



E3G

# MAPPING THE POLITICAL ECONOMY OF THE PHILIPPINES FINANCIAL ECOSYSTEM

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# 1. INTRODUCTION: MAPPING THE POLITICAL ECONOMY OF THE GLOBAL FINANCIAL ECOSYSTEM

- > **Aim** - E3G's political economy mapping of the global financial ecosystem takes stock of opportunities and challenges for systemic economic and financial reform for climate safety across 14 key countries and institutions (“venues”). It aims to better understand countries and institutions’ positions on key aspects of fiscal and monetary policy, and financial regulation, analyse the interactions between these venues, show the main champions and blockers of a progressive sustainable finance agenda, and assess opportunities for green reforms over the next 12-24 months.
- > **Method** – E3G is working with a number of in-country partners to develop this research. We have used a mixed-research methodology for each venue – a mixture of desktop research and semi-structured interviews with key stakeholders (policymakers, academics, civil society) following a series of defined research questions. E3G compiles the findings into a presentation for each venue, tests the results internally with other E3G colleagues and then presents the results as appropriate to external stakeholders.
- > **Usage** – This research will be used as an internal and external resource to inform civil society and financing strategies for specific countries.

## 2. THE PHILIPPINES: KEY FINANCIAL INDICATORS



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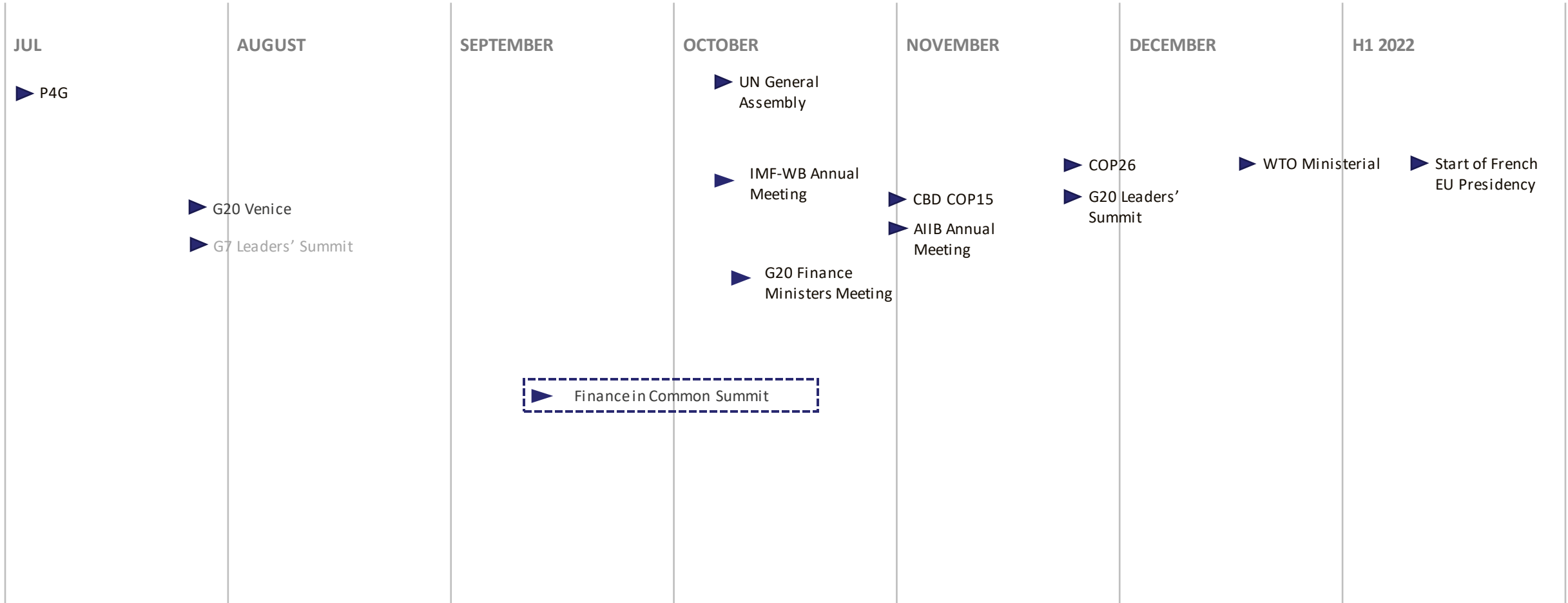


