

NAMIBIA'S LANDSCAPE OF CLIMATE FINANCE 2015-2020



MINISTRY OF ENVIRONMENT,
FORESTRY AND TOURISM
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NAMIBIA'S LANDSCAPE OF CLIMATE FINANCE 2015-2020

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I. INTRODUCTION

Climate change is a major global challenge which threatens to undermine global development and sustainable economic growth (IPCC 2021). Its widespread and devastating impacts on agriculture, ecosystems and biodiversity, human settlements and livelihoods, access to water and sanitation and human health and wellbeing are already being felt in Namibia, as evidenced by recent episodes of unprecedented drought and extreme rainfall and flooding. The costs of climate change are borne disproportionately by the poorest communities and countries, as they are most dependent on climate-vulnerable sectors and have limited capacity to adapt.

The Paris Agreement, reached by all countries under the United Nations Framework Convention on Climate Change (UNFCCC) in December 2015, identifies a target for limiting global temperature rise to “well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius”. It requires all countries to prepare, communicate and periodically update their “nationally determined contributions” (NDCs) - commitments that they undertake to mitigate and adapt to climate change. These commitments are to be updated every five years, with a view to enhancing ambition on climate action.

Namibia submitted its initial NDC to the UNFCCC in 2015, which aimed to reduce greenhouse gas (GHG) emissions by 89% by 2030 compared to a “business as usual” baseline scenario. An updated NDC was submitted in 2021, which sets a goal to reduce GHG emissions by 91% below a “business as usual” baseline scenario by 2030. As it is already a net sink of GHG emissions, this commitment would ensure that Namibia continues to pursue a low-carbon development path. The updated NDC sets out a number of actions that would reduce GHG emissions across key sectors including energy, industrial processes and product use (IPPU), waste, and agriculture, forestry and other land use (AFOLU). It also provides an overview of some of the actions that Namibia can take across the sectors of agriculture, water, infrastructure, ecosystems and livelihoods to adapt to the unavoidable impacts of climate change, as well as to plan for and manage climate-induced shocks. The total estimated cost of achieving the updated NDC targets are USD5.3 billion over 10 years (approximately NAD81 billion), of which 10% is “unconditional”, implying that funding for these activities will be provided from domestic public funds.

Globally, climate finance flows, which are in the region of USD 622 billion per year (CPI 2019), fall far short of estimates of climate finance needed to meet the Paris Agreement goals, which are in the range of several trillions of dollars per year (IPCC 2018). For Namibia, there have been no previous assessments of climate finance flows, making it challenging to determine the level of effort needed to achieve the updated NDC targets. This report is based on data collected for Namibia's NDC Investment Strategy and aims to provide a preliminary estimate of climate finance flows in Namibia during the period 2015-2020, which will inform future efforts to mobilise climate finance.



II. CLIMATE FINANCE ACTORS

Figure 1 below provides an overview of some of the types of actors that are engaged in financing climate change mitigation and adaptation. They can be broadly categorized as publicly funded (those that receive and allocate funds raised by governments through taxes and other means), or privately funded (those that generate and allocate funds through commercial activity). Some may be funded through a combination of public and private sources, such as bilateral and multilateral development finance institutions (DFIs) which typically leverage public capital contributions and guarantees to raise commercial funds on international capital markets.

The actors can also be broadly categorized as mission-focused (their primary reason for existing is to address some societal challenge, of which climate change is a component), or focused on financial returns (their primary reason for existing is to generate value for shareholders, and climate change may be viewed as material to achieving that goal). Some, such as social enterprises and state-owned enterprises, may combine both a mission and a financial returns focus.

