

# Covid-19 and Namibia's Economic Crisis

*By Herbert Jauch, prepared for ISSA, August 2021*

The coronavirus pandemic has exposed many of the fault lines in Namibia's social and economic structures. They became visible in several key areas, one of them being insufficient health care services due to budget cuts for public health care programmes. While the privatisation of health care may have resulted in quality services for the wealthy few, it ignored the needs of the poor. Another fault line is the absence of adequate and decent housing for all as the market-driven housing models did not recognise housing as a basic human right. Consequently, an ever-increasing number of people were unable to afford decent shelter and are forced to live in shacks. In urban areas, about half the population are now shack dwellers.

Above all else, the covid pandemic has exacerbated Namibia's economic crisis. In terms of unemployment and precarious employment, the Namibian labour market has been in a state of crisis long before the covid-19 crisis hit the country.

Historically, Namibia's colonial economy was primarily a resource/extraction-based economy, with agrarian features. The mining industry which accounted for the bulk of export earnings was dominated by international and South African mining companies and accounted for some 60 percent of exports, and 40 percent of state revenue. However, its contribution to employment was far less significant and declined over the years due to the capital intensity of the sector. At independence, mining accounted for about 5% of formal employment and this figure now stands at less than 2% with around 10,000 jobs in the industry. Local value addition is limited to some diamond polishing as well as copper and zinc smelters in Tsumeb and Rosh Pinah respectively.

The fishing industry is another key economic sector and was exposed to ruthless exploitation by South African and other foreign fishing fleets with little regard for the sustainability of the industry. As a result, Namibia's stocks of hake, pilchard and mackerel were already seriously depleted at the time of Independence. Fishing had accounted for approximately 28 percent of Namibia's GDP in 1969 but its share had dropped to 4 percent in the late 1980s.

At the time of Independence, agriculture supported about 70 percent of the population, directly and indirectly, and employed about 18.6% of the country's total formal workforce. Extensive stock farming was the dominant activity of commercial agriculture, accounting for 65% of the sector's gross value of output, with beef being the major product. Communal subsistence farming, on the other hand, sustained between 20-25% of the population but its contribution to GDP was not captured in official statistics.

Colonial Namibia essentially served as a captive market for South African consumer goods and thus Namibia's manufacturing sector at Independence was underdeveloped, contributed a negligible share to the GDP (4-5%) and only employed about 9 000 people which represented about 5% of those in formal employment.

## Namibia's employment and unemployment today

Despite pursuing a host of investor-friendly economic reform policies after independence - as exemplified by the Foreign Investment Act of 1991 and the Export

Processing Zones Act of 1995 - Namibia like most of its African neighbours did not achieve any meaningful structural economic changes. This is exemplified by a very small manufacturing base and the resultant high levels of unemployment, as reflected in Table 1. The figures are based on the “broad definition” of unemployment which includes all those without work who are available for work even if they no longer actively seek work. The figures show that women and young people are the ones most severely affected.

**Table 1: Unemployment rates (2000-2018)**

Broad unemployment rate (15-64 years), in %	2000	2004	2008	2012	2018
Total	<b>33.8</b>	<b>40.6</b>	<b>51.4</b>	<b>28.5</b>	<b>33.4</b>
Male	28.3	33.8	43.6	23.6	32.5
Female	39.0	47.6	58.6	33.2	34.3
Urban areas	31.3		65.3	28.5	33.4
Rural areas	35.9		36.5	28.4	33.5
15-19 years	67.0	72.0	83.6	56.4	69.6
20-24 years	59.1	61.3	67.4	48.5	57.0
25-29 years	42.8	45.1	53.3	33.6	42.3
30-34 years	31.3	36.6	46.0	24.9	32.5

*Source: Labour Force Surveys*

The table above suggests a significant drop in unemployment between 2008 and 2012 but this was merely due to several methodological changes which were made over the years. Changes to the survey questionnaire made by the Namibia Statistics Agency (NSA) resulted in a large number of people in rural areas being classified as employed in the 2012 survey.

Overall, Namibia has 1,090,153 economically active people<sup>1</sup> of whom 725,742 were regarded as employed before the covid-19 pandemic. The main sectors in terms of employment are agriculture, fishing and forestry (accounting for 23% of the employed), followed by accommodation and food services (11.4%), wholesale and retail trade (11.1%), private households (9.9%), education (6.5%) and construction (6.2%). More than half of all employed persons are employees (55.4%) while 13.9% are own account workers and 13% are subsistence farmers.

### Precarious work

The Labour Force Survey of 2018 pointed out that 31.6% of all employed persons are vulnerable and are faced by precarious working conditions. These include the subsistence farmers, own account workers and contributing family workers.

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<sup>1</sup> A challenge with the definition of economically active people is that it is inherently gender biased as it excludes “home makers” who tend to be women who take care of the household and children.

However, vulnerability even reaches a significant part of those classified as employees. Over half of them are on permanent contracts (53.8%) while 32.7% are on “unspecified duration contracts” and 13.5% are on “limited duration employment contracts”. Only 39.3% receive paid annual leave while 36.9% receive paid sick leave.

Formal employment is defined by some form of social protection (pension scheme, medical aid or social security) but in the Namibian case, 57.7% of the employed population are not covered by social protection and are thus in informal employment. The highest levels of informal employment are found in private households (91%), agriculture, forestry and fishing (87.6%), accommodation and food services (68.6%) and construction (65.3%). These are amongst the sectors hardest hit by the covid-19 pandemic as outlined below.

