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COVID-19 in Namibia

Reforming The Economy

Where Do We Go From Here?

Like so many other countries around the world, the COVID-19 pandemic has inflicted huge damage to Namibia's economy. Unlike many other countries, Namibia had already been suffering from poor economic performance going into the crisis. Namibia's GDP had stagnated for four years.

Levels of private investment and Foreign Direct Investment, upon which future growth depends, had sunk back to levels not seen since before the Global Financial Crisis. Levels of public investment had also started to decline as the splurge in public spending since 2009 aimed at countering the global downturn petered out while levels of public borrowing reached their limits. Long-standing characteristics, such as poor or non-existent formal employment growth, limited export diversification, the bloated size of the public sector, the generally poor performance of Public Enterprises, and wasteful public spending were all visible. Corruption and mismanagement were widespread as demonstrated most starkly by the Fishrot scandal which had arisen from the secretive way in which one of Namibia's key economic sectors had been managed over many years.

Many of these problems had long been recognised in countless reports from credit rating agencies, international agencies such as the International Monetary Fund, international rankings such as those of the World Economic Forum or Transparency International, and independent analysts inside and outside Namibia. Indeed, some were recognised at the highest political levels including by the President. COVID-19 arrived just as things were coming to a head anyway.

The question now is whether the severe economic jolt administered by the pandemic will lead policymakers to continue with business as usual or encourage them to "never let a good crisis go to waste" and implement far-reaching reforms. This is the choice facing Namibia as the country hopes to move to Stage 5 later this year.

In favour of reform, the country has two new faces as its two most senior economic policymakers – the Minister of Finance and the Governor of the Bank of Namibia. If they put forward a common programme of radical reform, it is possible that real action will be the result. Imagination and dynamism have already been demonstrated in Government's immediate response to the pandemic.

Investment is key

The first task must be to recognise that Namibia needs to get the economy growing again and that means investment must rise and do so in a way that promotes the establishment of new industries that have the potential to export a wider range of goods and services to markets with the potential for growth.

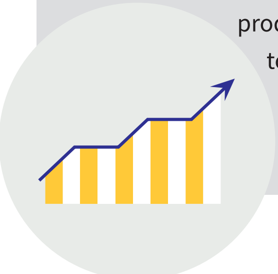
This will mean encouraging higher levels of Foreign Direct Investment and this will involve creating an attractive investment environment. This will not be achieved if property rights are unclear, if investors are forced into bed with local partners who have nothing to contribute or if profits are taxed in a punitive way. But investors will come if fair profits are to be made and this should be accepted and welcomed. Namibia should want businesses to genuinely believe it is a great country to do business in. Inevitably, creating such an environment will mean fundamentally rethinking the National Equitable Economic Empowerment Framework and the Namibia Investment Promotion Act.

The recent move of the Namibia Investment Centre into the Office of the President and the recommendations of the High-Level Panel on the Namibian Economy (HLPNE) suggest a central role for a powerful and energetic Namibia Investment Promotion and Development Board with the power to determine policies across the economy which affect the investment environment. There should be no more flip-flopping on investors' property rights.

A better investment environment must be more open, transparent and non-discretionary than the current one and return to the approach of treating foreign and domestic investors alike. The more opaque and secretive the investment environment is, the more it will attract the wrong sort of foreign investors such as those involved in Fishrot. The HLPNE makes useful suggestions on how licences to exploit natural resources should be allocated but the key is to ensure licences are granted to those capable of exploiting them for the full benefit of the country and not to rent-seeking middlemen who simply pass them on at a price.

Foreign investors above a certain size should be required to produce an annual report identifying the benefits they have brought Namibia. This is necessary to change the perception of many that foreign investors take but do not give and to encourage the kind of investors that the country will benefit from. The Investment Board should conduct annual surveys of foreign investors to obtain critical feedback on Namibia's investment environment. Namibia should aim to improve its international brand and reputation and this will involve constant feedback, improvement and communication.

Public investment must play a supporting role in encouraging private investment through the provision of appropriate infrastructure but this should be carried out on the basis of solid business cases and cost-benefit analyses to avoid spending public money on unproductive "white elephants". Government's future ability to borrow will be severely constrained so further debt can only be justified where there is a robust economic case. The COVID-19 pandemic has already prompted many countries to look again at what they should be producing locally in terms of medical products. Namibia needs to look at this issue too, possibly in cooperation with other members of SACU or SADC.



