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Namibia: Labor Markets and Resource Dependence

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Namibia: Labor Markets and Resource Dependence
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ABSTRACT: With high unemployment, especially among the youth, Namibia lags behind the SSA region on labor market outcomes. Between 2012 and 2018, there was a structural shift in the economy from agriculture to services, as younger workers took up low-productivity service sector jobs. A shift-share analysis highlights that resources are not allocated to relatively more productive firms in the services sector, consistent with the weak real GDP per capita growth. The ongoing oil and gas exploration (and potential production in the future) offers an opportunity for economic growth and job creation, but also presents risks of worsened labor market outcomes.

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Namibia

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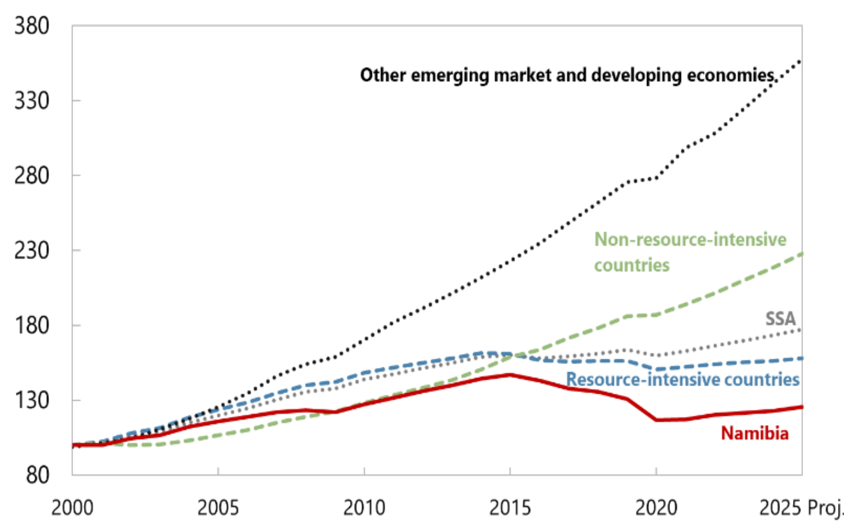
A. Introduction

1. Per-capita GDP growth in Namibia has slowed in the last decade. While Namibia has experienced remarkable growth since gaining independence in 1990, real GDP per capita growth has weakened in recent years, and now lags behind other resource-intensive countries and the broader SSA region (Figure 1), despite the overall weaker performance of resource-intensive economies following the commodity price shock of 2015 (IMF REO, 2024). Namibia ranks 2nd globally in income inequality (based on the Gini index). Weak per-capita growth and inequality jeopardize economic development and Namibia's prospect for convergence towards other Emerging Market and Developing Economies (EMDEs)[1].

Figure 1. Real GDP Per Capita (Index: 2000=100)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: The series show the evolution of GDP per capita in constant local currency. Country group composites are calculated as the arithmetic average of data for individual countries weighted by GDP valued at purchasing power parity as a share of total group GDP. SSA = sub-Saharan Africa.

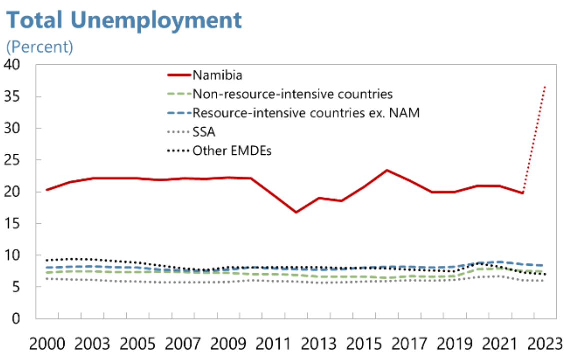
2. Namibia has also done relatively poorly in terms of labor market outcomes. With an unemployment rate of 36.9 percent (54.8 percent among youth) in 2023 (based on the 2023 labor force survey (LFS)), Namibia is an outlier relative to countries in SSA and EMDEs (Figure 2)[2]. A high dependence on resources is partially responsible for this outcome. The mineral sector contributes 13.6 percent to Namibia's GDP in 2023. However, due to its high capital intensity, it employs only about 1.4 percent of the population

[1] The very fast growth in non-SSA EMDEs has been largely driven by China. Excluding China from the chart, non-SSA EMDEs have grown at roughly the same rate since 2000 as SSA non-resource-intensive countries.

