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Time: 14:00-15:30, GMT (local time in Dakar) 16:00-17:30, CAT

Impact of the Crisis in Ukraine on Development Financing in Africa: Examples from Selected countries

Hybrid

Draft Concept Note

1. Background

African countries have been striving since 2020 to address the impacts of the Covid-19 pandemic and rebuild their economies from its fallouts with measured degrees of success. Every crisis brings in its fold immediate gains and losses that have to be addressed through appropriate policy responses to ensure that financial resources are sustainably managed for the long-term and to minimize costs of disruptions on economies. According to the African Economic Outlook 2021 (AfDB, 2021)[1], while the continent should rebound in 2022 compared to 2021, the rebound may still be inadequate in light of the contraction experienced in 2020. The effects vary as well by region and country. The divergent economic fortunes of countries depend on a set of factors that include among others their initial conditions, trade patterns and trade relations, economic structure, fiscal space, state of industrialization and debt profiles.

The situation has recently become more complex to manage. The continent will have to brace itself in 2022 and beyond to address another challenge namely the fallouts of the Russia-Ukraine political-cum-economic crisis. The duration of this ongoing crisis is uncertain, adding unpredictability to its impacts and to needed responses. What will be the socio-economic and environmental impacts of this crisis in the short, medium and long term and how should African countries respond? What are the expected gains and losses, for oil and gas producing and non-oil and gas producing African countries? How will the Russia-Ukraine crisis affect the financial situations of African countries in 2022 and beyond and their post-Covid 19 recovery strategies, including their development financing needs and strategies? These are critical questions whose answers should be reached through dialogue and exchanges of experiences among African countries, in addition to research and policy analysis.

Impacts of the crisis on global markets and its implications for Africa

Research and policy analysis on the impacts of the Russia-Ukraine crisis has started in the United Nations system, involving UNECA. In its first policy brief released on 13 April 2022[2], the United Nations highlighted a few of the immediate impacts of the Russia-Ukraine crisis. It is estimated that world GDP growth would slump by a full one per cent due to the war in 2022. This implies that demand for African goods and services will fall in several sectors and that current account deficits may widen in many countries, increasing pressures on external resource requirements. According to UNECA modelling estimates, the crisis will contract Africa's real GDP by 0.7 per cent in 2022.

Given that Russia and Ukraine account for 30 percent of the global supply market for wheat and barley, one fifth of the global supply market for maize, and over half of the world market for sunflower oil, the costs associated with this war include rises in food prices driven by supply disruptions (UN, 2022). As stated in the policy brief: "*Food prices are 34 percent higher than this time last year and have never been this high since FAO started recording them*" (UN, 2022). Russia is also the world's second largest exporter of oil and the top global producer of gas, and together with Belarus export around a fifth of the world's fertilizers. The brief highlights that as a result of the Russia-Ukraine crisis, crude oil prices have increased by around 60 per cent, while gas and fertilizer prices have more than doubled (*ibid*). The brief highlights that "*the crisis will leave deep and long-lasting scars, and that medium and long-term policy proposals will be needed subsequent to immediate short-term responses*" (*Ibid*).

[1] "African Economic Outlook 2021. From debt resolution to growth: The road ahead to Africa". African Development Bank. Abidjan.
[2] "Global impact of war in Ukraine on food, energy and finance systems", Brief No.1, United Nations. New York.

Three important channels of transmission of the crisis on developing countries will consist in – rising food prices, rising energy prices and a tightening of financial conditions- all of which have implications on development financing needs and strategies. 69 developing economies have been identified to be at severe exposure to the food, energy and financial dimensions, of which 25 are in Africa (all of which are Least Developed Countries). This represents an estimated 1.2 billion affected people, of whom 362 million are already in poverty and 142 million are already under-nourished (*Ibid*). Once more the poorest and most vulnerable will bear the brunt of an economic crisis, whose roots this time lie in geo-political tensions rather than the health eco-system.

In relation to the "food" transmission channel, the United Nations Economic Commission for Africa (ECA), in its analysis of the impact of the crisis on African countries, states that the crisis will further worsen hunger in Africa due to food price hikes and notes that some of the major hunger-afflicted countries are dependent on food-imports from Russia and the Ukraine. UNECA projects that net energy exporters will see gains and some improvement in their fiscal position and current account balance while 43 countries which are energy and food importers will face pressure on their fiscal and current account balances. A tightening of financial conditions, accompanied by rising interest rates and an appreciating US dollar will worsen the debt servicing obligations of many countries.

The ongoing crisis could raise financing gaps for both achieving the SDGs and for recovery post-Covid. Before the onset of the COVID-19 pandemic, estimates had costed SDG financing at USD 200 billion per annum for Africa, while recovery from the pandemic itself has been estimated to cost another USD 154 billion per annum for the continent (UNCTAD, 2020)[3]. The ongoing crisis may raise these numbers further. Development finance sources such as Foreign Direct Investment, South-South flows and aid may also be adversely affected.

