GLOBAL PUBLIC INVESTMENT

CLIMATE FINANCE AND THE ROLE OF GPI IN NAMIBIA

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Namibia Technical Note

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1. Introduction

This technical note will present an overview of the climate financing environment in Namibia and assess and address the impact of climate change on the country. This is followed by a discussion of how the Global Public Investment (GPI) approach to the global financial architecture can assist in addressing any financing gaps, with a particular focus on Namibia. It also aims to inform stakeholders of the GPI principles (all contribute, all benefit, and all decide). The paper also aims to show how the GPI approach is appropriate for the 21st Century as a means of responding to global ambitions, dealing with emerging global challenges, and providing a compelling modern narrative.

1.1 Overview of the Namibian economy

Namibia is a large country with a small population of about 2.53 million people (2021 figure) and a 1,500km coastline on the South Atlantic (World Bank, 2023). Namibia is classified as an upper-middle-income country by the World Bank. The country is blessed with resource wealth, political stability, strong governance and institutions and sound macroeconomic management. Despite this, poverty and unequal distribution of income remain a problem. The Gini coefficient[1] of Namibia was 59.1% in 2015, ranking second after South Africa (World Bank, 2023). Poverty rates differ starkly across different demographic groups and have increased since 2016. Particularly high rates of poverty are found in households headed by women, those with lower levels of education, larger families, the elderly and children, and subsistence farmers' labourers. Namibia ranks 117th among 157 countries on the Human Capital Index (HCI)[2]. The country is also facing a dual labor market, slow job creation, low primary-sector productivity, and very high unemployment. Growth-related structural barriers such as lack of competitive pressure have also impeded productivity increases and employment creation (World Bank, 2023). Competition enables the most productive businesses to increase their market share and employment, it pushes less productive businesses to either improve or go out of business, which boosts productivity (Bailey & Farrel, 2006). The creation of jobs and increases in productivity were observed to contribute to determining how well growth reduces poverty in Namibia (Mwinga, 2012). The country is vulnerable to global and regional developments and dependent on commodity exports and Southern African Customs Union transfers. The debt-to-GDP ratio remains elevated, above 70% of GDP, reflecting low growth, expenditure pressures, and rising debt servicing costs. However, according to the most recent World Bank study (2021), Namibia's Ease of Doing Business ranking in 2018 was 107th out of 190 economies. This limits the Government’s ability to borrow and spend (World Bank, 2023).

2. Impacts of climate change on Africa and Namibia in particular

African countries are vulnerable to climate change and nature loss, despite their low contribution to global CO_2 emissions. The continent is facing increasingly extreme weather that worsens already high inequalities in health, income, employment, and gender. Achieving the Sustainable Development Goals (SDGs) and applying Nationally Determined Contributions (NDCs) becomes more difficult as climate change intensifies.

[1] A measure of economic inequality in a population.
[2] Health and education indicators combined into one measure to anticipate how much a child born today can obtain by age of 18, using a scale from 0 to 1. The higher the values, the greater the anticipated human capital.

Namibia is especially vulnerable to the impacts of climate change, specifically prolonged droughts, heavy floods and extreme temperatures. During the submission of the Initial National Communication to the United Nations Framework Convention on Climate Change (UNFCCC) in 2002, Namibia was ranked as one of the nations most susceptible to the effects of climate change (Ministry of Environment & Tourism [MET], 2014).

Namibia is an arid, water-deficient country – conditions that are exacerbated by climate change (Liu & Zhou, 2021). As one of the driest countries in sub-Saharan Africa, Namibia is characterized by persistent droughts, unpredictable and variable rainfall patterns, variability in temperatures and scarcity of both ground and surface water (Liu & Zhou, 2021).

