

# 3

## FINANCIAL ARRANGEMENT

Sub-category	Definition
Financial arrangement for DRR (3.1)	Funds are allocated for DRR activities with a monitoring and tracking system
Financial arrangement for CCA (3.2)	Funds are allocated for CCA activities with a monitoring and tracking system
Insurance, microfinance and payment for ecosystem services (3.3)	Insurance, microfinance, and payment for ecosystem services are implemented

### GP-3.1: Local DRRM funds, the Philippines

**Description of practice:** In the Philippines, there is a built-in funding system that mandates local government units to compulsorily set aside part (5 percent) of the estimated revenue as the Local Disaster Risk Reduction and Management Fund (LDRRMF) to support DRM activities at local level. The Quick Response Fund (QRF) is another built-in budgetary allocation that represents pre disaster or stand-by funds (30 percent of LDRRMF) for local government units.

**DRR and CCA benefits:** One of the critical elements for the integration of DRR and CCA is the overall framework for financial resources with a wide range of options to mobilize related finance from various domestic and international funding sources. The local DRRM funds provide an important opportunity for local governments to further the agenda of DRR and CCA integration wherever such capacity exists. These built-in local DRM funds could be good practices for integrating DRR and CCA, since these DRM funds can be synergized with other demand-driven CCA funds.

**Scalability potential:** The built-in local funding system can be enlarged by increasing compulsory part of the estimated revenue as LDRRMF.

- **Social and political acceptability:** Since the built-in local funding system can be used for community-based DRR activities, they have social and political acceptability. Although local governments with limited financial capacity may find this policy difficult to follow, the national government is providing necessary support to fulfill local DRR needs in such cases, which are socially and politically acceptable.
- **Economic viability and sustainability:** Continuous support by the government is necessary for addressing residual risk factors, if any, for economic viability and sustainability.
- **Institutional and policy needs:** The operation of LDRRMF is being technically and institutionally supported by NDRRMC to implement DRR in consideration of CCA, and the continuous fund raising through LDRRMF meets the policy needs at local levels.

**Source/Contact:** NDRRMC. 2013. Joint Memorandum Circular No. 2013-1, the Philippines. Manila, the Philippines: National Disaster Risk Reduction and Management Council. Available at [http://www.ndrrmc.gov.ph/attachments/article/1320/JMC\\_No\\_2013-1\\_re\\_Allocation\\_and\\_Utilization\\_of\\_LDRRMF.pdf](http://www.ndrrmc.gov.ph/attachments/article/1320/JMC_No_2013-1_re_Allocation_and_Utilization_of_LDRRMF.pdf).

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### GP-3.2a: Indonesia Climate Change Trust Fund (ICCTF)

**Description of practice:** The Indonesia Climate Change Trust Fund (ICCTF) is the national trust fund for climate change in Indonesia which was established to increase the effectiveness and efficiency of Indonesia's coordination in combating climate change in accordance with the National/ Local Action Plan on Mitigation (RAN/RAD-GRK) and the National Action Plan on Adaptation (RAN-API). The fund provides small-grant funds for NGOs/ CSOs, up to a maximum of IDR 1b for adaptation and resilience projects and IDR 3.5b for land-based mitigation projects (forestation and conservation). The projected total amount of ICCTF from the financial year 2015 up to 2018 is estimated at 203 Rp. Billion. The RAN-API Secretariat (BAPPENAS) is also involved in the project selection.

**DRR and CCA benefits:** Some of the Member States have CCA funds to promote implementation of local climate change adaptation plans including the Indonesia Climate Change Trust Fund (ICCTF). The benefit of this good practice is that the ICCTF is the only national trust fund for climate change in Indonesia, for land-based mitigation projects (forestation and conservation), and adaptation and resilience projects with small-grants, which contributes to the DRR and CCA integration in future

**Scalability potential:** The ICCTF can be scaled up by rendering technical assistance at local levels. MoHA is to incorporate relevant indicators in the guideline of local development plan for replicating good projects.