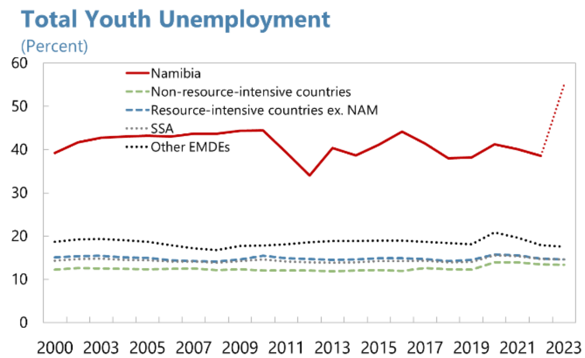
[2] Unemployment statistics are based on the "strict" definition of unemployment as per the 13th ICLS standards or the main unemployment definition in the 19th ICLS standard to be consistent across countries and over time. This definition excludes workers who have not taken specific steps in a specified recent period to seek paid employment or self-employment. This excludes discouraged workers who may want to work but have stopped actively seeking employment due to barriers such as skill mismatches or repeated rejections, or who looked for work outside of the specific reference period.

(based on 2018 labor force survey). Furthermore, mining sector rents are not well redistributed. Figure 2 also shows that resource rich countries lag behind non-resource-rich countries in SSA on employment outcomes, particularly so in fuel-rich countries.

Figure 2. Unemployment: Namibia vs. Comparators



Sources: World Bank, *World Development Indicators*; and IMF staff calculations.
Note: SSA=sub-Saharan Africa. EMDE=Emerging Market and Developing Economics.



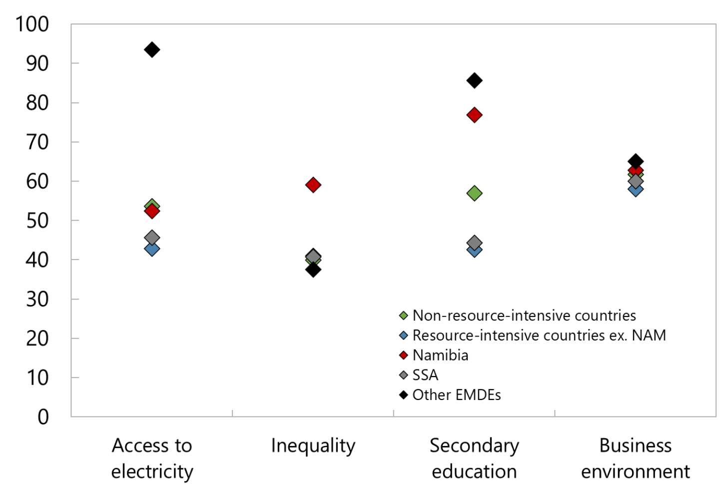
Sources: World Bank, *World Development Indicators*; and IMF staff calculations.
Note: SSA=sub-Saharan Africa. EMDE=Emerging Market and Developing Economics.

Note: The dotted line (Namibia) between 2018 and 2023 highlights that the numbers cannot be compared due to a change in the methodology.

3. **Job creation emerged was a top priority in the ruling party's fall 2024 election campaign, and is a central pillar of its implementation plan.** The SWAPO party promised to create a quarter million jobs (absorbing approximately 24 percent of the labor force) in sectors such as agriculture, construction, and oil and gas in the next five years by investing over N$85 bn (nearly 30 percent of 2024 GDP) in priority projects. Given that the government is already the largest employer, the scope for further increasing public sector employment is limited, highlighting an urgent need to cultivate a dynamic private sector and diversify the economy (IFC, 2018).

4. **Namibia faces both opportunities and challenges as it seeks to unlock its growth potential and tackle unemployment.** On the one hand, while lagging behind EMDE, Namibia performs better than peers in SSA on key measures such as access to electricity, secondary education, and the business environment (Figure 3). Oil exploration (and potential oil production) offers an opportunity for economic growth and job creation. However, given the low labor intensity of this sector, ensuring that oil wealth is translated into meaningful job growth and reduction of inequality will require policies that allow the whole society to benefit. Local content policies that are geared towards increasing local procurement and increasing spillovers to the supporting manufacturing and service sectors are important, while avoiding creating obstacles to hinder investment

Figure 3. Selected Structural Indicators



Sources: World Bank, *World Development Indicators*; World Bank, *World Governance Indicators*; Fraser Institute; and IMF staff calculations.

