Issue 2 | August 2020

COVID-19 in Namibia

Helping the People

Welfare And Assistance Measures – The Story So Far

The COVID-19 pandemic has presented domestic and international policymakers around the world with an unprecedented challenge completely different to the macroeconomic, debt or banking crises they typically have to deal with. In order to avoid a surge in the transmission of the infection, which is likely to overwhelm medical facilities and lead to a high number of deaths, social distancing and other restrictions have been introduced to slow the spread of the infection and "flatten the curve".

Such measures reduce the ability of an economy to both supply and demand goods and services. Supply - because most production involves collaborative work between people in close proximity. Demand - because the ability of households and businesses to consume and invest is severely impaired. The enormous economic uncertainty in both supply and demand then affects households and businesses further as households cut back on spending and businesses hold back on investment because they do not know if markets will exist in future. A further twist is the uneven distribution of these effects across different households and businesses. Households where breadwinners can work from home are affected to a lesser extent han those where this is not possible. Businesses that can produce in a socially-distanced way are affected to a lesser extent to ones that cannot.

Namibia registered its first case of COVID-19 on 14 March 2020 when Health Minister Dr Kalumbi Shangula announced that a Romanian couple arriving from Spain via Doha had tested positive at Hosea Kutako International Airport. They were immediately quarantined and have since recovered. On 17 March President Geingob declared a state of emergency and Stage 1 regulations were issued on 23 March which involved closing Namibia's borders, banning gatherings of people, imposing a lockdown and effectively shutting down large parts of the economy from 28 March. This lasted until Stage 2 regulations came into force on 5 May when the initial lockdown was lifted. Three major sets of measures were introduced in response to deal with the economic consequences of lockdown: monetary policy measures (by the Bank of Namibia), fiscal measures (by the Ministry of Finance) and labour market measures (by the Ministry of Labour) in addition to the health measures introduced and overseen by the Ministry of Health and Social Services.

Timeline of Key Events

Date	Event
11 March	WHO declares COVID-19 a global pandemic
14 March	First case of COVID-19 registered in Namibia
17 March	President declares State of Emergency
22 March	Minister of Finance appointed
23 March	Stage 1 regulations issued
26 March	Bank of Namibia announces monetary measures
27 March	Stage 1 regulations come into force in Khomas and Erongo regions
1 April	Minister of Finance announces fiscal measures
1 April	13 confirmed COVID-19 cases
10 April	National Employment and Salary Protection Scheme launched
14 April	Stage 1 extended to all regions until 4 May
20 April	Minister of Labour announces labour measures
1 May	16 confirmed COVID-19 cases
5 May	Namibia moves from Stage 1 to Stage 2
27 May	Minister of Finance tables National Budget
28 May	Walvis Bay moved back into Stage 1
1 June	Namibia moves from Stage 2 to Stage 3
1 June	25 confirmed COVID-19 cases
8 June	Stage 1 extended from Walvis Bay to Erongo Region
22 June	Erongo region moves from Stage 1 to Stage 3
29 June	Namibia with the exception of Erongo Region moves to Stage 4
28 July	1,917 confirmed COVID-19 cases and 8 deaths in Namibia
5 August	2,540 COVID-19 cases and 12 deaths.

Monetary Policy Measures

Monetary policy had already been considerably loosened by the time the state of emergency was declared and the economy had already been suffering from four years of low or negative growth, the longest period since Independence.

The year 2020 started with the Bank of Namibia's repo rate at 6.50 percent. However, further cuts were made in February, March, April and June to take it down by 250 basis points to 4.00 percent, a post-Independence low.

A range of other measures were announced on 26 March which the Bank emphasised had been the outcome of extensive consultation with the Bankers Association of Namibia. These measures included the following:

- Allowing banks to grant loan repayment moratoria to customers of between six to 24 months
- Relaxing the determination on liquidity risk management which obliges banks to match their cash outflows to their cash inflows over a period of seven days
- Reducing the capital conservation buffer - liquid reserves that banks are required to build up in good times - to zero percent for at least 24 months
- Postponement of the effective date of implementation for the 25 percent single borrower limit and concentration risk limit - used to limit exposure to businesses and sectors and thus reduce risk

The overall intention of these measures was to allow banks greater scope to lend to a stricken economy and to vulnerable businesses within it which regulations would otherwise have made difficult or impossible.