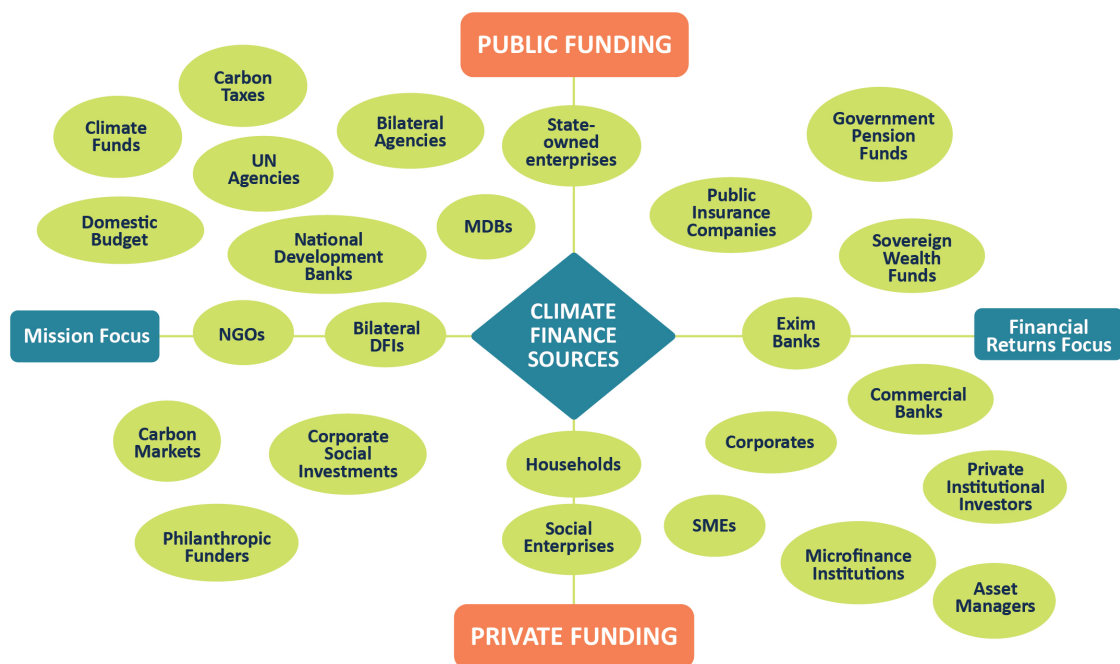


Figure 1: mapping of the key sources of climate finance

III. METHODOLOGY

The assessment was conducted by carrying out a review of all climate change projects financed in Namibia between 2015 and 2020, based on publicly available data. Where projects included a climate change component but were not fully focused on climate change outcomes, the climate relevant proportion of the total project amount was estimated. Public funding from OECD donor countries was obtained from the OECD Development Assistance Committee database through which OECD member countries report on all climate finance provided to developing countries. Domestic public funding contributions were estimated through a review of the national development budget allocations between 2015 and 2020, which identified the projects that were climate relevant, and then estimated the percentage of the allocation for each climate relevant project that could be counted as climate finance.

For private sector funding the data was more challenging to capture, as there is no database that consolidates private sector climate projects, and private companies rarely disclose their spending on climate related investments. Nonetheless, private climate finance data that is in the public domain was collected through a review of the activities of all listed companies and financial sector companies in Namibia, as well as some of the larger private companies, in order to identify any publicly declared investments or donations related to climate adaptation or mitigation. The resulting climate finance landscape provides a preliminary understanding of climate finance flows in Namibia during the period, but is by no means exhaustive.

IV. NAMIBIA'S CLIMATE FINANCE FLOWS, 2015-2020

The assessment of Namibia's climate finance landscape finds that climate finance flows in the period since the initial NDC, from 2015-2020, are estimated at NAD 9.8 billion, or approximately NAD 1.63 billion per year. The majority of this funding (63%, or NAD 6.2 billion) came from international OECD donors, including bilateral development agencies, climate funds, and multilateral development banks (Figure 2). 35% was contributed through Namibia's national development budget, primarily through the Ministry of Agriculture, Water and Land Reform, in addition to other ministries. Only 2% came from the private sector, although this figure is likely to be an underestimate, since data on private sector contributions to climate change is sparse. Private sector commercial investments are primarily in the renewable energy sector.

