



BON DISCUSSION NOTE: THE IMPACT OF THE COVID-19 PANDEMIC ON THE TOURISM INDUSTRY¹

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The COVID-19 pandemic devastated Namibia's tourism industry during 2020 as tourist arrivals via airports fell sharply following the closure of borders and the subsequent cancellation of both regional and international flights. The purpose of this note is to assess the impact of COVID-19 on the tourism industry and the possible actions taken by the enterprises in response to the pandemic. Results from a survey of tourism businesses show that they were severely impacted and recorded significantly lower booking levels in 2020 compared to 2019. Similarly, tourism revenue declined considerably, resulting in employment losses as over 80 percent of the surveyed businesses reduced staff numbers and consequently reduced wages and salaries. Key challenges for the tourism businesses were a reduction in demand and inability to repay loans. In addition, only 24 percent of the surveyed businesses have accessed the government stimulus support packages. Notwithstanding the negative impact of COVID-19, the tourism businesses are optimistic about the future prospects for their business operations on the back of the ongoing global distribution of coronavirus vaccines.

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2 The views expressed in this note are those of the authors and do not necessarily reflect those of the Bank of Namibia. For helpful comments, the authors thank the colleagues from the Research and Financial Stability Department, Editorial Committee as well as Monetary Policy Committee Members. Published as part of the Bank of Namibia Annual Report 2020.

TABLE OF CONTENTS

1. INTRODUCTION	3
2. MACRO DEVELOPMENTS	3
3. MICRO DEVELOPMENTS	5
3.1 Overview	5
3.2 Business impact from a booking, financial, operational, and staffing perspective	6
3.3 Business response	8
3.4 Business challenges	8
3.5 Support measures	9
3.6 Current concerns	10
4. CONCLUSION	10

1. INTRODUCTION

Prior to the COVID-19 pandemic, Namibia enjoyed an increasing number of tourist arrivals with a target set for between 1.5 and 2 million arrivals in 2020. The arrival target, however, was not realised due to the COVID-19 pandemic. Namibia registered its initial COVID-19 case on 13 of March 2020. Four days later, on the 17th of March 2020, a state of emergency was declared by the President. The state of emergency comprised of aggressive measures such as travel bans and restrictions as well as a lockdown with the sole purpose to contain the spread of COVID-19. As a result, total tourist arrivals via airports during 2020 declined drastically by 81.9 percent compared to a decline of 8.6 percent registered in 2019 - from March to December 2020 the year-on-year decline was 97.8 percent.

The COVID-19 pandemic has devastated Namibia's tourism industry with an unprecedented impact on firms' employment and earnings. Based on GDP data, the hotels and restaurants subsector which serves as proxy for the tourism sector was severely affected by the COVID-19 pandemic which led to a halt in tourism activity, particularly regional and

international travel. Most of the firms in the sector are small and medium enterprises with limited access to financial resources, thus limiting the ability for some of the firms to survive the shock for a prolonged period. In response to the pandemic, some of the enterprises closed while others significantly cut their operations, consequently resulting in loss of revenue and reduced employment levels.

This note takes stock of developments in the tourism sector during the pandemic by first looking at the impact of COVID-19 on the macro indicators at an industry level before delving into the results of the tourism survey. The note aims to assess the impact that COVID-19 has had on the Namibian tourism industry in 2020. The survey was sent to 128 tourism member establishments of the Hospitality Association of Namibia (HAN). Out of 128 surveyed companies, only 55 responded, thus resulting in a response rate of 42.9 percent. Although the response rate is low, some of the entities that responded are large and have many tourism establishments under their umbrella or groups.

2. MACRO DEVELOPMENTS

Foreign tourist arrivals via airports fell sharply during 2020 due to the COVID-19 restrictions.

International tourist arrivals from a global perspective are estimated to have declined by 74 percent from 1 461 million in 2019 to 381 million tourist arrivals (UNWTO, 2021). In terms of foreign tourists visiting Namibia, the total number of arrivals declined by 81.9 percent following the closure of borders and the subsequent cancellation of both regional and international flights (Figure 1a). The greatest impact was felt during the months of April 2020 and May 2020 after the domestic lockdown restrictions came into force during the last week of March 2020. During this period, tourist arrivals were effectively reduced to a mere 432 arrivals compared to 84 688 arrivals during the same period in 2019. The number of arrivals referred to above mainly included returning Namibian nationals who resided abroad, implying, that the foreign tourist component in the number of arrivals after March 2020 was extremely low. Moreover, about 2 145 Namibian nationals were repatriated between June and August 2020. Most of them were required to quarantine in tourism related facilities and this slightly cushioned some of the tourism establishments from complete shutdown.