Fiscal Policy Measures

Shortly after declaring the state of emergency, the President appointed Iipumbu Shiimi as Minister of Finance on 22 March who then on 1 April announced a series of measures to address the pandemic summarised in his media statement "Launching of the Economic Stimulus and Relief Package to mitigate the impact of COVID-19". These measures included the following:

Health Intervention

- N$1.1bn additional spending on public health

Household Intervention

- Introducing a once-off Emergency Income Grant (EIG) of N$750 per qualifying person costed at a total of N$562m.
- A tax-back loan scheme for tax registered and taxpaying employees and self-employed individuals allowing them to borrow from the commercial banks up to 1/12th of their tax payment during the previous year at a low interest rate to be repaid after one year.
- A water subsidy during lockdown so that people can access water without water cards at an estimated cost of N$10m for the first lockdown.

Business Intervention

- A wage subsidy for the hardest hit sectors of the economy – tourism, travel and aviation, and construction - to help businesses keep hold of employees at an estimated cost of N$400m.
- The accelerated repayment of overdue and undisputed VAT refunds at an estimated cost of at least N$3bn.
- The accelerated payment of overdue and undisputed invoices for goods and services provided to Government at an estimated cost of N$800m.
- A non-agricultural small business loan scheme worth N$500m through the Development Bank of Namibia.
- An agricultural business loan scheme worth N$200m through the Agricultural Bank of Namibia.
- Granting relief to borrowers from the Development Bank of Namibia and the Agricultural Bank of Namibia.
- A tax-back loan scheme for non-mining companies allowing them to borrow up to 1/12th of their tax payment during the previous year at a low interest rate to be repaid after one year capped at N$470m.
- Relaxation of labour regulations to protect jobs allowing employers including Government and business owners to negotiate a reduction in wages of up to 40 percent for the worst hit industries.

All in all, Minister Shiimi argued that his Stimulus and Relief Package amounted to N$8.1bn of support, equivalent to about 5 percent of GDP. Although the Minister could enact these measures with immediate effect, the Budget which formally contained these measures for approval was submitted to Parliament on 27 May. This included an additional N$1.1bn spending on health promised in his announcement of 1 April.

The National Employment and Salary Protection Scheme for COVID-19 was launched on 10 April 2020 in collaboration with the Social Security Commission (SSC). Costed at N$645 million, the programme provides for the wage subsidy for employers and employees in the severely affected sectors. As outlined on 1

April the Government contributed N$400m to this Scheme while N$245 million was to be provided by the SSC.

On 28 July Minister Shiimi told the media that the Government had approached the International Monetary Fund (IMF) for a loan of N$4.5 billion to help finance its record deficit of nearly N$21.4 billion in the current fiscal year. The application falls under the IMF's rapid financing instrument which is being used to help countries address the impact of the COVID-19 pandemic.

Labour Policy Measures

While Finance Minister Shiimi had promised to relax labour regulations in his announcement of 1 April, Labour Minister Utoni Nujoma issued the Labour Directive Relating to COVID-19 on 20 April - the aim of which was to prevent companies from laying off workers and obliging employers to negotiate any changes to workers' terms of employment.

Aftermath

The national lockdown was lifted on 5 May allowing households and businesses to return to something of their pre-lockdown state although additional measures continued to be imposed because of local flare-ups. This lifting of restrictions means that strict lockdown lasted from 28 March to 5 May i.e. 38 days.

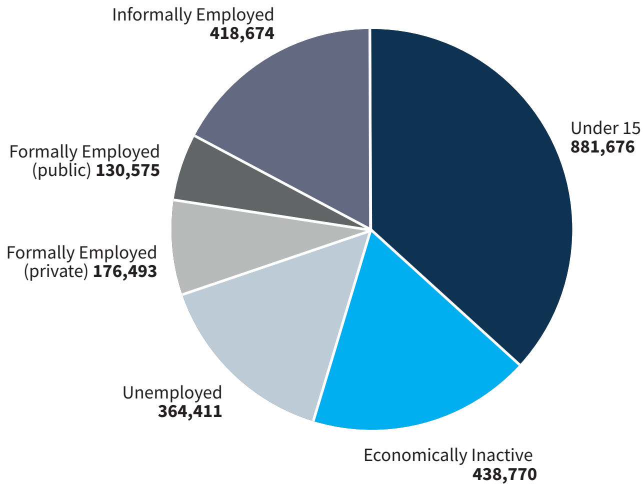
Credit data from the Bank of Namibia is available for the period until the end of May. This suggests that despite the Bank's actions, credit to businesses and households fell sharply in April and May as did residential mortgages.