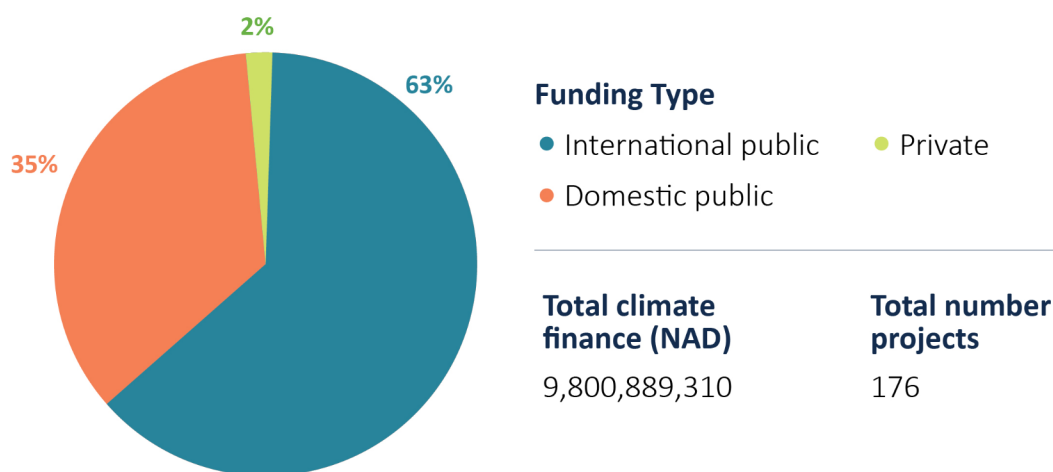


Figure 2: sources of climate finance in Namibia 2015-2020

Adaptation investments represent the majority of climate finance flows in Namibia, making up 58% of funding and 65% of projects (Figure 3). Mitigation makes up 19% of funding and 12% of projects, as mitigation projects are generally on a larger scale than adaptation projects. This is indicative of the strong priority that Namibia places on adaptation, as a highly vulnerable and low-emitting country, but also indicates an under-investment in mitigation compared to INDC targets. About 22% of funding and 12% of projects are cross-cutting, including both adaptation and mitigation components. Capacity building and enabling activities make up 1% of funding, but 11% of projects, indicating a large number of small projects.