- **Social and political acceptability:** Since the ICCTF can be used for community-based activities, general social and political acceptability is expected.
- **Economic viability and sustainability:** Depending on the commitment by the government, there are few risk factors on economic viability and sustainability such as the budgetary limitation in the future.
- **Institutional and policy needs:** Institutional and policy needs required to operate the ICCTF are met by continuous fund raising through ICCTF.

**Source/Contact:** ICCTF. 2015. Indonesia Climate Change Trust Fund, Indonesia. Available at <http://icctf.or.id/knowledge-center/>.

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### GP-3.2b: People's Survival Fund, the Philippines

**Description of practice:** The People's Survival Fund (PSF) in the Philippines was created to provide a long-term finance scheme for effectively

addressing climate change. In the national budget for the financial year 2016 of the Philippines, PHP 1.0 billion (approx. USD 19.9 million) was allocated for the PSF. Based on the Climate Change Act (2009) and RA 10174 (2011), the fund has already successfully funded two projects in Dec 2016 with 60 more projects in the pipeline. The fund is expected to strengthen the risk and vulnerability assessments in the country and enhance the CLUP/CDP and Local Climate Change Action Plans (LCAP). There is also high emphasis for water resources management, land management, infrastructure development, natural ecosystems; forecasting and early warning systems; institutional development (for droughts and floods); information networks; a guarantee for risk insurance needs for farmers.

**DRR and CCA benefits:** The PSF contributes to raising and mobilising finances which can be utilised for a wide range of adaptation projects in the field of water resources management, land management, infrastructure development, natural ecosystems conservation, forecasting and early warning systems, institutional development for droughts and floods, and among others based on the risk and vulnerability assessment.

**Scalability potential:** The PSF can be scaled up by rendering technical assistance at local levels.

- **Social and political acceptability:** Since the PSF can be used for community-based activities, there exists a clear-cut social and political acceptability. There is a need to reduce the requirements for LGUs to access the fund.
- **Economic viability and sustainability:** Since the PSF will be continuously supported by the government, there are less risk factors on economic viability and sustainability.
- **Institutional and policy needs:** Specific institutional and policy needs required to operate the PSF are properly met by continuous fund raising. The LGUs need technical assistance to prepare funding proposals.

**Source/Contact:** People's Survival Fund. 2016. Proponent's Handbook, A Guide on How to Access the People's Survival Fund. Manila, the Philippines: Climate Change Commission. Available at <http://psf.climate.gov.ph/wp-content/uploads/2016/12/PSF-AmendedHandbook.pdf>.

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### GP-3.2c: Climate Change Expenditure Tagging (CCET), the Philippines

**Description of practice:** The Climate Change Expenditure Tagging (CCET) is a budget tool for monitoring and tracking of climate-related expenditures in the national budget system,

thereby acting as a label on the expenditure items, which are essential to identify and track them, generating data on domestic climate-relevant investment and operating expenditures. The Department of Budget Management (DBM) and the Philippine Climate Change Commission (CCC) have jointly developed CCET and started the piloting at the Local Government Units (LGUs), enabling consistent and comprehensive assessment of climate spending at both national and sub national levels. Forty-two LGUs have been trained to tag their 2015 Annual Investment Plans, preparing for scaling up CCET to cover all LGUs in the financial year 2016.

**DRR and CCA benefits:** The introduction of an expenditure tagging and tracking system contributes to the efficient allocation and mobilisation of financial resources for integrating DRR and CCA.

**Scalability potential:** The practice has already been taken up by Viet Nam and is under consideration in other ASEAN countries as well.

- **Social and political acceptability:** Since the CCET is the officially approved budget monitoring tool, there exists a clear-cut social and political acceptability.
- **Economic viability and sustainability:** Since the CCET supports proper budgetary management on climate change expenditures, there are less risk factors on economic viability and sustainability.
- **Institutional and policy needs:** Specific institutional and policy needs required to introduce the CCET are already met in the financial direction provided by the government, including training of staff to implement the policy.

