



H Mangrum/Mercy Corps

SECONDARY IMPACTS OF THE CONFLICT IN UKRAINE

Case Studies in the Middle East

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Table of Contents

Executive Summary	3
Regional Recommendations	7
Country Case Studies	7
Yemen	7
Context Analysis	7
Impact Analysis	8
Looking Ahead	11
Lebanon	12
Context Analysis	12
Impact Analysis	13
Looking Ahead	16
Syria	17
Context Analysis	17
Impact Analysis	17
Looking Ahead	20
Palestine	21
Context Analysis	21
Impact Analysis	21
Looking Ahead	23
Iraq	24
Context Analysis	24
Impact Analysis	25
Looking Ahead	27
Jordan	28
Context Analysis	28
Impact Analysis	29
Looking Ahead	31

Executive Summary

The consequences of the war in Ukraine are being felt globally, and especially acutely in countries dependent on commodity imports and already facing long-term food insecurity and vulnerability to economic shocks. As countries across the Middle East continue to experience ongoing conflict, political instability, economic turmoil, consequences of climate change and mismanagement of natural resources along with significant humanitarian needs, they are some of the most affected by the shockwaves reverberating from the war in Ukraine.

Prior to the start of the war in early 2022, Russia and Ukraine accounted for more than 25% of global wheat exports. According to the Food and Agriculture Organization (FAO), 50 countries relied on Russia and Ukraine for at least 30% of their wheat imports, including Lebanon, Yemen and Jordan.¹

The war and disruption in the Black Sea have curtailed these exports, leading to significant price increases across countries in the Middle East. The situation is further compounded by a rise in global fuel prices and subsequent effects on transportation, impacting the cost of essential goods and services. Compared to 2021, global wheat prices have soared by more than 52% in 2022 as a result.² This builds on other challenges, including India's recent wheat export ban, which is likely to have a negative impact on costs, and they are likely to rise for import-dependent countries in the foreseeable future.³ In addition, the price of key fertilizer elements will also be unaffordably expensive, reducing domestic agriculture's capacity to fill the gap in supply.⁴ Even if countries manage to source alternative supply it will likely be impacted by higher international wheat prices, which are at their highest level since 2008.⁵

The World Food Programme (WFP) has warned of major implications for food security that are already being felt across the Middle East, where humanitarian needs are significant and were already increasing prior to the Ukraine crisis in countries such as Lebanon, Yemen and Palestine.⁶ WFP notably sources 50% of its wheat supply from Ukraine and its neighbors.⁷ It has already had to reduce rations for refugees and other vulnerable populations across the Middle East - including Yemen, where 16.2 million people are food insecure - due to rising food costs and a leveling off of funding as aid allocations are stretched further across the globe.⁸

Food and agriculture: There has been an increase in wheat prices and fertilizer across the region.

- 42% of Yemen's wheat products are imported from Ukraine and Russia.⁹ Correspondingly, wheat flour prices have increased by 42% between January and May 2022¹⁰ and cooking oil by 62.8% between February and April 2022.¹¹
- Lebanon continues to face high food costs, which had already increased by nearly 400% prior to the conflict in Ukraine¹² and bread prices by nearly 600%.¹³

1 Food and Agriculture Organization, ['The importance of Ukraine and the Russian Federation for Global Agriculture Markets and the risks associated with the war in Ukraine'](#), June 2022.

2 Macrotrends, ['Wheat Prices - 40 Year Historical Chart'](#), June 2022.

3 Financial Times, ['Wheat prices rise almost 6% as India export ban shakes markets'](#), May 2022.

4 The Washington Post, ['War is driving up food prices, exacerbating shortages abroad, especially for food-insecure nations'](#), June 2022.

5 The Wall Street Journal, ['Ukraine War Lifts Wheat Prices to Highest Since 2008'](#), March 2022.

6 The World Food Programme, ['Food security implications of the Ukraine conflict'](#), March 2022.

7 World Food Programme, ['World Food Programme set to assist people affected by conflict in Ukraine'](#), February 2022.

8 Ibid.

9 International Food Policy Research Institute, ['The Russian invasion of Ukraine threatens to further exacerbate the food insecurity emergency in Yemen'](#), March 2022.

10 REACH, ['Yemen Joint Market Monitoring Initiative \(JMMI\)'](#), May 2022.

11 REACH, ['Yemen Joint Market Monitoring Initiative \(JMMI\)'](#), April 2022.

12 The 961, ['Lebanon Just Recorded A Major Increase In Fuel Prices'](#), March 2022, and The National, ['Lebanese bakers barred from buying subsidised flour for anything but Arabic bread'](#), May 2022.

13 The National, ['Lebanese bakers barred from buying subsidised flour for anything but Arabic bread'](#), May 2022.

- Between January and May 2022, food prices have increased across all regions of Syria, particularly wheat and oil, with the latter increasing as far as 64% in south and central Syria.¹⁴
- In Palestine, there was an average increase in wheat prices of 21% between April 2021 and April 2022.¹⁵
- In Iraq, vegetable oil prices have increased by over 20% since between January and May 2022 across the different administrations.¹⁶
- As of March 2022, Jordan announced that the country had a 15-month wheat reserve,¹⁷ which has allowed the Kingdom to maintain low prices with only a 8.1% increase in the cost of wheat between January and May 2022.¹⁸

Energy and transportation: Petrol and fuel costs have increased in all countries except in Jordan and Iraq.

- In Yemen, national average petrol prices increased by 19% between February and March, but have since begun to drop to pre-Ukraine invasion levels potentially as a result of the loosening of the fuel blockade in April 2022.¹⁹
- In Lebanon, where many are reliant on personal generators for electricity, fuel prices nearly doubled between September 2021 (USD 56 cents/liter) and March 2022 (USD 1.094 cents/ liter),²⁰ and almost tripled in June 2022 reaching a peak of nearly USD 1.3 cents/liter at the end of June 2022.^{21,22}
- In Syria, fuel costs increased by 40% between January and May 2022.²³
- In Palestine, the cost of fuel from Egypt increased by 10% in March 2022.²⁴
- In Iraq, contrary to its neighbors, national oil production has negated a rise in costs and is expected to benefit the country as oil income accounts for 99% of exports.²⁵
- In Jordan, government subsidies have softened the rise in fuel prices, resulting in only a 2,4% increase so far.²⁶

Overall, it is expected that the effects of the war in Ukraine will continue to worsen some of the most alarming humanitarian situations across the Middle East, prompting political destabilization, weakening opportunities for economic recovery, and forcing many more into a dependence on international or state-funded relief.

In Yemen, food insecurity is expected to increase across the country, where 80% of the population is already in need of humanitarian aid and protection. Purchasing power has historically been the main driver of food insecurity, which the war in Ukraine will continue to exacerbate. The impact of the conflict in Ukraine on global supply chains and commodity prices also risks stalling the peace process.

14 World Food Programme, '[Syrian Arab Republic - Food Prices](#)', May 2022.

15 Foreign Policy, '[Palestinians Feel Economic Pain From the War in Ukraine](#)', April 2022.

16 World Food Programme, '[Iraq - Food Prices](#)', May 2022.

17 Arab News, '[Jordan's wheat stock is sufficient for 15 months, official claims](#)', March 2022.

18 World Food Programme, '[Jordan Food Prices](#)', May 2022.

19 REACH, '[Yemen Joint Market Monitoring Initiative \(JMMI\)](#)', April 2022.

20 World Food Programme, '[WFP Lebanon Fuel Operations Progress Report](#)', May 2022.

21 L'Orient le Jour, '[Les prix de tous les carburants en baisse](#)', June 2022

22 Lira Rate Website, '[lirate.org](#)', June 2022

23 Mercy Corps Humanitarian Access Team, '[Syria Monthly Report](#)', May 2022.

24 Al Monitor, '[Gaza weary of Ukrainian crisis as wheat supplies dwindle](#)', March 2022.

25 The World Bank, '[The World Bank in Iraq](#)', June 2022.

26 Arab News, '[Ukrainian crisis hits Jordanian students, imports](#)', February 2022.

In Lebanon, increase of food prices is leaving a growing number of poorer households to go hungry and increased fuel prices are affecting critical services and economic activity. The currency is expected to further depreciate in the midst of the unprecedented economic crisis while high food and fuel prices may also trigger further social unrest, instability and protests.

Across the whole of Syria, different areas of control are feeling the effects of the war in Ukraine to varying degrees with price increases across the northwest and shortages in the south-central region, although no major shortage of food in the northeast has been felt as of yet.

In Palestine, where 80% of the population requires humanitarian assistance, poverty rates are expected to increase with the rising costs of fuel, oil, and food seen in the country.

In Iraq, food prices have increased, particularly threatening vulnerable households already dependent on public food distributions, although due to the large domestic production of oil, the country is expected to benefit from global fuel cost increases and Russian sanctions.

Jordan has not yet felt a significant impact from the war in Ukraine, but is expecting to see a rise in consumer prices further down the line should the conflict continue.

Several countries also host significant numbers of refugees, who are likely to feel the effects of any decrease in funding to international aid organizations across the region.