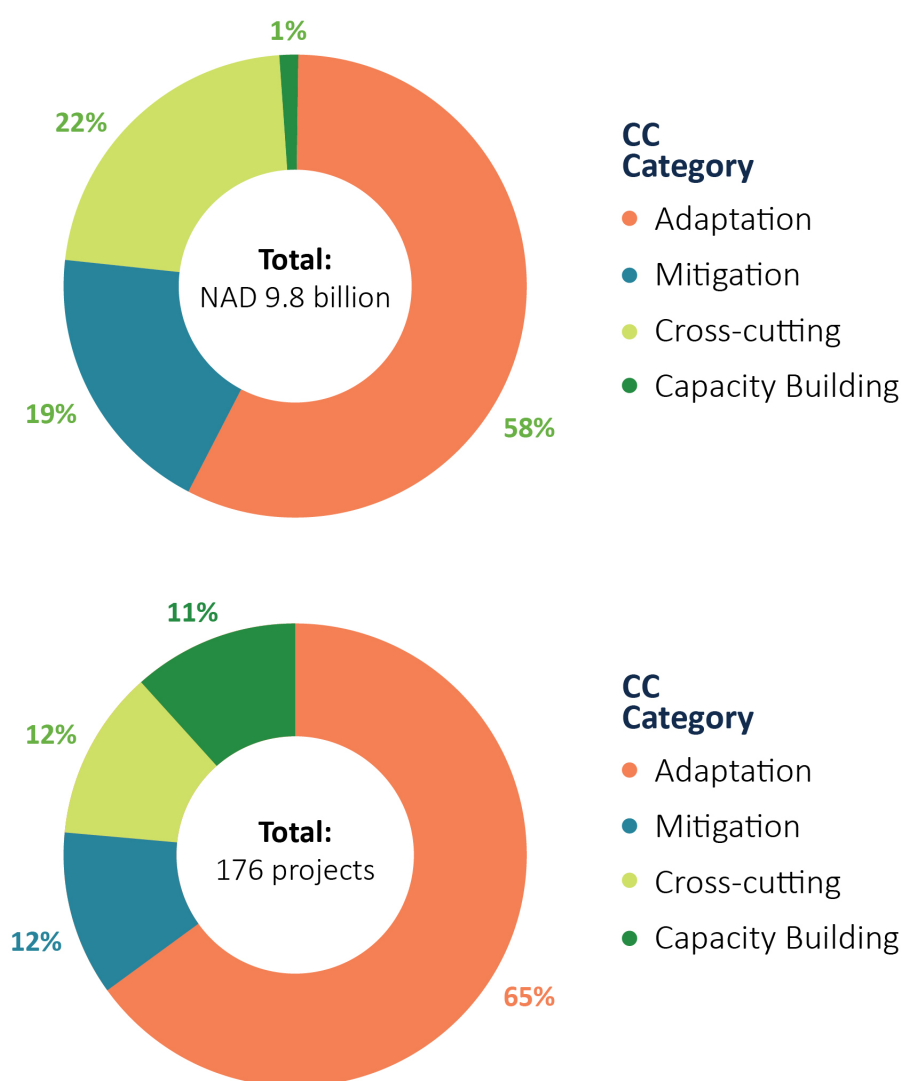


Figure 3: Allocation of climate finance in Namibia 2015-2020 by funding amount (top) and number of projects (bottom)

In terms of sector, adaptation sectors received the most significant investments, with 30% of the total funding amount invested in ecosystems and livelihoods and 21% in agriculture and fisheries, 15% in water and sanitation, and 11% in urban development and infrastructure. Within mitigation sectors, renewable energy received the largest investment of 11% of funding, followed by forestry and land use (4%), transport (3%), and industry, building and waste (2%). Two percent of funding went to capacity building projects and 1% to technical assistance (Figure 4).

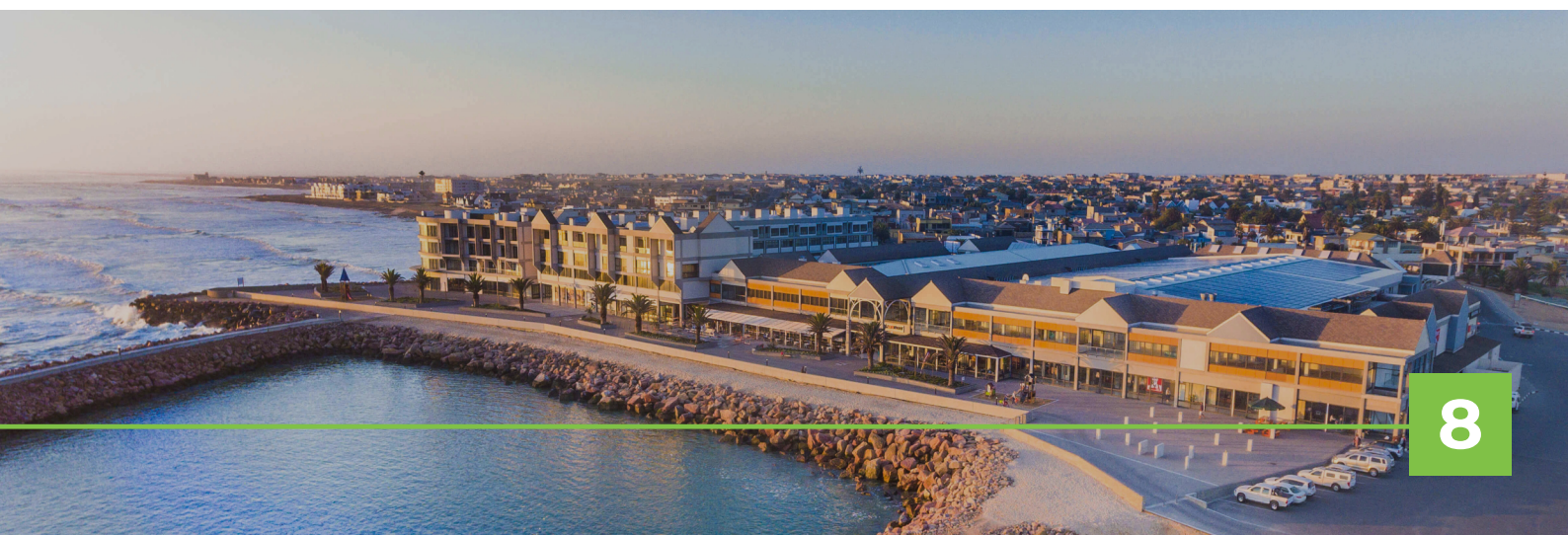


Figure 4: Sectors of climate finance in Namibia 2015-2020 by proportion of funding

The ownership of funding is a measure of the extent to which the design, implementation and monitoring of a project is controlled by relevant national or sub-national stakeholders and the extent to which the systems and processes of national and subnational institutions are used for managing and disbursing funds. 70% of funds and 61% of projects are nationally owned while 30% of funds and 35% of projects are internationally owned (Figure 5). This indicates that the majority of funds, and especially the larger projects, tend to be fully implemented by national institutions. This is likely to be a reflection of Namibia's strong institutional capacities which gives donors confidence to channel funds through national systems, as well as the accreditation of two national institutions to international climate funds - the Environmental Investment Fund (EIF) has accessed nearly USD40 million from the GCF, while the Desert Research Foundation of Namibia (DRFN) has accessed USD5 million from the Adaptation Fund. In addition, all contributions from the national budget and most from local private sector companies are nationally owned.