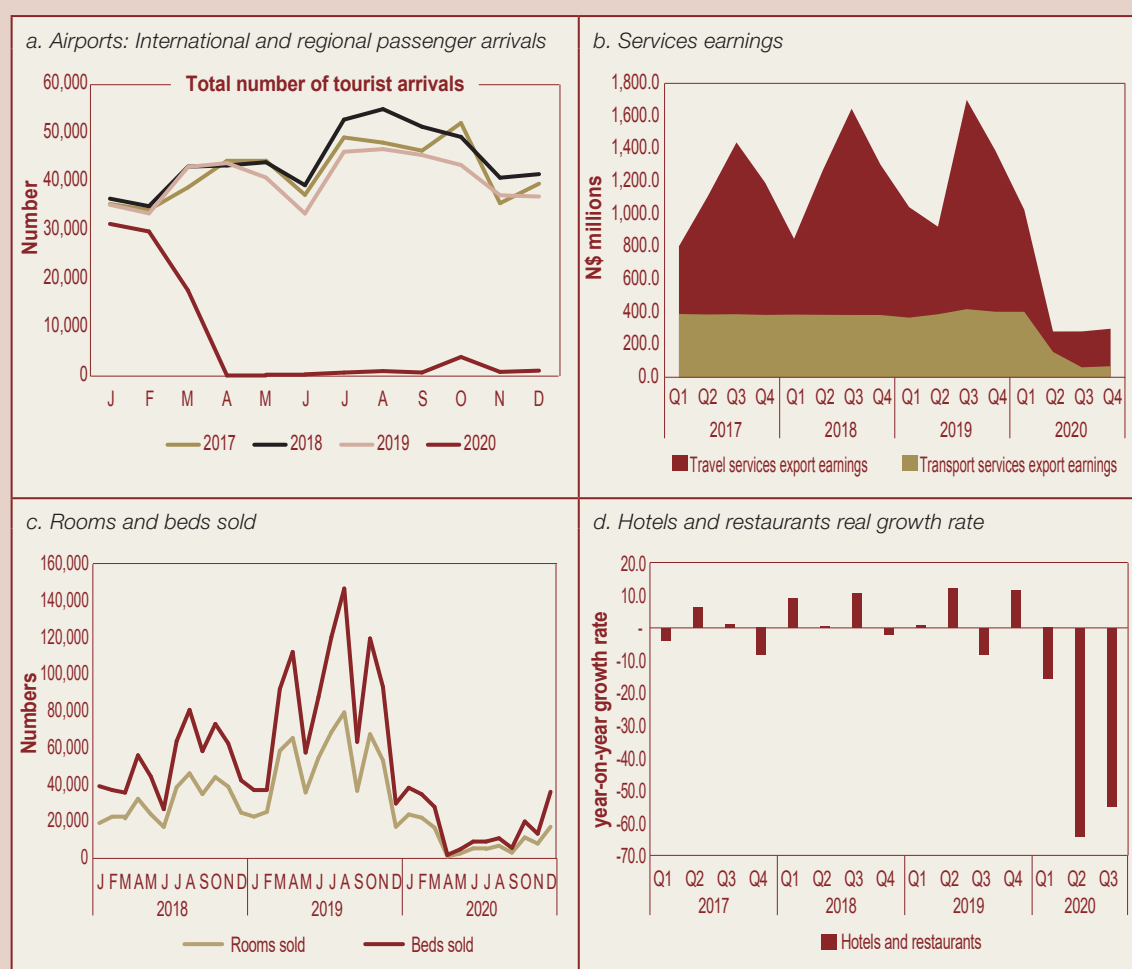
The country's borders remained closed in the subsequent months until September 2020 when the international tourism revival initiative was introduced with the aim of aiding the struggling tourism industry. Arrivals picked up somewhat from the low levels recorded during the lockdowns period, resulting in a cumulative number of 6 686 tourists coming to Namibia between September 2020 and December 2020. It nevertheless was only 4 percent of the number of tourists visiting Namibia during the corresponding period in 2019. The second wave of COVID-19 infections and the lockdown measures in key European countries contributed to the low arrival numbers during this period. This in turn contributed to a slow recovery in Namibia's tourism industry which depends heavily on both regional and international arrivals.

