



# 7 Priorities for the G7: Managing the Global Fallout of Russia's War on Ukraine

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**What's new?** The leaders of the Group of Seven, or G7, are meeting in Germany from 26 to 28 June to discuss Russia's war in Ukraine and its reverberations in the world economy.

**Why does it matter?** The club of Western powers will – and should – display unity in opposing Russian aggression. It is equally urgent for them to communicate determination to address the global commodity price and other economic shocks related to the war.

**What should be done?** While reaffirming their support for Ukraine, G7 leaders should use economic and aid tools to help countries most threatened by the commodities crisis. They should also dedicate time to some of the world's other pressing crises and push for action to manage climate change's impact on international peace and security.

## *Overview*

From 26 to 28 June, German Chancellor Olaf Scholz will host his counterparts from the Group of Seven industrialised nations (Canada, France, Italy, Japan, the United Kingdom and United States) in the Bavarian castle of Schloss Elmau for their annual summit. Two overlapping challenges will dominate discussions among the G7. The first is what to do about Russia's war in Ukraine. The second concerns the grim state of the global economy, rocked not just by war but also the COVID-19 pandemic. Spiralling food and fuel costs threaten to worsen the humanitarian plight of people caught up in existing crises, spark unrest and instability in other poorer nations, and drive political upheaval in the G7 countries themselves.

While the G7 leaders will doubtless take Russia to task over its aggression in Ukraine, they must also signal to the rest of the world that they care about other crises, particularly the widespread economic woes. Many governments in Africa, Asia and Latin America have condemned Russia's assault on Ukraine. But they also express concern that the U.S. and its allies are exacerbating the economic crisis through their use of sanctions against Moscow. Western officials deny such accusations, and certainly Russia, through its invasion and occupation of part of Ukraine, is primarily

responsible for the war's ramifications. But sanctions have contributed to the cascade of global shocks. G7 leaders need to show that they are listening to other states' concerns and can respond effectively. They should also make clear that although Ukraine is consuming attention in Western capitals, efforts to resolve other conflicts and mitigate the suffering they cause, notably through the G7's financial muscle, remain on their agendas.

Although the G7 has no doubt lost some of its capacity to shape global economic affairs in recent decades, it remains influential. Its members' share of global GDP has lost ground from the 44 per cent they commanded in 2000, but they still controlled 31 per cent as of 2020. G7 members also hold over two fifths of voting rights at both the World Bank and International Monetary Fund (IMF), and they play an even bigger role in funding international humanitarian operations. The group's members and the European Commission covered 70 per cent of the World Food Programme (WFP)'s almost \$10 billion budget in 2021, whereas China provided less than 1 per cent of the WFP's funding.

Given this still significant financial and political clout, the G7 should:

- ❑ Complement their expressions of support for Ukraine and condemnation of Russia with clear signals that they will act to deliver essential financial aid to poor and middle-income countries, most vulnerable to economic shocks, while doing whatever they can to get more grain and other commodities, of which there are shortages, to global markets.
- ❑ In Afghanistan, take steps to reverse the country's economic collapse and alleviate a mounting humanitarian disaster, notably by redoubling efforts to reach agreement with the Taliban on getting the Afghan central bank working again.
- ❑ In Lebanon, push the country's elites to make needed reforms so that the IMF can start restoring a broken financial system and stop the state falling apart.
- ❑ In Ethiopia, offer economic inducements to nudge the federal authorities and Tigrayan rebels toward a sustainable ceasefire.
- ❑ In Haiti, support rebuilding the rule of law by developing new capabilities to counter the influence of powerful gangs.
- ❑ In Sri Lanka, press the government to meet the criteria for an IMF bailout package to spare the country even worse suffering amid an unprecedented economic meltdown and a severe political crisis.
- ❑ Finally, the G7 should turn to a global issue championed by Germany but now overshadowed by the Ukraine crisis: the impact of climate change on international peace and security. G7 leaders have already recognised how changing weather patterns, sea-level rises and other effects of climate change can aggravate dangers of conflict, but they need to help forge a broader international consensus, including at the COP27 summit in October, on how to manage those risks.

## I. Addressing the Global Consequences of Russia's War in Ukraine

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Russia's war in Ukraine will dominate the G7 agenda. The group's members have jointly condemned Russia's invasion, coordinated sanctions against Moscow and pledged \$20 billion to Kyiv in financial assistance, in addition to offering military and economic aid.<sup>1</sup> For the most part, they have maintained a united front, striking a sensible balance between backing Ukraine against an aggressor, on one hand, while avoiding too grave a risk of direct war with Russia, on the other. The war seems set to drag on, with stalemate on most battlefronts. More to the point, the two sides are pursuing incompatible goals – Ukraine to recoup sovereignty over its territory and Russia to consolidate control of land it has captured and, eventually, instal an obedient government in Kyiv. Even were both to seek a pause, it would likely be temporary. At Schloss Elmau, G7 leaders will likely reiterate their positions on the war, renewing the denunciation of Russia and promising Ukraine further support. As NATO is convening a summit from 28 to 30 June, they will probably save substantial remarks on military and security policy for that meeting.<sup>2</sup>

Schloss Elmau is thus an opportunity for the G7 members to signal clearly that they recognise the gravity of the global commodity price and other economic shocks linked to the war and that they will take all realistic steps to address them. The world's economy, battered by the pandemic and facing serious inflation, was in a parlous state even before Russia invaded Ukraine.<sup>3</sup> The war has made an already gloomy economic outlook even more dire.