Local ownership represents less than one percent of funding and 4% of projects, indicating that very little climate finance is reaching the local level. Within international climate finance, only 53% is nationally owned and none sub-nationally, indicating the need to improve national ownership of international climate finance. This is largely a reflection of the GEF and many bilateral donors which make use of international agency systems rather than national systems.

In terms of financial instrument, the majority of the funding is in the form of grant funding (69%), while 25% is in the form of loans (Figure 6). Only 5% of funding is in the form of guarantees, and less than 1% equity investments.



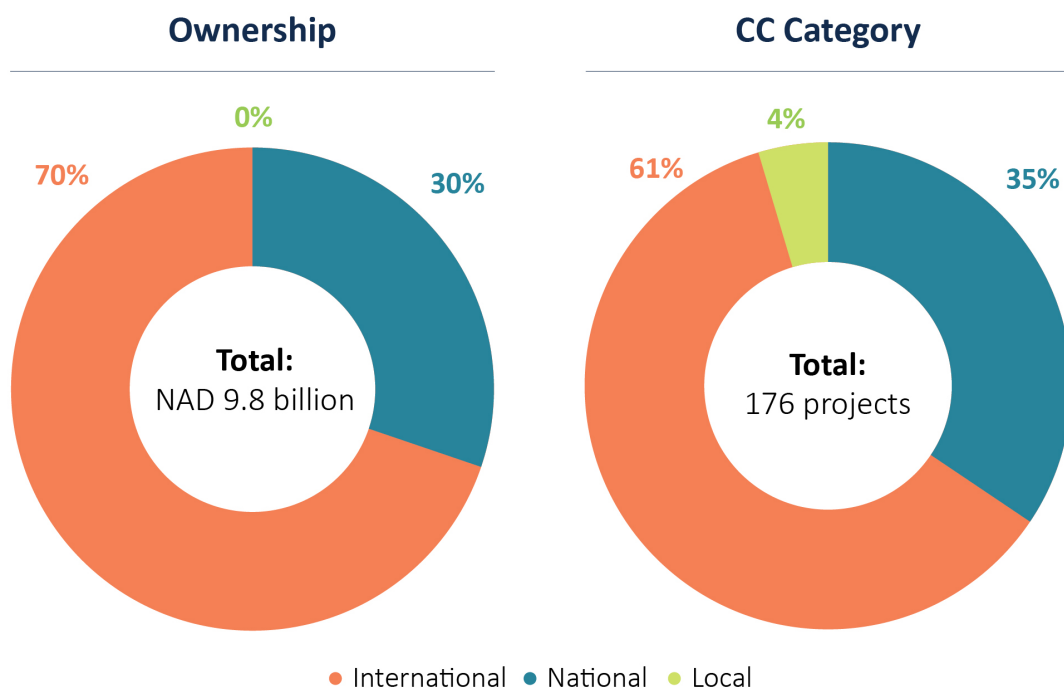


Figure 5a: Ownership of climate finance in Namibia 2015-2020, by funding amount (top) and number of projects (bottom)

