Rapid Assessment by the Regional Bureau for Africa, UNDP

The impact of the war in Ukraine on sustainable development in Africa

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THE IMPACT OF THE WAR IN UKRAINE ON SUSTAINABLE DEVELOPMENT IN AFRICA

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EXECUTIVE SUMMARY

The war in Ukraine comes at a time when African countries are still struggling to recover from the destabilizing effects of the global COVID-19 pandemic, which caused deep economic regression, significant loss of productivity, worsening inequalities, planetary pressures, and in some cases security challenges. It is threatening to derail development progress in African countries, pushing the 2030 Sustainable Development Goals and the aspirations of the African Union's Agenda 2063 further out of reach.[1]

The direct impacts of the crisis in Africa include trade disruption, food and fuel price spikes, macroeconomic instability, and security challenges. The crisis pushed the price of a barrel of Brent oil above the $100 dollar mark for the first time since 2014. At the same time, food grain prices continued to rise even higher as supply disruptions from Russia and Ukraine (actual and anticipated) rocked global markets. Food and fuel account for over one-third of the consumer price index in most African countries. The pass-through of consequent inflation will be swift and hard-hitting, especially for vulnerable groups like women and children.

There are also indirect impacts of the crisis to consider, which include imported inflation, difficult energy transitions, and a potential geopolitical realignment. To fully diversify, Europe will have to search for new providers to fill the remaining two thirds gap. Africa's gas producers, like Algeria, Libya and Nigeria, are well positioned to fill this gap. But there are two immediate consequences of the increase in the global demand for oil and gas. First, it could undermine progress towards ensuring a just transition to sustainable energy sources which are much more environmentally friendly. Second, it could limit the continent's access to natural gas in the near-term as African countries export their gas supplies to Europe.

The impact of the war could push Africa into serious debt distress, making countries less likely to meet their debt obligations. It could also increase inequality because high food and fuel prices typically hit the most vulnerable households hardest. Reduced access to electricity and cooking fuel would make more households multidimensionally poor, while shrinking budgets may trigger households to dispose of their assets, thus reducing their ability to cushion themselves from future shocks. Overall, these indirect effects would constrain overall economic activity and could trigger social tensions and unrest.

The crisis appears to be a harbinger of a Cold War redux, which could undermine democratization across Africa and fuel political instability. A global geo-political realignment could also retard economic development through the adoption of economic policies and ideologies that are not pro-poor, planet-friendly and equitable. Indirectly, economic stress could trigger violent protests and unconstitutional transfers of political power.

Moreover, there appears to be a threat to multilateralism, which could hamper the ability of development partners to provide consistent support that would put African countries back on track to attain shared global development aspirations. Weakened multilateralism would unravel significant development progress attained over the past decades and roll back gains made in fighting COVID-19 globally. This is why the development community, including bilateral and multilateral partners, must redouble their efforts to provide adequate and timely support across the continent.

Priority actions to protect development gains in Africa would be:

1. Prioritize immediate efforts to expand the fiscal space in African countries and stabilize African economies via enhanced bilateral assistance, innovative multilateral initiatives (including the expeditious re-channeling of new sources of funds such as the Special Drawing Rights), increased liquidity (e.g. through access to central bank swaps or access to IMF emergency windows) and debt relief (e.g. addressing the slow pace of the Common Framework that has only started working with Chad and Zambia on their respective credit committees).
2. Strengthen resilience to global shocks by reducing Africa's dependency on food and fuel imports, accelerating access to energy based on a just transition, de-risking critical investments in technology and infrastructure, and promoting innovative approaches to entrepreneurship.
3. Foster structural economic transformation in Africa by intensifying support to regional integration and economic diversification, and mobilizing resources to fill strategic infrastructure, health and education gaps.

1. https://reliefweb.int/report/world/global-impact-war-ukraine-food-energy-and-finance-systems

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INTRODUCTION

This note analyses the impact of the war in Ukraine on Africa's progress towards the Sustainable Development Goals (SDGs). It focuses on three pillars of the SDGs: People, Prosperity, and Peace. While most African countries are still dealing with the COVID-19 pandemic, the war in Ukraine is imposing additional development, governance and security challenges across the continent. We consider the direct and indirect implications of the war on Africa, the policy measures that national governments are adopting as mitigation measures, and how international institutions, including UNDP, can better support African countries, as they strive to withstand the immediate impacts and take steps to invest in critical capacities that would build longer-term resilience. Energy, trade, commodity prices, financial flows and food prices constitute the major direct effects, while the indirect effects can occur through inflation and reduced demand for Africa's exports.

Specifically, the direct effects include higher food and fuel prices, disrupted trade, fiscal tightening, widening inequalities, and governance pressures. Imported inflation is the major indirect effect, while waning multilateralism and security threats may also occur.

PROSPERITY:

The impact of the war on economic growth in Africa

Diagram 1: Direct and indirect economic channels

1.1 Impacts on economic growth

Direct Effects

Oil price effects

The war has led to an increase in energy and food prices. Russia is the third largest oil producer, and the price of Brent oil has increased by 25% since the onset of the war. Oil-producing countries such as Angola, Nigeria, South Sudan, Congo, and Gabon stand to benefit from increased demand and higher global oil prices, as European countries search for alternative energy sources. This could have a positive effect on their growth prospects, fiscal balances, current account positions, and reserves.

However, African countries will need to improve the management of these windfall gains. The current practice of forward sale of oil and significant mandatory payments will determine the net gains. For Africa's hydrocarbon exporters, the increase in oil prices is both a gain and a loss. While exports, foreign exchange earnings/reserves, and government revenue are likely to increase, this could be offset by the increased cost of refined petroleum imports - emphasizing the urgency in value addition and industrialization on the continent. Furthermore, the practice of subsidizing petrol, diesel and kerosene will further worsen their fiscal and financial positions.

