Impact of the Russia–Ukraine war on Africa

Policy implications for navigating shocks and building resilience

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Summary points

This policy brief uses evidence from country case studies covering Egypt, Ethiopia, Kenya, Morocco, Mozambique, Senegal, South Africa and Sudan, as well as Africa-wide studies utilising econometric modelling techniques. The studies examine the transmission channels of the impact of the Russia–Ukraine war on African economies and their resilience.

We present the following policy priorities for governments:

1. Tailor short- and long-term policy approaches in response to the heterogeneous effects of the war on African countries.
2. Safeguard and enhance social safety nets for women and other vulnerable groups, who suffer the most during shocks.
3. Engage in proactive monetary policies to arrest financial spillovers of shocks.
4. Promote trade creation and diversification for food, fertiliser and energy sources.
5. Boost efficient domestic agricultural and fertiliser production.

Meanwhile, the international community needs to support targeted country-level approaches towards regional integration, social safety nets and agricultural production.
1 Introduction

The transmission of the global impact of the Russia–Ukraine war, which started in February 2022, has been evident through trade, commodity prices and financial conditions. Russia and Ukraine are major global suppliers of oil, wheat and fertilisers. The war has disrupted exports from Russia and Ukraine, increased uncertainties in global supply chains and been used to justify export food bans in some countries. These conditions have contributed to a spike in global prices of oil, food and fertilisers, putting upward pressures on domestic prices. To stop the price shock from transforming into inflation, high-income countries (HICs) have increased their interest rates. This, in turn, has triggered capital outflows, currency depreciation and increased borrowing costs for many low- and middle-income countries (L&MICs).

This policy paper tailors an analytical framework used in the wider literature\(^1\) to understand the transmission channels of the impact of the Russia–Ukraine war at the country level in Africa, particularly tracing the economic exposure and resilience of African countries to the impact of the war (Figure 1).

It is not straightforward to isolate the impact of the Russia–Ukraine war but some studies attempt to do this. Using the analytical framework, we present evidence based on eight African country case studies and Africa-wide empirical papers and offer a range of policy implications.

\(^1\) ODI developed a similar framework in 2010 to identify the transmission channels and map out the country-level effects of the global financial crisis and policy responses (ODI, 2010). This framework is also aligned with approaches used by international organisations and in the wider literature in assessing vulnerability to economic, environmental and social shocks (ADB et al., 2010; Cardona et al, 2012; Commonwealth Secretariat, 2021; Briguglio, 2016; Raga and te Velde, 2020; Diop et al., 2021; Guillaumont and Wagner, 2021; Raga and Pettinotti, 2022; UN 2022, 2023; DRMK, 2023). Also see www.preventionweb.net/ (accessed November 2022).
Figure 1  Vulnerability to the economic and social impacts of the Russia–Ukraine war

Vulnerability = exposure less resilience

Global shock

Russia-Ukraine war impact
- Trade disruptions
- Commodity price hikes
- Sluggish financial and investment flows
- Global financial tightening

Exposure

Direct bilateral exposure to Russia and Ukraine
- Exports/Imports
- Foreign direct investment
- Financial flows
- Migration

Indirect exposure to global effects of war
- Trade openness (e.g., global trade)
- Financial openness (e.g., capital and exchange rate regimes)
- Financial conditions (e.g., interest rates, capital flows)

Resilience

Policy context
- Economic space (e.g., fiscal deficit, public debt, foreign reserves)
- Institutional quality
- Social cohesion

Country-level impact

Short-term
- Economic (e.g., GDP growth, prices, costs of borrowing)
- Social (e.g., food insecurity, jobs, poverty, gender)

Long-term
- Human capital
- Productivity

Source: Raga et al. (2024)
2 Key findings

2.1 Economic exposure

African countries have low direct exposure to the Russia–Ukraine war through overall trade, financial flows and migration but are more exposed in specific ways, for example through food and fertiliser imports from Russia and Ukraine. In Egypt, 20% of food imports (67% of wheat imports) in 2021 were from Russia and Ukraine (Raga et al., 2024). In Kenya, imports from Russia and Ukraine accounted for only 5.1% and 2.1% of total imports but wheat made up 85% of these imports in 2018–2021 (Geda and Musyoka, 2023). Meanwhile, 11–41% of fertiliser imports in Egypt, Ethiopia, Morocco, Senegal and South Africa were sourced from Russia and Ukraine between 2010 and 2021 (Table 1).