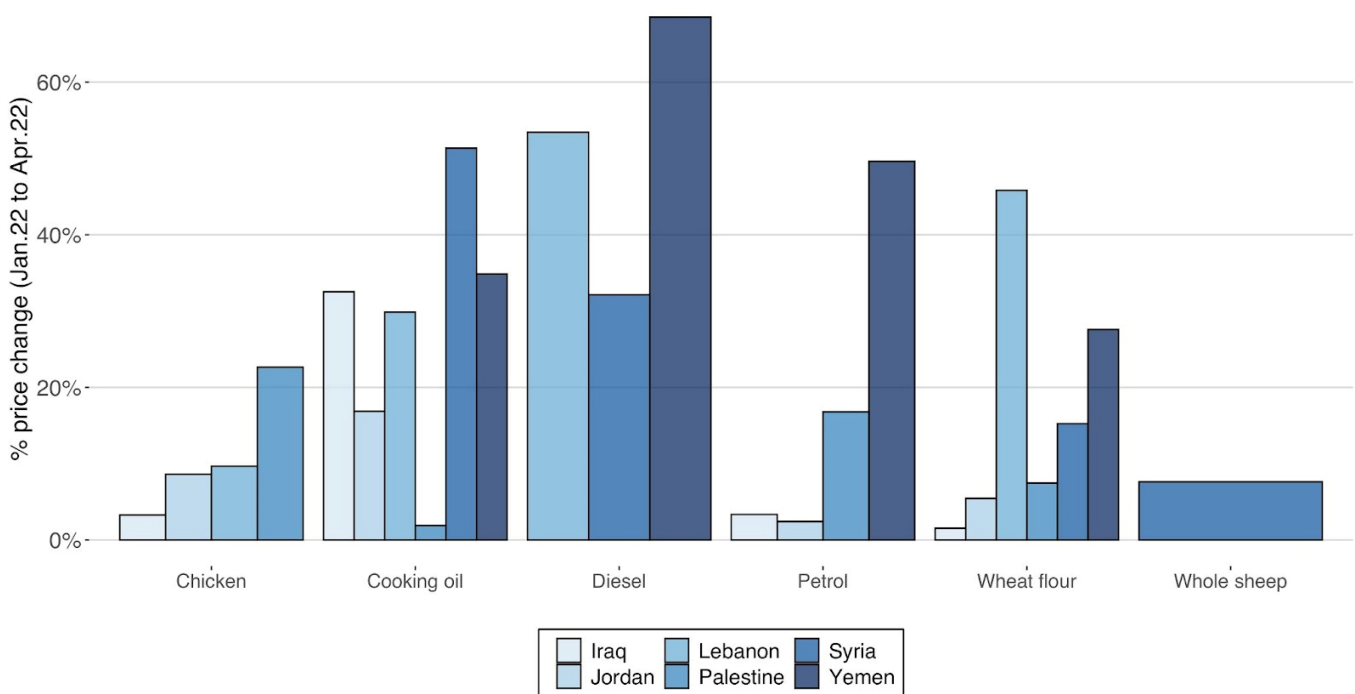


FIGURE 1. CHANGE IN SELECTED FOOD AND OIL PRICES IN ALL CONTEXTS FROM JANUARY 2022 TO APRIL 2022. (USD PRICES CHANGES IN ALL CONTEXTS EXCEPT JORAN AND PALESTINE).²⁷

²⁷ The World Food Programme, [‘The Humanitarian Data Exchange’](#), April 2022, and REACH, [‘Yemen - Joint Market Monitoring Initiative’](#), April 2022, and State of Palestine: Palestinian Central Bureau of Statistics, [‘Average Consumer Prices for Selected Commodities by Region for April 2022’](#), April 2022, and [Israel fuel prices](#) (no fuel data for Palestine available), and Republic of Lebanon: Ministry of Economy and Trade, [‘Mini - Basket \(Weekly\)’](#), April 2022, and Lira Rate, [‘Lebanon Market Rates Today: Fuel Rates’](#), April 2022.

Regional Recommendations

Based on the country analysis provided below, Mercy Corps makes the following **recommendations to donors, policymakers and practitioners**:

- 1) **Increase funding for the humanitarian response across the Middle East in line with rising needs, and at a minimum, prevent further funding reductions.** Encourage donor governments to respond to those in need around the world with the same urgency, generosity and commitment that they are showing in the Ukraine response and avoid diverting precious humanitarian funding from other crises to respond to the unexpected situation in Ukraine.
- 2) **Increase support for national agriculture and food production programmes,** implemented with a sophisticated analysis and understanding of local climate conditions and natural resource management best practices, to increase crop supply and begin to lessen a regional dependency on imports of essential food items. Supporting small and medium-sized farms, as well as larger agricultural businesses, is key to meeting market demand and ensuring inclusive agricultural growth.
- 3) **Simultaneously invest in smart responses to immediate hunger crises while strengthening food systems and building long-term resilience.** Where possible and appropriate, intentionally layer medium- and long-term interventions alongside crisis response, with an emphasis on building resilience to external shocks, addressing underlying drivers of food insecurity, enabling self-sufficiency, and supporting a localized response. Put conflict prevention and good governance at the heart of food systems transformation, promote inclusive markets for nutritious food access and availability, and invest in climate resilience to build strong food systems that deliver healthy food for everyone. Maintaining, strengthening and increasing long-term development projects in sectors such as agriculture, manufacturing and tourism will also support economic stability in the region and decrease countries' vulnerability to external shocks.
- 4) **Improve collaboration between humanitarian actors and civil society** to ensure assessments are made at a local level to determine the impact of the Russia-Ukraine conflict and the appropriate response.
- 5) **Conduct diplomatic outreach to countries who may serve as alternative suppliers of critical exports formerly provided by Ukraine and its neighbors.** Engage countries who are announcing protectionist policies and seek exemptions to prevent further disruptions to critical goods and services.



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Country Case Studies

The individual country analyses below provide an overview of the effects felt in Yemen, Lebanon, Syria, Palestine, Iraq, and Jordan - countries where Mercy Corps currently has operations in the Middle East - with a focus on the economic and political consequences of the conflict in Ukraine. The case studies of Yemen, Lebanon and Syria are more detailed and comprehensive as they have been supported by Mercy Corps' Crisis Analytics Team.

Yemen

Context Analysis

Long before the outbreak of war in Ukraine, Yemenis suffered from a number of inter-connected economic and food security crises compounded by a brutal civil conflict. The war in Yemen between the Internationally Recognised Government of Yemen (IRG) and Houthi Defacto Authorities (DfA), has now entered its eighth year. It has resulted in a severe humanitarian crisis, with an estimated 21,780 direct civilian deaths recorded by the end of 2021, over 4 million people displaced, and a total economic collapse leaving more than 23.4 million people in need of humanitarian assistance.²⁸ Prolonged fighting amid years of political paralysis has contributed to the country's economic collapse, forcing people into poverty and aggravating an already dire humanitarian situation. Before the crisis, 50% of Yemen's population were already living in poverty, a statistic that has now increased to a staggering 71-78%.²⁹ The conflict has severely damaged Yemen's already limited capacity and infrastructure for foreign commerce and investment.

With a lack of exports and a reliance on imports for up to 90% of its commodities, humanitarian assistance has become a significant source of foreign currency, with 80% of Yemen's population in need of humanitarian aid and protection.³⁰ This limited access to foreign currency reserves to finance a dependence on imported goods increases the country's vulnerability to reductions in purchasing power, which have already been exacerbated by increasing food and fuel costs as a result of the war in Ukraine.³¹

Furthermore, following the split of the Central Bank of Yemen (CBY) in 2016 and the depletion of Yemen's foreign exchange reserves, waves of currency depreciation between 2018 and 2022 have created lasting inflationary pressure on the Yemeni Riyal (YER), devastating purchasing power in the import dependent nation and exacerbated the already dire humanitarian crisis. Recent support by Saudi Arabia and the United Arab Emirates (UAE) for Yemen's foreign exchange reserves and fuel imports, in addition to reforms and leadership changes by the Central bank of Yemen (CBY), have somewhat improved prospects for economic stabilization

²⁸ UN OCHA, ['Yemen Humanitarian Needs Overview 2022'](#), April 2022.

²⁹ The World Bank, ['The World Bank in Yemen'](#), November 2021.

³⁰ The United Nations, ['The United Nations in Yemen'](#), June 2022.

³¹ ACAPS, ['Yemen: Food Supply Chain Thematic Report'](#), December 2020.

in early 2022.³² However, this financial aid and its potential positive impact on the Yemeni economy risks being significantly eroded by the impact of the war in Ukraine. As food and fuel imports increase significantly, further pressure is being placed on the YER, driving many into a dependence on already declining humanitarian assistance levels.

Impact Analysis

Food security and agriculture

Due to the ongoing conflict, the collapse of domestic production, and a lack of arable land, Yemen is almost completely dependent on imports, with the country's cereal import dependency ratio estimated at 95.3%.³³ Yemen is the eighth largest global importer of both Russian and Ukrainian wheat.³⁴ In 2021, 68% of Yemen's total food imports were wheat grains and wheat flour, with 42% of Yemen's wheat and wheat product imports coming from Russia and Ukraine as of March 2022.³⁵ The disruption to global wheat trade has not only raised prices, but led to problems sourcing orders. India, the world's second-largest wheat producer, recently announced a ban on exports that may also affect Yemen.³⁶ It is not yet clear whether the ban will include Yemen, with some reports of a waiver by India for Yemen-bound exports.³⁷ Despite this, the announcement has already resulted in some market panic, including price increases and an intensification of price gouging and stockpiling.³⁸

Wheat prices reportedly rose by 30% from February to April 2022, with the cost of a 50 kilogram bag of flour rising from approximately USD \$85 to USD \$120.³⁹ The disruption of global supply chains, reduction in exports from Ukraine and Russia, and international sanctions have affected the price of staple goods in Yemen which, coupled with the weakened YER, has increased food insecurity. Prior to the conflict in Ukraine, the national average price of wheat had already risen by 246.7% from 122 YER per kilo in 2014 to 423 YER per kilo in September 2021.⁴⁰ In both Sana'a and Aden, 100 YER will now buy only three loaves of bread as opposed to the usual four, and there has been a nationwide increase of 20.1% in the Survival Minimum Expenditure Basket (SMEB) cost between February and April 2022.⁴¹ The price of wheat flour has increased by 42% between January and May 2022, contributing significantly to this increased price of SMEB.⁴²



“In 2021, 68% of Yemen’s total food imports were wheat grains and wheat flour, with 42% of Yemen’s wheat and wheat product imports coming from Russia and Ukraine as of March 2022.”

Ukraine, Russia, and Belarus are also key producers of critical fertilizers, which, if restricted, could have a catastrophic impact on crop production internationally, and particularly within Yemen. The quality of fertilizers

32 In response to the longer-term deterioration of the economic situation in Yemen, and in parallel to the establishment of the Presidential Leadership Council and negotiated truces in April 2022, Saudi Arabia and the UAE each pledged USD 1 billion to fund CBY Aden reserves. Saudi Arabia has also committed an additional USD 600 million to support hydrocarbon imports and USD 400 million for development projects, bringing this support package up to USD 3 billion. The World Bank, [‘Yemen’s Economic Update’](#), April 2022.

33 UN ESCWA, [‘Country fact sheets on food security in the Arab region’](#), 2018.

34 World Food Programme, [‘Food security implications of the Ukraine conflict’](#), March 2022.

35 International Food Policy Research Institute, [‘The Russian invasion of Ukraine threatens to further exacerbate the food insecurity emergency in Yemen’](#), March 2022.

36 Financial Times, [‘Wheat prices rise almost 6% as India export ban shakes markets’](#), May 2022.

37 Reuters, [‘Yemen needs new financing to cushion wheat supply shock’](#), May 2022.

38 Bloomberg, [‘HSA Group: urgent solutions needed to avert food import shortages and further humanitarian crisis in Yemen - Bloomberg’](#), May, 2022.