Longer term growth opportunities for gas-rich African countries

African countries can benefit from increased demand as European countries gradually reduce their dependence on Russian gas. Several countries, including Algeria, Tanzania, Senegal, Nigeria, and Mozambique have significant reserves of offshore and non-offshore gas. Tanzania, for instance, anticipates USD 30 billion in foreign investment to kick-start the construction of offshore liquefied natural gas projects in 2023, while Senegal aims to exploit the 40 trillion cubic feet of natural gas that was discovered between 2014 and 2017. Algeria, Niger and Nigeria have already signed a 13-billion-dollar agreement to develop the Trans-Saharan gas pipeline.

The United States has announced its potential to supply Europe with an additional 15 billion cubic meters of liquefied natural gas (LNG) in 2022, which represents 10% of the gas that the 27 EU members buy from Russia. In the medium term, this figure could rise to 50 billion cubic meters per year and allow Europeans to do without a third of their Russian imports. Europe will still have to search for new providers to fill the remaining two-thirds gap which Africa is well positioned to fill.

Costly oil imports

The war is already driving up oil prices at the pump, with adverse effects on transportation costs and households' budgets. This trend is likely to continue in the short-term, as the prices of refined petroleum products such as petrol, diesel, aviation fuel, kerosene, and lubricating oil increase. Most African countries are particularly vulnerable, especially because of their over-dependence on limited sources and their lack of competitiveness in global markets.

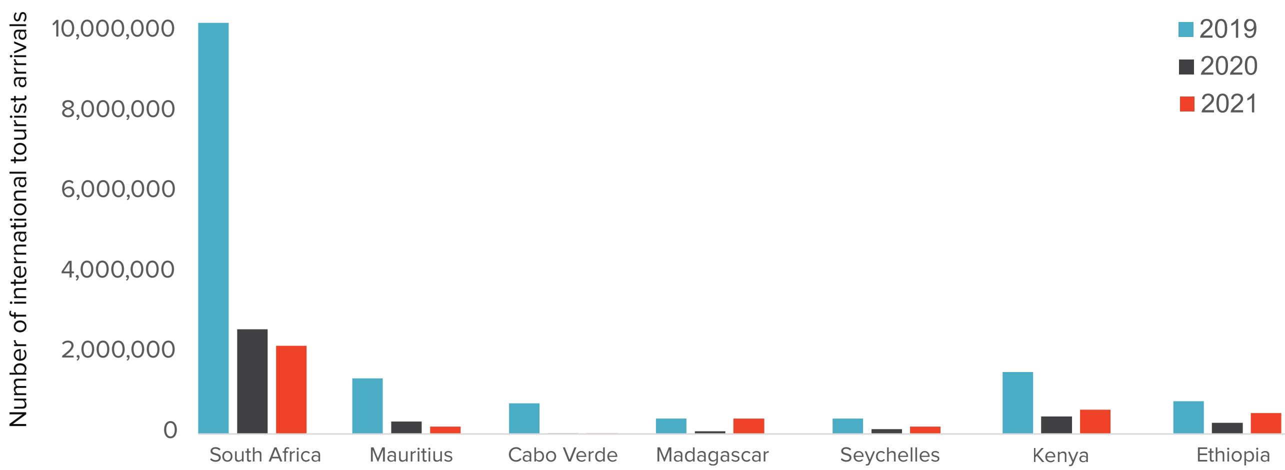
The diamond market exposed

Countries where Russian companies mine diamonds will also be affected. With sanctions already imposed on the diamond industry in Russia, there is fear that diamonds from Namibia could be viewed as "blood diamonds." The isolation of Russia from the international community and the anticipated shrinkage of investment from Russia may also affect the Angolan diamond sector.

Tourism sector

The war in Ukraine risks delaying the recovery of Africa's tourism sector, especially in Small Island Developing States (SIDS) (Figure 1). If the war persists, it will slow down the growth in these economies that heavily depend on the tourism sector. For instance, Russia and Ukraine are the 6th largest tourist markets for Mauritius. To mitigate this, Mauritius is re-engineering its tourism by expanding its niche markets beyond Europe. Russia also accounts for the largest tourism market for Seychelles, with 20.7% of total tourist arrivals in January and February. With tourism contributing to approximately 25% of GDP, Mauritius is expected to face a significant shortfall in revenue. It may have to account for this shortfall by borrowing, amidst its high expenditure on social protection and other development programmes.

Figure 1: Countries are yet to rebound to pre-COVID levels of international tourist arrivals



Source: UNWTO

Indirect Effects

The impact on growth

The Russia-Ukraine crisis could jeopardize the continent's prospects for economic recovery through indirect channels such as disruption in energy supplies, inflationary pressures and increased savings. Recent estimates show that global demand could decrease by 3%, while global inflation increases by 4%. Given historical trends, African exports are forecast to grow by 4.1% in 2022, as opposed to 8.3% if the war did not occur. As depicted in Figure 2, increased inflation will reduce consumption, lower global growth and, in turn, the demand for African exports. Additionally, production shocks are likely to affect economic growth due to increased energy and transport costs. Businesses will bear the cost of rising energy prices and could experience severe difficulties. The rise in fuel prices also increases transport costs for manufacturers. Ghana imports 60% of its iron ore and steel from Ukraine, 25% of its wheat from Russia, and 17.6% of fertilizer from Russia. Tanker delivery costs, for instance, doubled between February 23 and March 3, 2022. In Sierra Leone, the increase in the price of