**Source/Contact:** Le. H. and K. Baboyan. 2015. Climate Budget Tagging: Country-driven initiative in tracking climate expenditure. Bangkok, Thailand: UNDP. Available at [https://www.climatefinance-developmenteffectiveness.org/sites/default/files/event/CFSDforum2015/climate/Climate%20Budget%20Tagging%20\\_July%202015\\_DRAFT.pdf](https://www.climatefinance-developmenteffectiveness.org/sites/default/files/event/CFSDforum2015/climate/Climate%20Budget%20Tagging%20_July%202015_DRAFT.pdf).

### GP-3.3a: Microfinance in Flores Island, Indonesia

**Description of practice:** Microfinance refers to a range of financial services that are made available to the poor and vulnerable who otherwise do not have access to formal banking facilities and loans. Microfinance makes available small amount of money to the poor to invest in gainful livelihood generation options. The microfinance program is being implemented by Sube Huter in the Nangablo village of Sikka Regency, Flores Island

in Indonesia. However, microfinance has been increasingly promoted throughout the ASEAN region reaching out to the poor supporting their livelihoods through financial access services and skill development.

**Climate hazards addressed by the practice:** All kinds of natural hazards that affects the lives and livelihoods of poor and vulnerable.

**DRR and CCA benefits:** Microfinance is helping rural communities to diversify their livelihoods and hence are less prone to weather vagaries. There are several rural development and resilience benefits, including improved access to markets, better skills, women empowerment, access to social services, such as health and education for children and additional income. Reduced fluctuation in income was also reported due to alternative income sources.

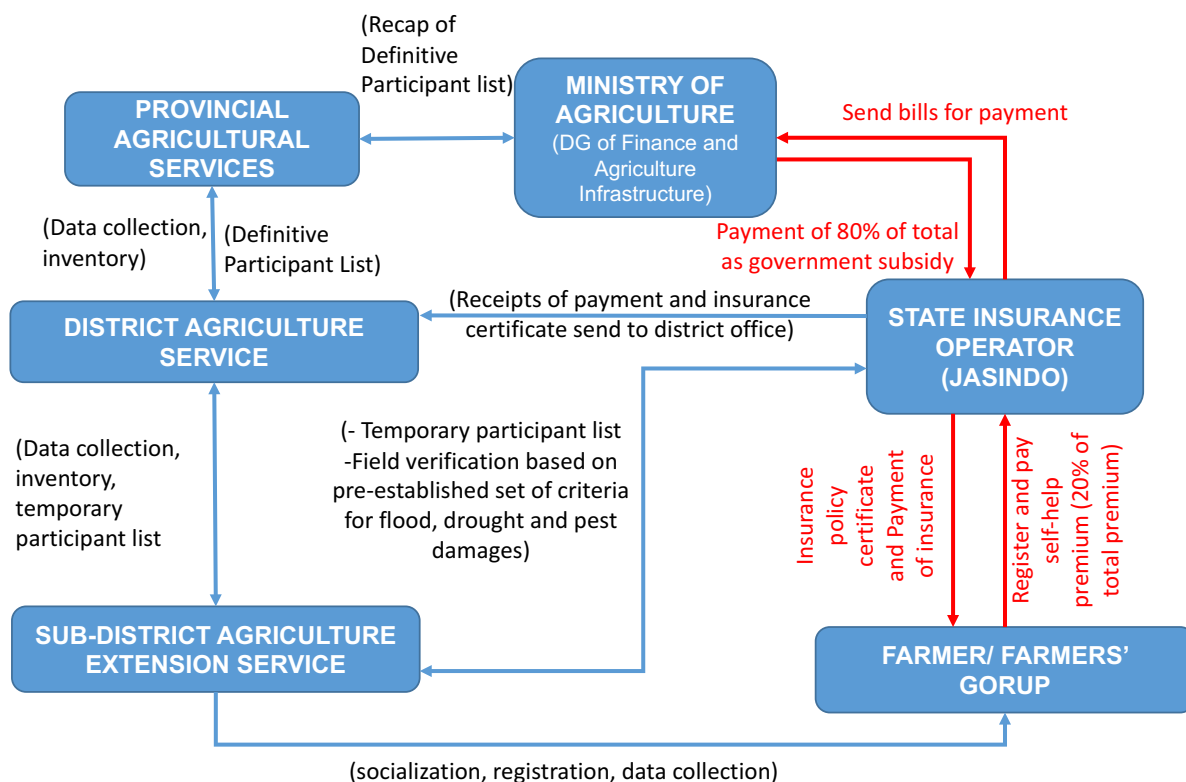
**Scalability potential:** Highly scalable to areas with high poverty and limited reach of formal financial services. Several ASEAN countries have made inroads to promote microfinance programs including the Philippines, Viet Nam, Cambodia, Malaysia and Lao PDR.