Economic, Environmental and Social Dimensions of the Crisis and Potential Policy Responses

The crisis will inevitably affect sustainable development outcomes on the continent.

On the **economic front**, what countries produce and export matter, and even more so in crisis times. The crisis will produce gains and losses in Africa, depending on what countries produce and export. Countries that are rich in oil and gas such as Angola and Algeria can gain in the short to medium term if they have the capacities to increase their exports of oil and gas to meet global supply shortfalls emanating from sanctions imposed on Russia. How these countries manage their windfall oil and gas surplus revenues will be critical, especially as this provides another important opportunity to invest in strengthening the required human capital and productive capacities for resilient, competitive, and more diversified production and export structures.

Countries that are food and oil-import dependent will be faced with rising import bills and a further deterioration in their inflation rates and current account balances, worsening debt sustainability for some.

For example, in Angola, with oil and gas still representing 93.5 per cent of its export values and around one third of its GDP in 2020, the rise in energy prices could lead to a potential significant windfall in export receipts in 2022. Whereas Angola still imports significant amounts of refined oil for domestic use, the increasing revenues from crude oil export values would offset the higher bill of imported refined oil[4].

[3] "Economic Development in Africa Report 2020. Tackling illicit financial flows for sustainable development in Africa". United Nations Conference on Trade and Development. Geneva.

[4] Analysis from the United Nations Resident Coordinator office of Angola.

Moreover, the significant appreciation of the local currency in the past months has contributed to lowering debt/GDP ratio from more than 130 per cent in 2020 to below 100 per cent in 2021, and this trend is projected to continue below 70-80 per cent in the following years (IMF projections). This contributed to upgrading the outlook of Angola from credit rating agencies to "stable".

However, the stabilizing macro-economic context with projected growth above 3 per cent for next years is still subject to the volatility of oil and gas prices and suffered from high inflation in the past year. It has also not translated yet into reductions of the persistent high levels of unemployment (almost 60 per cent among youth) and poverty (almost 50 per cent in 2020) in the country. As food remains one of the two largest imports of Angola, exceeding 22 per cent of total imports in 2020, the current deteriorating global food price outlook, especially of cereals and vegetable oil could complicate the current Government efforts to bring inflation under control[5] and worsen the food security situation in the country, already tested by the worst drought in 40 years in the southwestern provinces. Finally, the appreciating local currency could make imports even more competitive vis-à-vis the domestic production and impact on current diversification efforts.

The sanctions on Russia and the destruction of productive capacities in Ukraine could open up new sources of export competitive advantages for some countries. The growth of sunflowers and their processing into sunflower oil is a case example. The development of organic fertilizers for local and regional markets is another. Countries rich in metals and minerals can position themselves as alternative suppliers to Russia in global and regional value chains (e.g. Tanzania supplying nickel in the global automotive industry[6]).

On the **environmental front**, the rise in oil and gas prices may create disincentives to switch towards alternative sources of energy in oil and gas-rich countries and accelerate instead investments in the carbon-intensive oil and gas sector while the reverse may prevail in oil-dependent countries. The transition towards renewables may accelerate in some countries, should the rise in energy prices last. The rise in the price of fertilizers as agricultural inputs, may harm small-scale farmers by generating losses in crop productivity but could introduce incentives to switch to local organic fertilisers benefiting the ecosystem.

On the **social front**, there is a risk that sharp increases in food prices could cause social unrest in the absence of social protection programmes and aggravate food hunger among poor and vulnerable groups already afflicted by the Covid pandemic. The pandemic had reversed hard-won gains in poverty reduction in Africa, pushing 47 million into extreme poverty, increasing new poor by 55 million and adding 46 million people to those at risk of hunger and under-nourishment. The ongoing crisis will add to this plight and deepen inequalities. According to UNECA, inflation is expected to rise by 2.2 percentage points in 2022 due to the crisis, further exacerbating food insecurity and poverty.

The Political Dimension of the Crisis

Unlike the Covid-19 crisis, where countries are rallied around a common cause of combatting a "*common enemy*" in the form of a virus, the Russia-Ukraine crisis may generate divergences in political positions among countries (e.g. BRICS countries v/s NATO countries), compounding challenges in global and regional responses and efforts towards the crisis while augmenting risks of economic sanctions based on

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[5] Analysis from the United Nations Resident Coordinator office of Angola.

[6] See https://www.theafricareport.com/190484/tanzanias-nickel-provides-alternative-to-russia-for-auto-industry-says-kabanga-ceo/.

political alignments. Within African countries, such divergences have emerged with risks of economic fall-outs associated with political positions. South Africa has faced queries from its trade partners, both the United States of America and the European Union on its vote of abstention at the UN General Assembly elections to condemn the attack on Ukraine. 15 other African countries have abstained from voting. Russia is a strategic military ally for some African countries while the European Union (EU) and the U.S.A remain significant economic players for many African countries. The EU accounted for 33 per cent of Africa's exports in 2019, compared to 6 per cent for the U.S.A and 0.4 per cent for the Russian Federation. The crisis will have an impact on several fronts, economic, social, environmental as well as political with ripple effects on development financing needs and strategies. Political positions on the conflict could entail economic and thus financial consequences, in addition to the direct economic fallouts of the crisis itself. Such consequences could include changes in the current development aid and development financing priorities of donor countries.