The impact is especially acute because Russia and Ukraine are central to commodity markets. Together, the two countries produce 12 per cent of the total calories traded worldwide, and both are among the top five global exporters of wheat, barley, sunflowers and maize.<sup>4</sup> Ukraine is an important source of sunflower oil, supplying about 50 per cent of what is purchased across the globe, followed by Russia (about 23 per cent).<sup>5</sup> Russia is the world's third-largest oil producer, behind the U.S. and Saudi Arabia, and the largest oil exporter to global markets.<sup>6</sup> It is also one of the world's major natural gas exporters, accounting for 17 per cent of global output.<sup>7</sup> Price hikes and shortages in key Russian- and Ukrainian-produced commodities have hit many countries, particularly in Africa, Asia and the Middle East. Fuel shortages in particular drive food price hikes, due to transport costs and, given the use of natu-

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<sup>1</sup> See Paola Tamma and Johanna Treeck, "G7 raises close to \$20 billion for Ukraine", *Politico*, 20 May 2022.

<sup>2</sup> Prime Minister Fumio Kishida of Japan, the only G7 member that is not a NATO nation, has a special invitation to this summit.

<sup>3</sup> From the COVID-19 pandemic's early days in 2020 through January 2022, just before Russia's invasion of Ukraine, prices of key commodities had already spiked – oil by 54 per cent, natural gas by 94 per cent and fertiliser by 85 per cent. Crisis Group estimates using data from the World Bank's Commodities Price Dataset.

<sup>4</sup> "Ukraine: Note on the Impact of the War on Food Security in Ukraine", UN Food and Agriculture Organization, 25 March 2022.

<sup>5</sup> "How the Ukraine-Russia conflict will raise the price of snack foods", *Time*, 7 March 2022.

<sup>6</sup> "Oil Market and Russian Supply", International Energy Agency, n.d.

<sup>7</sup> "Country Insight – Russia", BP, n.d.

ral gas in producing fertiliser, increased fertiliser costs, hurting food production as farmers who cannot afford higher prices have lower yields.

Russia shoulders the blame for the global ramifications of the war in Ukraine. It launched an illegal attack upon its neighbour, having been warned that doing so would provoke comprehensive sanctions. Since invading, furthermore, it has blockaded Ukraine's southern ports in the Black Sea and closed off the Sea of Azov. Prior to the war, nearly 90 per cent of Ukraine's grain exports went through its Black Sea ports.<sup>8</sup> Alternate routes – mostly consisting of roads overland to other countries' ports – cannot easily replace sea lanes, given the sheer volume of grain that needs to exit. Ukraine's grain silos are filling up, meaning that farmers are struggling to find storage for summer crops and may be unable to plant for winter.<sup>9</sup> Russia has, alongside its forces' other atrocities, destroyed and stolen grain supplies. It has disrupted farming in war-torn areas and struck grain storage sites with missiles. Moreover, in response to sanctions, Moscow has also banned exports of more than 200 products, including the fertiliser that many countries rely upon.<sup>10</sup>

But while blame for the war lies with Moscow, the resulting sanctions imposed on Russia have exacerbated the commodities crisis. Exemptions of Russian grain and fertiliser from sanctions has not soothed jitters in financial and insurance markets. Many companies have opted voluntarily to cease trade with Russia, wary of the legal and reputational risks posed by a constantly evolving sanctions regime. The decision to ban seven Russian banks from the Swift system complicates payments to Moscow, even for non-sanctioned commodities. Put simply, it is hard for purchasers to either transfer money to Russia or insure Russian shipments.

There are other factors, too. More than a dozen countries, including major grain producers, have imposed export bans on essential commodities, fearful of shortfalls to come.<sup>11</sup>

As Crisis Group has long argued, G7 leaders must show they can manage the commodities crisis if they are to maintain the solidarity with Ukraine that many governments expressed in UN votes early on.<sup>12</sup> While many non-Western leaders evince sympathy for Ukrainian suffering, many also stress that they must put their own citizens' needs first.<sup>13</sup> True, these leaders have diverse reasons for distancing themselves from Western efforts to isolate Russia, ranging from the desire not to pick a side in a

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<sup>8</sup> Oleksiy Blinov and Simeon Djankov, "Restarting Ukraine's agricultural exports", *Vox EU*, 10 June 2022.

<sup>9</sup> "Ukraine's grain crop at risk as silos still half full due to stalled exports", Reuters, 8 June 2022.

<sup>10</sup> The ban came shortly after the U.S. said it would proscribe, and the EU said it would reduce, imports of Russian oil. Russia claimed that its move aimed to maintain internal market stability. "Russia banned the export of other 200 goods. But is Putin retaliating against U.S. sanctions or stockpiling supplies?", *Fortune*, 11 March 2022. Russia had temporarily banned export of the fertiliser ammonium nitrate in early February, before the war, to conserve domestic supply. The broader fertiliser ban came in March. "Russia to temporarily 'suspend' fertilizer exports", Seeking Alpha, 10 March 2022.

