

Center for American Progress



Africa's Oil Emergency June 2006

Throughout the world, high oil prices are hitting consumers and economies hard, but the impact is most severe in sub-Saharan Africa. According to estimates from the International Energy Agency, the economies of oil-importing and debt-burdened countries in sub-Saharan Africa are impacted ten times as much as the United States. For every \$10 increase in the price of oil, they lose more than three percent of GDP.

As a result, many of the relative gains of the hard-fought debt relief provided over the last decade are fast being eroded. Since 1996 the Heavily Indebted Poor Country Initiative (HIPC) has provided significant debt relief to 29 countries, most of them in sub-Saharan Africa. In the world's poorest countries, debt savings are being invested in national health and education programs, but it is precisely these countries that are suffering the most from the new budgetary constraints caused by skyrocketing oil prices.

In Ethiopia, a country that has benefited substantially under HIPC, the cost of importing fuel doubled in 2005 to \$669 million, or six percent of the country's GDP, according to the IMF. This year the increase in cost of importing oil will exceed the budgetary resources freed up by debt relief by 20 percent.

As the data in the accompanying chart illustrates, some of the poorest countries in sub-Saharan Africa, many of them 100 percent dependent on oil imports, are spending far more on the increased cost of oil than they are on social programs that target the root causes of chronic poverty. Mauritania, for example, will spend more than 20 times the equivalent of its debt savings on the increased cost of oil in 2006, four times what the government expects to spend on education and health care combined. Guinea-Bissau will spend the equivalent of 12 percent of its GDP on the increased cost of oil, twice as much as what it will devote to health and education. And these figures — based on the assumption that the average cost of oil this year will be \$60 a barrel — represent conservative estimates.

While increased aid to Africa, HIPC, and the other debt relief programs signal the international community's increased willingness to invest in Africa's economic future, we cannot afford to rest on our laurels. When energy security is discussed at the G8 meeting in St. Petersburg this July, it is critical that world leaders address the disproportionate impact that high oil prices have on the developing world. At the very least, they must commit to reducing this impact by helping developing countries to diversify their energy supplies away from oil and toward more affordable and sustainable alternative fuel sources.



The Impact of Higher Oil Prices on Select HIPC Countries¹

Country	Projected Debt Savings from IMF/WB 2006 (US\$) ²	GDP 2005 (US\$)	Annual Oil Consumption 2003 (bbl) ³	Estimated Cost of Oil to Country 2002 (US\$) ⁴	Projected Cost of Oil to Country 2006 (US\$) ⁵	Increase in Annual Cost to Country 2002-2006 (US\$) ⁶	Increase in Annual Cost as % GDP 2006 ⁷	Projected Debt Savings as % GDP 2006	Public Health Expenditure as % GDP 2006	Projected Poverty Reduction Expenditure as % GDP 2006 ⁸	
Mauritania	14 million	1.4 billion	9 million	206 million	524 million	318 million	38.6%	23.4%	1.0%	2.9%	5.5%
São Tomé and Príncipe	1 million	69 million	0.2 million	6 million	14 million	9 million	20.5%	12.5%	1.4%	9.7%	31.1%
Guinea-Bissau	7 million	280 million	0.9 million	21 million	53 million	33 million	19.1%	11.6%	2.5%	3.0%	5.3%
Sierra Leone	13 million	1.1 billion	2 million	56 million	142 million	86 million	12.6%	7.6%	1.2%	1.7%	4.9%
Gambia	3 million	429 million	0.7 million	17 million	44 million	27 million	10.2%	6.2%	0.7%	3.3%	5.0%
Burundi	21 million	730 million	1 million	26 million	65 million	40 million	9.0%	5.4%	2.9%	0.6%	2.9%
Senegal	72 million	8.0 billion	11 million	266 million	676 million	411 million	8.4%	5.1%	0.9%	2.3%	8.6%
Rwanda	38 million	1.8 billion	2 million	51 million	131 million	80 million	7.2%	4.4%	2.1%	3.1%	10.6%
Ethiopia	78 million	8.8 billion	10 million	231 million	589 million	358 million	6.7%	4.1%	0.9%	2.6%	17.0%
Malawi	40 million	2.0 billion	2 million	47 million	119 million	72 million	6.0%	3.6%	2.0%	4.0%	15.4%
Guinea	23 million	3.6 billion	3 million	72 million	183 million	111 million	5.1%	3.1%	0.6%	0.9%	3.3%
Mozambique	73 million	5.7 billion	4 million	94 million	240 million	146 million	4.2%	2.5%	1.3%	4.1%	17.6%
Tanzania	140 million	12.1 billion	8 million	189 million	480 million	291 million	4.0%	2.4%	1.2%	2.7%	12.1%
Niger	37 million	3.4 billion	2 million	46 million	118 million	72 million	3.4%	2.1%	1.1%	2.0%	6.5%
Burkina Faso	37 million	5.4 billion	3 million	69 million	175 million	106 million	3.2%	2.0%	0.7%	2.0%	5.9%
Uganda	104 million	8.0 billion	4 million	86 million	218 million	133 million	2.8%	1.7%	1.3%	2.1%	10.7%
Mali	50 million	5.4 billion	2 million	36 million	93 million	56 million	1.7%	1.0%	0.9%	2.3%	7.7%

1/ This survey includes only countries in Africa that have reached either their completion or decision points as of June 2006 under the Heavily Indebted Poor Country Initiative (HIPC) and are 100% dependent on oil imports. These are 17 of the total 29 HIPC countries.

2/ Projections combine the estimated debt relief under HIPC and the Multilateral Debt Relief Initiative (MDRI) from the International Development Association (IDA) of the World Bank and the International Monetary Fund (IMF) for calendar year 2006. Data does not include debt assistance provided by the African Development Fund (AfDF), the third multilateral institute involved. Debt owed to the IMF and IDA constitutes a significant majority of the assistance provided. MDRI came into effect January 5, 2006, and builds on HIPC to provide full debt relief for eligible countries from the IMF, IDA, and the AfDF. Timing and procedures for MDRI relief vary by institution and recipient country, e.g., some countries started IMF relief in early 2006, while World Bank assistance does not take effect until July 1, 2006. Of current HIPC countries, only those at completion point are eligible for MDRI relief.

3/ Calculations made assume 2003 consumption levels are representative of levels in 2002 and 2006.

4/ Cost of oil to country in 2002 is calculated using CIA World Factbook figures for estimated 2003 country consumption levels and the average of 2002 weekly crude oil prices provided by the Energy Information Administration of the Department of Energy, or \$23.47/bbl in 2002 dollars. Inflation since 2002 is assumed to be negligible.

5/ Projected world price for 2006, \$59.76/bbl in 2006 dollars, is the average of 2006 weekly world crude oil prices as of June 1, 2006, as provided by the Energy Information Administration.

6/ Increase in cost of oil from 2002 to 2006 denotes a 155% increase.

7/ Calculations made assume 2005 GDP levels to be representative of levels in 2006.

8/ What is considered "Poverty Reduction Expenditure" varies according to country, but primarily includes public spending on education and health. It may also include rural infrastructure, water works, roads, HIV, social safety nets, and agricultural research.

Sources: CIA World Factbook; Bureau of African Affairs, U.S. Department of State; Energy Sector Management Assistance Program and International Development Association, The World Bank; International Monetary Fund; Energy Information Administration, U.S. Department of Energy; United Nations Development Program.