(Box 1).[3] Given the persistent and structurally high unemployment rate, a comprehensive strategy for hiring and training domestic workers is key.

Box 1. Developing Local Content— Lessons from Other Resource–Rich Countries

Foster technology and spillover effects (Tordo et al., 2013):

- Kazakhstan set up a Registry of Domestic Producers and Foreign Investors to provide local firms and suppliers with information on tender opportunities.
- Brazil mandates oil and gas companies to invest a minimum percent of their gross revenue in oil- and gas-related R&D.
- Malaysia provides tax incentives for R&D localization.
- Trinidad and Tobago set up a joint venture to increase local skill.

Measure local content and audit its compliance (Pereira et al., 2018):

- Brazil offers a certification system to help assess compliance of the relevant metrics agreed in the host granting instruments.

Avoid imposing high administrative and compliance costs (Tordo et al., 2013):

- Kazakhstan uses standard reporting templates to improve transparency and enhance comparability of information across operators.

Help to develop clusters and regional trade synergies (Tordo et al., 2013):

Malaysia implemented a comprehensive package of policies in 2010 aimed at making the country a regional hub for the oil related services and equipment.

The paper focuses on the spatial and temporal dynamics of the labor market, to form a basis for understanding the issues and designing effective policies.

B. Unemployment Landscape

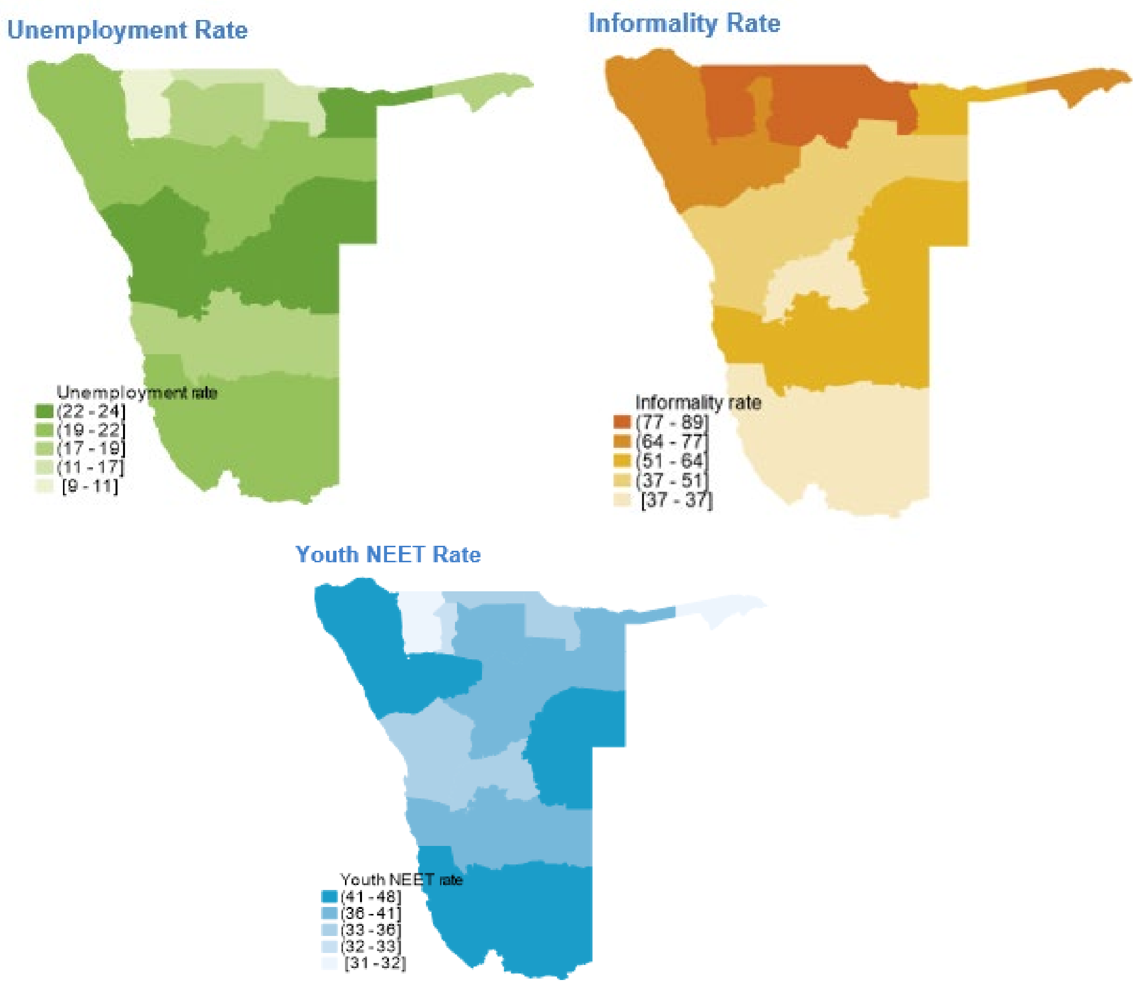
5. **Between 2012 and 2018, Namibia's labor market underwent significant changes, shaped by economic shifts and regional employment dynamics.** This analysis is based on four rounds of national labor force surveys (2012, 2013, 2016, and 2018) and examines labor force participation, unemployment, and informality. It also analyzes indicators for the youth, including those "not in education, employment, and training" (NEET). Using ILO definitions, data from these surveys are harmonized across rounds. The information is derived from sample household-based surveys rather than a panel dataset. Nevertheless, comparing averages over time across various sub-groups offers insights into labor market dynamics.