GDP (Current USD, 2021)	402.64 billion
GDP growth (2020-21)	6.9 %
GDP rank	27 / 195
Value add of finance sector to GDP (2020)	9.67 %
Share of public & private debt in GDP (2020)	54.5 % & 51.85 %
Human Development Index (HDI) Rank: (2019)	107 / 195
GHG Emissions: (Mt CO2, 2020)	201 (121 % higher than 1990)
Credit rating: (2021)	BBB (Fitch)

# THE PHILIPPINES – POLICY AND DIPLOMATIC CALENDAR 2021



▶ Domestic    ▶ International    □ Timing to be confirmed



# PHILIPPINES: OPPORTUNITIES AND BARRIERS TO A GREEN RECOVERY



## Opportunities

- > The Department of Finance, the Philippines Central Bank (BSP) and the Securities and Exchange Commission all recognise climate change as a systemic risk to the Philippines' financial system and are thus the biggest champions of climate action within the current government.
- > The Philippines was also able to submit its Nationally Determined Contributions (NDC) on 14 April 2021, which showed a higher and firmer ambition compared to its Intended NDCs (INDC) in 2015. It commits to a projected GHG emissions reduction and avoidance of 75% of its business-as-usual (BAU) emissions in the period of 2020-2030; International cooperation will be critical, however, given only 2.71 % of the NDCs is unconditional or would be funded by the government
- > The BSP released a “Sustainable Finance Development Roadmap” in April 2020, outlining a strategy to promote sustainable finance in the country.

## Barriers

- > The Department of Energy (DOE) currently has no concrete plans for coal power plant retirement. The DOE's expressed stance is to make “full use” of the country's existing coal power plants, the fuel for which is mostly imported.
- > If planned coal power plants and LNG-to-power plants production continues, they represent a stranded asset risk of USD 20.8 billion (coal pipeline) and USD 13.6 billion (LNG to power pipeline), which, taken together, is more than 93% of the total value add to the GDP in 2020 of the Philippines' financial sector which stood at USD 36.71 billion.
- > Large, mostly family-owned, national conglomerates own the majority of these coal-based power generation assets – these conglomerates also own the country's biggest commercial banks – incentivising these conglomerates to wind down such assets is a significant challenge facing greening the Philippines economy.



# PHILIPPINES: ASSESSING THE GREENNESS OF ECONOMIC STIMULUS / RESPONSE TO COVID-19



- > The pandemic plunged the Philippine economy to its worst performance on record, with GDP falling by 9.5% in 2020. GDP dropped to as low as 16.9% during the 2nd quarter of 2020, when the strictest lockdowns were enforced nationally.
- > To counter this, the administration has approved PHP 4.506 trillion (USD 90.7 billion) 2021 budget, which is equivalent to 21.8 percent of gross domestic product, and is the country's largest to date, larger by 10 percent than the FY 2020 budget.
- > Carrying the theme “Reset, Rebound, and Recover: Investing for Resiliency and Sustainability”, the FY 2021 national budget aims to help the nation reset by addressing the pandemic, rebound by boosting infrastructure development and by generating job opportunities, and rebuild by assisting communities adapt to the post- pandemic life.
  - This rhetoric is however not supported by specific allocations for a green and climate-aligned recovery in the economic stimulus packages released thus far and the FY 21 budget. Having said this, the Department of Finance has enacted initiatives that can be considered climate-aligned such as the Climate Expenditure Tagging and Public Investment Program Online (PIPOL) System<sup>14</sup>
  - The budget also allocates resources to climate adaptation measures: PHP 101.6 billion (USD 2.05 billion, 2.25% of 4.5 trillion budget) to the Flood Management Program to intensify the construction of 1,543 flood mitigation structures and drainage systems, and construct/rehabilitate 451 existing flood control facilities in major river basins and principal rivers; and
  - PHP 26.5 billion (USD 534 million, 0.59% of total budget) will be allocated for the Department of Environment and Natural Resources (DENR) to implement measures for the conservation, management, development, and proper use of the country's environment and natural resources.

