vulnerable.[22]

If the two-percent levy on CDM projects were expanded to other flexible mechanisms within the Kyoto Protocol, in addition to new levies on air and maritime travel, "the amount of money available under the Adaptation Fund could amount to tens of billions of dollars a year. Because the AF has the potential to generate large amounts of money that is, by nature, additional to ODA, and because its management and governance structure is still being negotiated by the COP, the Adaptation Fund is an ideal candidate for ... new ...adaptation funding."[23]

(c) Cooperation: The Adaptation Fund can spearhead harmonization, coordination and cooperation among donor countries.

Developing countries and civil society organisations consider the institutional arrangements of the Adaptation Fund as superior to other funds. In particular, the direct representation of a majority of developing countries on the AF Board and the fact that applicant countries can choose their own implementing entities is seen as strong improvements compared to existing GEF-managed funds under the UNFCCC.[24] Though the GEF is the designated Secretariat of the AF Board and the World Bank is the assigned Trustee of the AF, developing countries succeeded in limiting the actual sway of the two institutions in determining the direction and activities of the AF by putting in place more democratic governance structures and processes.

Object of Funding

As agreed by Parties to the Kyoto Protocol, the Adaptation Fund "shall finance concrete adaptation projects and programmes in developing [countries] ... that are particularly vulnerable to the adverse effects of climate change."[25] Funding will be provided on "full adaptation cost basis" of projects and programmes to address the adverse effects of climate change. Parties may undertake adaptation activities under the following categories:

[22] *Solomon, Ilana (with Jessica Ayers),* Compensating for Climate Change: Principles and Lessons for Equitable Adaptation Funding, *Discussion Paper, ActionAid, December 2007.*

[23] *ibid.*

[24] *Klein, Richard J.T. and Åsa Persson,* Financing Adaptation to Climate Change: Issues and Priorities, *Europbean Climate Platform Report No. 8, October 2008. See, for instance, Porter, G., N. Bird, N. Kaur and L. Peskett, New Finance for Climate Change and the Environment, WWF Macroeconomics Program Office and Heinrich Böll Foundation, Washington, D.C., 2008.*

[25] *This section is primarily based on the* Operational Plan and Guidelines for Parties to Access Resources from the Adaptation Fund. *See, Adaptation Fund,* Accessing Resources from the Adaptation Fund: The Handbook, *available at: www.adaptation-fund.org. Paragraph 10 of the* Strategic Priorities, Policies and Guidelines of the Adaptation Fund *provides the country eligibility criteria.*
A concrete adaptation project is defined as "a set of activities aimed at addressing the adverse impacts of and risks posed by climate change. Adaptation projects can be implemented at the community, national, and transboundary level. Projects concern discrete activities with a collective objective(s) and concrete outcomes and outputs that are more narrowly defined in scope, space, and time."

(a) Small-size projects and programmes (proposals requesting up to US$1 million); and
(b) Regular projects and programmes (proposals requesting over US$1million).

In developing projects and programmes to be resourced through the Fund, eligible developing country Parties are enjoined to "consider the guidance provided in Decision 5/CP.7 [which states that] Parties may also consult information included in reports from the Intergovernmental Panel on Climate Change (IPCC) and information generated under the Nairobi Work Programme (NWP) on Impacts, Vulnerability and Adaptation to Climate Change."

To access Fund resources, a project/programme needs to be in compliance with the AF's eligibility criteria contained in paragraph 15 of the Strategic Priorities, Policies and Guidelines of the Adaptation Fund and presented in relevant proposal submission templates.

In assessing project and programme proposals, the Adaptation Fund Board will give particular attention to:

(a) Consistency with national sustainable development strategies, including, where appropriate, national development plans, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments, where they exist;
(b) Economic, social and environmental benefits from the projects;
(c) Meeting national technical standards, where applicable;
(d) Cost-effectiveness of projects and programmes;
(e) Arrangements for management, including for financial and risk management;
(f) Arrangements for monitoring and evaluation and impact assessment;
(g) Avoiding duplication with other funding sources for adaptation for the same project activity;
(h) Moving towards a programmatic approach, where appropriate.

As of 12 May 2010, eight coutries have already submitted climate change adaptation project proposals (Egypt, Mauritius, Mauritania, Nicaragua, Pakistan, Senegal, Solomon Islands, Turkmenistan). Only one country - Senegal - has thus far taken the NIE/direct access route.

Eligible Parties that will receive funding from the Adaptation Fund are considered "developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change including low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems."

There is an urgent need, however, for countries such as the Philippines to form, designate and accredit with the AF Board its NIE. The AF carries a "cap in resource allocation per eligible host country, project and programme." The cap "will be agreed by the Board based on a periodic assessment of the overall status of resources in the Adaptation Fund and with a view to ensuring equitable distribution."

Operationalizing Direct Access

AFB's Operational Policies and Guidelines provides that eligible Parties, seeking financial resources from the Adaptation Fund, can submit proposals either directly through duly accredited National Implementing Entity (NIE) or using the services of Multilateral

Implementing Entities (MIE) such as the World Bank and the UNDP. Project proposals can only be submitted through an NIE or MIE.[26]

Implementing Entities shall assist eligible developing country Parties with the identification, preparation, and implementation of concrete adaptation projects and programs that are country-driven and based on the needs, views and priorities of eligible Parties to adapt to the adverse effects of climate change.

Accreditation of NIEs

To be accredited, NIEs need to go through an accreditation process and demonstrate compliance with fiduciary and management standards established by the AF Board. The said standards involve (i) financial integrity and management, (ii) institutional capacity, and (iii) transparency and self-investigative powers.[27]

The AF Board has thus far accredited three agencies to manage AF grants. The first NIE to be accredited is the Centre de Suivi Ecologique from Senegal, a national non-government organization. The other two are MIEs: the United Nations Development Programme (UNDP) and the World Bank. Several other developing countries are expected to propose representative entities for accreditation in the remainder of 2010.

Fiduciary Standards

Among the principles established for the Adaptation Fund (Decision 5/CMP.2) is “sound financial management, including the use of international fiduciary standards.” At its 7th meeting the Board adopted fiduciary standards governing the use, disbursement and reporting on funds issued by the Adaptation Fund covering the following broad areas (refer to Annex 2 for details):

(a) Financial Integrity and Management:

- i. Accurately and regularly record transactions and balances in a manner that adheres to broadly accepted good practices, and are audited periodically by an independent firm or organization;
- ii. Managing and disbursing funds efficiently and with safeguards to recipients on a timely basis;
- iii. Produce forward-looking financial plans and budgets;
- iv. Legal status to contract with the Adaptation Fund and third parties.