6. **While urban areas are characterized by high unemployment, rural regions exhibit high informality (Figure 4).** Based on the 2018 LFS, unemployment is highest in the Khomas region (which

[3] Empirical evidence of the impact of performance requirements on employment is mixed (WTO, 2002). The effectiveness of local content requirements depends on the nature of the requirement, the fit between the requirement and its intended purpose, the circumstances in the host country including existing (or a plan to develop) suppliers of the labor, goods, and services necessary to meet specified local content targets, among other factors (Johnson, 2016).

includes the capital city of Windhoek) and nearby regions of Erongo and Omaheke. In contrast, northern rural agriculture regions, such as Omusati, Ohangwena, and Kavango West, experienced high levels of informality. Additionally, youth NEET rates were concerningly high, particularly in the regions of Kunene, Omaheke, and Karas, where 41-49 percent of young people were neither in school nor employed. Migrant patterns reflected these disparities, with the largest share of workers migrating from the sparsely populated northern region of Ohangwena and Omusati to the more populated Khomas region for employment (Figure 5). The prominent mining regions of Erongo and Karas offer limited employment opportunities, leading to a net outflow of workers from these areas. Ongoing oil and gas exploration activities in the Erongo (Walvis Bay) and Karas (Lüderitz) region could provide employment opportunities by fostering linkages to the domestic economy.

Figure 4. Spatial Distribution of Employment Outcomes in Namibia

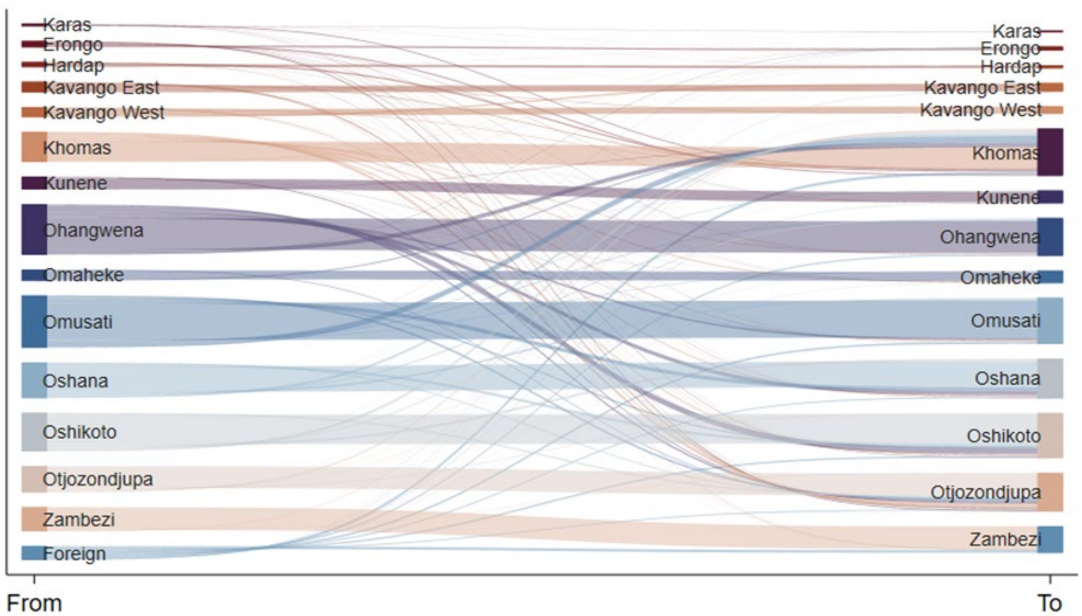


Sources: 2018 LFS; and IMF staff calculations.