39 The Independent, [‘Yemen’s hunger crisis deepens as war rages in Ukraine’](#), April 2022.

40 UNICEF, [‘Food Price Developments Analysis in Yemen and the Associated Socio-Economic Impact’](#), March 2022.

41 The Standard Minimum Expenditure Basket (SMEB) is defined as ‘the critical needs which a household requires to meet their critical essential needs, on a regular or seasonal basis, and on its average cost’. For a full breakdown of 2022 SMEB items, see [‘Cash and Markets Working Group ‘Survival Minimum Expenditure Basket Based on Transfer Value review Q1-Q2 2022’](#).

42 REACH, [‘Yemen Joint Market Monitoring Initiative \(JMMI\)’](#), 2022.

in Yemen is already substandard, partly due a Saudi-led coalition ban on dual-use chemicals that are needed for fertilization, which has forced farmers to resort to homemade fertilizers that are known to have a detrimental effect on the land. Any increase in the cost of fertilizers will also undermine efforts to prevent farmers from turning to high-yield, high-profit, non-nutritional crops such as Qat and encourage them away from growing nutritional crops which can be used to sustain the population’s nutritional requirements.

Furthermore, despite recent improvements in the availability and price of fuel across Yemen as a result of less restrictions on fuel imports to Hudaydah port, and the provision of fuel import grants by Saudi Arabia, consistently high fuel prices will continue to be a significantly destabilizing force on Yemen’s economy, as further explained below. Yemen’s oil export revenue will increase, but the cost of fuel imports is significantly higher. Fuel prices are a major driver of costs across all value chains, and in addition to threatening further macroeconomic challenges (YER depreciation), will continue to increase the cost of food.⁴³

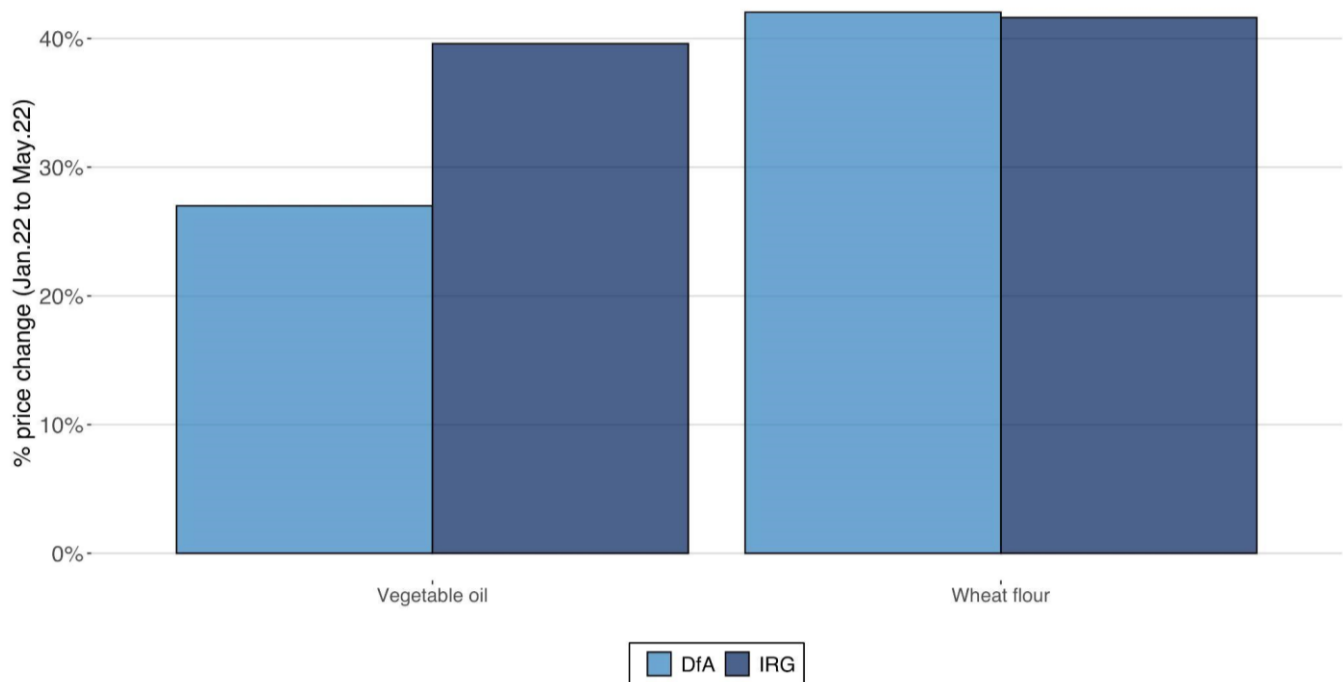


FIGURE 2. CHANGE IN SELECTED FOOD PRICES IN YEMEN BY ZONE OF CONTROL FROM JANUARY 2022 TO MAY 2022 (USD).⁴⁴

Energy and transportation

Import financing of fuel has always taken a toll on Yemen’s low foreign currency reserves. Although the surge in global fuel prices could translate into higher revenues from crude oil exports in IRG territory, with current export volumes, the effect is negligible compared to the funds needed to import refined oil. Despite recent trends suggesting reductions in petrol and diesel prices, any significant future volatility in the price of oil imports may weaken the strained foreign currency and put further pressure on the YER.

Between February and March 2022, there was an average increase of 19% in petrol prices across the whole of Yemen.⁴⁵ This increased cost of fuel has in turn increased the cost of transporting goods and therefore the

⁴³ ACAPS, ‘Effects of the fuel embargo at Al Hodeidah port on fuel supply dynamics and fuel prices’, August 2021.

⁴⁴ REACH, ‘Yemen Joint Market Monitoring Initiative (JMMI)’, May 2022.

⁴⁵ World Food Programme, ‘Yemen - Food Prices’, June 2022; REACH, ‘Yemen Joint Market Monitoring Initiative (JMMI)’, March 2022.

goods themselves. For example, the prices of cooking oil, sugar, poultry, and dairy products have all increased with cooking oil increasing by 62.8% and sugar increasing by 35.7% between February and April.⁴⁶ Alongside increasing fuel prices contributing to increases in food transportation cost and associated commodity prices, it is clear that higher fuel prices and transportation costs can also significantly limit people’s mobility and diminish the provision of services at affordable prices. Increased fuel prices are likely to reduce the delivery of food, goods, medicine, and trucked water across the whole of Yemen, leading to shortages of goods, reduced access to affordable clean drinking water, and interruptions in supply chains that are critical to alleviating Yemen’s dire food security crisis. Furthermore, and compounding disruptions to adequate fertilizer supply, higher fuel prices will contribute to an increase in the cost of irrigating land, further limiting the ability of local agricultural producers to address shortfalls in imported grain supply.⁴⁷ These issues will also potentially be compounded by higher fuel import costs contributing to the driving of further Riyal volatility which will increasingly drive purchasing power down.

However, with the easing of restrictions on Al Hudaydah port that came as part of the UN-brokered truce and allowed 18 fuel ships to enter Yemen, and the renewed financial support of USD 3 billion by members of the Saudi-led coalition, the national average fuel price has since begun to drop.⁴⁸ While global prices remain high, the immediate impact of fuel import embargoes being lifted on the North and an influx of Saudi hydrocarbon financing support appear to, at least temporarily, have allowed Yemen to weather the impact of the increase in global fuel prices. However, only time will tell whether global fuel price fluctuations will further contribute to an increase in fuel costs and associated transportation and commodity costs.

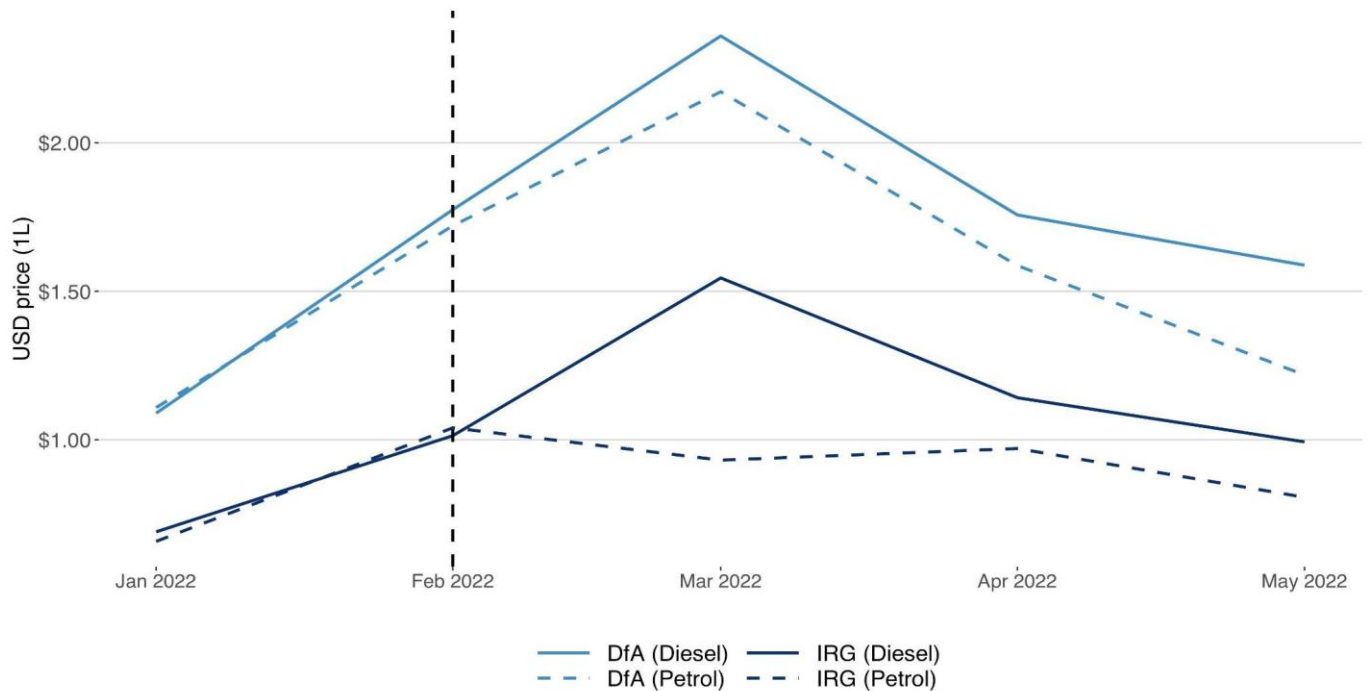


FIGURE 3. FUEL PRICES IN YEMEN BY ZONE OF CONTROL FROM JANUARY 2022 TO MAY 2022. ⁴⁹

⁴⁶ REACH, 'Yemen Joint Market Monitoring Initiative (JMMI)', April 2022.

⁴⁷ ACAPS, 'Effects of the fuel embargo at Al Hodeidah port on fuel supply dynamics and fuel prices', August 2021.