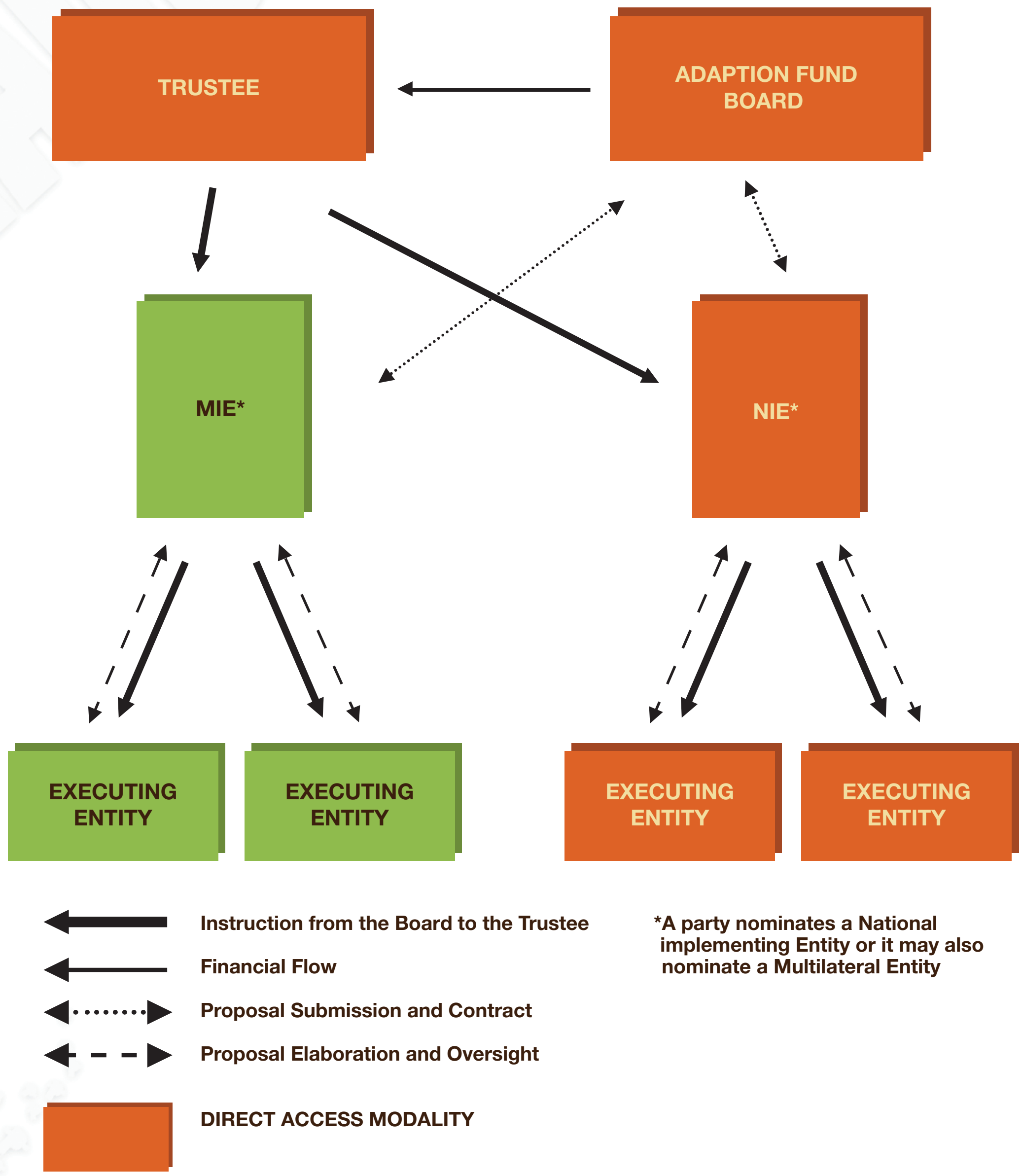
(b) Institutional Capacity:

- i. Procurement procedures which provide for transparent practices, including in competition;
- ii. Capacity to undertake monitoring and evaluation;
- iii. Ability to identify, develop and appraise project;
- iv. Competency to manage or oversee the execution of the project/programme including ability to manage sub-recipients and to support project /programme delivery and implementation.

(c) Transparency and Self-investigative Powers: Competence to deal with financial mismanagement and other forms of malpractice.

[26] *National Implementing Entities (NIEs) will be responsible for submitting project and program proposals from their countries, and will be the direct recipients of funding. NIE may include inter alia, ministries, inter-ministerial commissions, government cooperation agencies. “A number of developing countries have expressed their willingness to demonstrate that national finance ministries or planning ministries can meet international fiduciary standards in order to justify this more directly responsible role”(Stewart et al 2009).*
[27] *Adaptation Fund,* Accessing Resources from the Adaptation Fund: The Handbook, *available at: www.adaptation-fund.org.*

MODALITIES FOR ACCESSING RESOURCES OF THE ADAPTATION FUND



National Implementing Entities (NIE) are national legal entities nominated by Parties that are recognized by the Board as meeting the fiduciary standards established by the AF. The NIEs bear full responsibility over the overall management of projects and programmes financed by the Adaptation Fund. The NIE will bear all financial, monitoring, and reporting responsibilities. A group of Parties may also nominate regional and sub-regional entities as implementing entities.

Multilateral Implementing Entities (MIE) are those Multilateral Institutions and Regional Development Banks that meet the fiduciary standards provided by the Board. The MIEs, chosen by eligible Parties to submit proposals to the Board, will bear full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, including all financial, monitoring, and reporting responsibilities.

Executing Entities are national organizations that execute adaptation projects and programmes supported by the Fund under the oversight of the Implementing Entities.

Implementing Entities enter into financing agreements/contracts with the AF Board. The AF's Trustee transfers funds to the implementing entities upon the direction of the AF Board. Implementing entities disburse funds received from the Trustee to recipients. Implementing entities monitor and supervise project/program activities funded by AF resources in accordance with the terms of the financing agreements. The implementing entities are accountable to the AF Board

Country Endorsement

All project proposals require the endorsement of an authority designated by the proposing Party. In the case of regional (i.e., multi-country) projects and programmes, the proposal submitted to the Board should be endorsed by the designated authority of each participating Party.

