Promoting sustainable and inclusive growth in Namibia – Strategic considerations for advancing development policy under the COVID-19 pandemic

The Growth Lab at Harvard University

NPC Capacity Building Training

October 22nd, 2020
Promoting sustainable and inclusive growth in Namibia – Strategic considerations for advancing development policy under the COVID-19 pandemic

- Namibia’s core structural challenges
- Amplifier: The COVID-19 challenge
- Policy implications
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Namibia’s recent past points to a set of self-reinforcing challenges that may significantly constrain the country’s development path and in turn inform the strategic approach to policy design.

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<td>(i) Maximize the social and economic benefits of its vast natural wealth in a manner that is prudent from a fiscal and environmental standpoint, (ii) promote growth in the non-mining economy by enhancing the productivity and reach of existing activities (intensive margin), as well as facilitating the development of new engines of job creation, investment attraction and export diversification (extensive margin)</td>
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The first challenge is associated with the end of the investment boom that came with the commodity super cycle: Since then (2014), Namibia has struggled to grow
Large multiplier effects of investment – coupled with expansionary fiscal policy – led to a growth acceleration (4.8%) delivered by non-tradable sectors (accounted for 80%).
When the investment boom ended…

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… output in the mining sector went up, but the non-tradable sector went into a recession.

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Between 2008-15, Namibia’s record of fiscal prudence was relaxed and fiscal expenditure expanded rapidly; between 2015/2019 Namibia managed to achieve some significant fiscal consolidation.

Source: Ministry of Finance
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Comprehensive inclusion agenda with a strong focus on creating opportunities to incorporate Namibians into the formal labor markets. Need for complementing redistribution initiatives with strategies that allow the majority of Namibians to engage on high-productivity activities.
Namibia is one of the most unequal countries in the world, income inequality exists across levels – as a fractal between and within groups.

Source: LFS, 2018
Relative to its population, the size of Namibia’s formal sector is very small.

- Total Population: 2,413,643
- Working-age population: 1,531,967 (63.5%)
- Population under 15 yrs: 881,676 (36.5%)
- Economically active: 1,090,153 (71.2%)
- Economically inactive: 438,770 (28.6%)
- Non-response: 3,044 (0.2%)
- Employed: 725,742 (66.6% EAP, 47.4% WAP)
- Unemployed (broad): 364,411 (33.4% EAP, 23.8% WAP)
- Formal main job: 307,068 (42.3% Emp.)
- Informal main job: 418,674 (57.7% Emp.)

Source: LFS, 2018
Within the formal sector, the private sector is minuscule: one job per every 17.4 Namibians.

**Diagram:**
- Employed: 725,742 (66.6% EAP, 47.4% WAP)
  - Formal main job: 307,068 (42.3% Emp.)
  - Informal main job: 418,674 (57.7% Emp.)
- Employed: 725,742 (66.6% EAP, 47.4% WAP)
  - Government: 82,675 (31.4%)
  - SOEs / Parastatal: 27,945 (10.6%)
  - Private companies, enterprises, cooperatives: 138,691 (52.6%)
  - Private HH, individual: 13,441 (5.1%)
  - Don't know: 837 (0.3%)

110,620 in the public sector

**Source:** LFS, 2018
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• **Namibia’s core structural challenges**

• **Amplifier: The COVID-19 challenge**

• **Policy implications**
Namibia dealt with COVID-19 through strict lockdowns, that allowed the country to avoid the infection and death peaks seen in Europe and North America.

Recent surge in Covid19 cases, with death toll at 127 as of mid-October 2020.
Strict lockdowns and other precautionary social distancing measures have had, by design, a significant impact in terms of mobility…
Which in turn has translated into large negative impact on economic activity
These type of measures will likely be required until the population is vaccinated

- Precautionary measures that limit mobility may be inevitable until a vaccine is widely available
- Understanding the potential impacts on relevant sectors of the economy is essential in order to mitigate their burden and to prevent this temporary shock from translating into permanent adverse consequences that outlive the duration of the pandemic
- Any approach requires:
  - Up-to-the-minute understanding of the epidemiological management of the virus
  - Intensive and constant collaboration between thought leaders and policymakers in the fields of health and development

**COVID-19 Challenge:** How to strike the right balance between preventing the spread of the virus while at the same time setting the basis for a strong economic recovery?
COVID-19 has amplified the existing core challenges already faced by Namibia

COVID-19 Challenge
Striking the right balance between preventing the spread of the virus while at the same time setting the basis for a strong economic recovery.