⁴⁸ ACAPS, 'Effects of the fuel embargo at Al Hodeidah port on fuel supply dynamics and fuel prices', August 2021.

⁴⁹ REACH, 'Yemen Joint Market Monitoring Initiative (JMMI)', May 2022.

Looking ahead

It is unclear how authorities will fill the gap in wheat imports from Russia and Ukraine as current reserves start to run low. The impact of resorting to alternative sources of wheat is unclear and will depend on the nature of the replacement, but longer supply routes and increased global prices will likely prove costly for Yemen, where foreign currency supplies are limited. Furthermore, due to fluctuations in the global price of fuel as a result of the Ukraine war has increased the cost of both imported and domestically produced foodstuffs. This will inevitably continue to increase food insecurity across the country, given the major role that imported food plays in the average diet of most Yemenis, increasing food prices and reducing purchasing power.

Furthermore, 80% of Yemen's population are in need of humanitarian aid and protection, making it the largest humanitarian crisis in the world.⁵⁰ As critical attention is diverted to Ukraine, international donations to Yemen are expected to decrease. The World Food Programme (WFP) has warned against a planned 900 million US\$ gap in funding for Yemen, which could have a severe impact on the level of food assistance available to recipients.⁵¹ In the beginning of 2022, WFP provided assistance to 13 million people and had already resorted to halving food rations for 8 million of them due to shortage of funding.⁵² Redistribution of international aid in light of the Ukraine conflict would affect this, further reducing the already underfunded Humanitarian Response Plan.⁵³

The medium-term impact of the war in Ukraine on Yemen is hard to quantify, but will likely be severe. The main driver of food insecurity in Yemen has not historically been one of supply, but of purchasing power, which the war in Ukraine will continue to exacerbate. Potential peace dividends of the truce, the limited resumption of fuel supplies into Al Hudaydeh, and the positive impact of the 3 billion support package from the Saudi led coalition risks being significantly eroded by the impact of Ukraine conflict on global supply chains and commodity prices.



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50 The United Nations, [‘The United Nations in Yemen’](#), June 2022.

51 World Food Programme, [‘Ukraine adds to Yemen’s woes as hunger emergency spreads and lack of funding leaves millions vulnerable’](#), March 2022.

52 World Food Programme, [‘Countdown to catastrophe begins in Yemen as funding for food assistance dwindles’](#), February 2022.

53 UN ECHO, [‘Yemen Humanitarian Response Plan 2022’](#), April 2022.

Lebanon

Context Analysis

Well before the impact of the conflict in Ukraine began to be felt, Lebanon had been facing multiple severe and interrelated crises. In late 2019, years of simmering economic troubles exploded into a major economic and financial collapse, the ramifications of which continue to play out today. The arrival of the Covid-19 pandemic and its global economic impact further impacted the country, which in addition to the broader effect on economic activity and global prices, hit sectors on which Lebanon relies, such as tourism and remittances, especially hard. Following this, in 2020, the Beirut blast killed hundreds, wounded thousands, and displaced hundreds of thousands, in addition to causing billions of dollars in damages. Not surprisingly, Lebanon's economic crisis has been cited as one of the top three most severe crises experienced worldwide since the mid-19th century.⁵⁴ This is all while continuing to host approximately 1.5 million Syrian refugees and hundreds of thousands Palestinian refugees, making it the country hosting the largest number of refugees per capita and per square kilometer in the world.⁵⁵

This adds to Lebanon's long-term structural vulnerabilities, which include low-grade infrastructure — a dysfunctional electricity sector, water supply shortages, and inadequate solid waste and wastewater management — as well as weak public financial management, large macroeconomic imbalances, and deteriorating social indicators. According to the World Bank, since 2019 the country's GDP fell by 37.1%. Poverty rates alone increased from 25% in 2019 to 74% in 2021.⁵⁶ Lebanon has one of the world's highest inflation rates in 2021, with a spike of 137.8% in the consumer price index between August 2020 and August 2021, with the Lebanese pound depreciating by more than 90% since the crisis began.⁵⁷



“Lebanon has one of the world's highest inflation rates in 2021 [...] with the Lebanese pound depreciating by more than 90% since the crisis began.”

In an additional blow that has become even more prescient since the start of the war in Ukraine, the Beirut port blast that took place in August 2020 destroyed the country's grain terminal, leaving Lebanon operating with between 1-2 months reserves of grain at any one time.⁵⁸ Even before the Ukraine war, in 2021, bread prices had increased by nearly 600%,⁵⁹ and food costs have increased by 396%.⁶⁰ These multiple crises have already pushed the majority of Lebanese into poverty and increasingly a dependence on

humanitarian assistance, from which Lebanon is unlikely to recover for years to come. As a result, the negative repercussions of the conflict in Ukraine could not have come at a worse time.

Lebanon is uniquely exposed to the economic fallout of the war in Ukraine. The first and most keenly recognised impact is the disruption to Lebanon's usual supply chains for key commodities, and wheat in particular. Ukraine accounted for around 80% of Lebanon's total wheat imports in 2020, while Russia accounted for 15%.⁶¹ Secondly, and perhaps more damaging in the medium term, is the broader price inflation

54 The World Bank, ['Lebanon Economic Monitor, Spring 2021: Lebanon Sinking \(to the Top 3\)](#), May 2021.

55 UNHCR, [UNHCR in Lebanon at a glance](#)

56 UN ESCWA, ['Multidimensional Poverty in Lebanon \(2019-2021\)'](#), September 2021.

57 The World Bank ['Lebanon Sinking into One of the Most Severe Global Crises Episodes, Amidst Deliberate Inaction'](#), June 2021.

58 Republic of Lebanon Ministry of Economy and Trade, ['Lebanon Wheat Emergency Response Project'](#), April 2022.

59 The National, ['Lebanese bakers barred from buying subsidised flour for anything but Arabic bread'](#), May 2022.

60 The 961, ['Lebanon Just Recorded A Major Increase in Fuel Prices'](#), March 2022.

61 Chamber of Commerce Industry and Agriculture, ['Foreign Trade Report 2020'](#).

driven by the Ukraine conflict. This is hitting Lebanon from two angles; first, the direct price increases stemming from higher international commodity prices, and second, the impact of a worsening trade deficit driving further the Lebanese Pound's (LBP) depreciation, in turn leading to higher local prices on imported goods. Price increases compound the Lebanese Pound's macroeconomic problems, as the Central Bank subsidizes wheat imports in the face of rapidly dwindling foreign exchange reserves. Accordingly, ripple effects are felt in price changes.⁶² While not alone in driving inflation in Lebanon, the impact of commodity price increases driven by the conflict in Ukraine is clear. The Survival Minimum Expenditure Basket (SMEB) has increased significantly since the beginning of the year, and of the conflict, from 559,189LBP on February 14, to 738,030LBP on May 9.⁶³

The conflict in Ukraine has pushed global oil prices to a seven-year high, with major disruptions to supply chains pushing fuel prices even further. This is especially the case for countries dependent on spot price purchases of fuel rather than locked contracts, as is Lebanon. As a result, fuel costs, which are currently way beyond the reach of many Lebanese, have risen significantly.⁶⁴ The increase in global gasoline prices will contribute to Lebanon's import bill's foreign exchange charges. After the removal of most of the fuel import subsidies in summer of 2021, the Central Bank looks to be draining reserves in an attempt to stabilize the currency after a sharp depreciation in late 2021. Despite the Central Bank's effort, the Lebanese Pound remained unperturbed and continued its downtrend trend, marked with significant volatility.⁶⁵ Non-energy prices, such as agriculture and metals, have also risen significantly. Prices could be considerably higher and more unpredictable than they are now in the event of a prolonged war or increased sanctions against Russia.

There has been some positive development in Lebanon to mitigate the impact of the crisis. In May 2022, the Lebanese Ministry of Economy also announced an agreement with the World Bank on a loan of \$150 million for the purchase of wheat. Earlier, the Government of Lebanon announced the start of cash transfers to 150,000 extremely poor Lebanese households under the World Bank-funded Emergency Social Safety Net Project (ESSN), commonly known as AMAN - an already planned initiative designed to soften the impact of the removal of foreign exchange subsidies in 2021. However, these initiatives, while welcome, will be significantly overshadowed by the impact of the conflict in Ukraine and are ultimately unable to offset rising needs. In addition, progress on a planned International Monetary Funds (IMF) support package linked to Lebanon's default and banking crisis remains unclear, with the Lebanese parliament marred by significant deadlock in the wake of the May parliamentary elections.

Impact Analysis

Food security and agriculture

Due to the absence of a strategic grain reserve, and its former dependence on wheat imported from the Black Sea, Lebanon continues to be particularly vulnerable to the disruption of global supply chains. The real risk of wheat shortages will be devastating, hitting the most vulnerable the hardest. Even if shortages continue to be averted, the immediate price increases across a range of commodities from foodstuffs to fuel will continue to drive food insecurity across the country.

⁶² L'Orient Today, ["The last subsidy standing: Lebanon's wheat subsidy is still in place, but is it working?"](#), January 2022.

⁶³ Lebanon Inter-Agency Coordination, ["Monthly Monitoring of the Survival Minimum Expenditure Basket for Syrian Refugees in Lebanon"](#), June 2022.

⁶⁴ Literate, ["Lebanon Market Rates Today"](#), May 2022.

⁶⁵ *Ibid.*

Lebanon's agricultural sector, already inefficient and vulnerable to price increases, is also heavily exposed to impacts from the crisis in Ukraine. Rising costs of critical agricultural inputs such as fuel, seeds, and fertilizers, will impede any efforts to boost domestic production and potentially increase the dependence on imported foodstuffs.