Accountability

Implementing Entities are accountable to the AF Board and projects and programs under their supervision will be subject to performance management and supervisory systems based on fiduciary standards established by the AF Board, including independent financial audits.

Under the direct access modality, NIE is directly accountable to the AF Board for meeting AF Board-approved fiduciary and other standards. The implementing entity is subject to performance management and supervisory systems established by the AF Board.

It is clear that the Adaptation Fund's direct access modality presents developing countries with a chance to avail of much-needed, untied, accessible and predictable funds to adapt to climate change.

The Philippines should take advantage of the windows currently offered by the AF by immediately establishing its NEI and by utilizing the Adaptation Fund as a channel for implementing adaptation projects and programs at the national and sub-national level.

Establishing the NIE should be considered urgent by the Philippine government, so it can start receiving support not subject to influence by institutions such as the GE, the World Bank or the ADB. While the formation of other domestic funds may need to be legislated, it is the view of the researchers of this report that forming, designating, and accrediting the NIE need not entail similar complex and prolonged processes.

Crucial to the successful formation, designation, and accreditation of the Philippine NIE -- including the crafting of successful funding proposals to the AF -- will be the utilization of the direct access modality, a route chosen by Philippine climate champions to push for untied, conditionality-free adaptation finance. The NIE needs to be created soon, with a design, and governance structure and process that prevents corruption or other types of fund leakage, is accountable to the public, and is open to participation or sustained public scrutiny.

Given the character of climate funds as public money, the authors of this paper are of the view that NGOs should not be chosen as NIEs, despite the example provided by Senegal. Public money should by governed by institutions fully accountable to the public and which carry options for review and participation by civil society groups.

Section 3
Financing Adaptation in the Philippines

The Philippines is already experiencing climate change impacts—projected to grow in intensity and frequency in the near future. Unless adaptation measures for climate–resilient growth are planned, funded and implemented at the national and local levels soon, the consequences will be dire. The failure of official development assistance (ODA)-structured finance streams that have flowed into the country in the last three decades makes it an unreliable channel for an effective and efficient response to the country's adaptation needs. Stakeholders, led by national and local governments, need to get the country's climate act together and lay the groundwork for direct access at the domestic front.

It is an opportune time. New leaders have come forward to champion enduring climate action in the Philippines. In a speech delivered at the closing plenary of the 5th Asia Clean Energy Forum organized by the Asian Development Bank (ADB), for example, Vice President Jejomar Binay declared that "Adaptation to climate change must be the national priority."[28] In the legislature, Senate President Juan Ponce Enrile has called for immediate climate action through public finance. Such developments represent huge opportunities to advance fair climate policy, craft a more climate-friendly sustainable development agenda for the Philippines, and increase the adaptive capacity of vulnerable communities.[29]

Agriculture, forestry, water and coastal areas are identified as sectors in the Philippines most vulnerable to climate change impacts.[30] Food production is projected to be adversely affected, especially in the case of rice, which is forecast by a 2009 study by the ADB to fall by three-fourths from current levels in 10 years if nothing is done to address climate change. The report noted further that rice production could fall from 50-70 percent by 2020[31] . Rising sea levels threaten coastal communities. Warming oceans are also expected to lead to widespread coral bleaching that will diminish fish catch and affect marine biodiversity. Arable coastal lands and mangrove areas may be lost, exerting more pressure on the country's fisheries and aquaculture. Severe deficits in the supply of drinking water, more watershed disasters such as landslides and floods, and biodiversity loss are also likely. Human health concerns is also a priority area. The ADB study notes that ignoring climate change threats could cost 6.7 percent of the country's gross domestic product (GDP).

Dr. Juzhong Zhuang, chief economist of the ADB, said the benefits of climate action would "outweigh" the costs involved in the long run. He estimated that while these costs would eat 0.2 percent of the GDP, the benefits would add 1.9 percent in the economic output of countries, including the Philippines, by 2100.

Climate change adaptation, alongside continued efforts towards disaster risk reduction, must clearly become a priority, if not the only priority, of the Philippine government. Action is urgently needed, particularly in agriculture, forestry, water and coastal areas—climate-sensitive sectors that vulnerable Filipino communities depend on for survival.

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[28] *Philippine Vice President Jejomar C. Binay, "The Time to Surpass Ourselves is Now." Closing plenary speech delivered at the 5th Asia Clean Energy Forum (ACEF) organized by the Asian Development Bank, 25 June 2010.*

[29] *Adaptive capacity is defined as the ability of ecological, social and economic systems to adjust to climate change (including climate variability and extremes), moderate or offset potential damages, and take advantage of associated opportunities.*

[30] *Second National Communications to the UNFCCC, as cited by the NEEDS study.*

[31] *Asian Development Bank,* The Economics of Climate Change in Southeast Asia, A Regional Review, *2009*

Flawed finance

Financial flows delivered thru bilateral and multilateral ODA to fund climate projects and programs is inadequate and flawed in terms of fairness, responsiveness, and efficiency. It is not a reliable channel to deliver resources to vulnerable sectors and build resilience to climate change.

Despite the largely reactive and rhetorical stance of past governments to address climate change since the issue gained prominence in the 1990s, the country was nevertheless host to various projects for mitigation and adaptation. The NEEDs study (National Environmental, Economic and Development Study for Climate Change) conducted by the Environmental Management Bureau of the Department of Environment and Natural Resources (EMB-DENR) for the UNFCCC identified 130 projects directly addressing climate change mitigation and adaptation needs for the period 1992-2018 (Table 1). These projects are worth more than US$2.18 billion and are mostly funded by external grants and loans from bilateral or country donor sources and multilateral development banks such as ADB and the World Bank. The GEF also provided financing for these projects, albeit on a minimal scale. Together with NGOs and private foundations, GEF accounts for a mere 15.2 percent of grants for direct mitigation and adaptation.

Perverse application of climate justice

The study also found that the loan-grant distribution of ODA-structured finance streams that flowed in adaptation projects was skewed in favor of loans. As Table 1 shows, of the US$956 million that flowed to direct adaptation projects, a greater amount (US$587 million) came in as loans compared to grants (US$370 million). Bilateral donors (US$379) provided the bulk of total loan funds for adaptation, followed by multilateral GEF (US$166 million). The direct loans from adaptation coming mostly from bilaterals went to climate change (mostly research on risk reduction in key sectors, adaptation policy coordination, and flood control), environment, and disaster management projects.

