1.0 Background

The Russian Federation and Ukraine are two big players in the global supply of key agricultural products such as food products and fertilizers, as well as in the oil, gas, and mining industries. In 2021, either of the two countries, or both, ranked amongst the top three global exporters of wheat, maize, rapeseed, and sunflower oil and seeds. For instance, the Russian Federation stood as the world’s top exporter of wheat and nitrogen fertilizers, the second leading exporter of potassium fertilizers, and the third largest exporter of phosphorus fertilizers.1 On other hand, Ukraine came as the highest producer of sunflower oil in the global economy, with the Russian Federation coming second.2 In terms of crude oil production, the Russian Federation comes third in the world after the United States and Saudi Arabia.3

Given the strategic position of the Russian Federation and Ukraine in the global export markets of key commodities, and the interconnectedness of the world, the ongoing conflict between the two countries is bound to have a significant impact on the economies of countries, especially those that are highly dependent on them for the imports of food products, fertilizers, and petroleum products. This includes those in least developed countries, low-income food deficit countries, and emerging economies and upper middle-income countries.

The conflict comes at a time when the world including Africa is gradually recovering from the adverse impacts of the COVID-19 pandemic including the high international food and fertilizer prices. Therefore, the Russia-Ukraine conflict will potentially trigger several socio-economic threats that will further challenge economic growth and the achievement of the 2030 Agenda for Sustainable Development for the continent. Namibia is no exception to this reality as an upper middle-income country. The conflict’s adverse impacts such as uncertainty in global financial markets and supply-chain disruptions of vital food and crude oil products present major challenges for Namibia, which is already reeling under the impact of COVID-19 and economic deceleration. The conflict will potentially enhance already existing socio-economic challenges linked to food insecurity and elevated poverty, inequality, macroeconomic instability, and unemployment. Recent citizen unrests in the country are an added cause of concern.4

While it is still early to fully assess the medium-to long-term impact of the Russian-Ukraine conflict on the Namibian economy and the population, its emerging short-term impact in this policy brief has been assessed through the following channels: economic growth, supply of key commodities and their prevailing prices, the diamond mining sector, and the fiscal environment and debt management of the country. Effort has been made to also advance policy recommendations that can be adopted by the Government of Namibia to help mitigate any negative impact that have been caused by the conflict.

---

2 The Observatory of Economic Complexity (2020). Sunflower seed or safflower, crude.
2.0 Potential impact on economic growth

2.1 GDP Growth

Namibia, much like other African countries, is facing challenges of recovering its economy from the negative impacts of the COVID-19 pandemic. This is attributed largely to global and local supply chain disruptions, layoffs, and spreading of uncertainty across the economy. This in turn, has led to reductions in consumer spending, business investment, and government and trade related revenue.\(^5\) The situation dampened the rate of economic growth in the economy and resulted in inflated prices for energy and food products, as well as imported commodities, and impact on primary commodity exports, leading to a contraction in GDP growth of 8.5% in 2020 (see Figure 1).

**Figure 1: GDP Growth (Annual %)**

![GDP Growth (Annual %)](image)

Source: Bank of Namibia, 2022-Data for 2022 and 2023 are forecasts

Namibia’s slow economic recovery of 0.9% in 2021 and the recent growth forecasts of 3.4% and 3.7% for 2022 and 2023,\(^6\) respectively, present a steady and optimistic growth recovery pathway for the country compared to the preceding years (see Figure 1). The positive outlook is contingent on good performance in various industries including the diamond mining sector, which has been estimated by the Bank of Namibia to increase by 26.2% and 16.5% in 2022 and 2023, respectively.\(^7\) These projections were made prior to the unexpected Russia-Ukraine conflict.

The evolving Russia-Ukraine conflict is likely to push the Namibian economy in a downward direction if those industries that are envisaged to spur economic growth are negatively impacted. If such happens, it will further deepen the socio-economic challenges the country is already experiencing especially with regards to severe multidimensional poverty of 43.3%; a high fiscal deficit of 8.6% of GDP for fiscal year 2021/2022, which has been projected to reduce to 5.6% of GDP in fiscal year 2022/2023\(^8\); high youth unemployment of 46.1%\(^9\); and high inequality level of 56.0.\(^10\)