Climate change is a real threat to the country's sustainable development. Namibia recently experienced prolonged droughts, severe floods, and extremely high temperatures as the weather became more erratic and unpredictable (Brown & Amutenya, 2021). The poorest and most marginalised members of our society are disproportionately affected by the impacts of climate change: subsistence farmers who are unable to provide for their families when pests or drought destroy their crops and livestock; people living in informal settlements who lack a safety net against extreme heat and bitter cold, fire, flooding, and illness (Brown & Amutenya, 2021). The impacts of climate change directly affect the entire chain of national development and are likely to have negative impacts on efforts to achieve development objectives, including the long-term objectives and targets of Namibia's Vision 2030. On the other hand, an adequate global response to climate change challenges can provide a low-carbon, climate-resilient pathway that offers African countries the opportunity to address climate change while ensuring sustainable development, improvement in livelihoods, energy security, and job creation.

3. Climate finance

According to the United Nations (UN), climate finance refers to local, national or transnational financing that seeks to address climate change. These funds can be drawn from public, private and alternative sources of funding (UNFCCC, 2018b). The UNFCCC has established a financial framework to provide developing nations access to climate finances. The ultimate objective of all agreements under the UNFCCC is to stabilize greenhouse gas (GHG) concentrations at a level that will prevent dangerous human interference with the global climate (UNFCCC, 2018a).

The UNFCCC is the parent treaty of the 2015 Paris Agreement (UNFCCC, 2018a), which frames climate finance as a global goal and a global responsibility (UNFCCC, 2018c). However, the main aim of the Paris Agreement is to reduce the global average temperature rise of this century close to 1.5 degrees Celsius above pre-industrial levels (UNFCCC, 2018a).

Developed countries have reaffirmed their obligations regarding the 2015 Paris Agreement. Under this agreement, parties to the UNFCCC committed to providing US$100 billion annually to the countries least responsible for and most impacted by climate change (UNFCCC, 2018c). The UNFCC also notes that developed countries should continue to take the lead in mobilizing climate finance from a wide variety of sources and should take the needs and priorities of developing countries into account (UNFCCC, 2018b).

Climate finance is thus an essential tool to achieve climate-resilient development. Funds flow through multilateral and bilateral channels, including regional and national climate change channels and funds. The structure of global climate finance is intricate and dynamic (Watson et al., 2023).

Climate finance refers to both mitigation and adaption finance:

- **Mitigation** addresses the root problem by reducing emissions of GHGs that cause global warming, via means such as renewable energy generation. Investments in mitigation come overwhelmingly from private sources complemented by development finance institutions (DFIs). Mitigation projects lend themselves to project finance as they offer clear revenue streams that can be used to repay lenders.

- **Adaptation** builds the resilience of communities, economies, and ecosystems to climate change impacts that cannot be avoided. Examples of adaption include climate-smart agriculture and diversification of livelihoods towards less climate-sensitive activities. Adaptation finance is particularly important in light of the growing effects of climate change and aims to lessen the impacts that these changes have on individuals and communities (Beecher et al., 2022). Climate financing is currently dominated by grants and public sector loans, but there are not enough funds available to deal with the losses and harm caused by climate change. Nonetheless, the loss and damage fund for vulnerable countries proposed during the 27th Conference of the Parties (COP27), and operationalised at COP28, could be the solution to the funding gap (UNFCCC, 2022, 2023). Hence, the goal of adaptation funding is to specifically address the risks brought about by climate change, and adaptation measures should be complementary to current development commitments (Beecher et al., 2022). Countries have different financing objectives for their mitigation and adaptation strategies, and funded adaptation projects should take into account the priorities stated in the NDCs and national adaptation plans of the receiving country (Beecher et al., 2022). Therefore, for adaptation funding to have an effect over time, a stable implementation infrastructure is necessary.

3.1 Current gaps in climate finance

Climate change is viewed as a global public good because each nation's GHG emissions add up to an increase in the overall concentration (Grasso, 2004). Currently, the cost of abatements for each country is greater than the benefits, until effective, coordinated, collective action is taken.

Regretfully, there are insufficient political and financial tools available for reaching a climate agreement and to achieving and sustain these objectives. This might be one explanation for the significant gaps in global climate finance. For example, global investment will likely need to increase by a factor of 3 to 6 to enable climate mitigation actions in public finance, and in the least developed countries even by a factor of 4 to 8 (Intergovernmental Panel on Climate Change [IPCC], 2023). The COP27 Sharm el-Sheikh Implementation Plan regarding the Loss and Damage Fund for vulnerable countries concluded that we can expect a finance gap of US$6 trillion by 2030 (UNFCCC, 2022). Consequently, it was decided at COP28 that we need to move away from fossil fuels by reforming fossil fuel subsidies (UNFCCC, 2023). A large funding gap is also observed in terms of climate finance specifically for Namibia, which is estimated at 232 million NAD (Ministry of Environment, Forestry and Tourism [MEFT], 2021).