Such practice goes against the equity principle of "common but differentiated responsibilities (CBDR)"[32] that determines not only who should mainly act to prevent dangerous climate change, but also who should foot the bill for adaptation. Developed countries -- which have historically made greater contributions in emitting greenhouse gases that cause climate change while at the same time have greater capacities to mitigate and adapt to the effects of this problem -- are obliged, as signatories to the UNFCCC and the Kyoto Protocol, to shoulder their share of the burden.

Providing ODA loans for adaptation activities in developing countries like the Philippines reverses the burden-sharing role and imposes new debts to those who are severely affected by global climate change despite having contributed far less to it. ODA loans incurred for adaptation projects — however concessional — charge interest and other fees, and are likely subject to conditionalities that all the more afflict loan recipients with huge financial obligations.

Additionally, the World Bank and Asian Development Bank charge "commitment fees" that range from 0.85 to 0.75 percent for undisbursed loan tranches as a consequence of delays in the implementation of ODA projects; the larger the undrawn balance, the larger the commitment fee. In December 2005, total commitment fees paid to the WB and ADB amounted to a US$8.4 million. Environment and agriculture projects were major sources of these commitment fees, namely the Pasig River Environment Management and Rehabilitation Sector Development Program (US$0.52 million); the Metro Manila Air Quality Improvement Project Investment Component (US$0.41 million); and the Southern Philippine Irrigation Sector Project (US$0.32 million)[33].

DENR's 18th ODA portfolio review reports that three of its loan-assisted projects—namely the WB-assisted Second Land Administration and Management Project (LAMP 2)

[32] *This principle was enshrined in international environment and climate agreements, such as the 1992 Rio Declaration and the UN Framework Conference on Climate Change.*
[33] *Eduardo Tadem,* The Crisis of Official Development Assistance to the Philippines: New Global Trends and Old Local Issues*, Asian Center, University of the Philippines, March 2007.*

and the National Program Support for Environment and Natural Resources Management (NPS-ENRMP), as well as the ADB-assisted Integrated Coastal Resources Management Project (ICRMP)—were major sources of commitment fees, having cumulatively amassed more than half a million US dollars in 2009. Among the three projects, ICRMP had the highest commitment fees amounting to US$155,000 paid in CY 2009, for not meeting its disbursement schedule for the year.

Table 2. Commitment Fees (In Us$ Million) of DENR Loan-Assisted Projects

Project	CY 2008	CY 2009	As of CY 2009
LAMP 2	0.054	0.041	0.239
ICRMP	0.071	0.155	0.244
NPS-ENRMP	0.125	0.107	0.232
TOTAL	**0.250**	**0.303**	**0.715**

Source: DENR 18th ODA Portfolio Review submission

Failures and limitations of ODA

The NEEDS study cites that most mitigation and adaptation projects were never evaluated. However, studies on ODA to the Philippines for the past three decades show that the "tied" nature of most ODA-funded mitigation and adaptation initiatives, among other projects, failed to address the needs and development aspirations of people and communities that the projects covered. Most in fact brought more harm than benefits.[34]

The NEEDS study found that, "while grants are allocated to broad sector categories, they address only a particular climate change impact or a problem aggravated by the impact, and are limited in scope and geographic scale. Grants to the environment, agriculture, biodiversity, energy, climate change, health, and water supply and sanitation, in that order, respectively address only a given problem or requirement, like solid waste management, resource conservation, production constraints, biodiversity loss, GHG emissions, institutional capacity, outbreak of infectious diseases, and water shortages. Moreover, the grants received had been limited in scope and geographic scale. The restricted project scale could be seen, for instance, in an integrated area project that would cover at most only one or few cities/municipalities or a watershed/ecosystem, while others claiming to be 'nationwide' in scope are in reality focused on only a few provinces or interregional areas. The limited geographical coverage results in project benefits being confined to particular area niches, a project piloting mode of introducing change, lack of scaling up, and turfing among country donors and multilateral agencies."

Can ODA channels be relied upon to provide adequate, predictable, and appropriate adaptation finance? The NEEDS study found that donor countries have been missing out on minimum climate financing commitments of 0.5 to 1 percent of GNP or the estimated required amount of resources to support adaptation, mitigation, and technology transfer. According to the study, "The external financing flows are generally limited as reflected in the ratio of the direct and indirect flows for climate change in a donor country's ODA and the ratio of its ODA to GNP."

[34] *Tadem (2007) cites that foreign consultants come with the package of most ODA loans and grants, reflecting self-serving intent of ODA donors as "a significant portion of ODA funds eventually end up in the hands of the donor countries themselves through their own corporations and citizens."*

Unless action on adaptation is prioritized by the Philippines, the country's vulnerability to climatic impacts will not be reduced. But the problem remains: climate change continues to be a non-issue for the Philippine government. It will be incredibly difficult to mainstream climate change adaptation in Philippine policies when it has not even merited mention in the country's 2004-2010 Medium-Term Philippine Development Plan (MTPDP).[35]

If the threat posed by climate change to the long-term interests of the Philippines is clear, then the urgent goal must be to build the capacity of communities to adapt to anticipated climate change impacts and increase the resilience of natural ecosystems to warming temperatures. This, however, is easier said than done.

The implementation of adaptation measures at the local and sectoral levels entails the front-loading of financial resources. Given persistent poverty (i.e., lack of ready/disposable funds) and the opportunity costs of money, the pursuit of adaptation action by individuals and communities will be constrained.

Adaptation Funding Constraints

The NEEDS study concludes, "while significant vis-à-vis external funds, the budgetary resources set aside by the Philippine government for climate change are not adequate to make a significant dent" for a number of reasons:

(a) The allocation amounts to only 0.9 to 1.9 percent of the country's total budget for both adaptation and mitigation." On adaptation alone, estimates covering required investments for the Philippines would be around 0.2 percent of the county's gross domestic product (GDP) annually. [36]

(b) The increase in the budgetary share of disaster management from 2003 to 2008 did not represent proactive efforts to mitigate the expected damages and risks from natural disasters, but merely reflected the post-disaster relief and rehabilitation expenditures.