The 2020/21 National Budget saw N$1.1bn in additional health spending as promised by Minister Shiimi from N$6.873bn to N$7.951bn. In his budget speech, the Minister stated that an emergency budget of N$747m had been frontloaded to the health sector for the required infrastructure, personal protective equipment, pharmaceuticals and personnel to combat the pandemic.

In assessing the package of measures introduced by the Minister of Finance, it is worth first taking a look at the population and economy and asking which households and businesses are likely to be hit hardest and over what timescale? One useful way of conducting this assessment is to examine Namibia's population according to employment. The pie chart shows Namibia's entire population broken down into the following six categories:

1. People under 15
2. People who are economically inactive (because they are students, homemakers or pensioners)
3. People who are unemployed (and are not necessarily actively looking for work)
4. People who are informally employed (and do not enjoy social protection in their jobs)
5. People who are formally employed in the private sector
6. People who are formally employed in the public sector

The chart shows the number of people in each category according to the latest Namibia Labour Force Survey of 2018. It can be seen, for example, that out of a population of 2.4 million people only 307,000 people are formally employed of whom about 130,000 are public sector employees in central or local government or in State-Owned Enterprises.



Government has long had cash transfers and other measures in place targeted at particular groups of the population including:

1. State old age pension for residents over 60 (currently at N$1,300 per month)
2. Orphan and Vulnerable Children grants (currently at N$250 per month)
3. Disability grants (currently at N$1,300 per month)
4. A school-feeding programme that was due to cover 370,000 primary and secondary school children in all 14 regions was launched in October 2019

No specific new measures were introduced for those under 15 or for the economically inactive population (although some of the latter may possibly have benefitted from the EIG). No specific new measures were introduced for Government and SOE employees who kept their jobs and continued to receive regular pay.

The brunt of the short-term impact of the pandemic was felt by those informally employed who relied on activities involving close social contact with others and those formally employed in the private sector whose employers were affected by lockdown. It is hard to say with any confidence how many people this might include but numbers are likely to extend well beyond the hospitality, tourism, travel and construction industries.

The broadest and most eye-catching proposal was the once-off Emergency Income Grant. This was targeted at Namibian citizens aged 18-59 employed or self-employed who had lost income during the lockdown period. The Minister explained that the N$750 was based on the national poverty line of N$250 per week. Employed people, people who had lost employment in the formal sector, or people receiving other grants were not eligible. This in principle would have allowed all unemployed and most informally employed people to benefit from it - about 783,000 people. Minister Shiimi stated in his budget speech that 747,281 people had so far benefitted from the grant at a cost of N$561.96m and that a further 120,000 were expected to benefit after completing the verification process i.e. almost 870,000 people in total. This suggests the estimates contained in the NLFS 2018 are not too wide of the mark especially considering that the population will have grown and the economy has slowed since the survey was conducted. The Minister's cost estimate of N$560m made on 1 April turned out to be remarkably precise. At this early stage is it impossible to assess the impact of the tax-back loan scheme and the water subsidy.

Unfortunately, there is no equivalent data for businesses so it is impossible to assess which businesses have been hard hit by the pandemic. Clearly, relaxing credit restrictions on the banking sector will help it lend to businesses whose cash flow and profits have been hard hit by lockdown. The challenge for the banks will be to assess which businesses have longer-term viability and which can be expected to go under because their long-term business viability has been fundamentally undermined.

The wage subsidies offered to the hospitality and construction sectors were initially announced at N$700 per employee per month for 6 months and N$500 per employee per lockdown respectively. The total cost estimates were N$358.6m and N$22.7m suggesting that some 85,000 people in the hospitality and 45,000 people in the construction industry would benefit. The last Tourism Satellite Accounts in 2015 estimated tourism gave rise to 24,729 jobs directly and another 100,720 jobs indirectly while the last NLFS estimated 45,057 people worked in construction. It is not clear to what extent these wage subsidies have been taken up and paid out. Those people laid off from formal sector jobs in sectors that were especially hard hit were to be assisted by the National Employment and Salary Protection Scheme.

As of 21 July, the SSC confirmed that 860 employers in the aviation, tourism and construction sectors were being assisted through the wage subsidy scheme. Over 2,000 applications from employers had been received. When combined with a waiver for SSC monthly contributions, the subsidy should equate to 25 percent of the employers' total wage bills. Prospective beneficiaries should not have retrenched staff in May, June or July and should not have reduced workers' salaries by more than 50 percent.

The SSC said it had received applications for assistance from 28,000 workers who had been retrenched. Of these 12,483 retrenched workers had been assisted with payments worth N$48 million while 4,000 had been rejected.