- **Social and political acceptability:** Highly acceptable socially and politically due to the benefits discussed above.
- **Economic viability and sustainability:** Viability and sustainability depends on how members of the groups invest the microfinance that they gained access to and hence is highly linked to the institutional and policy environment.
- **Institutional and policy needs:** Microfinance agencies need better resources to reach out to larger sections of needy households; develop skills to train beneficiaries on business management skills and income diversification skills; and invest in community mobilization and monitoring and evaluation.

**Source/Contact:** Koperasi Kredit Sube Huter, Nangablo, Maumere, Indonesia



**Figure 15.** Meeting of Sube Huter microfinance community in Sikka Regency of Flores Island (GP-3.3a)  
Source: JICA Project Team



**Figure 16.** Implementation mechanism of rice crop insurance (GP-3.3b)

Source: MOA, Indonesia

### GP-3.3b: Crop Insurance in the Philippines, Indonesia and Thailand

**Description of practice:** Farmers are insured against the risk of crop loss caused by disaster such as floods and droughts. In Indonesia, crop insurance was first started as pilot program with the assistance of JICA by Directorate of Infrastructure and Agriculture Finance in 2015. Directorate General of Agricultural Infrastructures and Facilities under the Ministry of Agriculture (MOA) has stipulated the Guidelines for Rice Farming Insurance Premium Aid. Unlike state's direct involvement in Indonesia, Thailand's Bank for Agriculture and Agricultural Cooperatives (BAAC), in collaboration with Sampo Japan Insurance, has introduced Weather Index Insurance (WII) against Drought Risk in Northeast Thailand since 2010. Weather index insurance refers to the insurance payments made based on a trigger designed around weather elements such as temperature, precipitation and relative humidity rather than based on the direct assessment of the crop loss. Philippine Crop Insurance Corporation (PCIC) in collaboration with the World Bank, DA-PhilRice and PAGASA are implementing a pilot weather index insurance with 75 farmers are enrolled for this purpose. The first phase of the program

has finished in 2016 and the second phase is to start in 2018. Insurance premium is 891 peso per ha (100% subsidized by the government for subsistence farmers) and farmers will receive seeds and fertilizers as incentives to join the program. The cost of implementing the insurance per farmer is 5,000 peso for PCIC.

**Climate hazards addressed by the practice:** Typhoons, floods, droughts

**DRR and CCA benefits:** WII helps to avoid moral hazard and adverse selection, increased efficiency in operating the insurance program and reduced overall costs compared to the traditional insurance products. Farmers are able to obtain insurance payouts quickly leading to reduced financial stress and quick second season cropping. Helps strengthen the weather stations, provides opportunity to develop individual insurance products. Weather index insurance has shown better performance compared to the indemnity insurance in terms of long-term costs in implementation (initial costs are high for weather index for installation of weather stations).