(c) While the only other sector share that has increased from 2007 to the present is forestry, the disbursement of budget allocations for particular activities, like reforestation or community-based management, are said to be subject to the discretion of the President, and their non-use resulting in savings for the use of the Executive.

(d) The budgetary appropriations do not include particular Plans of Action that would climate-proof critical infrastructures and socio-economic activities, and shield the most vulnerable/poor groups from current and future climate risks.

Climate change is a public issue that requires government intervention in the form of regulation and economic instruments given the anticipated far higher cost of inaction. Mobilization of domestic finance for immediate and longer term action is key.

[35] *Lasco, Rodel D., et al.,* Mainstreaming Climate Change in the Philippines, *Working Paper No. 62, World Agroforestry Centre, 2008*
[36] *ADB,* The Economics of Climate Change in Southeast Asia: A Regional Review, *Asian Development Bank, April 2009.*

Section 4
Domestic Direct Access: The Case for a National Survival Fund

The country has to move beyond the climate justice compensatory framework and devise its own robust financial mechanisms for climate change adaptation, similarly anchored on the direct access model. This Domestic Direct Access (DDA) channel could supplement or complement financing from the Adaptation Fund at the global level, along with potential new funds framed by similar governance structures and modalities. Doing so will broaden the scope of adaptation efforts and democratize access to resources so that those most at risk and least equipped to manage the consequences of climate change can receive urgent and adequate support.

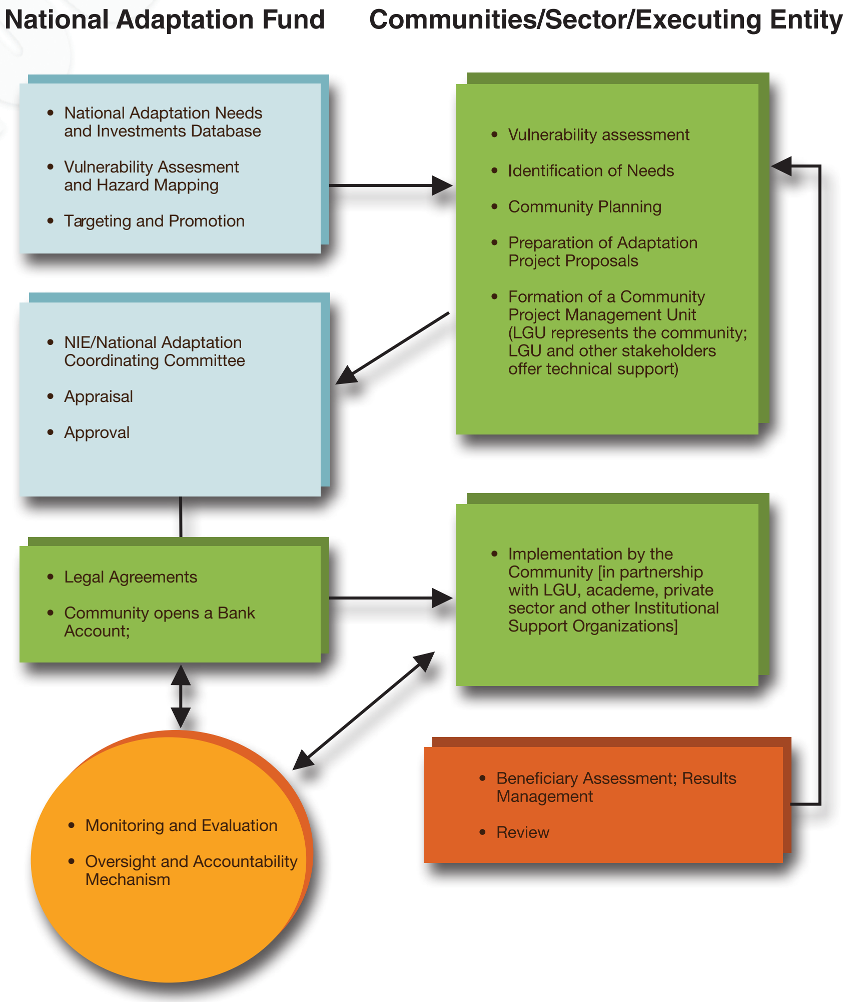
The mobilization of both international fund sources and domestic capital can more efficiently address the need for adequate and sustainable financing of sector-wide and/or community-based adaptation measures. DDA would ensure not only the sustainability of projects and programs, but also the equitable geographical and sectoral distribution of adaptation finance. The creation of a direct access-based, corruption-proof, publicly accountable and transparent National Survival Fund should therefore be a priority.

Domestic Direct Access needs five pillars: 1) a National Survival Fund, which would finance both adaptation action and disaster risk reduction efforts; 2) the creation of an adaptation knowledge database; 3) retooling the budget process; 4) participatory governance systems and practices; and 5) strong congressional and civil society oversight.

Domestic Direct Access aims to respond to adaptation needs, programs, and projects of poor communities in a way that is "decentralized, demand-driven, participatory, and fast-disbursing."[37] It goes beyond mere general appropriations for sectoral projects and programs that incorporate adaptation measures and/or promote adaptive capacity and resiliency, including local government and private sector initiatives toward this end. Direct access to domestically-generated and managed adaptation funds should enhance autonomous, community-based, pro-active adaptation, while at the same time consolidating, rationalizing, and maximizing the pooling of foreign grant sources for adaptation.

[37] *See, for instance, Tendler, Judith. "Why are social funds so popular?" p. 114-129 in Y. Shahid, Wu, W. and Evenett, S. (eds.)* Local Dynamics in the Era of Globalization: 21st Century Catalysts for Development, *Oxford University Press for the World Bank, 2000.*

DOMESTIC DIRECT ACCESS: PROJECT CYCLE EXAMPLE



Note: See, for instance, Narayan, Deepa and Katrinka Ebbe. Design of Social Funds: Participation, Demand Orientation, and Local Organizational Capacity, World Bank Discussion Paper No. 375, The World Bank, November 1997.

The National Survival Fund (i.e., a Special Purpose Fund or a Trust Fund)

The main DDA pillar is the legislation of a National Survival Fund that will serve as the vehicle in which to carry domestic and foreign-access funds toward those who need it most, particularly small women shareholders in agriculture. From a public sector perspective, this may serve as a separate budget -- a flexible, grant-making facility for local/regional adaptation needs. The National Survival Fund (NSF) shall provide initial and follow-on funding for adaptation projects and programs identified by local government or community organizations.