Similarly, foreign currency earnings from travel and passenger transportation services were severely reduced during 2020. Prior to the COVID-19 pandemic, travel services were the third biggest contributor to the country's export earnings following minerals and fish products. In the country's

balance of payments, travel services mainly consist of expenditure by tourists on accommodation, food, and local transport services. The policy measures in response to the pandemic severely impacted earnings from travel services, which resulted in the country losing about N\$3.2 billion in export revenue during 2020, with receipts down to N\$1.9 billion compared to N\$5.1 billion received in 2019 (Figure 1b). Consistent with the sharp fall in earnings from travel services, passenger transportation services

receipts also declined considerably as the pandemic wreaked havoc on earnings of airlines and road transport companies operating in the domestic market. Therefore, given the events surrounding international and regional travel, the services account in the balance of payments was negatively affected in 2020 and the country is likely to continue registering lower travel related inflows of foreign currencies until the tourism sector fully recovers.

FIGURE 1(a-d) AIRPORT ARRIVALS AND EARNINGS



Source: HAN, NSA and Namibia Airports Company

The sudden drop in both regional and international arrivals was reflected in low numbers of rooms and beds sold, although domestic tourism sustained the industry during the latter part of the year. The total number of beds and rooms sold plummeted throughout 2020, as travel restrictions were imposed, and this reduced the movements across Namibia. A partial recovery was observed during the last quarter of 2020 in line with the festive season travel of domestic tourists. Generally, prices for

rooms were cut dramatically during the year in order to attract domestic tourists, although the spending power of local tourists remained relatively low as most tend to opt for cheaper accommodation options; cheaper food selections and less or no tourism activities such as game drives and hiking. Activity in the tourism industry was also sustained by the use of some facilities (lodges and hotels) as quarantine facilities by the Ministry of Health and Social Services. The low levels of rooms and beds sold was in line with the deep contractions

during the first three quarters of 2020 recorded in the hotels and restaurants sector, which serves as proxy for the tourism sector (Figure 1.d).

The tourism sector is one of the biggest contributors to employment in Namibia. The tourism industry employed 83 056 people as per the 2018 Labour Force Survey, referred to as “accommodation and food service activities”, making it the second largest contributor to employment. About 31 percent of employment in the sector was formal, while the remaining 69 percent was informally employed. The COVID-19 pandemic has dramatically

changed this with retrenchments, and a reduction in work hours reported across the industry. In the absence of timely employment statistics, estimating job losses in the sector, particularly in the informal market, is quite difficult. The results from the 2020 Bank of Namibia survey shows an average reduction of about 30 percent in employment numbers in 2020 compared to 2019, due to the impact of the COVID-19 pandemic. This equates to about 7 830³ formal job losses across the board. The loss of jobs in the sector is likely to be much worse should informal job losses data be available.