Tax matters

Hand-in-hand with this encouragement of greater FDI must go improvements in tax administration and collection. Namibia must aim to create a competitive and stable tax regime and should seek to keep it as simple and transparent as possible.

It is vital that the country sees the tax benefits from attracting foreign investment as well as the other benefits FDI brings. Namibia's tax regime should be regularly compared with that of other countries and new tax measures should be carefully assessed for complexity, cost and effectiveness. In areas that are particularly controversial such as mining taxation, a public commission including impartial international tax experts should be asked to assess the tax regime and look at issues such as transfer pricing and tax evasion. Keeping the tax regime competitive will minimise the incentive for firms to avoid tax. Again, an annual tax publication should analyse tax receipts and make clear which groups of firms are making what contributions whilst respecting individual firm confidentiality.

An integral part of improving the investment environment is ensuring that it incentivises employers to take on labour. Again, the attitude has to change from seeing employers as purely exploitative to encouraging them to take on more local labour and to train workers. Over the years Namibia has added labour regulations without serious consideration being given to what impact this has on the cost of labour to employers. Creating ever more hurdles to formal employment simply prevents people entering the formal workforce. At the same time expanding public sector employment and public sector wage settlements create wage pressures on the private sector which need to be considered.

Time for BIG?

The pandemic led Government to introduce a once-off Emergency Income Grant designed to apply mostly to the informally employed and unemployed. Namibia also has experience with a limited Basic Income Grant in a pilot project at Otjivero-Omitara run by the Basic Income Grant Coalition.

It seems manifestly unfair that while only a very small portion of the population get to enjoy the benefits of formal employment the rest have to make do with nothing. At the same time, there is an argument for a single national minimum wage but this needs to be set according to the overall needs of the economy. It may be more effective to introduce a permanent regular payment to those not formally registered for tax or social security but this should be done in parallel with public sector reform designed to create a fiscally sustainable public sector. This reform should not only look at those employed by central government but also at the vast network of Public Enterprises some of whose effectiveness is highly questionable.

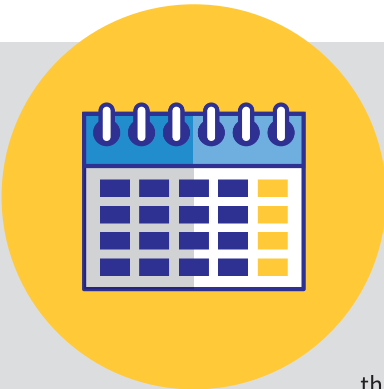
After thirty years, the time has come to recognise that Namibia's Public Enterprises require serious root and branch reform. The initial focus should be on the 22 or so commercial public enterprises. Those that can be sold off into competitive markets should be sold and this should include mobile telephony where serious foreign players should be invited in to create at least two providers. Natural monopolies such as NamPower, Namport, Namwater, Nampost, the Namibia Airports Company and the railway system under a reformed TransNamib can remain but management must be improved and allowed to manage within broad parameters set by a controlling entity be it the Ministry of Public Enterprises or a holding company.

Government should relinquish the idea of being directly involved in sectors where it has failed in the past – for example, in the cases of the Roads Contractor Company (road construction), Namibia Wildlife Resorts (tourism), Fishcor (fishing), Epangelo (mining), and TransNamib (road haulage). The government can continue to own shares in mining entities where this makes sense for strategic reasons (such as Namdeb) but should not endanger taxpayers' money on high-risk ventures (which can be left to private investors). If there are windfalls from any sales of public assets these should be used to pay off the public debt which is currently unsustainable.

Money saved by no longer having to subsidise public enterprises can be put into an export diversification fund run by professionals. The objective of this fund would be to work with local and foreign investors to diversify exports which may also involve training workers. These funds must be run by an arms-length agency isolated from political pressures. This could be a strengthened Development Bank of Namibia or Namibia Industrial Development Agency but it will need to clearly report on progress every year. Funds should also be available for Namibians or Namibian entities to buy into business ventures provided this is done on a voluntary basis. Namibia's institutions of higher education need to get involved into supporting innovation and export diversification.

Government needs to show it is serious about public sector reform – both central government and Public Enterprises – and do so quickly. This will enable it to roll over foreign debt at a reasonable cost and demonstrate to international investors it takes its reputation as a safe place to invest seriously. If it achieves this it will be able to continue to tap international markets for capital to fund future growth. As a developing country, Namibia should need additional capital from the outside world but it has failed to show it knows how to use such capital and failed to take heed of advice from sovereign credit rating agencies whose role is to sound the warning bell.