The proposed NSF will require multiple revenue sources, some leveraged from income streams involving activities that carry high environmental externalities, or existing sources such as annual national government general appropriations; legislative PDAF; PAGCOR; PCSO; Bangko Sentral ng Pilipinas earnings; royalties; fines and fees; donations, endowments, grants, and other contributions; internal revenue allotments;[38] government savings (impounded funds); other subsidies or direct transfers; percentages from the country's gross international reserves; and so on.

[38] *The Philippine Disaster Risk Reduction and Management Act (Republic Act 10121), which was signed into law on May 27, 2010, emphasizes the need for a more proactive approach to emergency disaster response. Under this law, LGUs will be mandated to set aside at least 5 percent of their total revenues to establish local disaster risk management funds (LDRMF) that will support local disaster risk reduction and emergency preparedness activities as well as disaster response, rehabilitation, and reconstruction.*

Moreover, the NSF should consider maintaining a capital reserve fund for long-term capital investment projects, among other ends.

The NSF will link and pool international climate finance sources with national adaptation investment programs in addition to serving as a catalyst to attract other fund sources.. Made available not only at the central level of government, but more importantly, at local levels, local institutions, especially local governments, can better enhance their decision-making and resource allocation autonomy with respect to the central government.

Governance of the NSF must be transparent and inclusive, with representation of all relevant stakeholder interests in decision-making.

Adaptation Needs and Investments Database

Building the Adaptation Needs and Investments Database will be crucial in interfacing vulnerability assessments with adaptation finance mobilized domestically and leveraged abroad. Such a database must be based on indicators that involve not only up-to-date vulnerability assessments and hazards mapping but also indicators of local government leadership abilities and community capacities to implement adaptation initiatives successfully and sustainably.

Retooling the budgeting process

DDA must be able to carry "off-budget" and "on-budget" (direct budget support) funding streams. Enacting DDA mechanisms require a retooling of the budgeting process so that funds could be directed more proportionally to interventions designed to address the adaptation needs of vulnerable communities. This warrants the mainstreaming and integration of climate change adaptation in development planning and budgeting processes also at the barangay, municipal, and provincial levels; and taking into consideration disaster risk reduction and management as well. It is also imperative that adaptation financing be integrated in the annual budgets of the various departments and agencies of the national government.

Towards a Climate Sensitive National Budget

The Alternative Budget Initiative (ABI), a consortium of 60 non-government organizations globally acknowledged for initiating legislator-civil society partnerships for more allocation for environment, education, agriculture, and health, has been calling for more funding for climate change adaptation and mitigation measures since 2006. The ABI environment group, led by the La Liga Policy Institute (LLPI) and Philippine Rural Reconstruction Movement (PRRM), proposed that the Philippine Government should add a total of PhP11.4 billion in certain items in the 2010 budget in order to become climate-change sensitive. This includes budget for the following:

- *Climate Change Commission for piloting climate change initiatives in the top ten high-risk provinces;*
- *Harmonization of existing programs into a national climate change action framework and plan;*
- *Climate change actions within the agriculture sector;*
- *Orientation of DENR programs, operations and activities towards climate change actions; and*
- *Pro-active, not just reactive, programs responding to climate-related disasters.*

The ABI's alternative budget proposal for the environment referred to the Philippine Climate and Weather-Related Risk Map of the Manila Observatory and Department of Environment and Natural Resources. According to the map on provincial-level risks to typhoons, drought caused by El Niño, projected rainfall change, and projected temperature increase, the top ten provinces in terms of risk are: Albay, Pampanga, Ifugao, Sorsogon, Biliran, Rizal, Northern Samar, Cavite, Masbate, and Laguna. In general, the regions of Central Luzon and Bicol rank high to very high on the risk scale.

Leading provincial government official Albay Governor Joey Salceda, in a recent nationwide conference among LGUs on climate change adaptation, said that at least PhP22 billion is needed annually to ensure a kind of relocation site that is both safe for informal settlers and the environment. "We need an average of 36 percent of the annual GDP, which means that we need at least PhP22 billion a year of the GDP of P7.4 trillion during a normal year." (Philippine Daily Inquirer, 2009).

Public-private partnerships is another area where additional resources can be leveraged. However, great care needs to be taken, given the nature of private sector money and the many implications of commercial financial contributions that may unduly influence activities away from urgent public or community priorities.

According to a DENR-prepared adaptation strategy document, "the League of Corporate Foundations together with the Philippine Business for Social Progress (PBSP) reported [corporate social responsibility] contributions of US$32 million (PHP1.6 billion) for environmental and sustainable development projects, all of which contribute to [climate change adaptation and mitigation] objectives." Private sector responses, however, are tempered by perceived early rewards or benefits in the form of reduced damages or losses from current weather events; reduction in other maintenance or ongoing costs such as damage insurance; potential enhancement of asset values or returns on investment; perceived enhancement of reputational benefits; and financial incentives.[39]

Potential areas where public-private partnerships are best encouraged are insurance-related activities, including risk-pooling mechanisms, regional reinsurance facilities, catastrophe funds linked to international financial markets, national/regional disaster funds supported financially by the international community, micro-insurance, and weather derivatives that provide payouts in response to weather triggers.[40] The national government, however, needs to take the lead in determining where and how, and under what limits the private could or should contribute to climate-related activities.

Multi-level, multi-stakeholder, participatory governance

Enduring climate action requires the collaboration of all sectors. Participation is not only to be encouraged. It must be seen as essential to the goal of long-term, climate-resilient development.

Local government leadership is crucial in meeting the country's climate action objectives. It is not only involvement but leadership that will be needed from LGUs. This role extends to the barangays, especially in prioritizing climate change issues and in identifying and implementing best practices and solutions. Under RA 9729, climate change adaptation will be one of the regular functions of municipal and city governments.

RA 9729 expressly authorizes LGUs to appropriate and use funds from internal revenue allotments to implement local climate action plans effectively while provincial governments are mandated "to provide technical assistance, enforcement, and information management in support of municipal and city climate change action plans, particularly with regard to integrating climate change adaptation into existing disaster risk management institutions and programs.

Roles may vary widely but active collaboration is critical, since contributions can be complementary if plans are clear and strategic and if key institutions, such as the newly formed Philippine Climate Change Commission (CCC), exercise coordinative, capacity-building leadership over local governments, communities, line agencies, civil society, the academe, and the private sector.