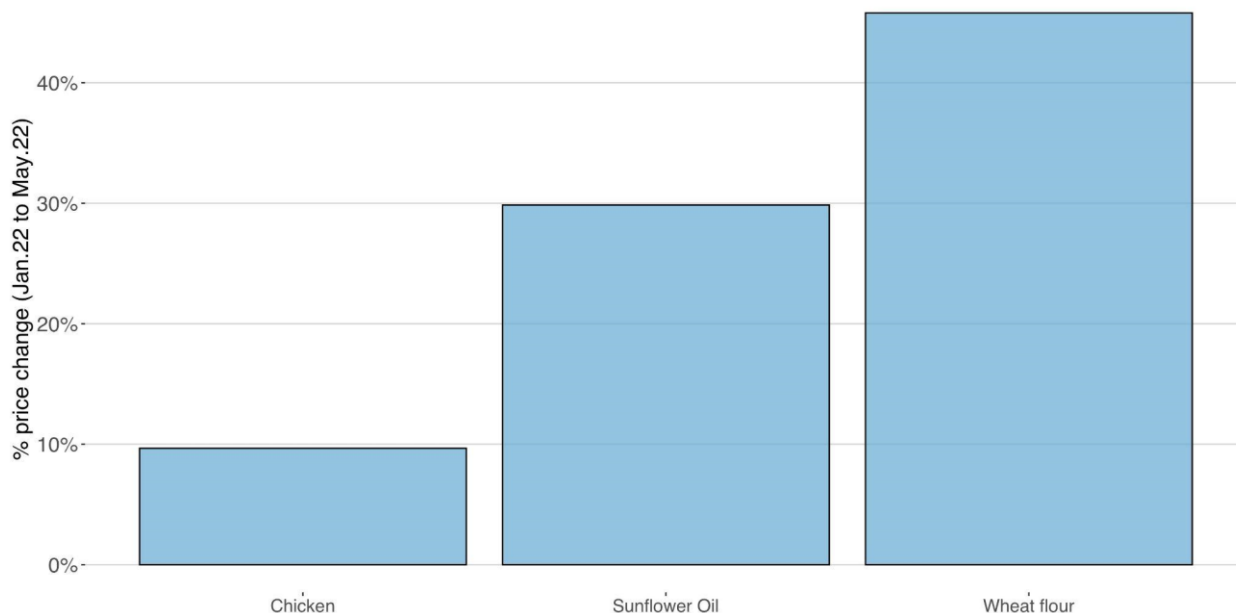


FIGURE 5. CHANGE IN SELECTED FOOD PRICES IN LEBANON FROM JANUARY 2022 TO MAY 2022 (USD).⁶⁶

Energy and transportation

Lebanon's structural inefficiencies around transportation and energy infrastructure has made it uniquely vulnerable to fuel price increases. With state electricity limited to a few hours per day, most of the country depends on private diesel run generators. The costs are prohibitive, with 14 hours of generator electricity costing around 3 million LBP in April 2022, while public sector salaries average 2 million LBP per month.⁶⁷ Fuel prices nearly doubled between September 2021 (USD 56 cents/liter) and March 2022 (USD 1.094 cents/liter),⁶⁸ and almost tripled in June 2022 reaching a peak of nearly USD 1.3 cents/liter at the end of June 2022.^{69,70} Rising fuel prices driven by the Ukraine conflict are having a severe impact on transportation, with many unable to afford the commute to work, shifting employment dynamics significantly.

⁶⁶ Republic of Lebanon: Ministry of Economy and Trade: '[Mini-basket \(Weekly\)](#)', May 2022.

⁶⁷ Mercy Corps, Lebanon Crisis Analytics Team (LCAT), April 2022 Crisis Update (*not publicly available*), and Salary Explorer, '[Government and Defence Average Salaries in Lebanon 2022](#)', April 2022.

⁶⁸ World Food Programme, '[WFP Lebanon Fuel Operations Progress Report](#)', May 2022.

⁶⁹ L'Orient le Jour, '[Les prix de tous les carburants en baisse](#)', June 2022

⁷⁰ Lira Rate Website, [lirate.org](#), June 2022

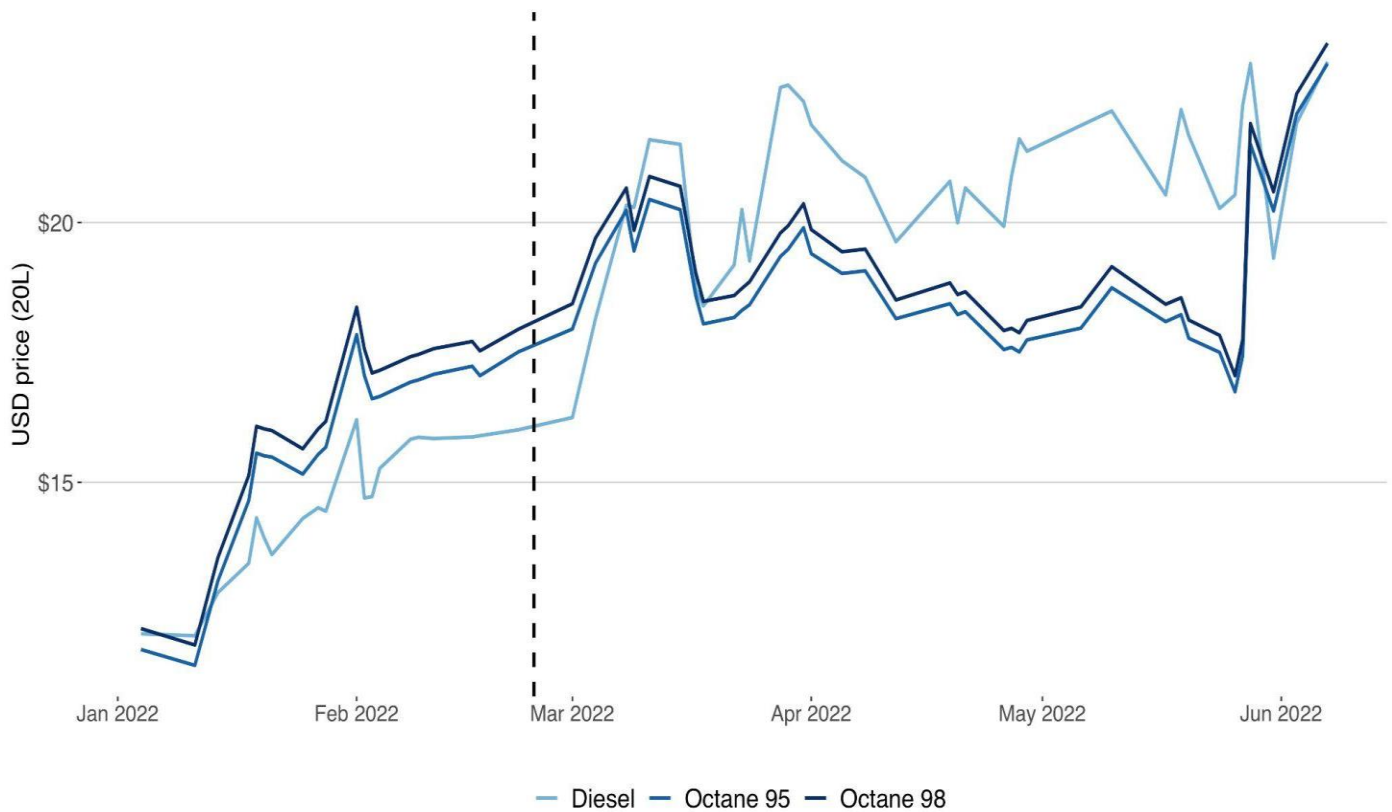


FIGURE 6. FUEL PRICES IN LEBANON FROM JANUARY 2022 TO EARLY JUNE 2022 (USD PRICE CHANGE).⁷¹

Humanitarian Sector

The humanitarian response in Lebanon has already struggled to shift from a response mainly focused on meeting the needs of the resident Syrian refugee population, to one also catering increasingly to the emergency needs of a large part of the Lebanese population. Continued disagreements and tensions around the framing and architecture of the response has negatively affected the efficiency of this effort to pivot from a status-based response to catering to both Lebanese and Syrian needs. The impact on humanitarian funding levels due to any expected shift of aid allocations to Ukraine is also a major concern. Even should humanitarian allocations remain consistent or appropriate, the expected decline in development support at such a critical time could accelerate the further dependence of the population on emergency assistance. Due to the decline in services and increasingly inefficient markets, the costs of operations are increasing, reducing the percentage of funding ultimately reaching beneficiaries.

Conflict and Political Concerns

Any geopolitical ramifications for Lebanon would most likely be felt second hand as a result of increasing tensions in Syria, or a collapse in Iran-US nuclear talks. Efforts to mitigate the severity of the electricity crisis appear to have been affected by the political fallout of the conflict in Ukraine, with planned US facilitated efforts

⁷¹ Lira Rate, 'Lebanon Market Rates Today: Fuel Rates', June 2022.

to ship natural gas from Egypt and Jordan through Syria or by sea being delayed. A deteriorating socio-economic situation also threatens domestic instability with higher fuel and food prices having the potential to cause significant social unrest, instability, and protests.⁷²

Looking ahead

In the short term, Lebanon risks a wheat shortage if the government cannot successfully identify new suppliers. Poorer households will go hungry if bread and other staple foods are in low supply across the country, due to black market diversion and hoarding, especially given the poorly controlled and decentralized structure of wheat storage. Significant fuel price increases driven by the Ukraine conflict have already been felt, affecting critical services and economic activity. Other price rises, such as in metals and agricultural inputs, have already negatively impacted the associated economic sectors.

The expected impact of further LBP depreciation and the increased cost of imported petroleum will also be severe in the short-term. Fuel is a primary cost driver in all value chains, driving up inflation overall, while the LBP is expected to continue to decline. Higher fuel and food prices have the potential to cause significant social unrest, instability, and protests, and crime levels are expected to continue to increase.⁷³ Critical services such as water and telecommunications are expected to deteriorate over the summer, with rising temperatures placing additional strain on electricity demand.

In addition, the collapse of the economy has already seen crime rates skyrocket.⁷⁴ Public sector workers have had their salaries slashed in real terms in line with the collapse of the currency and corresponding salary adjustments. This has affected the security services, raising the risk of fragmentation and increasingly localized and partisan security arrangements. Social tensions are on the rise, both between Lebanese communities and also between Syrian and host communities.⁷⁵ The economic collapse has also heightened sectarian tensions, with the continued risk of violent conflict being exacerbated by further economic collapse.⁷⁶

Even should the threat of wheat shortages be addressed, Lebanon is very vulnerable to sustained fuel price increases driven by the Ukraine conflict. Strained by the impact of decimated public sector salaries and the high cost of fuel, critical service delivery is expected to decline, driving more into a dependence on support provided by the humanitarian sector. Fuel prices are expected to continue to rise this year, with Goldman Sachs estimations that Brent crude will reach 140 USD per barrel before declining again in 2023 - but with supply chain chaos meaning even higher retail prices.⁷⁷ For example, the inability to purchase fuel for water pumping stations raises the risk of water shortages in the summer and beyond, especially in the context of the cessation of UN fuel support for infrastructure.⁷⁸ Health services will continue to decline due to a combination of rising costs, lower budgets and ongoing emigration of medical professionals out of the country. Poverty, tensions and outward migration are all expected to increase.

72 Mercy Corps, ['Flash Update: Humanitarian Impact of Ukraine Conflict on Lebanon'](#), March 2022.

73 Ibid.

74 L'Orient Today, ['Statistics show dramatic rise in theft crimes, murders since onset of financial crisis'](#), November 2021.

