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BULLETIN

Russia's War with Ukraine will Force the Acceleration of Food Production Reforms in Africa

Jędrzej Czerep

Russia's war against Ukraine limited the availability of wheat and other food products and fertilisers from both countries in Africa. In the short term, the crisis pushed several countries to ban food exports and seek alternative sources of supply. In the long run, it will make increasing production for domestic needs the highest priority on the African continent. The Nigerian solutions can be a good example in this regard.

Russia's invasion of Ukraine has threatened the food security of African countries that rely heavily on imports of food (especially wheat, corn, and sunflower oil) and fertiliser components from these states or Belarus. The price of bread, among other things, has risen, which can have serious socio-political consequences. In the past, similar price spikes were triggers of social unrest, such as in 2007 to 2008 and the Arab Spring. The impact of the war in Ukraine came at a time when the food sector (particularly sensitive, as agriculture provides 49% of jobs on the European continent) hit a market already weakened by the effects of the COVID-19 pandemic. Approx. a third of African food producers have not managed to regain financial liquidity so far, and consumers have experienced price increases of several dozen per cent over the last year.

The Scale of the Grain and Fertiliser Crisis. The wheat shortage in Africa first affected the countries most dependent on grain imports from Russia and/or Ukraine, including Somalia (100%), Egypt (over 80%), Sudan (75%), Madagascar, Rwanda, Tanzania and Senegal (60 to 70%). However, concerns about the availability of bread increased across the continent, including in the Maghreb, Kenya, Nigeria and South Africa, where high consumption of cereals, as well as the highest share of household income expenditure on food in the world (40 to 60%) led to a large part of the population feeling price fluctuations on world markets. Rising costs will increase budgetary pressure in countries that subsidise bread prices, such as Egypt, Sudan and Algeria (the latter importing mostly from Argentina and France). Elsewhere, for example in Morocco, Mali and Niger, an additional obstacle is the decline in domestic production because of drought. In the first country, demand for the import of wheat and other grains increased this year from eight to 10 million tons.

Since 2014, Russia has considered Africa a priority market for fertilisers and their components, especially urea, potassium and phosphates. While their prices increased over the past year due to the pandemic (the price of urea rose threefold), this process accelerated due to the tense situation around Ukraine. For example, the price of a 50kg bag of fertiliser in Kenya increased from 4,000 to 6,000 shillings (about $52) just before the March plantings. Currently, the largest Russian fertiliser exporters to the continent (FosAgro, Uralchem and Eurochem) are restricting exports. This may affect, for example, South Africa, where the purchase of fertilisers accounts for 35% of the total costs of agricultural production.

Responses to the Crisis. Some food-importing African countries have restricted export or re-export. Egypt banned the export of wheat, flour, pasta, and legumes on March 11, for an initial period of three months. Three days later, the Algerian president announced a ban on the export of all food products that the state imports, including sugar, pasta and wheat derivatives. Nigeria is close to making a similar decision about maize, even though its harvest in 2021 was a record high (11.6 million tons). Other ad hoc policies include the government purchase of domestic crops (Egypt wants to increase the reserves created in this way after the April harvest) and rationing flour and limiting bread production, as in Tunisia.

In countries purchasing Russian or Ukrainian agricultural products, an intensive search for alternative sources of supply is ongoing. Geographical proximity favours France in particular, but also, for example, Romania or Poland. The former sends wheat to Egypt, and Poland has already been visited by, among others, delegations from Mozambique and Algeria in this regard. The largest grain traders serving the Nigerian and Egyptian markets (such as Cargill and Glencore), redirect their sources of supply from the Black Sea region to the U.S. and Canada. To curtail emerging unplanned budgetary burdens, the African Export-Import Bank (Afreximbank) released $4 billion for the Ukraine Crisis Adjustment Trade Financing Programme for Africa (UKAFPA). This is intended to help states maintain financial liquidity and banks to repay loans.

The current situation has highlighted the need to reduce dependence on imports in Africa through the development of domestic intensive agricultural production, such as rice or wheat. While consumption of the latter currently provides 14% of the caloric needs of the continent's inhabitants, this will double by 2050, which will increase demand faster than it would result from the population growth. This comes with urbanisation driving the demand for bread, a staple food in urban centres. In this context, the African Development Bank (AfDB) announced on March 15 the mobilisation of $1 billion to support farmers on the continent for the development of climate-resistant crops of wheat. Ultimately, according to the AfDB assumptions, the intensification of the production of wheat, soya and rice on the continent would increase to 100 million tons per year, which would guarantee the nutrition of 200 million people. While such an action is calculated for a long-term transformation, it also responds to the current market needs: the agrotechnical sector is booming and attracting investors looking for the application of new technologies (such as artificial intelligence) as well as African start-ups.

Directions of Transformation. Several major African economies will be less affected by the crisis as they have reduced their dependence on food imports in recent years. A successful example of state-stimulated transformation of agricultural production is the Nigerian Anchor Borrowers' Programme (ABP), launched by the government in 2015 to support producers of 23 types of food, especially rice. It includes financial incentives, easier access to fertilisers, and intensification of cultivation. These were accompanied by the closing of borders to imports from neighbouring countries and an increase in the number of mills from 15 to 50. In 2015 to 2021, it was used by approximately five million farmers who could pay loans in kind (with, for example, rice). As a result, government reserves grew. In January this year the authorities presented them in the capital, Abuja, in the form of special "pyramids" made of one million sacks of rice, which was supposed to lower prices for consumers. Although the data are difficult to verify, it is likely that Nigeria's rice production has increased from four to 7.5 million metric tons per year since the programme was launched. Today, the state is close to self-sufficiency in its production for its own needs, and plans to develop exports in West Africa. The food sector in Ghana lobbies for the application of similar policies at home.

Another positive example is Ethiopia, which, by investing in the mechanisation of agriculture, increased its yields twofold within 15 years. According to the government's assumptions, the country will cover its own wheat needs by 2023. Huge fertiliser production plants are being built in both Nigeria and Ethiopia. In the first country, production started in March at the locally built Dangote Fertiliser Plant, the largest in Africa. This will allow the production of three million metric tons of fertilisers per year (with national demand for 1.5 million). In the second, the Moroccan OCP plans to build a similar-sized plant powered by Ethiopian gas from the Dire Dawa region and based on Moroccan phosphoric acid.

Conclusions. Russia's invasion of Ukraine has deepened the food crisis that has been accelerating in Africa for over a year as a result of the pandemic, rising prices and production costs and droughts. The budgets of countries subsidising prices of bread or fertilisers will be particularly strained. In the short term, the intervention of global institutions, such as the WTO or (as proposed by the French Ministry of Foreign Affairs) the EU, may be necessary, for example in the form of support for UKAFPA, which needs about four times the resources at its disposal. The EU will also be able to counter the Russian narrative of the West's blame for the food crisis by helping countries threatened with shortages and high prices.

While the countries that have been importing wheat from Russia and Ukraine so far will be able to buy it from other suppliers, this will translate into increased import costs. From the Polish point of view, in the medium term it is worth solidifying Poland's position in states where it is replacing Russia. However, in the longer term, support should be provided to national and continental programmes for transforming food production to reduce African countries' dependence on food imports and strengthen resilience to supply disruptions.