<sup>11</sup> India, for example, imposed a ban on wheat exports to maintain its supply and keep domestic wheat prices stable after heat waves had depressed wheat production.

<sup>12</sup> See "Maintaining a Coalition in Support of Ukraine at the UN," Crisis Group Commentary, 31 March 2022.

<sup>13</sup> See, for example, "The Impact of Russia's Invasion of Ukraine in the Middle East and North Africa", Crisis Group Commentary, 14 April 2022.

war many perceive as pitting NATO against Russia to historical ties to Moscow, reliance on its arms or simply reluctance to anger the Kremlin.<sup>14</sup> Many chafe at the attention Western leaders give Ukraine above crises elsewhere or point to Western double standards, citing the Iraq and Libya wars in particular.<sup>15</sup> But fear at the commodities crisis and the sense that the West has given little consideration to the sanctions' unintended consequences are pervasive. Senegalese President Macky Sall, the African Union chair and an invitee at the G7 meeting, has warned that Africans are "caught between the hammer of war and the anvil of sanctions".<sup>16</sup>

Food and fuel shortages could prove destabilising in much of the world. People in places already suffering humanitarian crises are especially vulnerable; the WFP has warned that 325 million people are "marching toward starvation".<sup>17</sup> Economic hardship could translate into social and political unrest in other countries. Many poor and middle-income countries – particularly those that import more than they export and whose major debt loads grew during the COVID-19 pandemic – will struggle to cope with high food and fuel costs.<sup>18</sup> Whether higher prices bring tumult depends on local politics: some governments might be able to calm tempers through emergency spending, potentially aided by wealthy patrons; others might move to crush dissent; still others might face no new upheaval, simply because citizens are exhausted from years of protest over other grievances. But in many states, price hikes and shortages could fuel instability. Sri Lanka's crisis, though it predates Russia's 24 February invasion of Ukraine, could be a harbinger of things to come.<sup>19</sup>

Western powers have responded in some detail to the challenges. In financial terms, the U.S has taken the lead on providing food aid, allocating some \$2.5 billion since February. The EU and UN have also proposed support mechanisms, and the European Commission is reportedly considering a €600 million (\$640 million) response to the global food crisis.<sup>20</sup>

As for the G7, Germany hosted a virtual meeting of member states' agriculture ministers to discuss the problem in the war's first weeks.<sup>21</sup> In May, the G7 and World Bank launched a Global Alliance for Food Security with a short-term focus on helping get food and other essential supplies to needy countries, reducing tariffs on agricul-

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<sup>14</sup> "The Impact of Russia's Invasion of Ukraine in the Middle East and North Africa", op. cit. See also "The Ukraine War: A Global Crisis?", Crisis Group Commentary, 4 March 2022.

<sup>15</sup> Ibid. See also Comfort Ero's "President's Take" in Crisis Group's *EU Watch List Spring Update*, 24 May 2022.

<sup>16</sup> "Macky Sall: 'Africa is caught between the hammer of war and the anvil of sanctions'", *Le Monde*, 14 June 2022.

<sup>17</sup> "Marching toward starvation': UN warns of hell on earth if Ukraine war goes on", *The Guardian*, 17 June 2022.

<sup>18</sup> According to the International Monetary Fund, nearly 60 per cent of low-income countries are in debt distress or near it. Crisis Group interview, former IMF official, 17 June 2022.

<sup>19</sup> Alan Keenan, "Sri Lanka's Economic Meltdown Triggers Popular Uprising and Political Turmoil", Crisis Group Commentary, 18 April 2022. See also Mark Malloch-Brown, "Sri Lanka is an omen", *Revista da Prensa*, 26 May 2022.

<sup>20</sup> Vince Chadwick, "The European Commission's €600m food crisis plan", *DevEx*, 10 June 2022.

<sup>21</sup> "G7 Agriculture Ministers Respond to Russian Invasion of Ukraine", press release, U.S. Department of Agriculture, 11 March 2022.

tural goods and providing financial assistance to vulnerable economies.<sup>22</sup> This first step should be useful in dealing with the food crisis, so long as these actors deliver on their promise of “up to \$30 billion in existing and new projects”.<sup>23</sup> Certainly, they should avoid repeating mistakes made during the pandemic, when the failure to deliver promised vaccines outside the rich world fed enormous frustration – a sentiment that has contributed toward the ambivalence in poorer countries about the Ukraine war.<sup>24</sup>

Notwithstanding their efforts so far, G7 members should do more to tackle global economic turmoil. Immediate humanitarian relief for states already in crisis and facing further food shortages should be accompanied by economic buffers for other vulnerable countries. One option is for G7 countries to promote use of the IMF's Special Drawing Rights (SDRs), a supplementary international reserve asset that is meant to maintain liquidity in the global economy.