75 Ark International, ['Regular Perception Surveys on Social Tensions Throughout Lebanon, Wave X'](#), June 2021.

76 France 24, ['Lebanon holds day of mourning after deadly sectarian clashes'](#), October 2021.

77 Goldman Sachs, ['Squaring Russia's missing barrels'](#), March 2022.

78 The National, ['Lebanon loses UN fuel support as government urged to find long-term solution'](#), April 2022.

Syria

Context Analysis

Over a decade of conflict in Syria - compounded by the economic collapse in the country as well as neighbouring Lebanon, the Covid-19 pandemic, economic downturn in Turkey, and a water scarcity crisis - has led to increased food insecurity among other humanitarian needs across the country. Stéphane Dujarric, Spokesperson for the UN Secretary-General, recently stated that the number of food insecure people in Syria had increased by 9%, totalling 14.6 million, adding that families have been facing increased difficulties in meeting their basic necessities.⁷⁹ The World Food Programme's January 2022 Situation Report already noted that food prices in Syria were 34% higher than six months ago, and 86% higher compared to the same time last year, making essential items increasingly unaffordable for an already vulnerable population.⁸⁰

The Russia-Ukraine conflict comes as yet another economic shock for Syria, following a series of stressors such as droughts in the northern part of the country, sanctions, and nationwide currency depreciations. By March 2022, the Syrian Pound had further depreciated to approximately 3,865 SYP per USD, further weakening people's purchasing power and exacerbating the rising cost of essential items, food, and fuel across the country.⁸¹

Syria is primarily divided into three zones of control: government-held areas (south-central Syria), Kurdish-controlled areas (northeast Syria), and Turkish controlled and opposition-held areas (northwest Syria). All three zones of control have been affected differently as a result of the conflict in Ukraine due to the varying strength of local economies and differing degrees of dependency on Russian and Ukrainian wheat and fuel imports.

Impact Analysis

Food security and agriculture

South-central Syria, controlled by the Government of Syria, relies on Russia for its wheat supply. However, Russia's own economic challenges and need to redirect resources to its military effort in Ukraine have seen a break in this supply chain, leaving citizens to face acute shortages of subsidized bread provisions as the Syrian government struggles to import wheat from elsewhere. Flour allocations to public bakeries in Aleppo City have been reduced by 25% since March, by 50% in Tafas, and by 20% in Rural Damascus, forcing citizens to turn to private bakeries for bread supplies, which have increased in price by 94% to 3,500 SYP per packet.⁸² Overall, between January and May 2022, the prices of wheat flour in south-central Syria increased by 35% and cooking oil by 64%.⁸³

Northeast Syria, mainly controlled by the Kurdish authorities, has not reported any major food shortages and, according to local sources, maintains flour reserves of one to six months. However, the replenishment of these may be hindered by the increased cost of flour imports, reduced relief flour, and the insufficient local wheat production which is at great risk of worsening if drought and poor climate conditions continue.

79 [من روبريا: ارتفاع أعداد الأشخاص الذين يحتاجون للمساعدة الإنسانية هذا العام](#), UN News, February 2022.

80 World Food Programme, ['WFP Syria Situation Report #1'](#), January 2022.

81 Al Roeya, March 2022, ['The price of the dollar in Syria today'](#), March 2022.

82 Mercy Corps Humanitarian Access Team, ['Syria Monthly Report'](#), April 2022.

83 World Food Programme, ['Syrian Arab Republic - Food Prices'](#), May 2022.

Northwest Syria, controlled by the Syrian Interim Government (SIG) and the Syrian Salvation Government (SSG), is heavily dependent on imports transiting through Turkey, many of which originate from Ukraine or Russia⁸⁴. As such, the northwest has seen an increase in the cost of essential items such as bread, vegetables, and fruit, in part caused by the global rise in oil and gas prices and freight shipping costs attributed to the conflict in Ukraine. For instance, prices of cooking oil have increased by 34% and 33% in the SIG and SGG respectively between January and May 2022.⁸⁵

The Disaster and Emergency Management Presidency (AFAD) has been a major distributor of relief flour in SIG controlled areas in the northwest since 2018, but local sources recently reported that they are narrowing their supply exclusively towards contracted private bakeries as opposed to public ones. The SSG reportedly maintains flour reserves of one to six months, and SIG Prime Minister, Abdul Rahman Mustafa, stated in March that their flour reserves were sufficient to last six months, although local sources estimate the true amount to be sufficient for just one month.⁸⁶



“SIG and SSG controlled areas have seen an increase in essential food costs of 67% and 22% respectively since the outbreak of war in Ukraine.”

SIG and SSG controlled areas have seen an increase in essential food costs of 67% and 22% respectively since the outbreak of war in Ukraine.⁸⁷ This price increase has reportedly been accompanied by a shortage in sunflower oil, sugar, and flour in some northwest communities. Increased costs, lack of reserves, and reduced imports are threatening food security across the northwest, which was already significant as 64.7% and 56.2% of communities in SSG and SIG areas respectively reported either high (50–70% of the population) or very high (over 70% of the population) food need as of February 2022.⁸⁸

The increase in fuel prices (detailed below) will also have a knock-on effect on food costs as the cost of transporting food continues to rise. Based on Mercy Corps’ Humanitarian Access Team’s analysis from their internal price monitoring, it was found that for every 1% increase in diesel prices in northwest Syria, unsubsidized bread prices increase by 1.27%, bulgur increases by 1.12%, and wheat flour increases by 0.26%.



M Styslinger/Mercy Corps

84 Mercy Corps, [‘The Russian-Ukrainian Conflict and its Food Security Implications in Northwest Syria’](#), April 2022.

85 World Food Programme, [‘Syrian Arab Republic - Food Prices’](#), May 2022.

86 Syrian Interim Government, [‘Abdul Rahman Mustafa: Wheat Supplies are Enough until September’](#), March 2022.

87 World Food Programme, [‘Syrian Arab Republic - Food Prices’](#), May 2022.

88 HNAP Multi-sectoral needs monitoring (MNM) and REACH Humanitarian Situation Overview of Syria (HSOS) datasets, February 2022

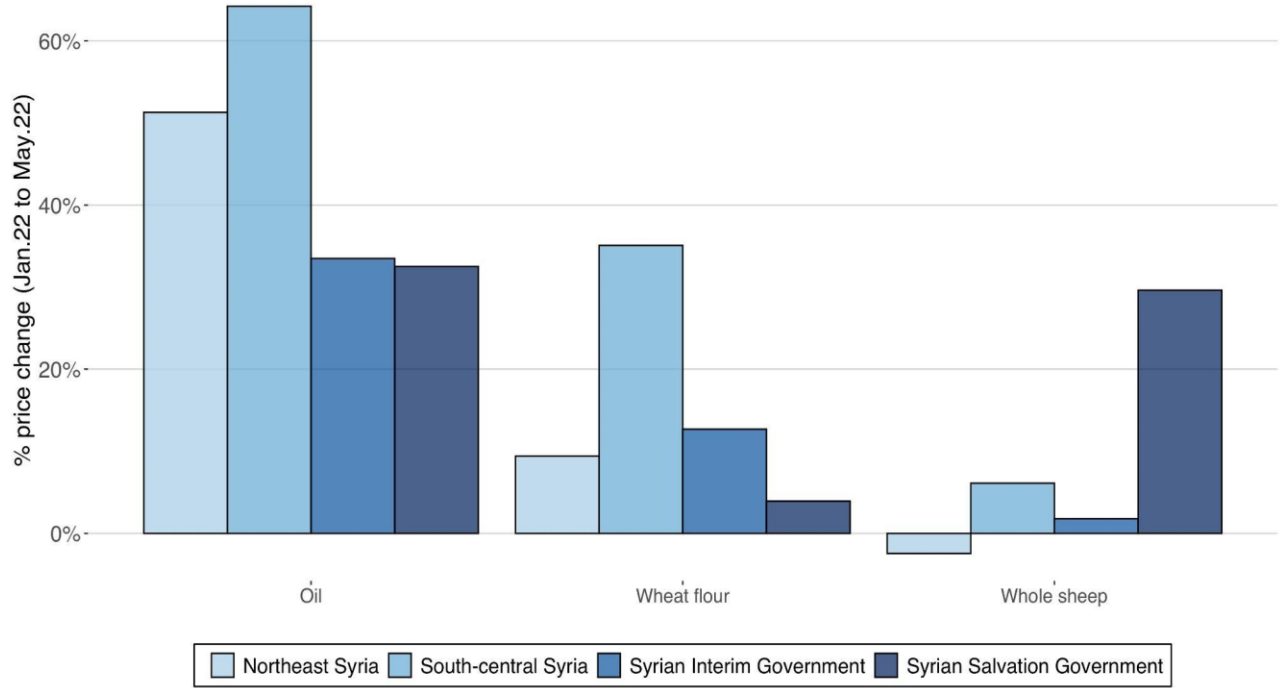


FIGURE 7. CHANGE IN SELECTED FOOD PRICES IN SYRIA FROM JANUARY 2022 TO MAY 2022 (USD).⁸⁹

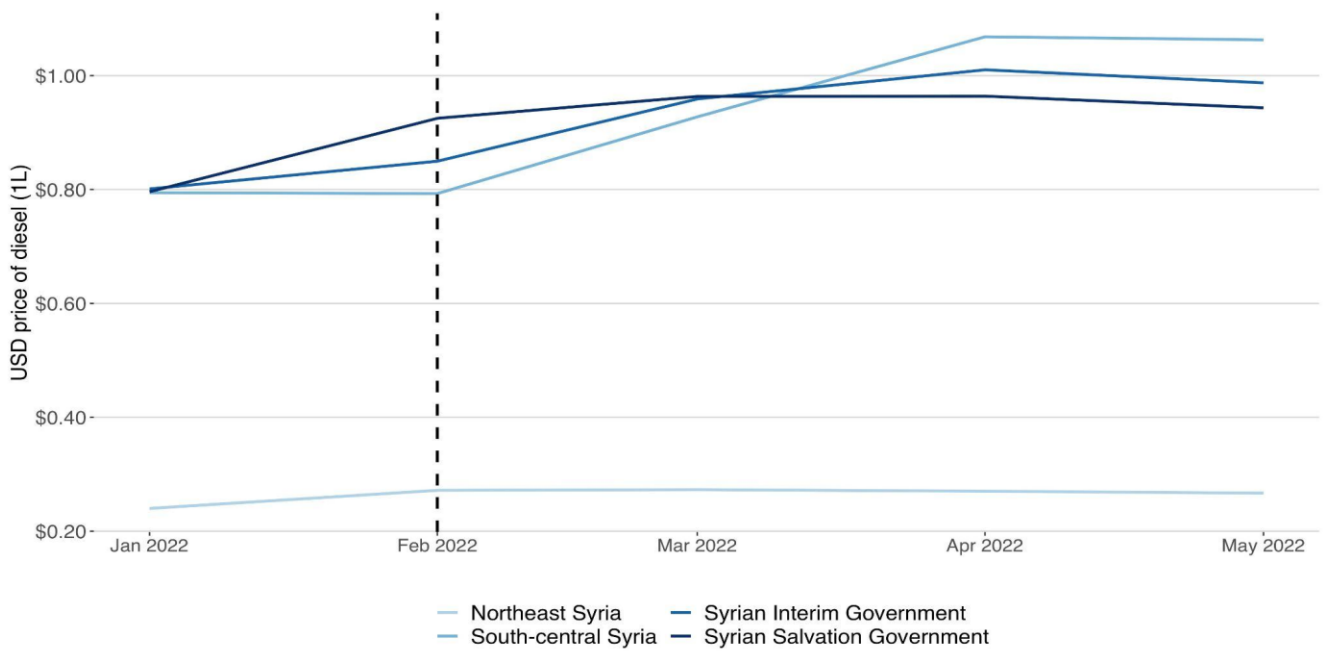


FIGURE 8. FUEL PRICES IN SYRIA FROM JANUARY 2022 TO MAY 2022.⁹⁰

⁸⁹ World Food Programme, 'Syrian Arab Republic - Food Prices', May 2022.