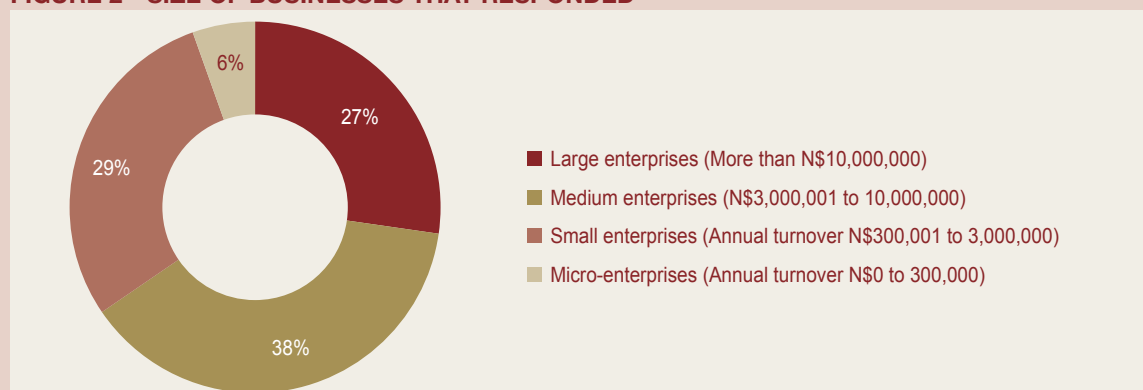
3. MICRO DEVELOPMENTS

3.1 OVERVIEW

The Bank undertook a survey to get a deeper understanding on how COVID-19 affected individual businesses in the tourism sector. The purpose of the survey was to gather data at a micro level to assess the impact of the COVID-19 pandemic on the tourism establishments and the actions the industry took in response to the pandemic, including the effectiveness of the recent support measures received. This section presents the results from the tourism survey that was conducted by the Research and Financial Stability Department of the Bank. An online survey was sent to a sample of 128 businesses,

resulting in a 42.9 response rate. The survey gathered data across the industry with the biggest number of responses coming from Small and Medium Enterprises (SMEs) representing a collective share of 67.2 percent of responses received (Figure 2). These were mainly businesses with annual turnover of less than N\$10 million, largely comprising of bed and breakfast establishments, guesthouses, lodges, and small hotels. The share of large businesses was 27 percent, which included some of the big tourism groups each with numerous establishments falling under their group.

FIGURE 2 SIZE OF BUSINESSES THAT RESPONDED



Source: BoN

3 The formal job losses were estimated using the 26 100 formal employment count in the tourism sector as per the 2018 Labour Force Survey and applying a factor of 30 percent job losses as reported in the BON 2020 survey.

3.2 BUSINESS IMPACT FROM A BOOKING, FINANCIAL, OPERATIONAL, AND STAFFING PERSPECTIVE

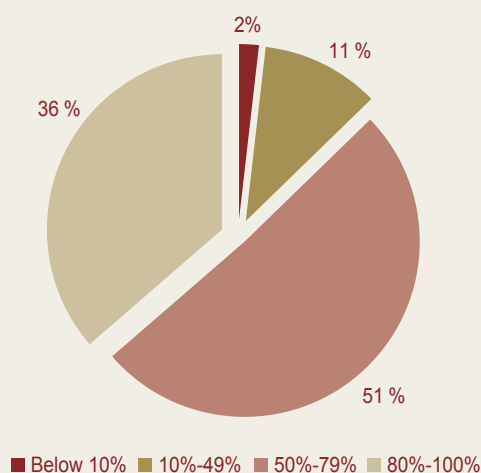
The COVID-19 pandemic negatively affected bookings, revenue, and operations during 2020.

The impact of COVID-19 on tourism businesses was dire during 2020 as booking levels fell below 10 percent of capacity for 69 percent of the businesses, compared to only 2 percent of businesses that had bookings below 10 percent in 2019 (Figure 3.a and 3.b). This consequently had a dampening effect on revenue as 84 percent of businesses in the sector on average lost more than 50 percent of normal revenue (Figure 3.c). The low demand resulted in very few businesses being able to operate at full capacity -

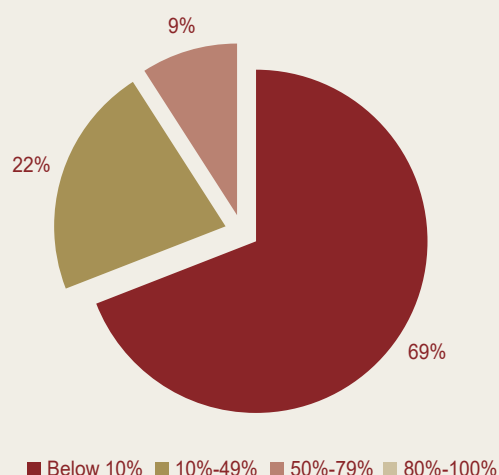
only 24 percent of businesses were fully functional as of November 2020 (Figure 3.d). 64 percent of the surveyed businesses were active with reduced staff, whilst 11 percent of the businesses were temporarily closed due to the COVID-19 pandemic. Regarding business closure, only 2 percent of businesses indicated that they were fully closed, which were mostly rest camps. This figure is biased as closed businesses were unlikely to have responded to the survey. Other operational challenges include depletion of cash reserves and lack of working capital to run the firm's daily operations (Figure 4).