Table 1  Fertiliser exports and imports, annual average, 2010–2021

<table>
<thead>
<tr>
<th></th>
<th>Egypt</th>
<th>Ethiopia</th>
<th>Kenya</th>
<th>Morocco</th>
<th>Mozambique</th>
<th>Senegal</th>
<th>South Africa</th>
<th>Sudan</th>
<th>Africa</th>
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</thead>
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<tr>
<td><strong>Fertiliser exports</strong></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Fertiliser as % of goods exports</td>
<td>3.9</td>
<td>0.0</td>
<td>0.4</td>
<td>10.9</td>
<td>0.5</td>
<td>0.8</td>
<td>0.4</td>
<td>0.0</td>
<td>1.1</td>
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<td><strong>Fertiliser export destination (% of fertiliser exports)</strong></td>
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<tr>
<td>Russia</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Ukraine</td>
<td>0.2</td>
<td>1.2</td>
<td>0.0</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Africa</td>
<td>4.4</td>
<td>5.7</td>
<td>99.9</td>
<td>20.2</td>
<td>99.5</td>
<td>87.8</td>
<td>90.0</td>
<td>23.8</td>
<td>4.4</td>
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<tr>
<td>Rest of world</td>
<td>94.8</td>
<td>97.6</td>
<td>0.1</td>
<td>79.4</td>
<td>1.1</td>
<td>14.6</td>
<td>8.9</td>
<td>100.0</td>
<td>75.6</td>
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<tr>
<td><strong>Fertiliser imports</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Fertiliser as % of goods imports</td>
<td>0.2</td>
<td>3.1</td>
<td>1.6</td>
<td>0.6</td>
<td>0.9</td>
<td>0.7</td>
<td>0.7</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Fertiliser import sources (% of fertiliser imports)</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>7.8</td>
<td>12.1</td>
<td>26.0</td>
<td>29.2</td>
<td>10.0</td>
<td>10.9</td>
<td>10.0</td>
<td>10.9</td>
<td>7.8</td>
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<tr>
<td>Ukraine</td>
<td>4.6</td>
<td>17.0</td>
<td>1.7</td>
<td>12.1</td>
<td>0.5</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
<td>4.6</td>
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<tr>
<td>Africa</td>
<td>0.7</td>
<td>44.3</td>
<td>7.3</td>
<td>5.5</td>
<td>39.2</td>
<td>14.1</td>
<td>3.1</td>
<td>19.4</td>
<td>33.0</td>
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<tr>
<td>Rest of world</td>
<td>83.2</td>
<td>41.0</td>
<td>72.7</td>
<td>66.7</td>
<td>48.6</td>
<td>86.2</td>
<td>78.5</td>
<td>53.2</td>
<td>83.2</td>
</tr>
</tbody>
</table>


Source: Authors’ compilation based on data from WITS, using HS2002 nomenclature and HS code 31
Beyond direct exposure, African countries have been indirectly exposed to the global effects of the Russia–Ukraine war through demand for exports and investment decisions. Between 2010 and 2019, a median African country’s export goods comprised 28% of gross domestic product (GDP) (Raga et al., 2024). During the same period, foreign direct investment (FDI) stock on the continent was equivalent to 35% of GDP (ibid.).

The tightening of monetary policy in HICs has put pressure on exchange rates and accelerated inflation in Africa. Since early 2022, the US, EU and UK have increased interest rates to arrest inflation. This led to pronounced dollar strengthening, and in turn induced capital outflows and widened sovereign spreads in many African countries.