⁹⁰ World Food Programme, 'Syrian Arab Republic - Food Prices', May 2022.

Energy and transportation

Since the outbreak of war in Ukraine, the Syrian government has found it increasingly difficult to import oil from abroad, resulting in an increase in the black market price of diesel, petrol and gas canisters. Russian companies have also reportedly refused to sell oil to Syrian traders without having the shipment's price paid up front in US dollars.⁹¹ This has prompted the government to reduce government allocations, increase official prices, and reduce fuel subsidies, leading to a 40% increase in the price of unsubsidised petrol and industrial diesel.⁹²

Across the northeast, civilians, including drivers and farmers, struggle to secure fuel for personal and commercial use, although the price of fuel has not yet increased substantially compared to other regions. Fuel reserves are also limited in the northwest, where local sources have reported that fuel reserves are only sufficient to last one to two months, largely due to insufficient storage facilities. Local sources have also reported that specifically in SIG areas, reserves would only be sufficient for one week if imports were stopped.

Looking ahead

In south-central Syria, as the economy and the government's financial integrity continues to dissipate, it is expected that the Syrian Pound will continue to depreciate, leading to increased unaffordability for families. The government is attempting to stall this scenario by turning to its other main ally, Iran, for assistance at a time when Russia is becoming increasingly preoccupied in Ukraine.⁹³ However, Iran is facing its own economic problems and sanctions, hampering its ability to sufficiently assist the Syrian government. If the Syrian government is unable to secure a sufficient and steady supply of essential items, shortages and reduced service provision are likely to become more acute and commonplace in Government of Syria-held areas.

In the northwest, price increases, insufficient reserves, and the inability of the SIG or SSG to set up and implement a fully-fledged food security policy will continue to have adverse effects for residents across the region, where food prices, and as a result widespread food insecurity, were already high prior to the war in Ukraine. Any further increase to the cost of diesel will have a knock on effect across the region as it will affect transportation and bread production.

In the northeast, although food shortage and prices of main commodities, including fuel, have not yet been largely impacted, it is however expected in the medium term that low purchasing power is likely to continue given the fluctuation of the Syrian Pound to the US dollar and the lack of livelihood opportunities for civilians. Terrorist organizations have been known to take advantage of the turmoil, as ISIS members have previously stormed local councils in eastern Deir-ez-Zor demanding commodities, threatening administrative staff and individuals at bread lines and providing cash aid to some people.⁹⁴ As such, in certain areas of the northeast, any decrease in the already volatile living conditions is likely to cause further instability.⁹⁵

91 Al Araby, '[Syria faces a new fuel crisis: Reducing the amount of gasoline raises transportation costs](#)', April 2022.

92 Mercy Corps Humanitarian Access Team, '[Syria Monthly Report](#)', May 2022.

93 Mercy Corps Humanitarian Access Team, '[Syria Monthly Report](#)', May 2022.

94 Mercy Corps Humanitarian Access Team, '[Syria Weekly Report](#)', November 5-11 2021.

95 *Ibid*

Palestine

Context Analysis

Long-lasting political instability, restrictions on movement and access, high logistical costs for operating businesses, cumbersome and inefficient bureaucratic procedures, and the fragmentation of territories all continue to restrain the potential of the Palestinian economy. According to the World Bank, Palestine's exports of commodities and services as a share of GDP are less than half that of a comparable group of nations in size and region, and its trade deficit as a share of GDP is 41%⁹⁶ - more than double that of comparable countries - while government debt as a percentage of GDP stands at 16.4%.⁹⁷ As a result of the repeated damage to infrastructure during conflict escalation in Palestine, and particularly in Gaza, the challenges of rebuilding due to Israel's control of imports and exports, and the resulting high needs and decreased wellbeing of the population, Palestinian individuals and stakeholders have been looking for ways to adapt. These adaptations alter behavior and relationships, preventing structural reforms from being implemented, perpetuating cycles of violence and reinforcing economic vulnerability.

The Palestinian economy is also challenged by an over-reliance on Israel's economy preventing the development of dynamic export-oriented industries or access to larger and more competitive third markets. Over the years, this situation has contributed to slow growth, a high unemployment rate of 27.7%, and over a quarter of the population living in poverty.⁹⁸

Food insecurity poses a challenge to around one third of Palestinians, with more than 80% of people in Gaza depending on humanitarian aid.⁹⁹ Accordingly, decreasing foreign aid would significantly impact the humanitarian situation in Palestine. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) has warned that any more loss of funding could fuel political instability.¹⁰⁰

Impact Analysis

Food Security and Agricultural Sector

Palestine ordinarily imports 32% of its wheat from Russia and 40% of its seed oil from Ukraine.¹⁰¹ 66% of the remaining imported wheat and flour comes from Israel, which itself imports 54% of those products from Russia and Ukraine.¹⁰² Given that one-third of the country is food insecure, the high percentage of the population relying on humanitarian assistance, and Israel's restrictions on trade and travel, the West Bank and Gaza are particularly vulnerable to external supply chain shocks and spikes in food prices.

Flour mills in the Gaza Strip are struggling to replace their stocks after the war in Ukraine cut off access to lower-cost Black Sea wheat. Prices have increased by roughly 20%, and capacity of the mills has decreased to roughly 10 to 20% of what it was.¹⁰³

⁹⁶ The World Bank, '[Unlocking the Trade Potential of the Palestinian Economy](#)', December 2016.

⁹⁷ World Population Review, '[Debt to GDP Ratio by Country 2022](#)'.

⁹⁸ UNESCWA, '[Realities and Prospects in the Arab Region: Survey of Economic and Social Developments 2020-2021 Summary](#)', September 2021.

⁹⁹ Foreign Policy, '[Palestinians Feel Economic Pain From the War in Ukraine](#)', April 2022.

¹⁰⁰ Devex, '[UNRWA warns its deficit hurts refugees as it calls for steady funding](#)', March 2022.

¹⁰¹ Observatory of Economic Complexity, '[Palestine](#)', May 2022.

¹⁰² The World Bank, '[Economic Monitoring Report to the Ad Hoc Liaison Committee](#)', May 2022.

¹⁰³ Reuters, '[Gaza flour mills ground down by Russian-Ukraine conflict](#)', May 2022.

As a result of the conflict in Ukraine, wheat prices have increased by 18% in the West Bank and 24% in Gaza compared to 2021.¹⁰⁴ The price of lentils has also increased by 17%, both corn oil and table salt prices have risen by more than 26%, meat prices by 6%, and eggs by 33%.¹⁰⁵ The costs of key agricultural inputs have also increased significantly with animal feed prices increasing by 60%.¹⁰⁶

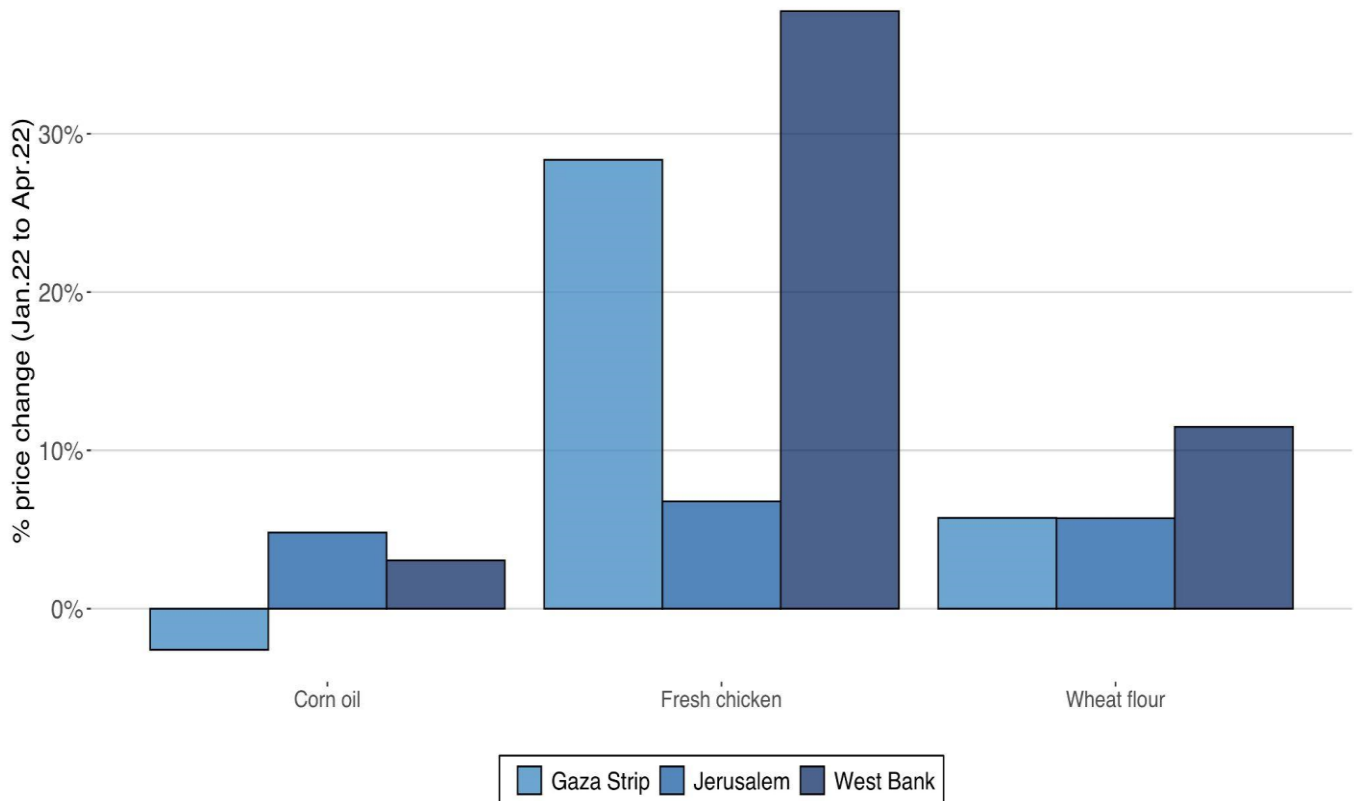


FIGURE 9. CHANGE IN SELECTED FOOD PRICES IN PALESTINE FROM JANUARY 2022 TO APRIL 2022.¹⁰⁷

Energy and Transportation Sector

Gaza imports 70% of its fuel and 80% of its cooking gas from Egypt, which allowed it to avoid direct impact by global sanctions on Russian fuel exports.¹⁰⁸ However, due to the global price increase, in March 2022, Egypt informed Palestinian officials that the price of fuel and fuel derivatives entering the Gaza Strip will rise by up to 15%.¹⁰⁹

¹⁰⁴ Foreign Policy, 'Palestinians Feel Economic Pain From the War in Ukraine', April 2022.