FIGURE 3 (a-d) BUSINESSES IMPACT

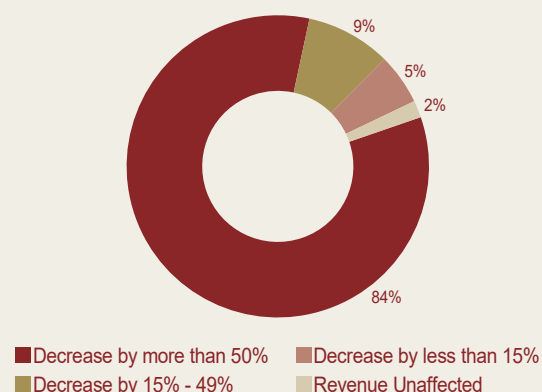
a. Please indicate your booking level in 2019 (full year)?



b. Please indicate your booking level in 2020 (From January 2020 to November 2020)?



c. How has the COVID-19 pandemic negatively impacted your revenue in 2020?



d. The status of the businesses

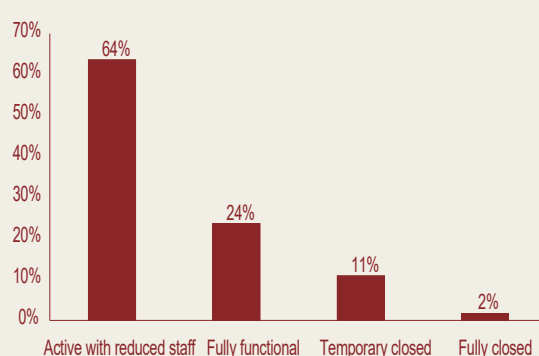
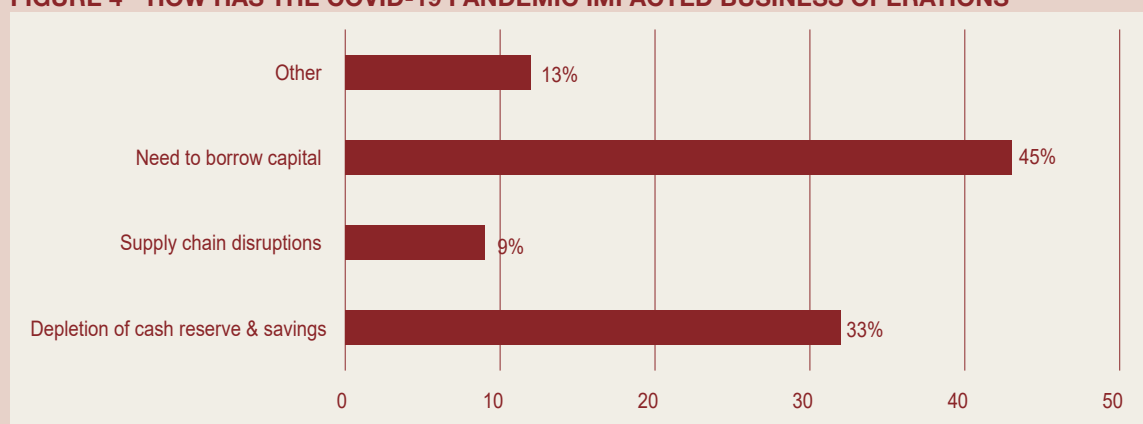


FIGURE 4 HOW HAS THE COVID-19 PANDEMIC IMPACTED BUSINESS OPERATIONS

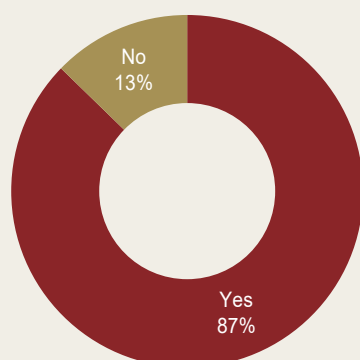


Employment and number of hours worked have declined significantly as businesses reduced operational costs. Over 80 percent of businesses have reduced staff numbers, while staff numbers remained the same for 16 percent of businesses when compared to a year earlier. The results indicate that 87 percent of the tourism businesses reduced wages/salaries while only 13 percent kept wages/salaries unchanged (Figure 5a). Of those businesses that reduced their wages and salaries, the majority (49 percent) cut them by between 26 percent and