The SDRs should go to the countries that most need them. The IMF issued \$650 billion in SDRs in the summer of 2021, but due to the organisation's rules, the bulk were assigned to richer countries. These wealthier countries can, however, “recycle” SDRs (or, in effect, lend their SDRs to the IMF's trust fund for low-income countries, the Poverty Reduction and Growth Trust or the new Resilience and Sustainability Trust) or donate them outright to other countries, though they rarely do the latter. Lending or donating is a complex process, but the G7 members could commit to redistributing these assets and convince other G20 economies to follow suit. G20 leaders in fact already committed themselves to support low-income countries by lending \$100 billion from their SDRs. The U.S., which has yet to pledge any reallocations, should step up on this front in particular.<sup>25</sup>

While demand-side intervention to provide food is vital, solutions will have to come on the supply side, too. One option is to convince countries that have blocked export of vital commodities, including grain, to resume trade, but capitals are proving reticent, still concerned about hunger at home. Another option is to find alternative food sources in regions on a different farming cycle, for instance in Latin America. The G7 could look to encourage countries that already have the requisite industrial agricultural capacity to fill the gap.

Several proposals have been put forward for enabling shipments of Ukrainian grain through the Black Sea. Challenges, however, remain numerous. NATO military

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<sup>22</sup> “G7 Presidency, World Bank Group Establish Global Alliance for Food Security to Catalyze Response to Food Crisis”, press release, World Bank, 19 May 2022.

<sup>23</sup> “World Bank Announces Planned Actions for Global Crisis Response”, press release, World Bank, 18 May 2022.

<sup>24</sup> As of 15 June, just over 72 per cent of people in high-income countries had received at least one dose of vaccine, whereas only 18.25 per cent of people in low-income countries had got a shot. See data and updates at the Global Dashboard for Vaccine Equity, a joint project of the World Health Organization, the UN Development Program and the University of Oxford.

<sup>25</sup> Germany has pledged to redistribute 28 per cent of its SDRs allocation. The other G7 members have each pledged 20 per cent reallocations, except the U.S., which has pledged nothing. China has pledged 24 per cent of its allocation and Saudi Arabia 66 per cent. See data and updates on the ONE website. Republicans in the U.S. Congress say recipient countries could use the SDRs to buy Russian goods, thus funding the Kremlin's war effort, or to pay off loans to China or other U.S. rivals. Sanctions would remain in place, however, and propping up the countries hardest hit by the commodities crisis is no less imperative than squeezing the Russian economy.

escorts of grain cargoes would put the alliance's warships close to, and maybe at odds with, the Russian Black Sea fleet. Ukraine is reluctant to remove mines it has placed underwater to prevent Russian attacks on Odesa or other coastal sites. Moreover, both Ukrainian and Russian mines have begun to float, meaning that no one knows their exact locations. The best bet would be either a UN convoy or one launched by Black Sea littoral states, so that no new ships need be brought into the area. Turkey has been active in exploring such options with the UN.<sup>26</sup> It is unclear how serious Russia is about those talks, but the parties may yet agree on limited demining of specific corridors, which would help. Other options, such as overland shipping to other Black Sea ports, for instance in Romania, are less attractive but still worth pursuing (the World Bank estimates that perhaps half the grain awaiting export could be transferred to European countries in this way).<sup>27</sup>

G7 leaders understandably see the Ukraine war as critical to global security. Russian success in Ukraine would threaten Europe for years to come, with cascading effects for the rest of the world. But many leaders elsewhere in the world balk at having to pay steep, immediate costs – economic hardship for their citizens and potentially even unrest – in an effort to prevent what they see as either a longer-term problem or simply a European or Western concern, especially as the sanctions imposed on Russia are not in themselves guaranteed to weaken Moscow so much as to deter further aggression in the way Western leaders intend. Many governments in Africa, Asia and the Middle East are unlikely to fully buy into isolating Russia, whatever policy Western leaders adopt. But the G7 risks frittering away the support these countries have been willing to show thus far unless they demonstrate that they care as much about the commodities crisis as about the front lines in Ukraine. The Schloss Elmau meeting is a good opportunity to show that they do.

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## **II. Easing Afghanistan's Economic and Humanitarian Crisis**

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Although the Taliban won the war in Afghanistan almost a year ago, wealthy foreign states, including the G7 members, retain an economic chokehold on the country. All the group's members are enforcing hefty sanctions regimes that hurt the Afghan economy. Some, including the U.S., have announced broad humanitarian exemptions, but Afghan banks remain crippled by asset freezes and lack of access to the global financial system.<sup>28</sup> Nearly all development aid was cut off. These restrictions have contributed to the rapid decline of the Afghan economy and make it difficult for aid agencies to operate in the country. With almost 20 million Afghans facing hunger or starvation, humanitarian disaster is at hand and seems poised to grow. An enormous aid response helped relieve the crisis over the winter of 2021-2022, but concerns are great about the period ahead (especially, but not exclusively, the forthcoming

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<sup>26</sup> Crisis Group interview, senior UN official, 8 June 2022.

<sup>27</sup> "Commodity Markets Outlook: The Impact of the War in Ukraine on Commodity Markets", World Bank, April 2022.

<sup>28</sup> For more, see Graeme Smith, "Afghanistan: The Humanitarian Crisis and U.S. Response", testimony delivered to the U.S. Senate Committee on Foreign Relations, 10 February 2022.

winter), as donor funds for Afghanistan decline, and prices of food and fuel supplies rise due to commodity shocks.