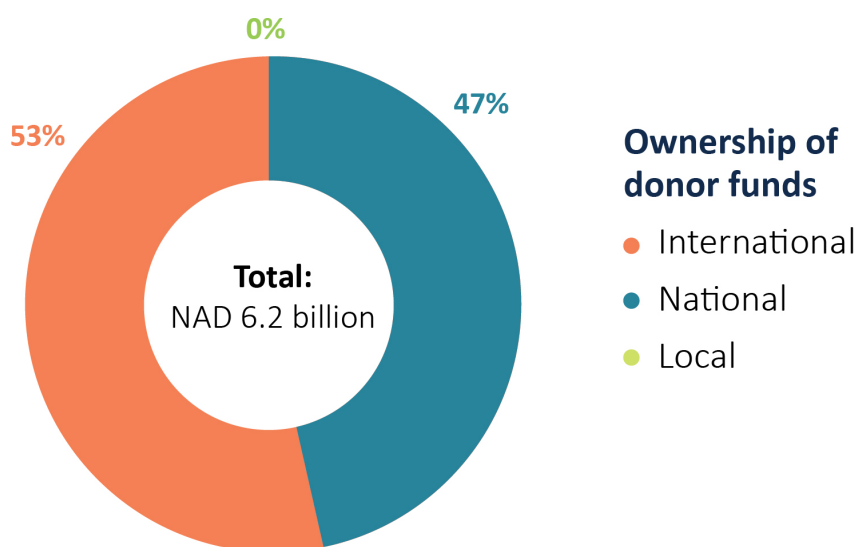


Figure 5b: Ownership of international public climate finance in Namibia 2015-2020, by funding amount

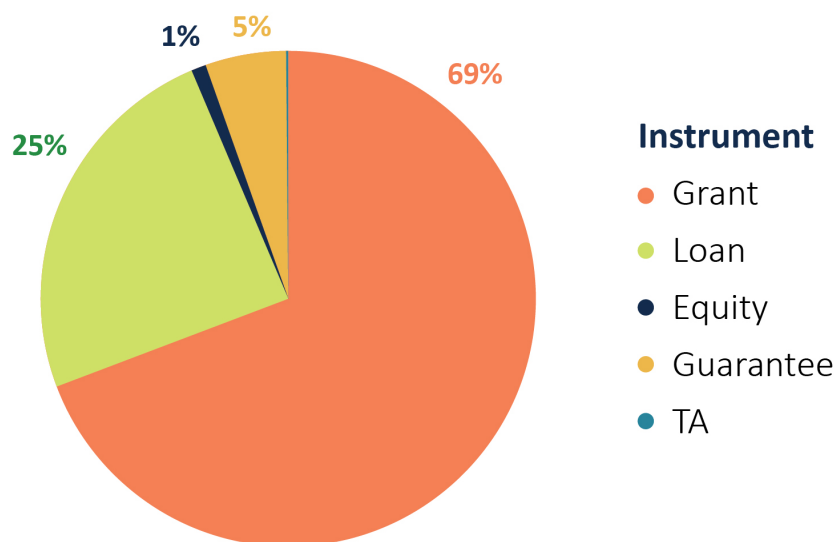


Figure 6: Financial instruments through which climate finance 2015-2020 to Namibia was channelled, by proportion of funding amount

V. NAMIBIA'S CLIMATE FINANCE GAP

The estimated NAD 9.8 billion in climate finance flows in Namibia during the period 2015-2020 represents about NAD1.63 billion per year. In order to estimate the gap in financing between the current climate finance flows and the amount needed in the revised NDC, we assume that the level of investment over the remainder of the NDC period will be similar in the absence of specific actions to scale it up. The gap can therefore be calculated as the difference between the annual investment needed in the updated NDC, which comes to NAD8.1 billion (Figure 7), and the current annual flows of 1.63 billion, i.e a funding gap of 6.4 billion per year (Figure 8). The sectoral breakdown of the funding gap is shown in Figure 9. For the 10% of the NDC commitment which is unconditional (NAD810 million per year), there is a funding gap of NAD232 million.