For example, the Kenyan shilling and the South African rand depreciated against the US dollar by 25% and 21%, respectively, between January 2022 and August 2023. The Egyptian pound weakened against the dollar by 97% during the same period owing to a combination of external shocks (e.g. capital outflows) and devaluation undertaken by the Central Bank of Egypt in the context of securing an International Monetary Fund (IMF) programme (Zaki et al., 2023). Exchange rate depreciation has pass-through effects to inflation with implications for food security (Box 1) and the domestic costs of servicing external debt.

**Box 1 Exchange rate pass-through to inflation: food insecurity implications in Egypt and Sudan**

The immediate impact of the Russia–Ukraine war is expected to raise global inflation, exacerbate external account pressures, depreciate exchange rates, raise public debt and limit fiscal space, and hence feed inflation in Egypt and Sudan. In particular, the exchange rate has suffered from two issues: first, the continuous deterioration of the official exchange rate (see figures, where an increase means a devaluation); and, second, a widening gap between the official and parallel exchange rates.
This sharp currency devaluation has fed into high inflation rates (32% and 84% in February 2023 in Egypt and Sudan, respectively), as the two countries are large importers of goods. Zaki et al. (2023) estimate this pass-through in both countries using an error correction model based on a purchasing power parity model. The dependent variable is the Consumer Price Index (CPI) and the explanatory variables are the nominal effective exchange rate and foreign inflation proxied by the US CPI. Monthly data for 2012–2022 are used. The exercise shows significant evidence of pass-through, interpreted as a sign of vulnerability to the global food and energy price shocks, which could affect food security. At the domestic level, high prices of energy and fertilisers are expected to raise the cost of production in agriculture (a major sector in Sudan), which could lead to changes in the crop mix and further threaten food security.

Source: Zaki et al. (2023)

### 2.2 Resilience

**Most African countries were still recovering from Covid-19 limiting their economic policy space when the Russia–Ukraine war hit in early 2022.** Sub-Saharan Africa’s fiscal deficit widened from 3.9% of GDP in 2019 to 6.4% of GDP in 2020, while public debt increased by nearly 10 percentage points (pp) to 57% of GDP during the same period (IMF, 2023a). While sub-Saharan Africa’s fiscal deficit and public debt reduced in 2021–2022, they remained worse than pre-pandemic levels in 2019.

**Foreign reserves declined in four out of five selected African countries** (Table 2). In 2022, foreign reserves went down substantially in Egypt and Mozambique to an equivalent of three months of imports by the end of 2022 compared with five months’ worth of imports in 2021. To increase resources, African countries have sought access to multilateral financing. A few countries (Chad, Ethiopia, Ghana, Zambia) have applied for debt treatment under the G20 Common Framework.

#### Table 2 Foreign reserves excluding gold

<table>
<thead>
<tr>
<th>Country</th>
<th>$ million 2021</th>
<th>Jan 2022</th>
<th>Dec 2022</th>
<th>% change  (Jan–Dec 2022)</th>
<th>As months of imports 2021</th>
<th>As months of imports 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>35,090</td>
<td>35,104</td>
<td>24,824</td>
<td>-41.4</td>
<td>5.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Kenya</td>
<td>9,490</td>
<td>8,912</td>
<td>7,968</td>
<td>-11.8</td>
<td>5.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Morocco</td>
<td>34,354</td>
<td>33,796</td>
<td>31,026</td>
<td>-8.9</td>
<td>6.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Mozambique</td>
<td>3,551</td>
<td>3,453</td>
<td>2,709</td>
<td>-27.4</td>
<td>4.6</td>
<td>3.0</td>
</tr>
<tr>
<td>South Africa</td>
<td>50,262</td>
<td>49,978</td>
<td>53,248</td>
<td>6.1</td>
<td>5.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>191,066</td>
<td>187,747</td>
<td>183,063</td>
<td>-2.6</td>
<td>5.0</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: Authors’ computations based on data from IMF IFS and WDI
African economies have responded to the Russia–Ukraine war shock in various ways. **One of the initial responses to the war included export bans** on food, fertiliser and oil products. Algeria, Burkina Faso, Cameroon, Egypt, Ghana and Tunisia imposed temporary export bans on selected food products and oils whereas Morocco implemented export licensing for tomatoes (Laborde, 2023). As higher imported prices of commodities put pressure on domestic prices, **trade policies in the form of subsidies and suspended import duties on selected staple items** (wheat, cattle, crude oil) were also activated in Morocco (Benayad, 2023).