The Taliban's adoption of hardline policies, especially denying the rights of women and girls, including prohibiting secondary school education for girls – a move which the G7's foreign ministers described as “further isolating [the Taliban] from the international community” – has raised obstacles to member states' engagement with the regime and provision of material support.<sup>29</sup> G7 members are entirely justified to push for women's rights and other human rights in Afghanistan. Yet it appears unlikely that Taliban leaders, placing their ranks' unity above all other concerns, will yield to outside pressure. The country's economic collapse has already caused terrible suffering for Afghans, with more likely to come, especially for the nation's women and girls.<sup>30</sup> Nor should outside powers expect a change in government any time soon: despite an uptick in anti-Taliban attacks in northern Afghanistan, the group retains a solid grip on Kabul and the vast majority of the country.

The G7 should seek to avoid, or aim at least to cushion, a looming economic-humanitarian catastrophe. The full removal of sanctions, the return of all frozen assets and the Taliban's formal international recognition as the legitimate government of Afghanistan are out of the question; these steps would be politically contentious in Western capitals under the circumstances. But G7 leaders should consider going further than they have so far in easing sanctions, looking at a phased and closely monitored unfreezing of assets for the sake of macro-economic stability, finding with the Taliban workable conditions for the revival of Afghanistan's central bank and encouraging correspondent banks to resume business with the country (details of which Crisis Group has described elsewhere).<sup>31</sup> They can also use their collective leverage to encourage the World Bank to deepen re-engagement with the Taliban on planning for economic development.

The G7 certainly should not turn a blind eye to Taliban repression. Leaders should encourage the UN Assistance Mission in Afghanistan to make full use of a March UN Security Council mandate that authorised the operation to continue human rights monitoring, and should also continue to use bilateral channels to push for respect for the rights of women and girls.<sup>32</sup> Overall, though, pressure for women and girls' rights will be of little use if living conditions deteriorate further, immiserating the population – women and men alike. The G7 should focus primarily on meeting the basic needs of suffering Afghans. Whether such an approach can set a foundation for positive change over time is unclear. But aiming for gradual improvement of living standards through engagement remains a better bet than holding all development aid hostage to short-term concessions that the stubborn Taliban will not grant.

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<sup>29</sup> “G7 Foreign Ministers' Statement on the Situation of Women and Girls in Afghanistan,” U.S. Department of State, 12 May 2022.

<sup>30</sup> For more, see “Stopping State Failure in Afghanistan,” Crisis Group Commentary, 27 January 2022.

<sup>31</sup> See, for example, Crisis Group Asia Report N°317, *Beyond Emergency Relief: Averting Afghanistan's Humanitarian Catastrophe*, 6 December 2021.

<sup>32</sup> See Graeme Smith and Ashish Pradhan, “Toward a New Mandate for the UN Mission in Afghanistan,” Crisis Group Commentary, 28 January 2022.



### III. Rescuing Lebanon from State Failure

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The knock-on effects of the Ukraine war – chiefly, global spikes in oil and wheat prices – are pushing Lebanon closer to the brink of state collapse. The country's economy is already in tatters, after more than two years of runaway inflation, which hit 145 per cent in 2021. Public services are in disarray and, as usual, powerbrokers are using economic patronage to shore up their fiefdoms.<sup>33</sup> As political parties haggle over forming a new government after the May elections, Lebanon needs urgent financial help.<sup>34</sup> Absent reforms, donors will be unwilling to make substantial investments in the country, and for good reason. Unless it is motivated to change, Lebanon will remain stuck in the cycle where it has been for years.

Now is an opportune moment for G7 members to put extra political weight behind efforts to fix the country's financial system. On 7 April, the IMF and the Lebanese government signed a staff-level agreement, by which Lebanon would receive \$3 billion in the framework of an Extended Fund Arrangement over four years.<sup>35</sup> To receive these funds, the government must carry out far-reaching reforms aimed at achieving fiscal sustainability, sound governance and conditions conducive for economic growth. By signing the agreement, the government also formally accepted that it must begin resolving the Lebanese financial system's crisis before the IMF board would consider authorising the new funding. Accordingly, in its very last session as an executive body on 20 May, the outgoing cabinet approved a financial recovery plan designed to rehabilitate the defunct financial sector.<sup>36</sup>

But powerful players with strong interests in maintaining the broken system are unlikely to go along easily. Indeed, the Association of Lebanese Banks has already rejected the government's plan, complaining that it makes unjust demands of commercial bank depositors. The association may team up with politicians with stakes in the sector to stall, skew or even abort the recovery plan, as they did in 2020. Protracted negotiations over forming the new government, which could well end in stalemate, are liable to cause further delay.

The G7, along with the IMF, should lend both a sense of urgency to Lebanon's political leadership and support to the Lebanese people. The leaders should impress on Lebanese politicians and decision-makers the absolute necessity of subordinating political differences to the reform agenda if the country is to avoid a complete economic collapse with grave humanitarian consequences. They can proactively contribute to the build-up of popular pressure in this direction by addressing the Lebanese public along the same lines. Through official statements, G7 members and the IMF can clearly establish that they will not accept a distorted version of the financial recovery plan.