Concerted action will require:

(a) Developing, implementing and reviewing policies -- including regulation, standards, and economic instruments -- to ensure integration of climate change considerations into existing national and local policies and sectoral plans, and programs;

(b) Establishing and maintaining essential services at all levels to deal with the impacts of climate change, including disaster risk reduction, emergency management, and health services;

[39] *PSCCA 2010-2022*

[40] *See, for instance, Synthesis of Outcomes of the Regional Workshops and Expert Meeting on Adaptation under Decision 1/CP.10, FCCC/SBI/2007/14, United Nations, Geneva*

(c) Building adaptive capacity, including the provision of tools and information, raising awareness regarding adaptation options, educating professionals and communities about adaptation, and investing in climate change science as well as related social, ecological, and economic studies;

(d) Provision of an enabling environment that encourages multi-stakeholder participation in planning and strategy development;

(e) Building multi-sectoral partnerships for adaptation, managing risks, and identifying further opportunities; and

(f) Managing risks from climate change to their own programmes, activities, and assets, including the natural ecosystems for which government has management responsibility.[41]

The recently enacted RA 9729 (Climate Change Act of 2009) provides for such coordinated action. The Climate Change Act created the Climate Change Commission headed by the President (assisted by three commissioners), with an advisory board composed of representatives from the ranks of national government agencies, local government units, business sector, civil society, and other sectors, and a panel of technical experts, serving as an advisory body on climate science, technologies, and best practices. The CCC "will lead in the implementation of national level strategies and plans of action, while coordinating the implementation of the sectoral Plan of Action."[42]

Here it is essential for the CCC not to replicate work better performed by line agencies or local governments. Instead, the CCC must become a climate knowledge hub for the country as well as the source of coordinative, capacity-building national leadership, a gap in role and function that, if left unfilled, will prolong current governance chaos over the administration of climate finance and climate-driven activities in the Philippines.

The CCC is critical to the country's climate action initiatives. An essential role the CCC should take on is that of an LGU and national department climate action rating agency. Such a role will help accelerate the active interface between vulnerability assessment activities by national agencies and local government units and the mobilization of domestic and foreign climate finance, specifically adaptation funding.

This is the kind of leadership that will encourage both effective action from local governments and communities and greater local and international financial flows toward Philippine climate action plans. To play this role credibly, however, the CCC must create robust and rigorous indicators and other instruments that can help guide different stakeholders towards the goal of mainstreaming climate change measures into current and future development policies and plans. To ensure early success, the commission should develop registers of vulnerability alongside local government leadership indicators. Scarce climate finance has to be channelled not merely toward the most vulnerable but also toward meaningful activities that increase the adaptive capacity of communities, and to localities with leadership potential and which are keen on undertaking climate action.

Ratings and action generated from such activities provide strong signals to domestic and foreign sources of finance, which can leverage greater and more sustained fund generation. Ratings will also help point mitigation-driven finance toward LGUs seeking to shift to low carbon pathways.

The commission also needs to take the lead in monitoring past, current, and future climate finance under consideration by different government units, particularly by tracking the amount, mode and use of climate funds accessed from abroad and locally, and ensuring consistency with Philippine positions in the international climate negotiations.

[41] *PSCCA 2010-2022*
[42] *PSCCA 2010-2022*

Seen this way, there will be little room for the CCC to perform project implementation activities, which are in any case best led by agencies designed for such purposes.

The rationalization of the role of the commission is a matter of urgency. Institutional arrangements will be critical in the success of the country's climate change action plans. This is particularly so when the possibility of the CCC taking on a more active role in coordinating or supervising future climate finance, whether leveraged from the Adaptation Fund or from the future establishment of the country's National Survival Fund, is taken into official consideration.

Oversight and Accountability

As a "public fund", Domestic Direct Access to the National Survival Fund needs to be subject to strict rules and regulations covering budget preparation, disbursement, and audit in order to facilitate transparency and monitoring. Several accountability mechanisms are already in place and could be further improved to fit local contexts. At the global level, standards and procedures used by the UN Adaptation Fund Board could be adopted in running the NSF. Domestically, the protocols of the Commission on Audit should be followed in the utilization of adaptation finance, including enshrined administrative rules, issuances, and legal procedures pertaining to the disbursement of public funds. Congressional Oversight is essential. Private auditing firms also have a role to play.

Though the CCC needs to take the lead overall, the job needs to be undertaken collectively. Social accountability mechanisms[43] must be utilized, such as budget reviews and analyses; participatory budgeting; public expenditure tracking; monitoring of public service delivery; access to climate finance-related information by civil society and media; and public evaluation of results.

[43] *Social accountability is defined as "an approach toward building accountability that relies on civic engagement, i.e., in which it is ordinary citizens and/or civil society organizations that participate directly or indirectly in exacting accountability. In a public sector context, social accountability refers to a broad range of actions and mechanisms that citizens, communities, independent media and civil society organizations can use to hold public officials and public servants accountable."*

Recommendations

1. Establish adaptation to climate change as the national priority. Ensure such a position is reflected and mainstreamed in national and local policy measures, documents, processes, and programmes.

2. Ensure the Philippine government continues to champion the Adaptation Fund. The Philippines must be a leading voice calling for all new adaptation finance contributions and pledges to be channelled towards the AF, and for AF principles, governance, and modalities -- particularly the direct access modality -- to become the benchmark for future agreed adaptation funds.

3. Urgent designation by the Philippine government of its National Implementing Entity (NIE), fully compliant with fiduciary rules established by the AF and reflective of accepted transparency and accountability standards.

4. Convene a broad alliance of adaptation finance champions in the legislature, executive and local government level to accelerate the formation of the Philippine NIE and to put together the country's multi-stake holder proposal for the Adaptation Fund.

5. Convene a broad alliance of adaptation finance champions in the legislature, executive, and local government level that will champion the establishment of the country's National Survival Fund.