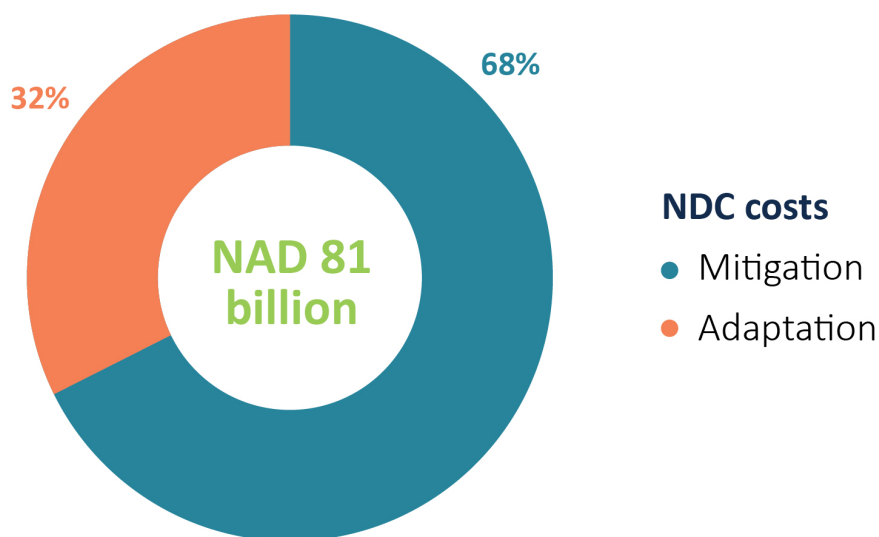


Figure 7: Funding required for adaptation and mitigation actions in the revised NDC