Notwithstanding the concerns about Lebanon's political elite, G7 members should offer the country direct financial support to keep public services – including schools,

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<sup>33</sup> For more, see Crisis Group Middle East Report N°228, *Managing Lebanon's Compounding Crises*, 28 October 2021.

<sup>34</sup> See David Wood, "Lebanon's Elections Portend Protracted Political Vacuum", Crisis Group Commentary, 23 May 2022.

<sup>35</sup> "IMF Reaches Staff-Level Agreement on Economic Policies with Lebanon for a Four-Year Extended Fund Facility", press release, International Monetary Fund, 7 April 2022.

<sup>36</sup> "Outgoing Lebanon government approves economic recovery plan", Voice of America, 20 May 2022.

hospitals and water infrastructure – running. They should extend assistance to keep food prices as low as feasible. But donors should emphasise that this aid cannot last indefinitely and that the country's politicians must make hard decisions to get the economy back on its feet. On the other hand, G7 leaders could express their willingness to facilitate large-scale development aid and investment if Lebanon can make swift progress toward putting genuine reforms in place.

#### **IV. Creating Incentives for a Lasting Ceasefire in Ethiopia**

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Ethiopia's civil war was a headliner at the 2021 G7 summit in Britain and it deserves a prominent spot on the agenda this time, too, though the trend lines are more positive than they were a year ago. In 2021, UN Secretary-General António Guterres urged the participants to address famine conditions amounting to “a humanitarian tragedy on a scale we have not seen so far this century” in the region of Tigray, that had suffered fierce fighting and a blockade by federal troops and allied forces, which included Eritrea's military.<sup>37</sup> Today, the situation in Tigray is marginally improved but still dangerous. A two-month truce between federal and Tigray forces is holding, aid convoys are slowly gaining easier access to the region and the first direct talks between federal and Tigray leaders may occur soon.<sup>38</sup> Yet there is a risk of renewed war – including between Tigrayan and Eritrean forces, which have recently clashed – and Tigray remains cut off from trade and basic services, including banking, electricity and telecommunications.

The G7 has an opportunity to coax the Ethiopian government and Tigray's leaders toward a more durable ceasefire by tying offers of financial assistance to Addis Ababa to progress on humanitarian and political issues. The national authorities face an economic predicament, with annual inflation at 37 per cent, hard currency in short supply and growth slowing. During the war, donors suspended budget support for the federal government and most bilateral development funding. They need a coordinated plan for restarting this assistance in a manner that nudges Addis Ababa to take steps toward peace.<sup>39</sup>

While there should be no limits on humanitarian assistance, development aid could be a useful tool for encouraging progress in conflict resolution if donors can develop a joint effort to encourage certain priorities. The World Bank has already resumed its development assistance to Ethiopia's government, approving a \$300 million program in May.<sup>40</sup> Yet criticism from European and U.S. officials made clear that approval of the funding was not part of a coordinated donor strategy. A further \$2.7 billion for Ethiopia's government is in the pipeline for approval at the World Bank, covering areas including water, health and disaster management. The risk is that a key incentive for Prime Minister Abiy Ahmed's administration to end the war fades amid the influx of hard currency.

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<sup>37</sup> Letter from the UN Secretary-General to the President of the United States, 4 June 2021. Copy on file with Crisis Group. The UN sent similar letters to other G7 leaders.

<sup>38</sup> For more, see Crisis Group Statement, “Building on Ethiopia's Fragile Truce”, 15 April 2022.

<sup>39</sup> See “Ethiopia: Giving Talks a Chance”, Crisis Group Commentary, 27 January 2022.

<sup>40</sup> “Ethiopia, World Bank agree \$300 million grant for reconstruction”, Reuters, 17 May 2022.

To use its limited leverage wisely, the G7 should make sure that donors peg the resumption of standard amounts of development assistance to steps by Addis Ababa to widen the flow of emergency relief to Tigray's population, restore basic services to the region and prolong the ceasefire through formal direct negotiations. That does not mean withholding all new funding until a final peace deal is worked out (and donors should ramp up purely humanitarian aid regardless). But it does mean coordinating with one another to link major foreign support to a peace process that seems to be gathering momentum.

Looking ahead, to encourage political progress, the G7 should consider pledging a much larger recovery package for Ethiopia should authorities succeed in reaching a comprehensive peace. They could deliver such support in the event of, say, a permanent ceasefire or the commencement of an inclusive national dialogue to address Ethiopians' deep-seated disagreements.

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## V. Salvaging the Rule of Law in Haiti

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Haiti is among the nations in the Western Hemisphere most exposed to global food price and other economic shocks, with almost half the population already experiencing severe hunger. But, as the G7 foreign ministers acknowledged in a May communiqué, this dire humanitarian situation is made more difficult to address because “violent criminal groups” have a firm grip on much of the country.<sup>41</sup> Gangs control large swathes of the capital Port-au-Prince and other cities, and murders and kidnappings are commonplace. The G7 ministers declared their priority to be strengthening the Haitian National Police “to bring back security and civil peace”.<sup>42</sup>

It will be easier said than done. A first step to restoring some stability would be to begin dissolving the historical links between the gangs and privileged Haitian elites, who have employed the criminals as private armies of a sort.<sup>43</sup> To this end, it is urgent to strengthen the investigative capacities of the chief prosecutor's office. The G7 could finance a mechanism inspired by the UN-mandated International Commission Against Impunity in Guatemala that operated alongside that country's attorney-general's office from 2006 to 2019 to bring high-profile cases of corruption and extra-legal use of violence to trial.<sup>44</sup> It could also earmark its aid for the creation of an intelligence-gathering unit within the Haitian National Police, supporting the vetting of its members. Crucially, donors can help pay the members of this unit better than living wages to stop criminal organisations from recruiting them.