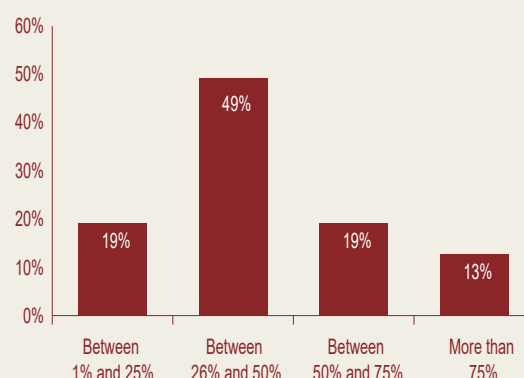
50 percent while 13 percent of the businesses cut wages and salaries by over 75 percent (Figure 5.b). In terms of business size, micro and medium enterprises had the largest share of reduced wages and salaries in the category of 75 percent and more. About half of the businesses that made some of their employees redundant, managed to do so to a fairly limited extent, reducing their staff number by less than 25 percent, while at the opposite extreme of the spectrum 15 percent of the businesses reduced their staff on a severe scale, by more than 75 percent.

FIGURE 5 (a-d) WAGES AND SALARIES

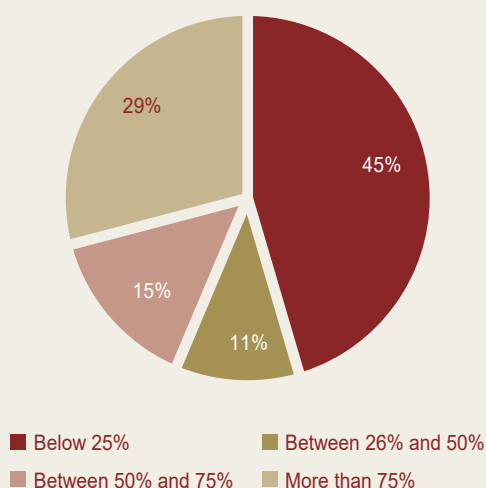
a. Has the business reduced wages and salaries in 2020?



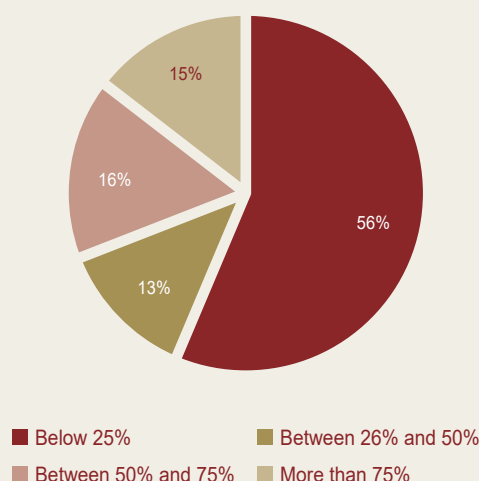
b. Percentage of businesses in each wage reduction interval (As of November 2020)



c. Percentage of businesses that reduced hours/days, by severity of the reduction (As of November 2020)



d. Percentage of businesses that made employees redundant, by severity of staff reduction (As of November 2020)



3.3 BUSINESS RESPONSE

The strategy most businesses took to mitigate the impact of COVID-19 pandemic was largely through a reduction in fees and rates. In an effort to ease the impact of the pandemic, most companies opted to cut their rates as well as undertaking increased advertising. The focus shifted to attracting local tourist by lowering prices. Many

of the tourism enterprises also significantly cut their operational costs while a few temporarily closed their businesses. A moderate number of enterprises indicated that they do not have strategies in place but are rather relying on Government policy and prefer to wait until the impact of COVID-19 pandemic has faded.