3.0 Potential impact on supply of key commodities and implications on prices

As noted earlier, Russia and Ukraine are amongst the most prominent players in global trade and producers of food and agricultural products including wheat, sunflower oil and seeds, barley, and fertilizers. The two countries account for 18% and 9% of the global wheat exports; 17% and 36% of sunflower oil and seeds exports; and 12% and 11% of barley exports, respectively, (see Figure 2).\(^11\) In addition, it is estimated that nearly 50 countries source 30% of their wheat imports from the two countries.\(^12\)

---

\(^7\) Bank of Namibia, 2022. Economic Outlook update. Bank of Namibia
\(^12\) UNCTAD (2022). The Impact on Trade and Development of the War in Ukraine. UNCTAD Rapid Assessment.
\(^13\) FAO (2022). Impact of the Ukraine-Russia conflict on global food security
A key impact of the conflict is a steep reduction of wheat and sunflower oil exports from both countries, which is causing further challenges for food security in countries that depend heavily on them for their imports. Namibia is one of such countries that is heavily dependent of wheat imports from the Russian Federation.

In 2020, Namibia imported nearly 60% of wheat from the Russian Federation (see Figure 3).\(^{14}\) In 2021, this number increased to 64% of wheat imports from the Russian Federation.\(^{15}\) The situation is now evolving into inflationary pressures for many Namibians, with the price of food and other products increasing on the local market. Market conditions, prior to the conflict, already presented high food prices, which have become even more volatile due to the ongoing conflict.

Considering the inflation of wheat products due to supply chain constraints being experienced, this could enhance food insecurity in the country, especially for Namibia’s most vulnerable communities, thus ultimately forcing them to find alternatives that might not be nutritionally beneficial.

According to the Namibia Statistics Agency, imports from Russia have moderately declined from 1.3% in January to 0% in March (see Figure 4).\(^{16}\) This could be a manifestation of disruptions in trade between Namibia and Russia because of the conflict. During the same period, Namibia did not appear to have any direct imports link between itself and Ukraine, especially for wheat imports, as demonstrated in Figures 3 & 4.

---


15 FAO (2022). Impact of the Ukraine-Russia conflict on global food security.

The conflict, the economic sanctions it triggered on Russia, and disruptions in the Black Sea trading routes have further increased trade costs and uncertainty about international fertilizer trade.19 Prior to the conflict, the Southern Africa region was already heavily dependent on imports for its supply of fertilizers. According to the UN Comtrade data for 2020, South Africa imported 11% of its fertilizers from Russia and Namibia only 4%. Although Namibia depends less on fertilizer imports from Russia, it imports 98% of its fertilizers from South Africa.20 The high dependency on South Africa for fertilizer makes the country vulnerable to economic shocks caused by the conflict, which will further disrupt agricultural processes and productivity in Namibia. This will mean further high costs for food, thus a high potential for food insecurity crisis for the country.

### 3.2 Domestic inflation

Namibia’s annual average inflation rate has accelerated from 2.2% in 2020 to 3.6% in 2021.21 This is mainly attributed to rising cost of petrol, food, and housing. Domestic inflation was recorded at 4.6% in January 2022 and marginally declined to 4.5% in February 2022 due to lower inflation for transport and food, while housing inflation remained stagnant (see Figure 5).

---


Inflation has been projected to increase to 5.6% in May, which can be attributed to the impact of the Russia-Ukraine conflict on account of supply constraints of key commodities such food and petroleum products in the Namibian economy (see Figure 5).

In contrast to the annual domestic inflation, transport, food, and non-alcoholic beverages experienced the highest inflationary price increases in April and are also seen as the main drivers of the annual inflation rate (see Figure 6). In view of supply chain disruptions and inflationary pressures on Namibian consumers, caused by the impact of the conflict, this is likely to limit their ability to access food, transport, health, and education services. The situation could be dire in low-income households due to their low purchasing power and vulnerable state in relation to further economic shocks.

The rising supply chain disruptions present a potential spike in domestic inflation due to the increase in commodity prices in the global market. This has the potential to invoke action from the Bank of Namibia to increase the interest rate in a drive to curtail rising inflation. Such action, in the short-term, could present a bleak outcome for the economy in terms of its ability to attract investment, reduce poverty and inequality, achieve macroeconomic stability, and create decent employment and wealth for all Namibians, especially its vulnerable youth amongst which 46.1% are unemployed.

3.2 Crude oil prices

Crude oil is one of the commodities negatively affected by the conflict, resulting in the upward

---


direction of crude oil prices due to supply constraints of the product in the global economy, especially at the onset of the conflict.