# THE PHILIPPINES: INTEGRATION OF CLIMATE-RELATED RISKS INTO THE FINANCIAL SYSTEM

- > The Philippines Central Bank (BSP) acknowledges the significant impact of climate change and other environmental-related risks to the financial system as it exposes banks to credit and operational risk that would, in turn, translate into profitability and solvency concerns. It is taking a number of actions:
  - BSP's Sustainable Finance Framework provides high level principles and broad expectations on the integration of ESG and sustainability principles in the corporate and risk governance frameworks as well as in the business strategies and operations of banks
  - The BSP is currently in the second phase and is now crafting more granular expectations in managing climate change and other environment-related risks in relation to credit, market, liquidity, and operational risks. The regulator is reported to be finalizing the proposed amendments to the Manual of Regulations for Banks (MORB) on the sustainable finance framework which include an environmental and social risk management (ESRM) framework; the third phase will cover regulatory incentives
  - The BSP has also been actively involved in global and local conversations on sustainability through their membership in the Sustainable Banking Network, Alliance for Financial Inclusion and ASEAN.
- > The Securities and Exchange Commission (SEC) released the Memorandum Circular No. 4, Series of 2019 on the Sustainability Reporting Guidelines for Publicly Listed Companies (PLCs) with the objectives to:
  - To make sustainability reporting relevant and value adding to Philippine PLCs
  - To help PLCs to identify, evaluate, and manage their material Economic, Environmental and Social risks and opportunities
  - To help PLCs to assess and improve their non-financial performance across Economic, Environmental and Social aspects of their organization to optimize business operations, improve competitiveness and long-term success
  - To provide a mechanism that would allow the PLCs to communicate with their stakeholders, including investors or its potential investors



# PHILIPPINES: NATIONAL POSITIONS IN MULTILATERAL INSTITUTIONS



- > **The Philippines is one of the world's most vulnerable countries to climate disasters.** In its Global Climate Risk Index 2020 report, the think tank Germanwatch found that the Philippines ranked fourth out of 180 countries most affected by extreme weather in the last two decades. The Philippines is one of the world's strongest global voices in response to climate action, having had active roles during the UN Climate Conference negotiations at Paris, France in November 2015 and holding the presidency of the Climate Vulnerable Forum (CVF) in 2015 under whose time the Forum's Vulnerable Twenty (V20) Group Finance Ministers was established. Under the presidency of the Philippines, the CVF adopted the Manila-Paris Declaration and the 2016-2018 Roadmap at the Third High-Level Meeting of the CVF held during Conference of Parties (COP) 21 in Paris.
- > **V20:** The Philippines is a leading voice within and champion of the V20, a group of twenty climate-vulnerable countries. The V20 has proactively engaged with countries, including the Philippines, to ascertain the degree of exposure of the financial sector, the public sector, and economy credit agencies to fossil fuel lock in, and its accompanying non-performance or stranded asset risk. The V20 has also called for the IMF to provide support and resources to address the needs of climate vulnerable economies in building resilience through improved mitigation, and management of climate-related macro-financial risks. The Climate Vulnerable Forum (CVF), a dedicated cooperation initiative of economies systemically vulnerable to climate change was officially launched the the Vulnerable Twenty (V20) Group of Ministers of Finance in Lima, Peru in 2015. This was done under the leadership of then Philippines Finance Secretary Cesar V. Purisima as a more comprehensive offshoot bloc of the CVF.
- > **G20:** In 2018, the V20 formed an initiative with the G20 on the InsuResilience Global Partnership. They introduced the Global Risk Financing Facility (GriF) to help manage the financial impacts of climate change and natural hazard-induced shocks ,and enable resilient debt management. The Partnership aims to enable a substantial scale-up in the use of climate and disaster risk finance and insurance solutions and approaches by developing countries, ultimately contributing to strengthening resilience by enabling faster, more reliable and cost-effective responses to disasters.