**Scalability potential:** Highly scalable depending on the availability of weather data and installation of reliable weather stations. It is also being piloted in Thailand, Indonesia and Myanmar.



- **Social and political acceptability:** Highly acceptable socially and politically due to avoidance of adverse selection and moral hazard associated with the traditional insurance programs.
- **Economic viability and sustainability:** Highly viable due to reduced costs, highly sustainable due to the possibility of immediate payouts and increased trust among the subscribers. High basis risk needs to be addressed through dense weather stations.
- **Institutional and policy needs:** Quality weather and crop loss data, relatively dense weather observatories and regulations needed for operation of weather index insurance.

**Source/Contact:** PCIC, the Philippines; Directorate of Finance and Agriculture Infrastructure, Ministry of Agriculture (MOA), Indonesia; Thailand's Bank for Agriculture and Agricultural Cooperatives (BAAC).

### GP-3.3c: Payment for forest environmental services, Viet Nam

**Description of practice:** In Vietnam, environmental charges such as the payment for forest environmental services are incorporated into the financial framework related to climate change response. Forest Administration Office of MARD, Viet Nam is the responsible agencies of forest management including conservation of forest and reforestation for upland forest and mangrove forest in the coastal areas. There is a fund for forest management from hydropower, water supply and eco-tourism sectors, which is used for supporting communities for reforestation. Therefore, forest management is well conducted and being progressed.

Under the Decree 99, organizations and individuals benefiting from forest environmental services must pay for forest environmental services to owners of forest. Payment for forest environmental services is in cash through direct or indirect payment methods. The payment for forest environmental services through a Forest Protection and Development Fund is the money that users of forest environmental services entrust the Fund to pay to owners of forests that supply forest environmental services. The Decree stipulates the payment from the following parties for forest environmental services through a Forest Protection and Development Fund: Hydropower production facilities (20 VND/Kwh), Clean water production and supply facilities (40 VND/m<sup>3</sup>), Industrial production (On-going), Tourism service providers (1-2 % of revenue), and Others (carbon sequestration, aquaculture (On-going).

Participation of local communities and stakeholders in forest protection through this

practice includes 500,000 households, 650 forest organisational owners, 84 forest companies, 15 national parks and 40 nature reserves.

**DRR and CCA benefits:** One of the critical elements for the integration of DRR and CCA is the mobilisation mechanism for a wide range of financial options required for DRM and climate change finance generated from forest services. Introducing payment for ecosystems based on economic evaluation of forest environmental services for conservation and rehabilitation of ecosystems provides an important opportunity for the national and local governments to promote fund raising from forest services with multiple benefits for local communities.

**Scalability potential:** The payment system for forest environmental services can be scaled up in other ASEAN countries and within Viet Nam by involving other domestic stakeholders, thereby further promoting fund raising required for the DRR and CCA integration.

- **Social and political acceptability:** Since the payment system for the forest environmental services ICCTF can be used for national, local and community-based activities, there exists a clear-cut social and political acceptability.
- **Economic viability and sustainability:** Due to the commitment by the government, there are less risk factors on economic viability and sustainability. The fact is that a central fund and 41 provincial funds have been already created, and district/commune funds are being established.
- **Institutional and policy needs:** There are strong and specific institutional and policy needs, which call for creating the financial mechanism required to integrate DRR and CCA generated from forest services, in Viet Nam. More concretely, in addition to the current payment system, a surcharge is required to promote activities as well as projects related to the integration of DRR and CCA.

**Source/Contact:** Vietnamese Academy for Forest Sciences, Hanoi, Viet Nam.

Pham, T.T., K. Bennett, T.P. Vu, J. Brunner, N.D. Le and D.T. Nguyen. Payments for forest environmental services in Vietnam. Bogor, Indonesia: Center for International Forestry Research (CIFOR). Available at <http://vafs.gov.vn/en/2013/10/payments-for-forest-environmental-services-in-vietnam/>.