7. **Between 2012 and 2018, Namibia's economy experienced a structural shift from agriculture to services.** While mineral extraction does not directly create much employment, it has had significant spillover effects in Namibia, stimulating employment in manufacturing and services that support mining activities.

Between 2012 and 2016, employment expanded across mining, manufacturing, and services, while employment in agriculture and subsistence fell (Figure 6). However, the commodity price shock of 2015 disrupted this trend, leading to a contraction in mining and subsequently reallocation of workers from manufacturing and services back to agriculture and subsistence[4].

Figure 5. Labor Flows



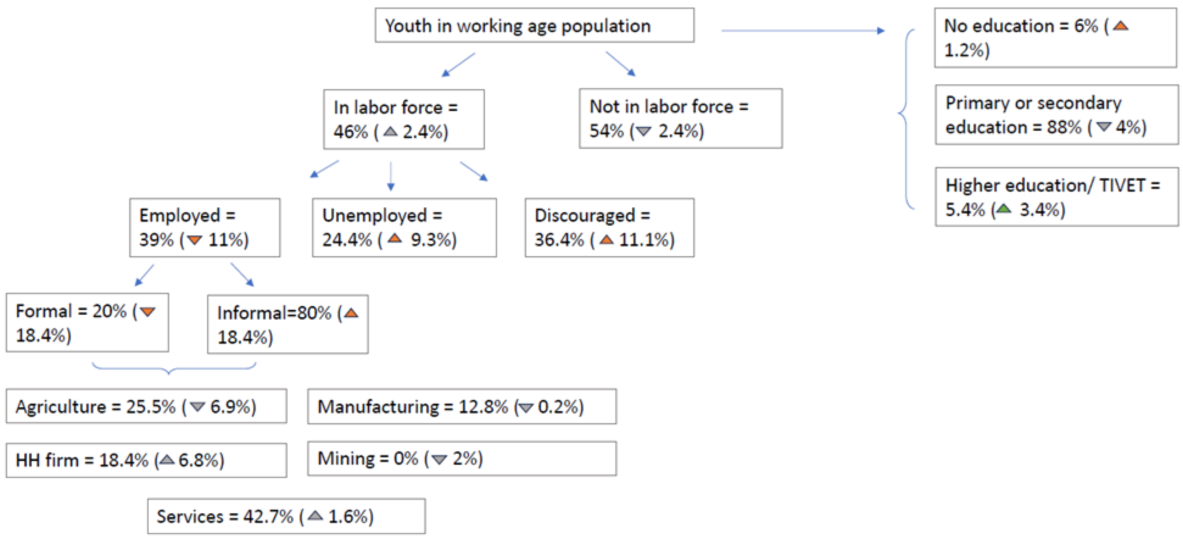
Sources: National Labor Force Surveys; and IMF staff estimates.

8. **Younger workers were particularly affected by these economic shifts.** Multiple rounds of LFS surveys were used to trace labor movements across sectors for age cohorts over time (Figure 8). Age cohorts react differently to the commodity price shock of 2015. Prior to the shock, all age cohorts were increasingly moving towards services, but the trend was sharpest for younger workers. After the shock, the probability of younger workers working in the service sector continues to increase, while older workers sharply pivot back to agriculture. Meanwhile, the increase in subsistence after the shock was the sharpest for the youngest cohort, with subsistence likely to be their starting position in the labor force.

9. **The probability of that a young person in the labor force would be in employment fell by 11 percentage points between 2012 and 2018** (Figure 6), while the probability of being unemployed or discouraged from looking for a job increased by 20.4 percentage points. In addition, amongst employed youths, the probability of being in the informal sector rose by 18.4 percentage points. Equally striking is the small share of the youth in TVET or higher education (only 5.4 percent). Given the new government's focus on job creation, especially for the youth, this highlights important gaps to be addressed.