3.2 Climate adaptation finance to Africa

The lack of a universally accepted definition of climate finance, or set of uniform accounting standards, makes it challenging to keep track of the flows of this money (Watson et al., 2023). However, climate change-related official development assistance (ODA) has been associated with the Rio markers (OECD, 2022). Overall, between 2018 and 2020, bilateral climate-related ODA for mitigation, adaptation and dual purposes grew. However, it still falls short of the US$100 billion annual commitment and volumes vary greatly between individual countries (Beecher et al., 2022). For instance, the OECD Development Assistance Committee received reports of US$113.1 billion in climate-related ODA for the years 2018 through 2020 (Beecher et al., 2022). Of that, a little less than a quarter (24.6%) went to African nations, totaling US$27.8 billion, mostly to countries south of the Sahara. Three-quarters of Africa's climate-related ODA is provided by just five of these donors, namely Germany, France, the EU, Japan and the UK – accounting for 73.7% of climate-related ODA commitments between 2018 and 2020 (Beecher et al., 2022).

Multilateral climate funds provide subsidies to African nations that make up the majority of their climate finance. But 33.0% are provided as loans with concessions (Beecher et al., 2022). Non-concessional loans may be detrimental to countries sensitive to climate change and high debt distress levels, which might reduce capital funds from governments (Beecher et al., 2022). This may cause a nation to be more susceptible to the effects of climate change. Therefore, grants should be the primary means of financing climate change − they should be given in situations where there is a high degree of financial suffering or where concessional funding would add to already unmanageable debt loads (Beecher et al., 2022). This is essential to preventing crisis cycles in nations that are vulnerable to climate change.

3.3 Climate finance policy framework in Namibia

Namibia's overall sustainable development agenda is guided by the country's Vision 2030, the fifth National Development Plan and the Second Harambee Prosperity Plan that set out strategic approaches to mobilise funds for Namibia's international and national commitments to sustainable development and climate change. The "New Green Economy 2030 Program" (NGE2030) is another intervention to propel economic growth in Namibia and was accepted by the Cabinet in 2020. The goal of the NGE2030 initiative is to create green development zones while its main objective is to produce renewable energy products for local consumption and export, such as green fuels, green electricity, and green gas, as well as other green co-products like green animal feed and green polymers (van Wyk & Ndamanomhata, 2020). These products are made from rare desert resources, which will become abundant owing to the greening agenda[3] and appropriate local technology. Namibia is the first nation to include a clause on sustainable development to protect the welfare of its people in its constitution and the long-term development agenda Vision 2030 (see Article 95 (l)). The current five-year NDP5 of 2017/18−2021/22 aims to promote environmentally sound investments and production systems.

Namibia became a signatory of the UNFCCC in 1995, which required the country to draft and submit NDCs, biennial update reports, and national communications (UNFCCC, 2020). Before this, a National Climate Change Committee was formed in 2001 to provide advice and recommendations to the government on climate change, particularly on how to satisfy the UNFCCC commitments (MET, 2014). Thereafter, the Namibian government adopted a National Climate Change Policy in 2011 which outlines the country's commitment to combat climate change impacts (MET, 2011). A National Climate Change Strategy and Action Plan was then launched in 2013 (MET, 2014).