Growth Challenge
- Weakened global demand for exports.
- Impact of mobility restrictions.
- Epidemiological considerations may impact new diversification opportunities.

Fiscal Challenge
- Expanded spending to meet demands of emergency.
- Falling tax collection.
- Increased reliance on debt to finance expenditure increases.

Inclusion Challenge
- Constrains to job creation.
- Urban/rural divide.
- Digital divide: ability to work from home.
- Potential impact on limited internal mobility.
Covid19 is expected to have a large negative impact on tradable and non-tradable sectors alike - mostly focus on 2020/2021

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary sector</th>
<th>Secondary sector</th>
<th>Tertiary sector</th>
<th>Total</th>
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<tr>
<td>2018/2019</td>
<td>10.5%</td>
<td>1.0%</td>
<td>-1.2%</td>
<td>1.1%</td>
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<td>2019/2020</td>
<td>-8.9%</td>
<td>-1.7%</td>
<td>-0.1%</td>
<td>-1.6%</td>
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<td>2020/2021</td>
<td>-12.1%</td>
<td>-2.6%</td>
<td>-5.7%</td>
<td>-6.6%</td>
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<td>2021/2022</td>
<td>-1.9%</td>
<td>-1.9%</td>
<td>-1.4%</td>
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<td>2022/2023</td>
<td>7.6%</td>
<td>2.7%</td>
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10/22/2020
The pandemic has weakened world demand and is having a significant impact on Namibian exports.

Exports and Imports: Quarterly change (YoY)

Source: NSA
Commodity prices plummeted in March - but have recovered somewhat since
COVID-19 has also served to amplify the existing core challenges already faced by Namibia

**COVID-19 Challenge**
Striking the right balance between preventing the spread of the virus while at the same time setting the basis for a strong economic recovery.

**Growth Challenge**
- Weakened global demand for exports
- Impact of mobility restrictions
- Epidemiological considerations may impact new diversification opportunities

**Fiscal Challenge**

**Inclusion Challenge**
- Constrains to job creation
- Urban/rural divide
- Digital divide: ability to work from home
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The policy response necessary to cope with the social impacts of the pandemic has brought public expenditure back to its 2015 levels and undone much of the consolidation achieved since 2015.
COVID-19 has also served to amplify the existing core challenges already faced by Namibia

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Fiscal Challenge
- Increased spending to meet demands of emergency
- Falling tax collection
- Increased reliance on debt to finance deficits
- Sustained increase in debt-to-GDP ratios

Inclusion Challenge

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“Standard” macroeconomic approach to COVID-19

• **Create as much fiscal space as possible:** (i) borrow all you can at home and abroad, (ii) strategically introduce taxes directed to those that capture the upside of the emergency (i.e. oil importers), (iii) use your foreign assets, (iv) consider avenues for debt reprofiling

• **Maximize the reach of that fiscal space:** (i) restructure your budget composition, (ii) leverage support from the Central Bank (i.e. lines of credit with public guarantees), (iii) leverage the multiplier effect of the financial system (i.e. promoting temporary regulatory forbearance)

• **Use fiscal space as effectively as possible:** (i) support infrastructure required to manage the treatment of the disease, (ii) support infrastructure required to test and monitor the disease, (iii) support the most vulnerable households – so that temporary shocks don’t translate into permanent effects, (iv) seek to avoid bankruptcies
  - It may not be possible to pursue all these alternatives
  - The type of support that may provided to households and firms is highly context specific
  - Different economy sectors face highly specific liquidity and solvency constraints

• **Plan for potential subsequent peaks in infection (until a vaccine arrives)**
Strategies to address the COVID-19 emergency cannot be considered in a vacuum

- In the mitigation phase, steps taken to address this emergency shouldn’t be disassociated from the overarching strategy to promote Namibia’s development
- In the recovery phase, certain strategies to address the core challenges may prove useful:
  - **Promoting new engines of growth** will increase economic resiliency, particularly in the face of weak short-term demand for traditional commodities, and help insert Namibia into new global value chains
  - **Restructuring the focus of public expenditure** away from inefficient assets or regressive line items, towards investments in the provision of public goods required in the post-pandemic economy to enable the appearance and development of new sector – new investments, more formal jobs, enhanced tax collections and improved fiscal sustainability
  - **Addressing the systematic inequities that prevent access to labor opportunities in higher-productivity economic activities** will contribute to a more inclusive and sustainable recovery
Thanks!