[4] "Agriculture" represents firms engaged in agriculture, forestry, and fishing for commercial purposes while "Subsistence" refers to household that produce for own consumption.

Figure 6. Change in Unemployment Landscape from 2012 to 2018 1/



Sources: National Labor Force Surveys; and IMF staff estimates.

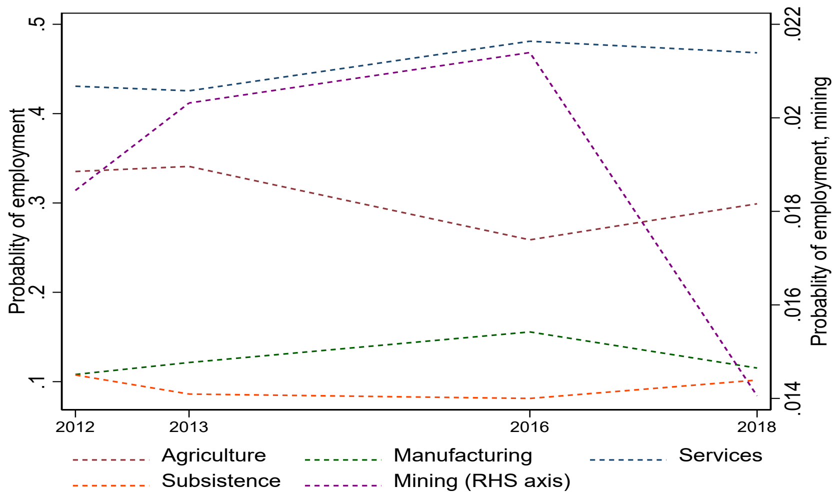
1/ Data for 2023 was collected as part of the Labor module in the 2023 National Census and therefore does not have granular information on the unemployment landscape. Hence, we compare the earliest and latest data available on unemployment for Namibia.

C. Service Sector Labor Productivity

10. **If current oil and gas exploration projects in Namibia result in investment decisions and extraction, employment opportunities could arise in the services sector that support extraction activities—many of which primarily employ youth.** Service industries, such as retail, trade, accommodation, and food services are well suited to this expansion. However, for workers to take full advantage, they must have the required skills.

11. **While there was employment growth in the services sector, labor productivity has remained low.** Using data from Dieppe and Matsuoka (2021), labor productivity and employment trends across sectors and over time in Namibia are compared to those in other resources-intensive countries in SSA. Between 1995 and 2018, employment in services increased, but labor productivity showed no improvement (Figure 9). To help make service jobs more rewarding for the youth, it is important to investigate the root causes of low productivity.

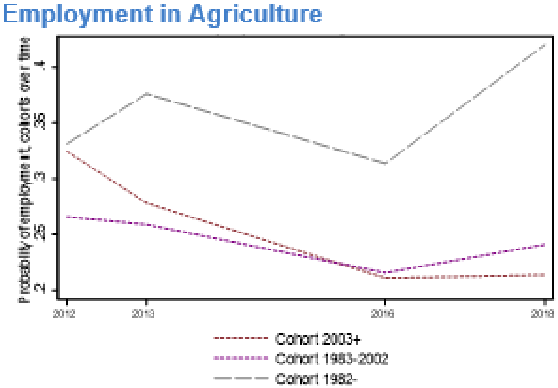
Figure 7. Sectoral Dynamics of Unemployment



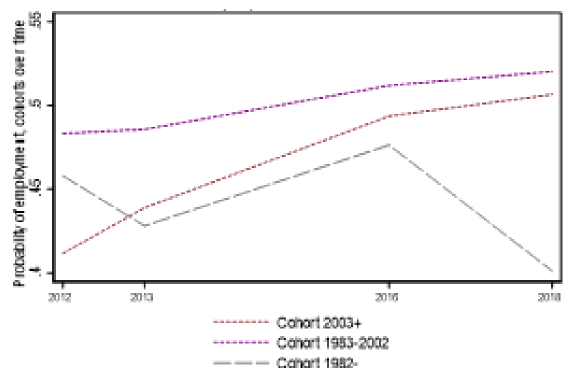
Sources: National Labor Force Surveys; and IMF staff estimates.