With increased inflation and exchange rate pressures, **central banks in Africa tightened policy interest rates**. Persistent exchange rate pressures led the Central Bank of Egypt to implement devaluations; other central banks (Egypt, Ethiopia, Ghana and Nigeria) imposed foreign exchange controls and measures to manage foreign currency flows (IMF, 2023b; Zaki et al., 2023).

**As a result of tighter fiscal constraints, fiscal policy has been largely limited to a few social protection interventions** to help those most vulnerable to food insecurity risks. For instance, Egypt has expanded its conditional cash transfer programme while South Africa and Mozambique have maintained social safety nets and school feeding programmes initiated during the pandemic (Ng'epah, 2023; Zaki et al., 2023). Sudan has introduced the Sudan Family Support Programme cash transfers (Elbadawi, 2023). In Senegal, the government has helped local producers cope with increasing fertiliser prices by continuing its 50% fertiliser subsidy (Benayad, 2023).

**The Russia-Ukraine war activated policy initiatives to improve longer-term agricultural production and trade in commodities affected by the war.** Such initiatives include efforts by the Ethiopian government to improve local wheat production (Box 2), Senegal’s plan to develop its rice value chains to strengthen local production, processing and marketing of rice and Morocco’s agricultural strategy to double the area under cultivation for rapeseed and sunflower by 2030 (Benayad, 2023).

**Box 2 Boosting efficiency in domestic agricultural production: interventions in Ethiopia**

Changes in food supply (measured by cereal production) and external shocks (e.g. a rise in import prices, climate change effects) will have statistically significant negative effects on inflation in Ethiopia in both the long and the short run, with implications for household welfare and food insecurity (Geda and Musyoka, 2023). While Ethiopia is not heavily dependent on imports for the majority of its staple foods (e.g. teff, sorghum, maize, wheat), the Russia–Ukraine war may still affect Ethiopia’s wheat imports. Ethiopia’s imports of wheat from Russia and Ukraine accounted for 99%
($127.9 million) and 88% ($428.3 million), respectively, of total wheat imports as of 2021.

In this context, the Ethiopian government initiated efforts in 2022 to improve its wheat production to replace wheat imports and to explore opportunities to export wheat within the region. Specifically, the government aims to produce an additional 4.2 million tonnes of irrigated wheat and become wheat self-sufficient and a net wheat exporter by 2025/26 (AfDB, 2023). The government efforts have borne fruit: Ethiopia did not import wheat in the fiscal year ending July 2022, saving $1 billion in foreign exchange; the wheat harvest is projected to increase to 19.5 million tonnes in the season up to June 2024, compared with 15.4 million in the previous period; and the country has already received requests from neighbouring countries to buy wheat from Ethiopia (Herbling, 2023).

Sources: AfDB (2023); Geda and Musyoka (2023); Herbling (2023).

2.3 Country-level impact

Two of the studies reviewed attempted to isolate the impact of the Russia–Ukraine war by constructing counterfactuals and estimating a likely impact. Simulations by M’bouke et al. (2023) suggest that a 10% shock in oil, food and fertiliser prices lasting one quarter will lead to a decline in Africa’s GDP by 0.1%, 0.1% and 0.04%, respectively. The combined annual impact in Africa through these price shocks translates to roughly $7 billion. Actual impacts are likely to be higher since oil, food and fertiliser prices increased by larger shares, at 40%, 18%, and 55%, respectively, in 2022 (World Bank, 2023b) and other prices increased as well. As such, this overall amount is probably an underestimate.