**Figure 7: Petrol and Diesel per litre price**

This exponential increase in crude oil prices is clear in Namibia, where petrol and diesel prices have increased by N$3.15 and N$4.25, respectively, between February and April 2022 (see Figure 7). The rise in the prices of petrol and diesel have also triggered price increases in food and non-food commodities due to high transportation costs. This has the potential to also impact on the housing market through hike in the prices of building materials and possibly mortgage and rent. Although the petrol and diesel prices have started to decline in May, the uncertainty of the outcome of the conflict still provides a volatile environment for global crude oil prices with serious impact on the Namibian economy due to its high dependence on fossil fuels. To reduce such dependence, the Namibian Government has embarked on an ambitious plan to invest in a $9.4 billion green hydrogen project via which the country plans to export hydrogen to the rest of world. The project’s output is set to begin in four years and is expected produce 300,000 metric tons of green hydrogen a year from five gigawatts of renewable energy generation capacity and a three-gigawatt electrolyzer.\(^{25}\)

### 3.3 The diamond mining sector

Namibia’s economic growth largely depends on its mining industry, as well as the tertiary sector. A key product within the industry is the diamond mining sector. At the early stages of the conflict, authorities in the Bank of Namibia expressed fear that the sector could face challenges due to sanctions imposed on Russia for its military incursion in Ukraine. Russia is a big player in the diamond mining industry, contributing 30.5% of global production.\(^{26}\) The fear, however, was allayed by De Beers Group that assured the government that there are distinctive ways to identify diamonds emerging from various countries, hence they did not expect any negative impact on the sector. The situation could, therefore, be used as an opportunity for the country to benefit from any potential increase in global prices of primary commodities to support the recovery of the economy and the growth projections estimated for the diamond industry and other mining products.

### 4.0 Impact on the fiscal environment and debt management situation

The predicted rise in inflation due to the conflict has caused an increase in global interest rates, thus further causing debt management stress on countries with high debt burden such as Namibia, whose public debt stock has been projected to increase to N$140 billion in the financial year 2022/2023.\(^{27}\) This is equivalent to 71.0% of GDP. This could provide challenges for the Namibian government, specifically with public debt servicing of the NAM01 (value at N$1.5 billion) and GI22 (value at N$2 billion).

---


bonds, which are set to mature in October and November 2022, respectively.28

Considering the limited fiscal space, stagnated by minimal revenue and increasing government debt, as highlighted in the FY2022/2023 budget statement, the inflationary pressures arising from the conflict will place further constraints on the available resources for social protection interventions, expenditure on delivering efficient public services, and other development programmes.

In response to the recent turmoil in global financial markets from COVID-19 pandemic and the Russia-Ukraine conflict, Namibia has launched a Sovereign Wealth Fund, “The Welwitschia Fund”. The fund is intended to help the country build resilience to external shocks as result of global economy trends as well as provide fiscal buffers and official reserve stabilization.29 Most importantly, Namibia being a mineral resource-rich country and vulnerable to external shocks through supply chain disruptions and global price volatility, the Fund provides a great opportunity to plan for the future. This can be through the distribution of benefits from these non-renewable natural resources, while equally serving as a buffer against external shocks for the stability of the economy.

### 5.0 Potential Impact on vulnerable groups

The Russia-Ukraine conflict presents several obstacles to sustainable economic growth and achievement of the 2030 Agenda, especially the eradication of poverty and inequality. Prior to the conflict, Namibia was already experiencing high inequality level and multidimensional poverty in different indicators, as well as high youth unemployment. The conflict has the potential to further worsen the situation, especially so with the ensuing supply chain constraints and inflationary pressures on commodities in Namibia. The conflict presents risks of food security for several Namibians, taking into account the current support from the Food Bank Programme currently serving 9,967 households and 29,004 households benefiting from the Special Feeding Programme (SFP) for Marginalized Communities.30 The potential to enhance food insecurity could present a bleak picture for Namibia’s most vulnerable groups (children, women, the elderly, people with disabilities, and workers in the informal sector).

#### Figure 8: Headcount ratio of MPI indicators

![Figure 8: Headcount ratio of MPI indicators](image)

Source: Namibia Statistics Agency, MPI Report, 2021

According to Namibia Multidimensional Poverty Index Report, 2021, 24.9%31 of Namibian households are food insecure and 21.4% of children are deprived in terms of access to better nutrition (see Figure 8). Taking the Russia-Ukraine conflict into consideration, the percentages of households in Namibia vulnerable to food insecurity and children not having access to better nutrition are likely to increase, thus creating more hardship for Namibia’s most vulnerable population.