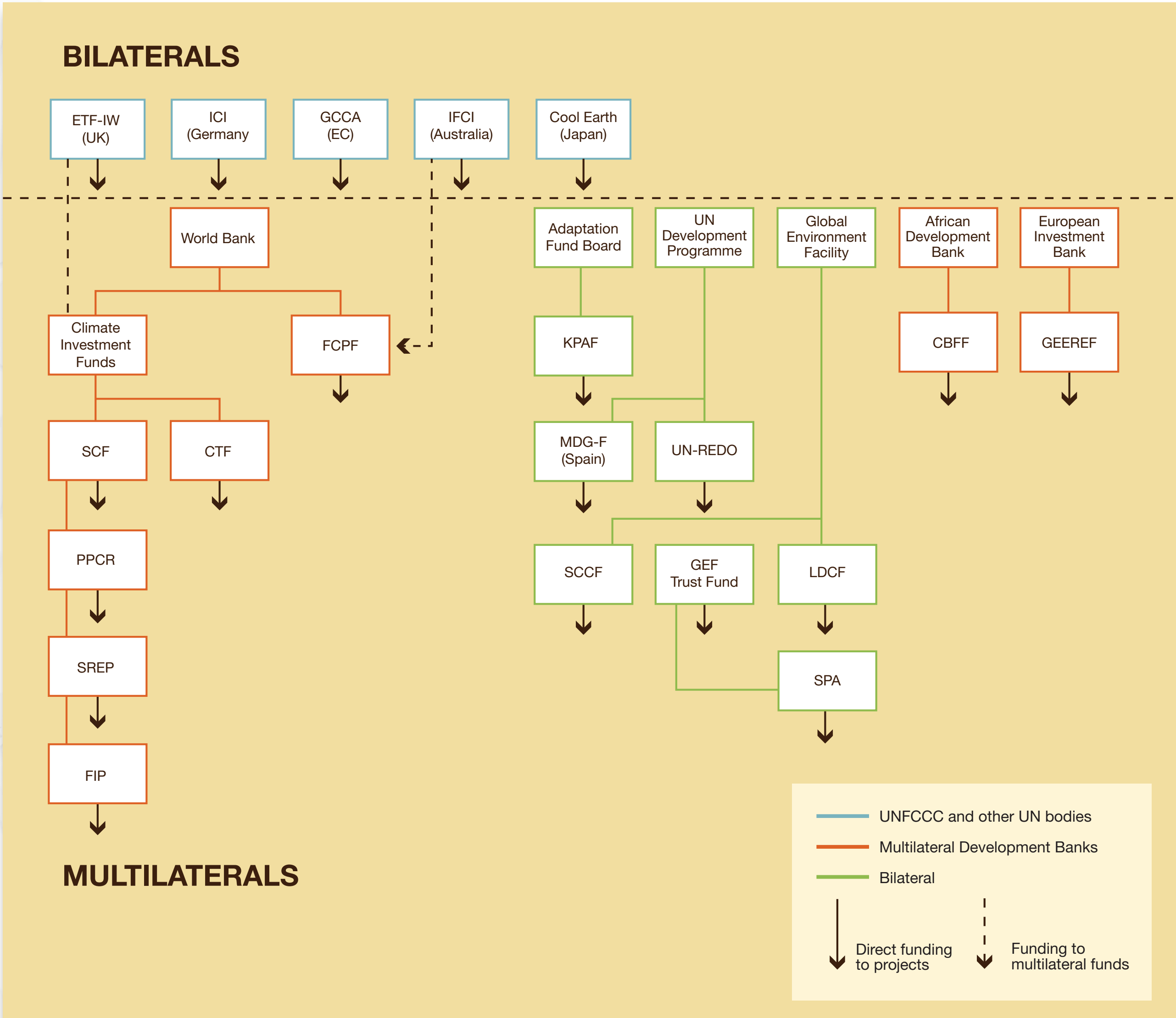
6. Call for the immediate, comprehensive review of all climate finance that has entered country coffers. Monitor and, where necessary, block proposed climate finance inconsistent with the international negotiating position of the Philippines, particularly adaptation finance extended as loans or with conditionalities.

7. Call for the immediate revision of the Implementing Rules and Regulations of the Climate Change Act, along with the role rationalization of the Philippine Climate Change Commission (CCC). Specifically, champions of adaptation finance, especially CSOs, should push the CCC to:

    (a) Play a more robust, coordinative leadership role;
    (b) Act as the Philippine climate knowledge hub and lead capacity-builder, empowering local government units (LGUs) to craft long-term, climate-resilient development agendas;
    (c) Become the main climate finance information center, monitoring the amount, mode, and use of climate finance accessed from abroad and locally; and
    (d) Exercise national and local leadership by playing the role of <u>LGU and national department climate action rating agency</u>. This will accelerate the active interface between vulnerability-mapping efforts and the mobilization of domestic and foreign adaptation finance, based on registers of vulnerability and local government leadership indicators. Ratings will also greatly help point mitigation-driven finance to LGUs seeking to shift to low carbon pathways.

Annex

Bilateral and Multilateral funding flows



ABOUT THE ORGANIZATIONS

This report was prepared by the Institute for Climate and Sustainable Cities (iCSC), a Philippine-based non-government think tank working on sustainable energy solutions and fair climate policy, and Oxfam. Oxfam works with others to overcome poverty and suffering.

The report is available for free download at the websites of iCSC and Oxfam:

http://www.ejeepney.org
http://oxfamphilippines.wordpress.com/

About the iCSC

The iCSC is the proponent of the pioneering Climate-Friendly Cities (CFC) initiative, which integrates waste management, energy generation and sustainable transport programs for sustainable, climate-resilient city and community development. The organization leads the campaign to establish direct-access driven, just, long-term adaptation finance for vulnerable communities.

The iCSC is led by a team with over three decades of combined experience working on climate,development and energy policies, programs and projects in national and international arenas. The organization provides project and policy advisory and consultancy services.

The popular electric jeepneys, or eJeepneys, is a central part of the CFC initiative. The iCSC has widened the deployment of electric public utility vehicle transport alternatives in the country through the development of eTrike, eQuad and eCoach applications as well as different eJeepney models. The iCSC believes pedestrian-led development should be a focal point of transport and city planning, along with cycling.

The iCSC believes a mix of sustainable energy options linked to local economies and livelihood generation will demonstrate that better sustainable energy pathways are not only available but are more viable compared to fossil-fired power plants and conventional, centralized large scale power systems. The iCSC was formed as a result of campaigns against a proposed circulating fluidized bed coal-fired power plant in Negros Occidental and two coal-fueled power station proposals in Prachuab Kiri Khan, Thailand in the late 90s.

The iCSC is primarily supported by Stichting DOEN, an organization that strives towards the achievement of a liveable world in which everyone has a place. DOEN supports organizations and projects in the fields of Sustainable Development, Culture, Welfare, and Social Cohesion.

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