As major donors, G7 members can be helpful in other ways, too. Haiti's gangs will continue to expand unless the country's poorest inhabitants have other options for making a living. Community violence reduction programs – focusing on tasks like job training – are long-term investments that often do not fit into funders' short-term

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<sup>41</sup> “G7 Germany 2022 Foreign Ministers' Communiqué”, French Ministry for Europe and Foreign Affairs, 14 May 2022.

<sup>42</sup> Ibid.

<sup>43</sup> See Crisis Group Latin America and Caribbean Briefing N°44, *Haiti: A Path to Stability for a Nation in Shock*, 30 September 2021.

<sup>44</sup> See Crisis Group Latin America Report N°70, *Saving Guatemala's Fight Against Crime and Impunity*, 24 October 2018.

grant cycles, but which are indispensable for weakening the gangs' appeal. Representatives of the G7 members could work on developing a medium-term commitment to sustaining support for these programs, partnering with civil society organisations that would run them on the ground. They could also fund local aid groups to help the large number of internally displaced people, which topped 15,000 in 2021.<sup>45</sup> These people are particularly vulnerable to recruitment by gangs, given their poor living conditions. Without such aid projects, simply trying to strengthen the police will likely fail.

## **VI. Bringing Sri Lanka Back from the Brink**

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Sri Lanka's worst-ever economic meltdown and the political crisis that has followed have brought the country close to catastrophe and elevated the risk of a return to political violence. With inflation running at 40 per cent overall and nearing 60 per cent for food, the scarcity of fuel, cooking gas and cooking oil is causing long queues of angry customers to form across the island. Crop yields are expected to be down by half, raising the risk of widespread hunger by August or September, and the medical system is on the verge of collapse. To avoid the worst, G7 members should help lead a concerted effort to provide humanitarian assistance while pressing the government to adopt the reforms necessary to secure desperately needed funding from the IMF. That money, in turn, will allow for longer-term political stability and economic recovery.

The crisis has been long in the making; the result of years of unbalanced, debt-fuelled growth, worsened by gross mismanagement on the part of the administration of President Gotabaya Rajapaksa, which came to power in November 2019, and still further by the COVID-19 pandemic and Russia's war in Ukraine. By April, these factors had combined to drain Sri Lanka of its foreign currency reserves and force a default on its international debt. The war in Ukraine has continued to accelerate economic deterioration by increasing food and fuel prices and reducing the value of credit lines from the Indian government that have kept Sri Lanka's finances afloat since early 2022.

After the resignation of his brother, Prime Minister Mahinda Rajapaksa, on 9 May, which was followed by a night of unprecedented arson attacks on the houses of pro-Rajapaksa politicians, the president appeared to be on the ropes. Many hoped he might finally bow to demands voiced by protesters and the opposition to abolish the position of executive president and agree on a timetable for leaving office. Had he done so, it would have been a huge blow to the Rajapaksa family, which has dominated the country's politics since 2005, and created an opening for meaningful reform. Instead, on 12 May, the president appointed veteran politician Ranil Wickremesinghe as prime minister (he has served five terms as premier before), taking the wind out of the protest movement's sails and allowing the formation of a new government dominated by long-time Rajapaksa supporters.

Welcomed by Western governments, which hoped he could restore political stability and craft consensus economic reforms, Wickremesinghe has struggled. He has yet to show that he is in control of policymaking and his government has little public credibility. Neither the government nor the pro-Rajapaksa majority in parliament

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<sup>45</sup> For more, see "Country Profile: Haiti", Internal Displacement Monitoring Centre.

appears committed to the political reforms that would increase transparency and accountability in government – especially presidential – decision-making, and help rein in corruption and economic mismanagement. With the demands of months of mostly peaceful protests ignored and prospects for major change dwindling, many fear the popular response to the next, and worse, phase of the economic crisis will be angrier and more violent.

In order to avert this scenario, G7 members should work together and with others, including India, to jog Colombo out of its inertia and press it to make the difficult economic reforms that will be required to secure a financial lifeline from the IMF. Ahead of a visit to Colombo by an IMF team the week of 20 June, the prime minister expressed hope that the IMF and government could reach a staff-level agreement on a bailout package by the end of June. To date, however, there is no sign of the far-reaching economic reform package the IMF has said it is looking for.<sup>46</sup> Moreover, the government has yet to begin negotiations with international creditors to restructure Sri Lanka's \$51 billion in foreign debt, an essential criterion for an IMF deal. With negotiations expected to take at least three to six months, the economic and humanitarian crisis will almost certainly reach critical proportions before any IMF program can take effect. At the same time, G7 governments should act quickly to fully fund the UN's recent humanitarian appeal and take additional bilateral steps to ensure there are sufficient food and medical supplies to avoid widespread starvation and a collapsed public health system, and the political chaos and violence these would likely produce.