3.4 BUSINESS CHALLENGES

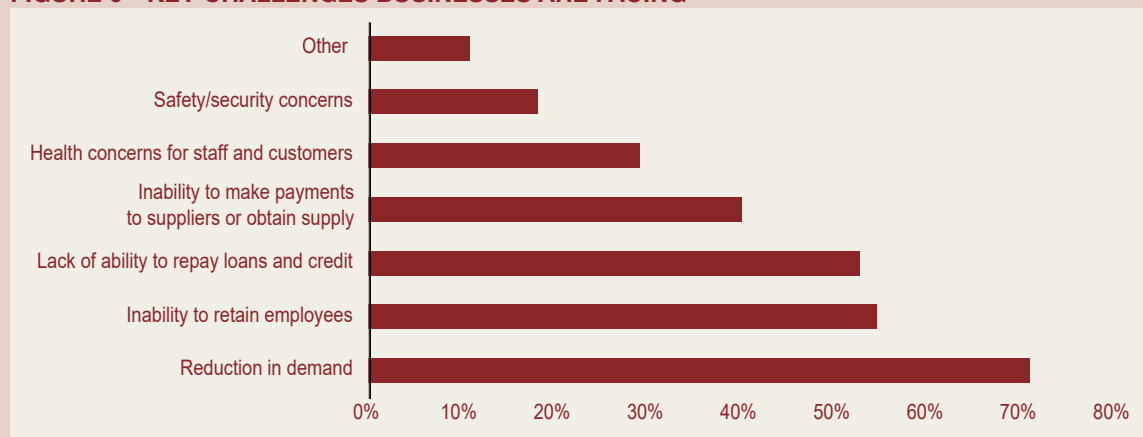
The top challenges cited by tourism businesses were a reduction in demand, inability to retain employees as well as a lack of ability to repay loans. Both domestic and foreign demand for tourism activity were a key challenge during 2020,

primarily because of consumer confidence as well as the closure or near closure of borders that was in force for about 7 months. The second biggest concern identified was inability to retain employees due to a loss of revenue. The lack of ability to

repay loans was also one of the biggest concerns by businesses in the sector as their revenue was affected (Figure 6). Furthermore, the second wave of COVID-19 infections in Europe was a major concern for the businesses, especially those that rely

heavily on international tourists. Amongst the other challenges highlighted by some businesses was the rising food prices, scarcity or delay of products from South Africa and the widespread uncertainty and lack of information.

FIGURE 6 KEY CHALLENGES BUSINESSES ARE FACING

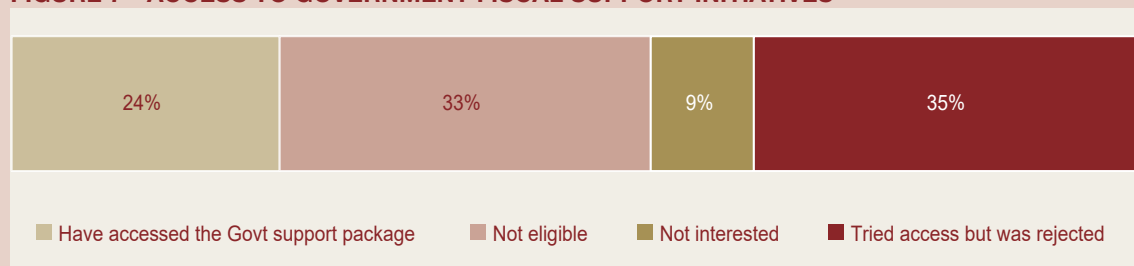


3.5 SUPPORT MEASURES

Businesses in the tourism sector benefited partly from the fiscal and monetary relief measures. The Namibia Government rolled out an economic stimulus and relief package to support businesses that were hit hard by the COVID-19 pandemic. This included amongst others a wage subsidy, tax-back loan scheme as well as more speedy VAT refunds. In this regard, 24 percent of the businesses have accessed the government stimulus support packages, with 44 percent of the businesses having accessed the government wage subsidy whereas 27 percent received more speedy VAT refunds and payment from Government for invoices (Figure 7). A handful of businesses raised ongoing concerns regarding delays in VAT refunds, with a

few indicating that the outstanding VAT refunds due to them have been outstanding for several years. Moreover, about 33 percent of all businesses indicated they were not eligible for government support, while over 30 percent of the businesses tried to access government support, but their applications were rejected. This could be attributed to the conditions⁴ that businesses needed to fulfil to participate in schemes such as the wage subsidy. On another note, 9 percent of the businesses indicated no interest at all in government support. Regarding the regulatory relief measures introduced and facilitated by Bank of Namibia, 24 percent of businesses managed to get repayment holidays on their loans with the commercial banks.