Figure 8. Tracing Cohorts Over Time

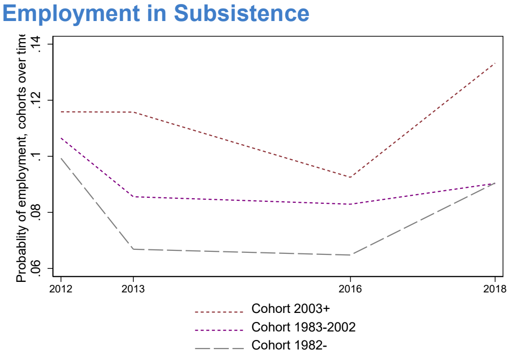
Employment in Agriculture



Employment in Services



Employment in Subsistence



Sources: National Labor Force Surveys; and IMF staff estimates.

12. To examine labor productivity in the services sector between 1995 and 2018, a shift share analysis is used. Following de Vries et al. (2012), McMillan et al. (2014) and Diao et al. (2018), aggregate labor productivity is decomposed into the within-sector and between-sector effects as follows:

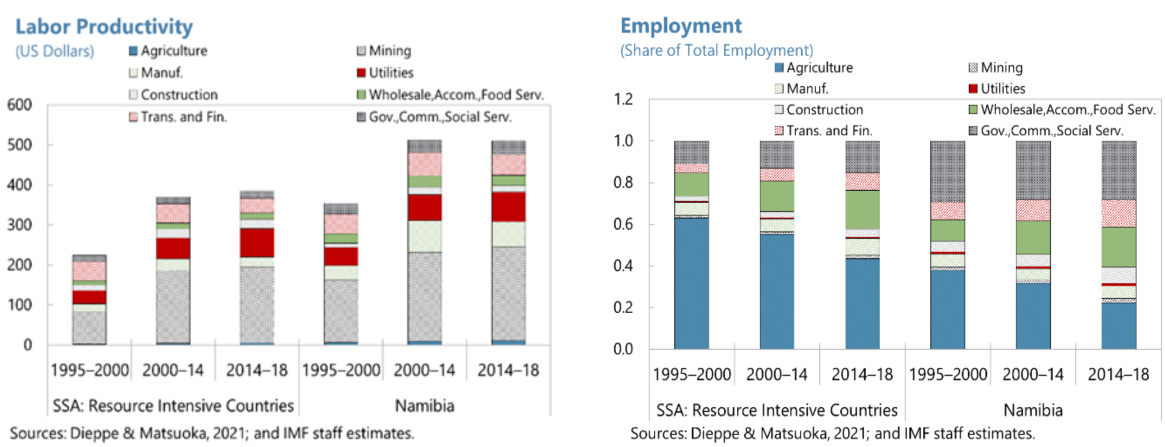
$$\underbrace{\frac{\Delta y}{y}}_{\text{Aggregate}} = \underbrace{\sum_{j=1}^{k} \frac{y_j}{y}\left[\frac{\Delta y_j}{y_j}\right]}_{\text{Within}-j} + \underbrace{\underbrace{\sum_{j=1}^{k}\left[\frac{y_j}{y}\right]\Delta s_j}_{\text{Static}} + \underbrace{\sum_{j=1}^{k}\left[\frac{y_j}{y}\left[\frac{\Delta y_j}{y_j}\right]\Delta s_j\right]}_{\text{Dynamic}}}_{\text{Between}} \quad (1)$$

where, y is aggregate labor productivity, y_j is labor productivity of sector j, Y_j is initial value-added of sector j, and s_j is the employment share of sector j.

a. **Within-sector** productivity growth reflects the effects of improvements in human capital, investments in physical capital, technological advantages, or the reallocation of resources from the least to the most productive firms within each sector.

b. **Between-sector** effects are driven by the change in employment share across sectors.