Finally, beyond the economic measures that the IMF is insisting on, G7 leaders need to impress upon the Rajapaksa-Wickremesinghe government the urgent need for meaningful governance changes, beginning with a constitutional amendment that effectively returns power to parliament and additional steps to increase transparency, strengthen oversight of executive decisions and combat corruption. G7 governments should make clear these reforms are conditions for their supporting an IMF bailout. Without such changes, it is only a matter of time before the country is back at the brink of crisis.

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## VII. Driving International Action on Climate Security

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Even if Russia's war in Ukraine and its global ramifications will dominate discussions at Schloss Elmau, the G7 should not overlook longer-term concerns, above all climate change. Berlin has used its G7 presidency to stress the implications of climate change for international security, a theme it has previously foregrounded at the UN. Across the world, millions of people already swelter in record heat, suffer through drought, cope with wildly erratic precipitation and anxiously watch rising sea levels.

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<sup>46</sup> As Crisis Group has previously reported, "these include a long series of austerity measures, from budget cuts to income tax and VAT increases, an end to inflationary money printing by the Central Bank, phasing out import restrictions, stopping government interventions aimed at stabilising the rupee, and 'growth-enhancing structural reforms', which will likely include the sale or partial privatisation of state-owned companies". Keenan, "Sri Lanka's Economic Meltdown Triggers Popular Uprising and Political Turmoil", op. cit.

The impact of climate change is increasing food insecurity, water scarcity and resource competition, while disrupting livelihoods and spurring migration. Today, half of the most climate-fragile countries also face conflict and crisis. As the world warms, climatic distress plays an increasingly central role in many of today's conflicts. In May, the G7 foreign ministers promised to support "those states and regions whose stability and peace are most affected by climate- and environment-related risks".<sup>47</sup> It was a positive step after setbacks including Russia's veto of a Security Council resolution highlighting the issue in December 2021.<sup>48</sup>

Expert consensus is growing that changing weather patterns, desertification and sea-level rise can increase risks of conflict, but many non-G7 powers – including not only Russia but G20 members, including Brazil, China and India – remain sceptical about the links between climate change and violence. Some developing countries also worry that the connection to conflict is a distraction from other climate-related tasks, such as helping them adapt economically to global warming. While it is good that the G7 has now recognised the challenge, the group needs to build coalitions of countries in the Global South to address climate security alongside these other priorities.

The G7 will need to build a cross-regional coalition to make progress. The African Union is one possible partner. The AU's Peace and Security Council has recognised climate change as a security challenge.<sup>49</sup> In 2022, Egypt is hosting the annual Conference of the Parties of the UN Framework Convention on Climate Change (COP27) and promised a focus on Africa's concerns.<sup>50</sup> Germany and the other G7 members could work with the AU and Egypt to convene joint high-level consultations on climate security around the conference. G7 members could also offer the AU Commission support to boost its own capacity to track climate security.

Another possible partner is the United Arab Emirates, which will host COP28 in 2023. At the UN in March, the UAE hosted a meeting on the linkages between climate adaptation and security issues.<sup>51</sup> This gathering highlighted that multilateral agencies have failed to offer much financing for climate adaptation to conflict-affected countries due to the risks involved. As leading donors, the G7 could work with the UAE – hopefully roping in more G20 countries and other major aid-givers – to formulate and deliver commitments for channelling climate financing to fragile states as a goal for COP28. The G7 leaders in Germany could signal their interest in crafting such a process with the UAE through their summit communiqué.

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<sup>47</sup> "G7 Foreign Ministers' Statement on Climate, Environment, Peace and Security", press release, German Federal Foreign Office, 13 May 2022.

<sup>48</sup> See "How UN Member States Divided Over Climate Security", Crisis Group Commentary, 22 December 2021.

<sup>49</sup> Press statement, AU Peace and Security Council 774th Meeting, 21 May 2018.

<sup>50</sup> "Egypt rallies African climate consensus ahead of COP27", *Al-Monitor*, 6 April 2022.

<sup>51</sup> "UAE puts focus on climate finance at UN's top table", *The National*, 9 March 2022.

## *Conclusion*

If the G7 leaders can send a clear message that they have plans to deal with the global economic crisis, as well as to support Ukraine, they may win some good-will internationally. Some Western politicians and commentators speculate that the G7 could gain in stature in the years ahead, providing a platform for the U.S. and its allies to solve problems that a divided UN and G20 cannot agree upon. But it would be a mistake for the group to position itself solely as an anti-Russian (and perhaps anti-Chinese) coalition. If it does that, it would likely alienate many non-Western countries that are trying to triangulate between the G7, Moscow and Beijing in a period of geopolitical flux. Instead, the G7 should signal that it both recognises and has the means to help poorer countries navigate the current crisis, and that it will work with other international groups and organisations – such as the UN and AU – to tackle global challenges. That is the sort of leadership that many states worldwide are looking for after the trials of COVID-19 and the first months of Russia's war on Ukraine. The G7 remains well placed to offer it.

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