Namibia is also a signatory to the Paris Agreement, reached by all countries under the UNFCCC in December 2015 (MET, 2014). Under the Paris Agreement, all countries must develop and submit commitments to address climate change in the form of NDCs. These commitments must be reviewed and updated every five years, to enhance ambition on climate action (MET, 2014). Namibia's initial NDC was submitted to the UNFCCC in 2015, and an updated NDC was submitted in 2021 (Guzmán et al., 2022). The updated NDC states that Namibia aims to reduce its GHG emissions by 91% against a 'business as usual' baseline by 2030. Namibia is already a net carbon sink[4], so this commitment implies that Namibia will remain a net zero emitter by 2030 (Sherbourne, 2022). In addition, its NDC sets out several adaptation activities that are intended to strengthen the resilience of key sectors including

[3] The New Green Economy 2030 Program (NGE2030).
[4] The country ingests more GHGs but emits very small quantities as it produces.

agriculture, water, tourism, infrastructure, ecosystems and livelihoods (MEFT, 2021). The updated NDC will require an estimated investment of US$5.3 billion by 2030 or roughly US$500 million per year. This is several times more than the current levels of climate investment in Namibia, which are estimated at roughly 1.6 billion NAD (US$100 million) per year (Brown & Amutenya 2021).

The national strategy for climate finance in Namibia is coordinated by MEFT (The Commonwealth, 2022). It acts as the Green Climate Fund (GCF) of the National Designated Authority (NDA), including other climate finance windows. The UNFCCC created the GCF in 2010 as a financial tool to assist developing nations in adapting to climate change, as part of the Cancún Agreement (The Commonwealth, 2022). Currently the largest climate fund in the world, the GCF finances initiatives that help developing nations adapt to and mitigate the effects of climate change. Through an NDA, the GCF conducts business with various nations. Additionally, the MEFT is in charge of Namibia's Environmental Investment Fund (EIF), which received GCF accreditation in July 2015 as a National Implementing Entity (NIE) (The Commonwealth, 2022). The EIF is a government-owned organisation that was founded in 2001 by Parliamentary Act 13 of 2001 and put into operation in 2012 (EIF, 2018). The goal of the EIF is to raise and allocate funds for initiatives that support the sustainable use and management of natural resources for the benefit of all Namibians and the country's long-term economic growth (EIF, 2018). In addition to promoting environmental preservation, the EIF acts as a conduit for GCF funding to promote national climate change initiatives, policies, and programmes (The Commonwealth, 2022). The EIF is funded through government budget allocations, donor contributions, and part of the proceeds of environmental levies (EIF, 2022). Namibia will actively strive to raise money for innovation through international finance institutions like the GCF and Global Environment Facility, including bilateral partnerships with the private sector (National Planning Commission [NPC], 2017).

Although Namibia could have access to the GCF through multilateral organisations for bigger projects, there is a need for more domestic entities to be accredited to the GFC. However, the process is rather much longer and the requirements are stringent and costly to the organisation and the country (The Commonwealth, 2023). Namibia also receives multilateral organizations funding from the Deutsche Bank, the French Development Agency, the Development Bank of Southern Africa and the KFW-German Development Bank.

4. The need to reform the global financial architecture for climate finance

Climate justice is a global issue that demands a new kind of global solidarity, supported by a new type of global public financing framework. Current global conversations have raised the need for reforming International Public Finance and the evolution of multilateral development banks to address two structural challenges:

- The existing development finance architecture is not fit for purpose in the 21st Century and is not working for African nations
- The lack of sufficient means of financing shared global needs

This requires a global finance framework that:

- Seeks to increase volumes of funding;
- Reform the governance around it to ensure it is used most effectively and reaches those who need it most;

- Includes a debt and financing strategy that addresses the debt burden and mobilises finance for economies to transition to a low-carbon, climate-resilient pathway while promoting development;
- Is suitable to finance global public goods, such as climate action; and,
- Is prepared for the massive transition to "green" and digital economies, underscoring the need for a solution.

Several high-level proposals have been brought forward that argue in favour of reforming the global financial architecture. For example, in November 2022, on the occasion of the G20 Summit and at the end of a COP27 that had mixed results, Emmanuel Macron announced the organization of an international conference in Paris in June 2023, aimed at taking stock "of all the means and ways of increasing financial solidarity with the South".

In June 2023, the UN Deputy Secretary-General Amina Mohammed remarked that widespread challenges are indicative of a flawed global financial architecture – one that was designed for a world that no longer exists, is too short-sighted, crisis-prone, and deeply unequal (United Nations, 2023). She emphasized that there is a need to broaden and strengthen representation in the governance of international institutions. International public finance must be reformed through the massive scale-up of affordable and long-term financing for investments in sustainable development.