FIGURE 7 ACCESS TO GOVERNMENT FISCAL SUPPORT INITIATIVES



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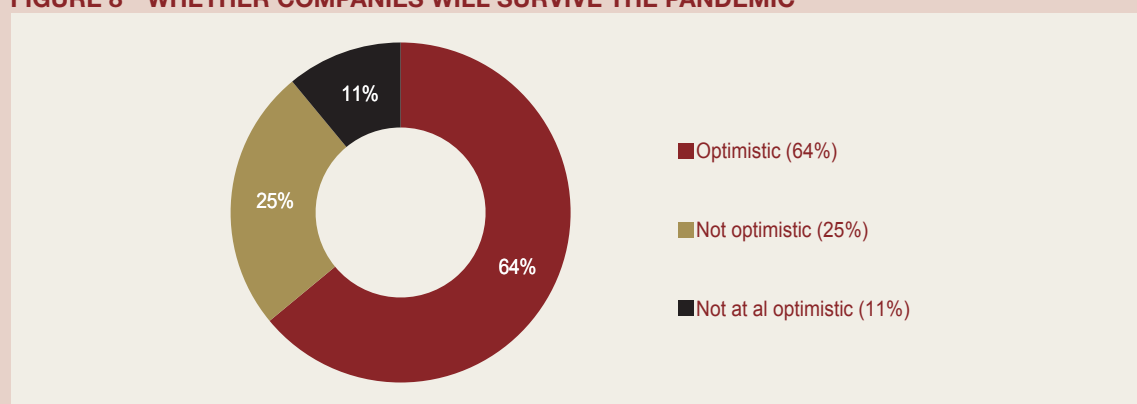
Businesses were expected not to retrench staff between April and June as well as not to reduce salaries by more than 50 percent in order to be eligible for the scheme.

3.6 CURRENT CONCERNS

Most of the businesses were optimistic in terms of the way forward, mainly attributable to the imminent distribution of COVID-19 vaccines across the globe. Although the COVID-19 crisis continues, most tourism businesses (64 percent) are optimistic about the prospects for their business operations. This is more prevalent in small and medium businesses as the overhead costs as well as the debt levels are much lower when compared to larger enterprises. The optimism is attributable to the ongoing global development (at the time of the survey) and imminent distribution of vaccines which

is envisaged to contribute positively to the revival of economic activity and tourism. The majority of companies do not expect tourism activities to recover in 2021 but to pick up gradually and start recovering in 2022. Also, the challenge will be that even if business activities pick up, they are not expecting their revenue to improve that much as most of the money, in the form of prepayments or deposits received from those customers who postponed their visits, was already spent in 2020 by the business on sustaining their operations.

FIGURE 8 WHETHER COMPANIES WILL SURVIVE THE PANDEMIC



4. CONCLUSION

This note reviewed the developments in the tourism industry, looking at the impact of the COVID-19 pandemic in terms of both the macro and micro level. The pandemic negatively affected foreign tourist arrivals in Namibia, resulting in a severe decline in export revenue, employment, and overall contribution of the hotel and restaurant sector to GDP. The findings indicate that foreign tourist arrivals, bookings and revenue fell sharply during 2020 mainly caused by the COVID-19 restrictions. Key challenges experienced by the enterprises in the tourism sector include lack of demand and inability to retain employees and repay loans. Some tourism

businesses also benefited to some degree from the government relief packages that included amongst others a wage subsidy, tax-back loan scheme as well as faster VAT refunds. Regulatory relief measures introduced by Bank of Namibia, also partially supported businesses in terms of repayment holidays on their loans with the commercial banks. Although the COVID-19 crisis still prevails, most tourism businesses are optimistic about the prospects for their business operations as the ongoing global distribution of vaccines is envisioned to contribute positively to the revival of the tourism sector.