Irrespective of the multiple channels of transmission of the impacts, the crisis will affect the development financing needs of African countries and may call for a revisiting of existing post-Covid recovery strategies including trade and financing strategies.

Potential policy responses

How can African countries leverage the African Continental Free Trade Area (AfCFTA) and their regional and other (global and bilateral) trade agreements to address the costs associated with this crisis and exploit new opportunities is an area that should be explored. Especially in the case of oil and gas producing countries, boosting efforts to implement coordinated actions for strengthening human capital and productive capacities for diversification is crucial, and made even more urgent by the global decarbonization agenda, and by the depletion and maturity of oil fields in some countries like Angola. The creation of Sovereign Wealth Funds (SWFs) to facilitate an efficient management of windfall gains and losses from global shocks should again be placed on the policy agenda. Access to windows of liquidity and emergency response funding is another area for policy discussions for financially-strapped African countries, already hit badly by the Covid pandemic. The Afrexim-Bank USD 4 billion Ukraine Crisis Adjustment Trade Financing Programme for Africa (UKAFPA) will contribute, for instance, to manage the impact of the global crisis on African economies and businesses**.**

How to compensate the groups subject to economic losses through well-designed and flexibly implemented compensatory mechanisms in order to contain social tensions merit reflection. The building and strengthening of sustainable social protection systems in these countries should be further considered. The creation of buffer stocks, at local, national and regional levels, to stockpile on essential supplies in normal times to meet shortfalls in supply in times of crisis, could be added as an item for discussion to a pro-active policy agenda. Areas where priority actions should be triggered should be identified. Examples of such priority actions could be the fast-tracking of energy saving measures and acceleration of the transition towards low-carbon and shock resilient economies. How should African countries harness regional collaboration to contain the costs of the "*twin crises*" (Covid-19 and Russia-Ukraine) and in which areas should collaboration be prioritized in the short to medium term are important areas for discussion. The necessity for a Common African Position on international support measures should be debated while the role of Multilateral and Regional Development Banks (MRDB) analysed.

2. Objectives of the seminar

The main objectives of the seminar will be **first**, to offer to African countries a platform for dialogue, exchange of ideas and experiences on the *actual* and *potential* impacts of the Russia-Ukraine crisis on their economies in the short, medium and long-term, using countries such as Angola as a case example. The dialogue will serve to complement ongoing research undertaken by UNECA and the UN on the impacts of the crisis. **Second**, the dialogue will also offer a platform for African countries to strategize on potential policy responses to address the costs of the conflict on their economies and make best use of the potential opportunities arising from the crisis especially in the case of oil and gas producing countries, and identify priority areas for action at national, regional and global levels with a focus on development financing needs and strategies.

The specific objectives will be to:

- Stimulate reflections and discussions on the impact of the Russia-Ukraine crisis on the sustainable development of African economies and their financing needs through (i) a clear understanding of the channels through which the impacts will take place (ii) an assessment of gains and losses and how these will vary according to the trade and economic profile of countries (e.g. commodities profile) and (iii) assessment of impacts on fiscal space, external balances, debt sustainability and development financing needs.
- Brainstorm on the optimal policy responses for African economies including a revisiting of post-Covid recovery strategies and a delineation of new or modified avenues for development financing as well as opportunities to be harnessed.

3. Format

The seminar will be hybrid (in-person and virtual). It will consist of a 1.5-hour session discussion that will take place at the margins of the 54th session of UNECA Conference of African Ministers of Finance, Planning and Economic Development.

4. Expected Outcomes

- Enhanced understanding and appreciation of the actual and potential impacts of the Russia-Ukraine crisis on Africa, with a particular focus on selected countries and the potential different implications for oil and gas producing countries;
- Common understanding and consensus on tackling the development financing challenges in Africa arising from the COVID-19 pandemic and the Ukraine crisis, including the role of MRDB;
- Informed policy and strategic options to respond to the challenges and opportunities from the crisis on the continent;
- Enhanced exchanges and networking among African countries towards a common position and collective response to the crisis.

5. Expected Outputs

- A meeting report highlighting the impact of the Russian-Ukraine crisis on African countries and the potential policy responses with case examples from selected countries;
- Press releases;
- Articles in the media.

6. Participants

Ministers, Senior government officials, high-level policy makers and participants attending the ECA Conference of African Ministers of Finance, Planning and Economic Development. Other stakeholders from RECs, the private sector, academia, civil society and UN institutions will attend in-person and virtually.

7. Date and Venue

Saturday May 14th, Centre d'Exposition, Dakar, Senegal.

8. Languages: English, French and Portuguese

9. Contacts

Further information on the meeting and any other related matters should be addressed to:

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