#### Figure 9: % Contribution of each Indicator to Child and Adult MPI

![Figure 9: % Contribution of each Indicator to Child and Adult MPI](image)

Source: Namibia Statistics Agency, MPI Report, 2021

The report also highlights that food insecurity and child undernutrition contribute the highest

---


to children multidimensional poverty in Namibia, estimated at 16.6% each (see Figure 9). The conflict presents a reduced and more expensive supply of staple foods such as wheat products, which could present even more barriers to food security for children, women, and adults in Namibia including the elderly and people with disabilities.

6.0 Policy recommendations

Based on the short-term analysis done on the impact of the Russia-Ukraine conflict on the Namibian economy, the following policy recommendations have been advanced as short-, medium-, and/or long-term mitigating interventions that can be adopted by country.

⇒ Although Namibia faces possible supply chain constraints and inflated prices for wheat and wheat products imported from Russia, this provides the country an opportunity to build resilient and inclusive food systems in the short- to medium-term to achieve food security through increased agricultural productivity. There is, therefore, the need to implement agricultural productivity programmes and promotion of investment schemes that focus on diversifying agricultural produce and agri-processing businesses to increase the country’s export capacity, its foreign exchange earnings, and satisfy increasing domestic food needs, thereby reducing its high dependence on food imports.

⇒ The increased investment in agriculture in the face of fertiliser shortages presents an opportunity for Namibia to further invest in innovation in intensive sustainable organic and green agriculture value chains.

⇒ To promote sustainable economic growth and development in the economy and reduce the country’s heavy dependence on primary commodity exports in the long-term, there is a need for the government to strategically invest in economic diversification. This effort should be based on the country’s comparative advantage informed by the key findings of the Namibia SDG Investor Map. In other words, the key findings of the SDG Investor Map should inform investment in multiple sources from a growing range of sectors, sub-sectors, investment opportunity areas, and business models defined in it. Such strategic effort in the medium- to long-term should take advantage of the AfCFTA to help strengthen Inter-African trade, ultimately contributing to Namibia and other African countries being more resilient to supply chain disruptions and price volatility in the global economy.

⇒ As a means of curtailing the expansion of socio-economic issues brought about by the conflict-induced inflationary pressures, the government needs to consider expanding its social protection programmes in the short-term, targeting those being left behind the farthest. This should be aimed at addressing the needs of the most vulnerable groups seriously impacted by the spill over effects of the conflict. Considering the erratic nature of the conflict, a once-off social grant is not enough to help vulnerable households manage the economic shocks. Therefore, the Government of Namibia should strongly consider a temporary basic income grant that is targeted at the most vulnerable to help overcome situations faced with food insecurity and inflationary pressures.

⇒ It is also important to explore creating a stronger link between the debt management strategy and domestic government securities market. This specifically speaks to ensuring the development of a strong domestic sector that can be a source of government financing, as well as help to facilitate the development of
corporate bond markets and markets for financial derivatives.

⇒ The Government of Namibia has adopted an integrated national financing framework as a strategic medium- to long-term development measure to support its ability to mobilize sustainable development finance from diversified sources including domestic and international public and private finance. It is, therefore, important that the financing strategy developed from this initiative adopts a whole of society approach and is strictly aligned to the Sixth National Development Plan and Second Harambee Prosperity Plan as the strategy that will support their implementation. In other words, it should not be a standalone financing strategy that has no link to these plans.

⇒ As part of the effort to mitigate the impact of the conflict on the Namibian economy, it will also require an all of society approach manifested through series of cross sectoral dialogues that involve different development actors (development partners, civil society, private sector, and academia) and key sector Offices, Ministries and Agencies. Such dialogue series could be convened with the support of the UN system. The approach could allow for academics, think tanks and development practitioners to provide expert knowledge on the impact of the conflict and key short-, medium-, and long-term measures that can be adopted to mitigate the impact and build resilience for any future shocks.

⇒ The effort by the government to invest in a sustainable renewable sector through green hydrogen project is a commendable initiative. This will certainly help to reduce the country’s carbon footprint and promote green technology and green production measures in other sectors such as agriculture, agri-processing and manufacturing. This effort must be anchored on pro-poor renewable energy frameworks and devolved at the sub-national level to support local economic development and socio-economic transformation in all regions of the country.