There is a significant variation with regard to the impact of the war across African countries, depending on their economic structures and domestic vulnerabilities (Box 3). Simulations suggest the war may result in lower food consumption compared with the baseline, showing zero in some Southern and East African but down by up to 6% in some North African countries (Ngui, 2023). Price shocks from specific commodities will have different effects on countries’ terms of trade: an oil price shock initially benefits net oil exporters with opposite effects on net oil importers; food price shocks are negatively affecting the terms of trade of 22 African countries; and fertiliser price shocks are having an insignificant effect on the terms of trade of most African countries (M’bouke et al., 2023). When the impact of war coincides with droughts, countries in the Horn of Africa experience the highest declines in output (by more than 3%) as compared with the rest of Africa (by 0.2%) (Cororaton, 2023). Economic recovery is also expected to be faster among non-resource
countries than resource-intensive ones because the former are supported by their more diversified economies (IMF, 2023c).

**Box 3 Heterogeneous effects of the Russia–Ukraine war in African countries**

Econometric simulations highlight the variation of impact of the Russia–Ukraine war at the country level. Using a Bayesian global vector autoregressive model, M’bouke et al. (2023) simulate the magnitude of impact in oil exporters and importers. With an oil price increase shock, oil-exporting countries will see a boost in their export revenues, which will then improve their trade balance and increase real output. However, the negative growth spillovers from the global economy will probably counterbalance the resulting increase in oil export revenue, leading to a net decrease in real GDP. For oil importers, the effects could be worse. They are expected to face a deterioration of commodity terms of trade lasting from three quarters to over three years, and to face higher import costs and negative growth spillovers at the same time. The higher import costs will be passed on to consumers in the form of higher local prices, which could lead to higher inflation in these countries.

Similarly, a dynamic global computable general equilibrium (CGE) model reveals the variation in output and welfare losses across African countries (Cororaton, 2023). The model incorporates global effects of the war on productivity and trade restrictions, as well as drought scenarios. The results show that countries in the Horn of Africa (i.e. Ethiopia, Kenya, and Sudan) will suffer the most from the compounding effects of the Russia–Ukraine war and their exposure to droughts, resulting in declines in annual output and consumption by 3–4% from the baseline for three years, with lingering effects that could be felt up to 2030 (see figures below).

Sources: Cororaton (2023); Cororaton et al (2023); M’bouke et al. (2023)
While it is difficult to disentangle the impact of the war from multiple factors that drive growth, employment, food insecurity and poverty, the war may have exacerbated the deterioration of Africa’s macroeconomic and social performance. Between 2020 and 2023, the continent lost 4.2 pp of growth compared with the pre-Covid forecast. Beyond output, the International Labour Organization estimates that the number of unemployed Africans was 1.8 million higher in 2022 than in pre-Covid forecasts, partly driven by the lack of productive employment opportunities and employment not growing as fast as population growth (ILO, 2023). A higher debt service burden lowers resources for development financing in Africa, with interest rate payments already outpacing education, health and investment spending in 2019–2021 (UNCTAD, nd).

The overlapping shocks have slowed progress in achieving Africa’s development goals. In 2022, around 22% of Africans were facing high levels of food insecurity, with a higher incidence of between 50% and 75% of the population in Ethiopia, Kenya, Mozambique and Sudan (FSIN and GNAFC, 2023; Raga et al., 2024). Poverty has also increased: an estimated 18 million new poor people were added in 2022 to half of the African population (546 million people) already living in poverty in 2021 (UNECA, 2023).

The impacts of the war have disproportionate effects on women. In Kenya, for instance, women-headed households in both rural and urban areas were found to be more affected than households headed by men by changes in wheat flour prices (Box 4). Price shocks may also have affected women more than men, as women spend a larger proportion of their income on food (Papadavid, 2023). Increased prices may also have reversed progress on women’s access to modern energy, and caused a return to unhealthy biomass for fuel for cooking and heating (UN Women, 2022).