New plan needed



Government should put together a clear five-year plan showing how it intends to reform the public sector and get the public finances under control setting a credible debt limit and then follow through on the plan. This will also involve cutting unproductive expenditures such as those for defence and security where levels of expenditure are not justified by the threats faced by the country.

Public sector reform should also examine how expenditures on health and education can be made more effective. Namibia spends a large proportion of its national budget on these two sectors but the outcomes from these expenditures are lamentable. Unfortunately, reversing thirty years of drift will not be a pain-free process but either the nettle is grasped now or it will be left to others – creditors, international finance institutions or foreign powers – to determine Namibia's fate. This is the antithesis of what Namibia and the ruling party stands for. Realistically, public sector reform will be that much harder if the private sector economy is not growing.

The media's role

Namibia is regularly highly rated for press freedom and the press have played an effective role in identifying corruption and ensuring action is taken. The international airport tender and Fishrot are two good examples of where the press has played a critical role to the benefit of the country. Such a press works in favour of long-term economic development. However, often young and inexperienced journalists are faced with understanding complex issues they are not equipped to write about. A mechanism should be found to encourage people with knowledge of the economy, business and finance to become involved in business journalism as well as serious investigative journalism. This would not cost much but would pay dividends in terms of promoting a wider understanding of the economy among decision-makers and the population in general.

Conclusions

It is too early to say whether a vaccine will be developed which would transform the global prospects for growth or whether countries will have to learn to get used to the virus and the occasional flare-ups and lockdowns it may continue to give rise to. Much depends on whether vaccines for coronavirus can be developed and made available to people in countries like Namibia at affordable prices.

Policymakers would do well to undertake scenario planning and this should be supported and coordinated at the highest level possibly through a new unit in the Office of the President.

Three scenarios seem obvious:

Scenario 1: the pandemic is contained, the economic contraction is short-lived;
Scenario 2: the pandemic continues in waves into 2021 and possibly beyond leading to periodic localised lockdowns;
Scenario 3: containment measures fail, the virus continues to spread, and no vaccine is found.

These scenarios should be regularly updated as new developments take place and information becomes available.

It looks likely that the pandemic has already left permanent scars on the Namibian economy and it is by no means certain that for example the tourism, hospitality and transport industries will return to the state they were in at the beginning of the year any time soon if at all. Namibia has to carefully assess whether public funds should be directed at sectors that have been damaged because it is not necessarily the case that they will rebound to where they were before the crisis. There may be imaginative ways of supporting sectors such as tourism but blanket support is unlikely to be sustainable. Unquestionably, the COVID-19 pandemic in Namibia has accelerated and brought into focus economic issues that have been festering for many years. Namibia can no longer afford business as usual.

Key Building Blocks for Five Year Programme of Economic Reform

1. Boost growth through improvements in investment environment by clarifying property rights and dropping the Namibia Investment Promotion Act

2. Orientate national budget and other resources to avoid debt defaults, roll over Eurobonds and maintain credibility with foreign investors

3. Reform or sell commercial Public Enterprises to reduce subsidies and generate revenue

4. Reduce wasteful expenditure on bloated state institutions, white elephants and security

5. Once the private sector economy has started growing again carry out fundamental public sector reform including reducing the overall size of the public sector and consideration of permanent EIG or BIG

6. Focus Namibian institutions on long-term export diversification and growth

7. Establish a new social contract involving a national minimum wage and state cash transfers to the majority of people excluded from the formal workforce

A clear programme of reform exists comprising mainly of actions that Namibia should take regardless of the pandemic in order to foster growth and job creation. Over the years Namibia has lost sight of the essential truth that it will need to expand the range and diversity of its exports to the rest of the world if it is to achieve higher incomes for the mass of the population. Only private investors can achieve this transformation but government has a crucial supporting role to play. Namibia has shown it can act quickly and boldly as its initial response to the pandemic demonstrated. But this is a marathon not a sprint. Policymakers will have to undergo a fundamental change in attitude and approach if they are to get the economy moving again. With the right actions Namibia could become a beacon of hope in Southern Africa. With the wrong actions it will become just another failed African economy.

This briefing is part of a series of short papers looking at the impact of COVID-19 on Namibia.
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