The need for an innovative global public financing framework is underscored by the recent decline in human development in nine out of ten countries around the world in 2022. The Covid-19 pandemic, the war in Ukraine and their consequences have reduced the fiscal and budgetary space of many countries. This has affected their ability to finance their populations' access to basic social services and to respond to the challenges of climate change. With countries under huge fiscal stress, there is a great need for swift, debt-free public resources from international sources, rather than having to rely on charity or ad-hoc voluntary commitments.

This is also the case in Namibia. The country experienced a sharp economic downturn in 2020. Despite economic recovery in 2022, the socioeconomic situation did not improve significantly. Employment is estimated to remain below pre-pandemic levels, while poverty rates are estimated to remain above pre-pandemic levels. Droughts and flooding, as well as an increase in inflation due to the war in Ukraine, have led to a decline in food security.

4.1 The opportunity for GPI

With increasing concern about these structural challenges, one of the proposed solutions is a radical paradigm shift in reforming the development financing architecture favouring the principles enshrined in the GPI concept: *all contribute, all decide, and all benefit*. The GPI principles would complement the existing development finance models, and make them more cohesive, relevant and inclusive to accommodate the ever-turbulent global environment – which has witnessed pressing challenges that defy country borders.

The GPI concept builds on the tradition of criticising the current global financial architecture and ad-hoc based external assistance practices. It reviews the inadequacy of financing regarding the common global objectives, both in terms of quality and quantity. It also criticises the inequitable decision-making process in global funds. The intended beneficiaries are critically analysed to ensure that they are adequately assisted. Therefore, it represents a great opportunity for global solidarity and a means for Africans to own their development, as it reinforces the desire to 'shift the paradigm' by empowering regions and nations to take more control over their future is critical to shifting power.

A GPI model would hardwire global redistribution into the climate finance system and build on the principle of Common But Differentiated Responsibilities. Although all countries contribute, wealthier countries would be net contributors, and poorer countries net recipients of substantial flows. GPI would respond to the need for better harmonisation of climate funds and would provide greater coherence between the specialisation of funds, as well as greater representation to ensure these funds reflect country ownership.

GPI befits modern-day international development cooperation. It is also well-positioned for cooperation beyond the 2030 Sustainable Development Agenda. It also complements the current ODA mechanism, but all countries would benefit and decide on new and better funding that would be raised by all. GPI would provide a common source of international public money, in contrast to the current donor–recipient unidirectional development cooperation mechanism.

The three universal principles behind GPI — all contribute, all benefit, all decide — communicate a fundamental shift from the traditional aid paradigm in which one set of countries contributes and governs, while another set is the intended beneficiary. Climate financing in Namibia can benefit from the following potential impact of the GPI approach:

More money

The most basic reason the GPI option is attractive is its potential to bring additional (grant) finance to the table. By increasing the overall number of contributors, tied to a fair-share calculation, GPI can raise fresh money for global priorities.

Better money

There is copious evidence that public spending is most effective when all stakeholders are fully involved in managing it. As a form of public investment, GPI funding would also allow investments in risky endeavours. This money would be longer-term and more robust, allowing for greater investment in things requiring ongoing commitments, such as infrastructure and public services.

Public money

GPI strengthens the ability of countries across the world to deliver public goods and services through a public interest mechanism.

4.2 A response to global ambitions

GPI offers a more effective and equitable way of structuring how we prioritise international public needs and would help avoid a boom-and-bust approach to global crises. Globally, the funding available to implement climate change adaptation and mitigation actions is insufficient to address the climate change challenge. Namibia therefore needs to position itself strategically to mobilise funding from a variety of sources towards its climate change commitments. In the next section, we discuss the outcome of a workshop on the implementation of the GPI approach in Namibia and the potential impact on climate finance.

5. Namibian stakeholders' views on the GPI approach

Cocreation is at the heart of the GPI approach. It is crucial to ensure the active involvement of civil society, to link with other global campaigns, and to encourage the development of regional structures that complement global progress.