The economic and social impacts of COVID-19 and the Russia–Ukraine war may result in persistent output losses, or ‘scarring’ effects. Simulations of the long-term effects of COVID-19 in Africa suggest that GDP reductions relative to a no-COVID-19 scenario will still be felt across countries by 2030 and 2050, as economic losses will erode gains made in human development in the past decades (UNDP, 2021). The scarring from COVID-19 in Africa is likely to be compounded by the effects of the Russia–Ukraine war.

2 Authors’ computations based on IMF World Economic Outlook October 2019 and April 2023 databases (IMF, 2019, 2023a). Output losses are computed based on the difference between the pre-Covid forecast and respective IMF estimates/forecasts as of October 2019 and April 2023.
Box 4 Disproportionate impact of the Russia–Ukraine war among Kenyan households

Econometric estimations with a decomposition across household income quintiles and headship show that an increase in wheat prices between February 2022 and May 2023 had disproportionately higher welfare loss effects on households in urban areas and those headed by women. The relatively higher losses in urban areas may be attributed to their higher expenditure on wheat and wheat products compared with in rural areas. Meanwhile, the disproportionate impact on women-headed households in both rural and urban areas may be attributed to the relatively higher income of households headed by men. Men’s relatively higher income means they can easily reallocate income towards wheat and wheat products and hence reduce the welfare loss effect from wheat price increases.

Notes: Compensating variation measures (in monetary terms) how much households, individuals or groups should be offered to regain their original utility levels in the event that prices increase (i.e. compensation for the price increase).

Source: Geda and Musyoka (2023)
3 Policy implications

The underlying research has identified a range of country-specific policy suggestions but there are also general observations emerging from the research that deserve policy attention for governments.

1 Tailored policy approaches towards shocks, given the heterogeneous effects of the war among African countries. Both the size and the nature of the effects vary. Our new evidence shows that impacts vary from zero to 6% of the total value of food consumption. While several resource-intensive countries have benefited from global commodity price shocks in the short run, they will be affected negatively in the long run, while non-resource-intensive countries are expected to grow faster in the medium term. In addition, countries with higher government capacity may exhibit stronger recovery. Deeper and more persistent output contractions are expected in African countries with pre-existing vulnerabilities, such as susceptibility to climate change effects and political instability. Such heterogeneity across countries means tailored approaches for short-term macroeconomic stabilisation but also towards long-term resilience-building are required. For instance, resource-intensive economies may need to support transformative sectors with large-scale employment (e.g. manufacturing, services) and invest in upskilling of human capital and climate-resilient infrastructure.

2 Safeguarding of targeted social safety nets during shocks. It is not possible to neutralise the shock so there will be some impacts from changes in prices and economic activity. Some countries have responded to the Russia–Ukraine war in social protection terms, mostly through cash transfers and subsidies, but such interventions are not enough. Given the distributional impacts of price increases and poverty incidence induced by the war, there is a need for more proactive and targeted social support for women, vulnerable groups and poor households; the extension of credit facilities to marginalised smallholder farmers; and the scaling-up of social security for workers.

3 Proactive monetary policies to arrest the financial spillovers of shocks. The case studies show that, while some central banks (e.g. Egypt, South Africa) responded fast at the onset of the Russia–Ukraine war, others responded later. African central banks may need to have proactive measures in place to counter inflationary pressures (and exchange rate pass-through to inflation) stemming from external shocks. Such measures may
include interest rate adjustments and macroprudential tools. However, central banks should also be cautious about the implications of deploying such tools; for instance, higher policy rates can lead to higher borrowing costs and a slowdown in domestic investment. In addition, there may be a need to establish sustainable exchange rate regimes that better absorb shocks and improve the competitiveness of exports.