The Labour Directive was received with dismay by business and employers' organisations. It is possible many employers had already moved to retrench workers or reduce pay in accordance with the Labour Act but the unintended consequences of the Directive might have been to push more firms to the wall preventing them from quickly slashing costs as their cash flow dried up and they were not able to take on more debt after four years of low profitability. The Minister's announcement obliged employers to negotiate the temporary 40 percent cut in wages with employees and labour unions rather than impose them unilaterally. In response to the Labour Directive of 20 April, two employers' organisations, the Namibian Employers' Federation and the Namibian Employers Association, plus several individual employers launched an urgent case in the High Court on 18 May to have the suspension of parts of the Labour Act 2007 declared unconstitutional. On 24 June the High Court ruled in their favour.

There is no public data on bankruptcies or liquidations in Namibia so it is hard to assess what the impact of the lockdown has been. However, by the end of July newspapers had reported a number of redundancies in specific companies including Trevali offering all 429 employees voluntary redundancy at Rosh Pinah mine, Pick n Pay announcing it would lay off 500 workers, and Safari Hotel announcing it would retrench 177 out of 219 employees. In mid-July, the Ministry of Labour reported that 388 employers had retrenched 5,748 employees between 27 March and 30 June 2020. Out of the 5,748 workers retrenched, 1,812 were retrenched specifically due to the impact of COVID-19. The tourism and construction sectors retrenched 2,728 workers while mines retrenched 1,184 workers. The wholesale and retail sector retrenched 584 employees.

The decision to include VAT refunds as part of the package, while welcome, is slightly misleading since these are refunds that Government should ensure are paid promptly anyway. The fact that they have been so delayed in the past has been a source of considerable frustration to many Namibian businesses. In his Budget speech, Minister Shiimi announced that N$1.2bn of unpaid invoices and N$1.8bn of VAT refunds had been paid by Government. It would be good if this progress heralded better practice in future.

In addition to the measures announced on 1 April, Minister Shiimi's Budget included an emergency budget of N$600m for the Ministry of Basic Education, Arts and Culture for the provision of water, ablution facilities and hostels at about 193 schools, countrywide within the Development Budget.

Conclusions

This short paper has tried to bring together all the measures taken by the Government of Namibia to counter the threat to households and businesses posed by the COVID-19 pandemic. It presents a concise summary of measures taken, tries to put them in context and presents the latest updates on progress where evidence is available. Several tentative conclusions can be reached.

Despite going into the crisis after four years of poor economic performance and steadily higher levels of public debt, Namibian policymakers reacted quickly and imaginatively to the crisis. While there was some inconsistency in approach to labour regulations, overall the response was rapid, sizeable and realistic and pulled in the same direction.

It is far too early to assess the longer-term consequences on households and businesses but the short-term response probably staved off the very worst potential impact.

Government's package of measures helped address the short-term challenges but more will be needed if the economy is to fully recover and thrive. The harsh reforms that needed to be implemented before the pandemic struck have not suddenly been rendered obsolete.

The need for emergency measures has highlighted the usefulness of accurate and up-to-date statistics on the economy. Little data is available on Namibia's business sector and better data would benefit policymakers greatly, not only in times of crisis but on a wide variety of issues from taxation to empowerment.

As in other countries the pandemic has had a very different impact on different people. The most eye-catching of the measures introduced was the Emergency Income Grant. For the first time people who were unemployed or informally employed have received direct financial assistance from the State. Namibia has a very poor track record on employment creation and it seems inherently unfair that the benefits of formal employment accrue only to public sector workers and a small number of individuals in the private sector. There was for many years a relatively lively debate on the idea of introducing a Basic Income Grant. The EIG may have set a precedent and in future people outside the current privileged circle of formal employment may demand more of the State. Spending on the EIG was about half of the subsidy provided to Air Namibia in the National Budget.

The crisis has shown that Government can respond swiftly and decisively when it decides to do so – in stark contrast to the usual dithering that generally characterises policymaking. It is to be hoped that Government assesses the success of the measures it has implemented, ensures lessons are learnt for next time and moves on to design a programme of measures that will help nurture the economy to full health in the longer term. This represents a far greater challenge than getting through a harsh but limited lockdown.

This briefing is part of a series of short papers looking at the impact of COVID-19 on Namibia.
The series of papers is published by Institute for Public Policy Research (IPPR) and funded by the Hanns Seidel Foundation

Hanns Seidel Stiftung