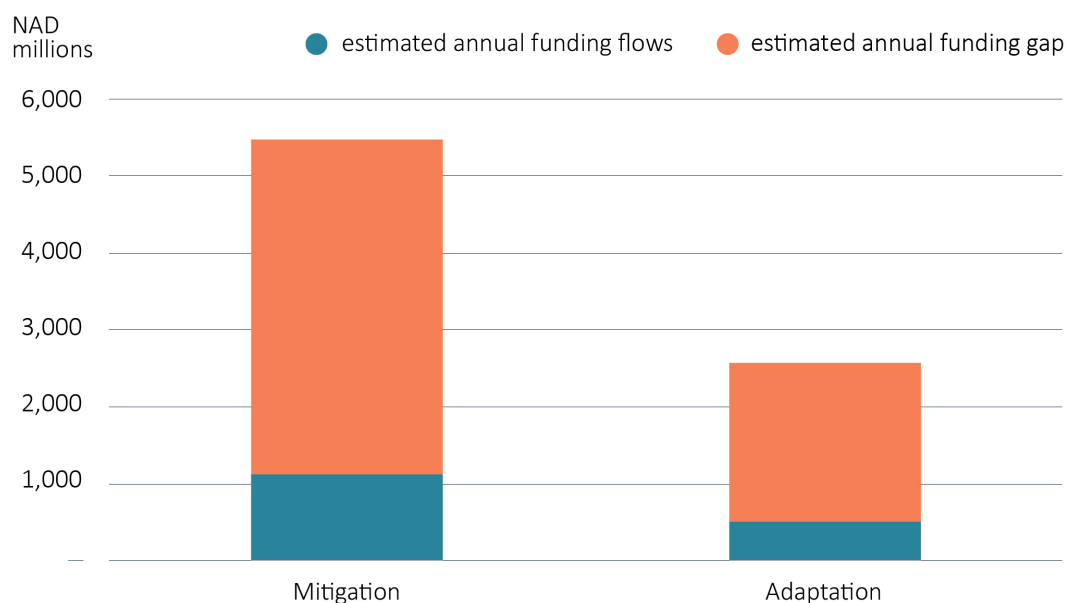


Figure 8: Estimated annual funding gap for NDC priorities, NAD millions

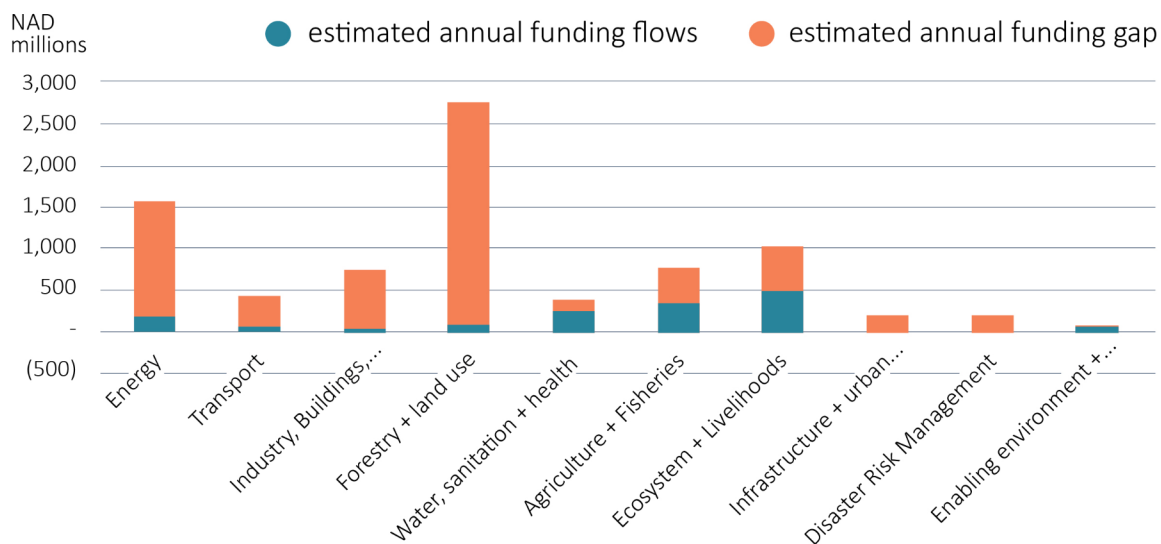


Figure 9: Estimated annual funding gap for NDC priorities by sector, NAD millions



VI. ADDRESSING THE CLIMATE FINANCE GAP

Scaling up climate finance to the scale required to meet the goals set out in Namibia's NDC will require a concerted effort by all stakeholders, with clear leadership from government. There are modest opportunities to scale up public investment in climate change adaptation and mitigation, both through domestic sources and through international funders. However, the biggest area of opportunity for scaling up climate investment comes from the private sector. To realise this opportunity, Namibia needs to position itself strategically to create an investment climate conducive to private climate investment, and to use public funds strategically to catalyse private investment.

Mitigation actions in the NDC should be largely funded by the private sector, due to their potential for revenue generation or cost savings. The role of the public sector is primarily to create the policy incentives and regulations to drive investment into clean sectors and away from high emissions sectors and activities. For some sectors and activities for which the market is still under-developed, or in which there a strong adaptation co-benefits, the public sector also has a role in providing financing to de-risk private investments.

Adaptation actions should be primarily funded through public funds, including both national and international sources, due to the limited revenue-generating opportunities in adaptation sectors. In addition, several of the adaptation actions set out in the updated NDC are closely interlinked with broader development objectives which are already provided for in the national budget, such as integrated water management, promoting sustainable crop and livestock farming, and promoting health and epidemic preparedness. For some adaptation actions, such as climate-smart agriculture and landscape restoration, innovative and blended finance approaches may be used to bring in some private investment. For local adaptation actions, including many in the agriculture and ecosystems and livelihoods sectors, the use of decentralised financial models such as small grant programmes or revolving funds should be prioritised in order to empower stakeholders at the local level and ensure locally-relevant adaptation.

In order to scale up international finance, it is recommended to increase the number of national institutions accredited to the Green Climate Fund, and in particular to accredit a national development bank which can access funding on a larger scale for strategic projects such as renewable energy,

desalination, and low-carbon transport. This will complement the accreditation of the EIF, which can only access grants up to USD10 million.

For domestic public finance, integrating climate change into the national planning and budgeting process and introducing climate budget tagging would enable Namibia to use the national budget more strategically to advance both development and climate change goals simultaneously. The role of national development finance institutions such as the Development Bank of Namibia, Agribank and the Environmental Investment Fund is critical, as these institutions can play a strategic role in bringing together multiple funders with different objectives to create blended finance structures that will enable investment in climate adaptation and mitigation while also advancing key development objectives. They could also provide support for project preparation for the private sector.

In order to attract private investment in climate mitigation and adaption, clear and consistent policy signals at national and sectoral levels will be critical. In addition, a combination of incentives for investment in climate-compatible sectors, and disincentives for investment in carbon-intense sectors can be used to shift and scale up private investment. These could include for example requirements for financial sector actors and listed companies to disclose their climate-related risk, introducing green business certification and promoting green businesses within the public procurement framework, and introducing tax incentives for green businesses or employment creation in climate-aligned sectors.

Namibia has a significant strategic advantage in pursuing climate resilient, low-carbon growth due to its rare position as a net carbon sink, its strong track record on sustainable development and land management to date, its strong private and financial sectors, its good infrastructure, and its potential for growth from clean technologies and sectors such as renewable energies and service sectors. It should clearly position itself as a green economy in order to take advantage of climate investment opportunities and send a clear policy signal to investors and funders.



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VIII. ACKNOWLEDGEMENTS

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