In ensuring that the current debates on reforming the international development finance architecture are inclusive, Development Initiatives (DI), in collaboration with the GPI Expert Working Group, is leading efforts to increase Africa's voices in these global dialogues so that Africa is not left behind.

5.1 Feedback from roundtable discussions

As part of their synergetic collaborations in socialising the uptake of GPI in Southern Africa, DI and the University of Namibia hosted a roundtable discussion on GPI in Namibia on 7 November 2023 at Arebbusch Lodge in Windhoek. The theme for this roundtable was *the Socialising Uptake of GPI in Namibia and the role of GPI in climate finance in Namibia.* The consultation created an opportunity for individuals and organizations to join the co-creation journey and helped build the intellectual basis of GPI and political momentum behind it.

Participants from several public and private organizations in Namibia attended the workshop and provided valuable information.

During this roundtable discussion, respondents raised several questions and concerns:

- **Lack of clarity on the concept of GPI**

  At first exposure, GPI was not clear to all and respondents shared that they did not feel familiar with the concept. It was indicated that GPI needs to be more simply and clearly defined, both in terms of its similarities with existing initiatives and how it differs.

- **The importance of political buy-in, and acceptance of the GPI concept at the grassroots level**

  Political goodwill and buy-in, as well as buy-in from ordinary Namibians, are critical. Participants felt that the relevance of GPI to climate change and its financing should be clarified better, for instance by presenting the modalities of 'all contribute'.

  We need to make sure that politicians are aware of the importance of climate change in order for them to push it on the agenda. It is therefore also important that it is clear to them how the concept of GPI plays into National Development Plans, and how it could address local issues applicable to Namibia. Stakeholders also raised that it is not clear who is championing GPI, or how the concept of climate change can be explained to the average person who does not see it as an issue. Climate finance is a challenging concept to relate to. Issues such as poverty and unemployment are seen as more relevant to ordinary Namibians.

  Politicians are more interested in mitigating poverty, unemployment, and inequality because Namibia lacks direction of these priority areas being brought forward. The question was raised as to how GPI will bring synergies among existing initiatives. One such is the Integrated National Financing Framework which aims to support the financing of national sustainable development priorities and the SDGs at the national level. Coordination between different government ministries and other institutions is very important and should be pursued.

- **For GPI to be accepted by all, a number of considerations need to be taken into account**

  The GPI concept is not to replace ODA, but to adopt the principles of all contribute, all benefit, all decide new and existing global funds and initiatives. Participants were then concerned with the matter of how we move away from the donor−recipient model and how we differentiate GPI from traditional foreign aid. It was also suggested that GPI might need to replace foreign aid, as it might be challenging to introduce a framework that works alongside it or works hand in hand with it. If the GPI concept were to replace ODA, multilateral agreements would be needed from member countries. Some observed that UN systems are failing, and GPI should ensure to address some of the challenges such as lack of uniform accounting standards, better coordination, and segregation of financial data. One participant indicated that more clarity is needed on the meaning of global public good. Another stakeholder wondered if there should be a distinction between public good and public service for GPI to be prioritised. The GPI model works on the principle that, in the interest of climate justice, countries would pay according to how they contribute to climate change.

- **More work needs to be done to establish the modalities of GPI**

  When considering the GPI concept that member countries would be required to contribute to their ability, stakeholders observed that more work needs to be done to figure out the criteria for how countries benefit. Regarding the principle that every country should benefit from GPI, but poorer countries would receive more support, questions were raised about how to determine who benefits more and whose turn it is to benefit.

- **When it comes to member states, how do you guarantee commitment?**

  Although the need for technical soundness and political viability is recognized, it was indicated that they might be conflicting objectives.

- **What is the action plan to take this initiative forward?**

  The question of who sets priorities was raised. It is important to stakeholders that Namibia should have its own clear priorities and be able to push its own agenda. NDP 6 is yet to conduct stakeholder consultations, and this would be a good moment to consider GPI as an initiative.

  Going forward, stakeholders recommended that information should be packaged in a simpler manner, so that it can be followed and understood more easily.

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