# PHILIPPINES: RECOMMENDATIONS FOR ACTION



## > On fiscal policy

- Explicit incorporation of green recovery objectives and metrics in Covid recovery and regrowth plans
- Continued improvement of Climate Expenditure Tagging (CCET), in addition to facilitating allocation of international climate funds in the local government units' climate change projects, programs and activities
- Re-allocation of subsidies in the energy sector. Subsidies and financial incentives propping up the country's fossil fuel industry should be re-allocated to developing the renewable energy sector by developing infrastructure to competitive renewable energy zones and investing in supporting infrastructure, such as ancillary storage services and other grid supports

## > On monetary policy

- Fast-tracking the implementation on Package 2 (Risk Assessment Manual) and Package 3 (Incentives) of the Central Bank's sustainable finance policies.
- Facilitation of new green products: the government should support the development of green bond indices, green equity indices and related products, and incentivise private sector actors to develop green index-based financial products, such as mutual fund products or private equity fund products

## > On engagement with banks and other private sector actors

- Engagement with key stockholders to support shareholder activism for shifting banks will yield results, as seen in the examples of RCBC and BPI. This will involve continued dialogues with frontline relationship managers to increase their low-carbon pipeline of projects, especially in the energy sector.
- These engagements will involve encouraging banks and other private sector actors on the use of capital markets, specifically green bonds, for lower cost financing, using the ASEAN Green Bonds Standard.
- Implementation of market making programs such as the renewable energy auctions and the Green Energy Option Program (GEOP) will enable banks to invest their way out of coal exposure in addition to providing least cost options to consumers and ensure power supply availability as population grows and energy demand increases.

# ACKNOWLEDGEMENTS



This presentation was based on a report written by Marlon Apanada as part of E3G's global ecosystem initiative: Apanada, M, Silan, J. G, and Horacio, J. N. (2021) *The Philippines Financial System: Overview of Policy Positions and Political Interplay within Government in relation to the Management of Climate Risk*

**Marlon Apañada**- Marlon brings 17 years' in-depth experience in the clean energy & sustainability spaces, which includes leading business development of successfully commissioned renewable energy projects, advising Global Fortune 500 companies in their renewables procurement roadmaps, successfully developing the first bank-financed solar projects in the Philippines, and pioneering climate finance practice locally and regionally. A certified Green Finance Specialist, Marlon is pursuing his MBA with Beuth University of Applied Sciences in Berlin, his MBM on Climate Finance with the Berlin School of Economics and Law, and finished a certificate course on Sustainable Finance at the University of Oxford's Smith School of Enterprise and Environment in the UK.

**Gabriel Silan** is a Clean Energy Analyst in Allotrope Philippines and manages the Clean Energy Investment Accelerator and Greening the Bank's Initiative in the Philippines. Gabriel has six years of renewable energy experience in the Philippines and has supported the renewable energy procurement of three Fortune Global 100 companies. He has facilitated multiple dialogues between the key renewable energy developers and regulators in the Philippines and has also co-developed a nationally recognized tool to facilitate renewable energy procurement mapping of distribution utilities in the Philippines. Gabriel is a youth leader at The Climate Reality Project Philippines bringing his expertise in the energy sector to the forefront of climate action, while having key roles in initiatives like Greening the Banks and the Clean Energy Investment Accelerator.

**Josh Niczon Horacio** is a Student Leader, researcher, and writer from Saint Louis University (SLU) Baguio, in the department of Natural Sciences and is among the young leaders of the Democratic Alliance of Students for Integrated Governance (DASIG) of the University, which recognizes that the youth and students of today are confronted with pressing social issues on governance, education, livelihood, environment, values and culture, national patrimony, and violence. He is also a graphic artist/designer and professional freelance photographer adept in public speaking and hosting.

**E3G** is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.



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# ANNEX

## REFERENCES

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- > Private debt to GDP: <https://www.ceicdata.com/en/indicator/philippines/private-debt--of-nominal-gdp>
- > HDI provides a more holistic measure of a country's development, encompassing life expectancy, years of education and national income per capita: [http://hdr.undp.org/sites/all/themes/hdr\\_theme/country-notes/PHL.pdf](http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/PHL.pdf)
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- > For all other citations, please contact E3G.