4 **Trade creation and diversification of food, fertilisers and energy sources.** Initial trade policy responses to the war in the form of export bans were not the optimal intervention to secure domestic food supply. Instead, all studies highlight the importance of enhancing regional and bilateral trade to reduce susceptibility to commodity shocks and their impact on food security. This applies to the trading of staple foods and of inputs for agricultural production and distribution (e.g. fertiliser, fuel) necessary for food security. One approach would be investing in trade corridors, to reduce trade transportation costs and enhance efficiency. This can be supplemented by bilateral strategic engagements to cover the areas of trade and investment facilitation, trade infrastructure and capacity-building. Strengthening intra-African trade through the African Continental Free Trade Area (AfCFTA) market can also promote, expand and diversify regional trade and investment in agriculture and energy, and help raise real per capita income to lift millions out of extreme poverty (Box 5).

**Box 5 Trade creation and diversification: maximising trade corridors and the AfCFTA**

Diversified trade can help build resilience to commodity shocks. There are several ways to create, expand and diversify trade, including through trade facilitation via trade corridors and continental trade agreements.

The benefits of trade corridors are demonstrated in the case of the Maputo Corridor between Mozambique and South Africa. Trade disruptions, such as those emanating from the Russia–Ukraine war, can significantly affect food security in smaller economies like Mozambique in particular, where over 40% of the population is chronically undernourished.

Both Mozambique and South Africa’s imports are largely from the continent – more than 60% are from the Maputo Corridor, the Southern African Development Community and the rest of Africa compared with less than 5% of imports coming from Russia and Ukraine, such that Ngepah (2023) finds higher and significant estimated effects on food security of Mozambique and South Africa’s trade with African countries than is the case for its trade with Russia and Ukraine. Hence, one way to dampen the impact of external trade...
shocks and enhance food security is to develop trade corridors between African countries, such as the Maputo Corridor Logistics Initiative, which aims to build a regional food security corridor between Mozambique and South Africa.

Taking full advantage of the AfCFTA also offers a unique opportunity for African countries to transform and diversify their trade in goods and services and investment. The process can help African countries recover from output, job and income losses from recent global shocks and strengthen continental economic stability to bolster against future external shocks. For instance, a World Bank study finds that, beyond boosting trade, a fully implemented AfCFTA could also increase FDI up to 160%, which is expected to bring jobs and expertise, build local connections and help African companies join regional and global value chains. In the process, AfCFTA implementation could raise incomes by 9% (with a higher increase, of 11%, for women) by 2035 compared with a no-AfCFTA scenario, and lift 50 million people out of extreme poverty (Echandi et al., 2022). An IMF study also finds similar benefits, with the AfCFTA increasing trade in goods flows between African countries by 53% and those with the rest of the world by 15%, in the process increasing a median African country’s per capita income by 10% (ElGanainy et al., 2023).

Sources: Echandi et al. (2022); ElGanainy et al. (2023); Ngepah (2023)

5 **Boosting efficient domestic agricultural and fertiliser production.** Implementing measures to improve agricultural productivity can help reduce dependency on imports and susceptibility to global commodity price shocks. Measures could involve increasing investment in agricultural and fertiliser research and development, improving access to modern and environmentally sustainable farming techniques and technologies, supporting smallholder farmers or adopting a comprehensive agricultural sector development strategy.

**Meanwhile, there is room to enhance the role of international financing institutions in shock management and economic recovery.** Fiscal resources have been squeezed by the overlapping shocks of Covid-19 and the Russia–Ukraine war. In addition, the recent global financial tightening is increasing the cost of borrowing and debt servicing. As of August 2023, 21 African countries are at high risk of or already in debt distress, and progress on securing debt treatment has been slow. High debt servicing lowers resources for spending on social services and public investment. There is a need to consider how international financing institutions can provide speedier, more flexible and higher financing that is commensurate with the magnitude of the shocks. But it is not just the level of financing: the direction also matters. An area of policy debate thus
relates to how the IMF and World Bank (and other global financial institutions and creditors) can do more to finance targeted growth, through policies to help save Africa’s growth and development trajectory from scarring effects.
References


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