The high levels of precariousness in the Namibian labour market are confirmed by a closer analysis of sectors of employment and average monthly incomes. As stated above, agriculture, forestry and fishing, accommodation and food services, wholesale and retail trade, private households and construction combined account for the majority of the employed (61.8%). Employees in these sectors earn far below the national average of N\$ 7,935 per month, namely N\$ 3,393 in agriculture, forestry and fishing; N\$ 2,819 in accommodation and food services; N\$ 4,019 in wholesale and retail; N\$ 5,441 in construction and N\$ 1,387 in private households.

Sectoral minimum wages are negotiated between employers' organisations and trade unions for farm workers, security guards and workers in the construction industry. The lowest of these minimum wages applies to farm workers (N\$ 4.62 per hour) while the highest minimum wage exists in the construction industry (N\$ 16.04 per hour). Following the recommendations of a wage commission, the first minimum wage for domestic workers came into effect in April 2015 and was set at N\$ 7.80 per hour. It was slightly increased in September 2017 and October 2018 and now stands at N\$ 8.67 per hour.

### **The impact of Covid-19**

Taking into the account these labour market characteristics, it is possible to sketch the impact of covid-19 and the lockdown for jobs and livelihoods in Namibia. The lockdown affected almost all sectors of the economy although to different degrees. The sectors which were less severely affected in terms of loss of income and employment were the public sector (civil service and state-owned enterprises-SOEs), the financial sector, agriculture and the larger food supply stores. Government guaranteed the continued payment for public sector employees but this might change in the years to come due to the increasing levels of indebtedness and the agreement reached with the International Monetary Fund to contain the public sector wage bill. The banking and insurance companies had enough reserves and are likely to remain profitable during the covid-19 pandemic while food stores were allowed to remain open and agricultural activities continued.

The scenario is fundamentally different in other sectors such as hospitality and tourism, construction, work in private households and informal trading where the effects of the lockdown were immediately visible. Namibia's 72,000 employees working in private households (commonly known as domestic workers) were unable to travel from home to work during stage 1 and most are likely to have experienced a

partial or complete loss of income during that period despite the lack of accurate data.

Likewise, the aviation, hospitality and tourism sectors were severely affected as hotels, restaurants, tour operators and airlines either had to suspend activities partially or in total. These sectors combined provide around 100,000 jobs and a significant number of them are already lost or in danger of being lost in the months to come. No detailed figures are available yet.

Similarly, construction which employed about 45,000 people in 2018 was severely affected by the lockdown as construction projects came to a halt and fewer new projects will be implemented due to financial constraints which hamper the state's ability to commission infrastructure projects. In the absence of an unemployment insurance, construction workers like all other retrenched workers experienced a severe drop in incomes immediately.

Equally dire were the consequences for informal traders and retailers of alcohol, both in the form of shebeens and bottle stores. During stage 1 of the lockdown, they were not allowed to operate at all while some informal traders were allowed to resume business during stage 2. Alcohol sales were only permitted from stage 3 onwards with limitations on the trading hours from 12h00 until 18h00. This reduced incomes and thus lead to retrenchments while the informal traders were faced with an immediate threat to their survival as they could hardly resort to savings to make up for a loss of income. When informal traders were removed by the police from the Windhoek city centre, some stated that they would not die of covid-19 but of hunger as they relied on their income from street trading for their survival.

A preliminary calculation of job losses and unemployment shows that thousands of jobs have been lost in the transportation, accommodation, food services, aviation and construction industries while the wholesale and retail sector also experienced a slow down with job losses. The ripple effects of the economic crisis have also reached other sectors such as the media which resorted to reduced working hours, a reduction in wages and benefits and retrenchments. The official figures provided by the Ministry of Labour indicate about 12,000 job losses since the beginning of the corona pandemic. This figure is based on the dismissals reported to the Office of the Labour Commissioner and is therefore far below the actual number. Only some employers report dismissals while those which took place in the informal economy or at small workplaces (including private households) are largely unreported.

## **Conclusion**

Accurate figures are not yet available but Namibia's overall unemployment rate is bound to soar as about 40,000 – 50,000 new labour market entrants from schools, universities, vocational training centres etc. enter the labour market annually in search for jobs. By now, Namibia's unemployment rate could have reached 45-50% - or even higher. Almost half of Namibian households rely on wages and salaries as their main source of household income and this figure stands as high as 63% in urban areas. This raises an urgent question of survival: how will Namibians survive in the post-Covid-19 era when almost half of them are without jobs and many are in highly precarious forms of employment?

This question cannot be discussed in detail here but it is clear that following the macroeconomic orthodoxy since independence will not solve the crisis. Namibia achieved moderate economic growth rates and relatively low inflation rates since independence but the investor-friendly economic policies were paid for by low improvements in the overall human development index and by the maintenance of very high levels of socio-economic inequality. Despite the stated commitment by the Namibian government to achieve socio-economic development, the actions taken were contradictory and often unsuccessful. At the very least, the Namibian government will have to introduce a Basic Income Grant as has been proposed by civil society organisations for many years. This would not only provide relief for households and enable people to break the debilitating shackles of poverty to some extent, but it would also constitute an economic stimulus package for a faltering economy.

In addition, structural changes to the economy based on the processing of local resources and the creation of value-chains for example around the supplies for the construction industry are urgent. Benefits from national resources like fish which were privatised through fishing quotas for the selected few. This created wealth for a small elite and undermined potential benefits for the public. This all will have to change in the post-covid era.

However, with Namibia's rapidly increasing debt levels and the acceptance of a special loan of US\$ 270 million from the International Monetary Fund (IMF) in March 2021 to deal with the effects of the covid-19 pandemic, the obstacles have increased further. The IMF deal entails the cutting of operational expenditure, including a wage freeze in the public sector. The IMF further announced that the Namibian government agreed to privatise some of the state-owned enterprises and Namibia seems firmly on course to implement further austerity measures. This stands in complete contrast to the interventions needed to deal with the devastating fallout of the covid-19 pandemic.

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