Figure 9. Sectoral Labor Productivity and Employment

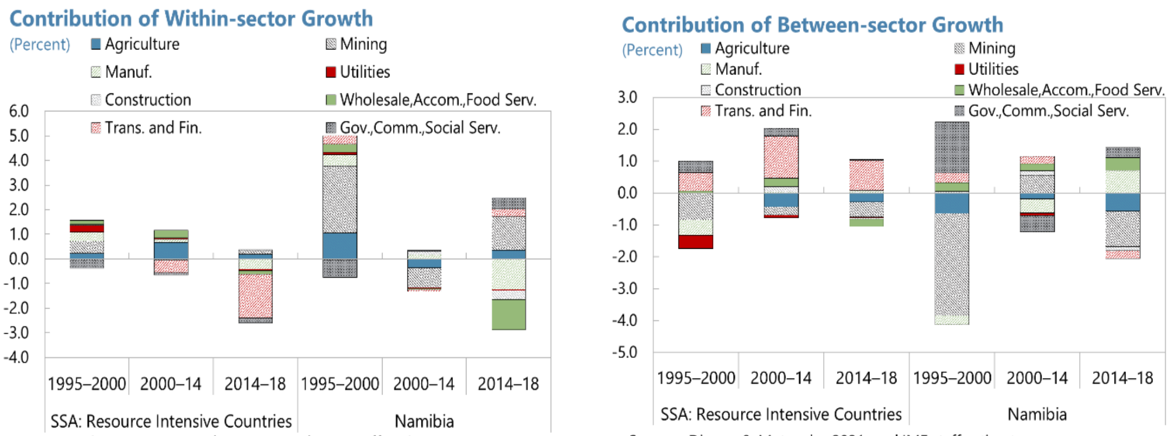


13. Within-sector productivity growth was negative while between-sector productivity growth was positive in Namibia during 1995-2018:

a. **Within-sector** productivity growth for services was negative, indicating a reallocation of resources towards less productive firms (Figure 10). The service sector likely hires youth not because of high skills but because they are willing to work at lower wages.

b. **Between-sector** productivity was positive, indicating that labor moves towards services which has higher productivity than other sectors (Figure 10). This captures the movement from agriculture, a sector with relatively lower productivity, to services which has relatively higher productivity.

Figure 10. Shift-Share Decomposition



Sources: Dieppe & Matsuoka, 2021; and IMF staff estimates.

Sources: Dieppe & Matsuoka, 2021; and IMF staff estimates.

D. Conclusion and Policy Recommendations

14. Namibia has experienced notable growth since independence, but in recent real GDP per capita growth has slowed, while unemployment and inequality have remained high. While the country's resource-intensive sectors contribute significantly to GDP, their capital-intensive nature limits direct employment opportunities, exacerbating labor market challenges. Additionally, Namibia's labor market exhibits stark regional disparities, with urban areas experiencing high unemployment and rural regions dominated by informality.

15. While labor has shifted toward services, which are more productive than agriculture, the sector's productivity has been declining, and resources are not allocated to the relatively more productive firms. The growth in youth employment in services seems driven more by low wages rather than high skills.

16. Long-term economic resilience requires a shift toward a more diversified and dynamic economy, reducing the dependence on the extractive sector. Oil exploration presents an opportunity to bolster growth, but polices are needed to ensure that its benefits are broadly distributed to avoid exacerbating inequality and unemployment. Strengthening education, vocational training, and private sector engagement will be critical in fostering a more inclusive labor market.

17. In this context, policy priorities include:

- **Addressing skills mismatches and skill gaps**. Skill gaps and skill mismatches are significant challenges; however, more recent data are needed to inform policy actions. The last skills audit, from 2006, is extremely outdated. A crucial first step is to collect new data on skill mismatches and gaps. On the supply side, the national education and TVET system should develop a strategy to train workers with requisite skills and qualifications.[5] This is a foundation for fostering stronger linkages between the mining sector and the local economy.

- **Balancing the need to foster local economy and a conducive environment for the oil and gas industry**. The oil and gas industry is highly capital-intensive and requires complex and specialized technology, limiting both forward and backward linkages to the domestic economy (Tordo et al., 2013).[6] Overly ambitious local content targets could cause supply bottlenecks. With the recent passage of a local content policy bill, careful implementation to strike a balance between attracting FDI while ensuring tangible benefits for the local economy is essential.

- **Implementing a comprehensive and consistent labor market strategy.** Addressing youth unemployment, skill mismatches, and skill gaps requires greater policy alignment. Strengthening the education and TVET systems, implementing a balanced local content policy, prioritizing infrastructure, and reducing regulatory barriers will be key to enhancing labor market resilience and economic diversification.

[5] Approaches for generating fiscal space to support TVET activities differ from one country to another. For example, since Botswana spent almost half of its social spending on tertiary education, redirecting public funding from tertiary education to vocational training and various social programs could help improve social protection's ability to reduce poverty and inequality (IMF Selected Issues. Paper No. 24/287).

[6] Backward linkages include supplying input to the local economy through technology transfer, local ownership and control, and local employment opportunities. Forward linkages include processing output before exporting. For example, through establishment of refineries etc.

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