¹⁰⁵ Al Jazeera, March 2022. [ضحايا الحرب الروسية بعد ارتفاع الأسعار](#)

¹⁰⁶ *Ibid.*

¹⁰⁷ State of Palestine: Palestinian Central Bureau of Statistics, 'Average Consumer Prices for Selected Commodities by Region for April 2022', April 2022.

¹⁰⁸ Al Monitor, 'Gaza weary of Ukrainian crisis as wheat supplies dwindle', March 2022.

¹⁰⁹ *Ibid.*

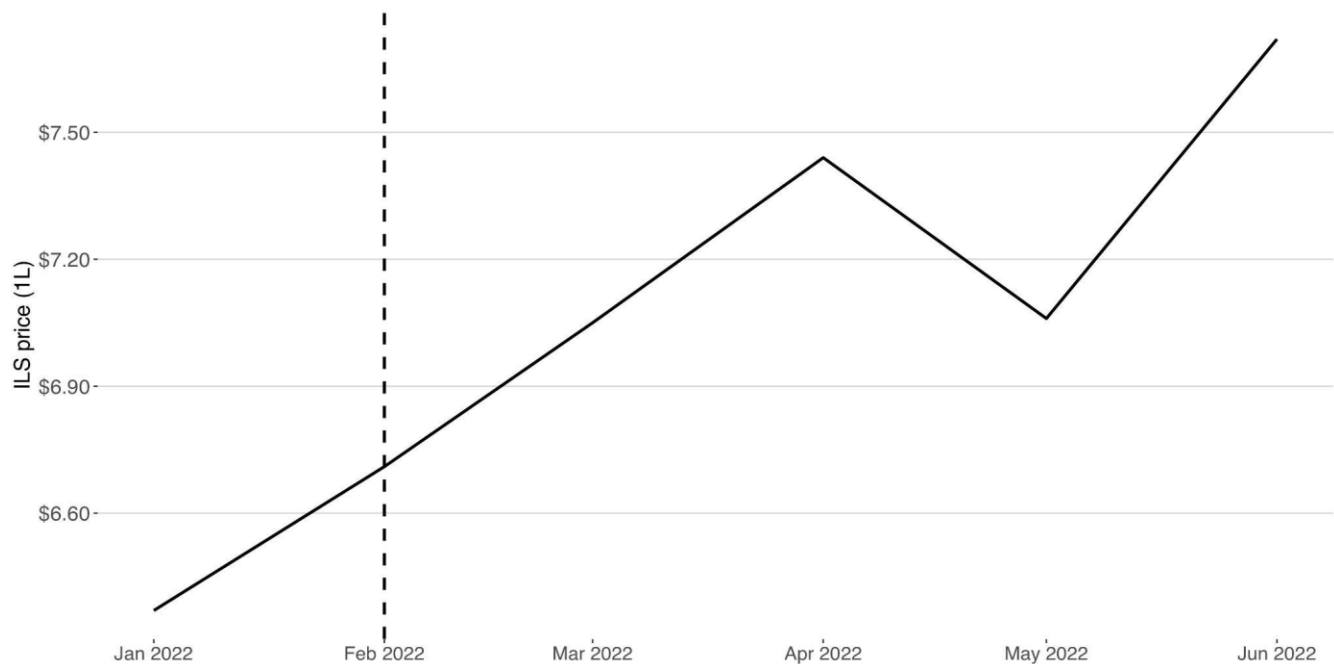


FIGURE 10. FUEL PRICES IN ISRAEL (PALESTINE DATA UNAVAILABLE) FROM JANUARY 2022 TO JUNE 2022.¹¹⁰

Looking ahead

Due to the rise in global prices, merchants in Gaza have been forced to reduce import quantities of essential Ukrainian and Russian products such as wheat and oil. To address this, authorities have been investigating alternative markets such as Spain, Turkey, China, Egypt and Israel, but since Russian and Ukrainian goods are the cheapest, any alternative will incur a higher cost. What’s more, given the increase in fuel prices in Israel since the beginning of 2022, and particularly since the onset of the conflict in Ukraine, any alternative sources of energy coming from Israel will be strongly felt by Palestinian consumers. Palestine is therefore enduring a rise in the prices of essential commodities in the immediate term as a result of their decreasing quantity, unavailability, and difficulty in obtaining them elsewhere. As the conflict in Ukraine continues, prices of fuel, oil, and food are expected to continue to increase for Palestinians over the next quarter.

Over a longer period, we expect Palestine to also face a significant decrease in humanitarian aid donations and funding for reconstruction that the population currently relies on. The United Nations estimates that a record number of people globally will need assistance in 2022, and with 80% of Palestinians requiring humanitarian aid,¹¹¹ the share for vulnerable households in Palestine is expected to decline, in turn leading to higher poverty rates.

¹¹⁰ Data obtained from Protocol, [Israel Fuel Prices](#) (not data obtained for Palestine), April 2022

¹¹¹ UN OCHA, [OPT Humanitarian Aid Overview 2022](#), December 2021.

Iraq

Context Analysis

Iraq's economy is heavily dependent on the country's oil production, with oil income accounting for more than 99% of exports, 85% of the government's budget, and 42% of GDP over the last decade.¹¹² The country's overwhelming economic reliance on oil exposes it to macroeconomic instability, while budget rigidities limit fiscal space and any deflationary policy options.¹¹³ Fallout from the covid-19 pandemic and water and energy shortages have affected agriculture, businesses, and other non-oil GDP production.

Iraq's economic conditions are gradually improving, but this recovery faces major risks posed by structural obstacles, such as public investment management constraints that have hampered public service delivery and slowed repayments of public wages. Fragile political situations, a shaky healthcare system, and widespread corruption have exacerbated these vulnerabilities, causing discontent across the country.

Iraq has a high poverty level of 23%, and the unemployment rate has increased by 10% following the pandemic.¹¹⁴ Unemployment has remained particularly high among displaced people, refugees, female job seekers, pre-pandemic self-employed individuals, and informal workers.¹¹⁵

Furthermore, climate change and chronic poor environmental management pose an increasing risk to Iraq and its economy. The effects of climate change, combined with conflict, corruption, and weak governance, have resulted in persistent water shortages, negatively impacting livelihoods, food security, and health. Heat waves, longer and more severe droughts, increased floods, and more unpredictable weather patterns have already resulted in degraded ecosystems, lack of clean drinking water, and reduced agricultural outputs.^{116 117}

Conflict in neighboring Syria has also added to Iraq's burden through the inflow of nearly 250,000 Syrian refugees who now reside in Iraq¹¹⁸, requiring even more humanitarian assistance for a country that still counts 2.5 million people in need and 1.2 million people still displaced within Iraq.¹¹⁹

To cope with some of these deep-rooted and long-term needs, Iraq established one of the largest food distribution programs in the world, the Public Distribution System (PDS), which was set up in 1990 in response to food shortages after the UN imposed sanctions. The PDS program in Iraq is universal and has played an important role in all Iraqi households' budgets and expenditures.¹²⁰ Any increase in global commodity prices caused by the war in Ukraine will have a knock-on effect on the PDS programme and other types of humanitarian assistance being provided across the country.

112 The World Bank, ["The World Bank in Iraq"](#), June 2022.

113 Ibid.

114 UN ESCWA, ["Realities and Prospects in the Arab region: 2020-2021 summary"](#), September 2021.

115 Ibid.

116 Oxfam, ["Unarmed Now. Uninhibited When? Agriculture and climate change in Iraq."](#) March 2022.

117 Arab News, ["How worsening water crisis threatens lives and development in Iraq"](#), April 2022.

118 UNHCR, ["Iraq Refugee Crisis"](#), 2022.

119 OCHA, ["Iraq Humanitarian Needs Overview"](#), March 2022

120 World Bank Group, ["Iraq's Universal Public Distribution System: Utilization and Impacts During Displacement"](#), February 2020.

Impact Analysis

Food Security and Agricultural Sector

Although Iraq does not import wheat from Russia and Ukraine, it is a net importer of food, and has therefore also been impacted by global price fluctuations of essential goods. Iraq ordinarily imports 76.6% of seed oil and 12.3% of corn from Ukraine.¹²¹

Iraq is currently experiencing a water crisis, which has affected its domestic crop production. The 2020-2021 rainfall season was the second driest in the last 40 years, resulting in a 29% and 73% decline in water flow in the Tigris and Euphrates, respectively.¹²² Due to crop failure in rain-fed areas, Iraq relied on 35% more imports from July 2021 to June 2022, and expects to import approximately 3.7 million tons of grain in 2022, in addition to the 2 million tons of wheat flour that have already been imported.¹²³

The war in Ukraine has therefore exacerbated an already present crisis resulting in increased food prices across the country. WFP observed that during the first two weeks of March 2022, the retail price of vegetable oil increased by 16% and wheat flour costs increased by 9%.¹²⁴ Despite a relatively small increase in the price of wheat flour observed from January to May 2022 in both areas under the administration of the Iraqi Federal Government and under the Kurdish authorities¹²⁵, should the war continue, the food security of Iraq will remain threatened as the country cannot grow enough wheat, corn, barley and rice to cover the population's needs.

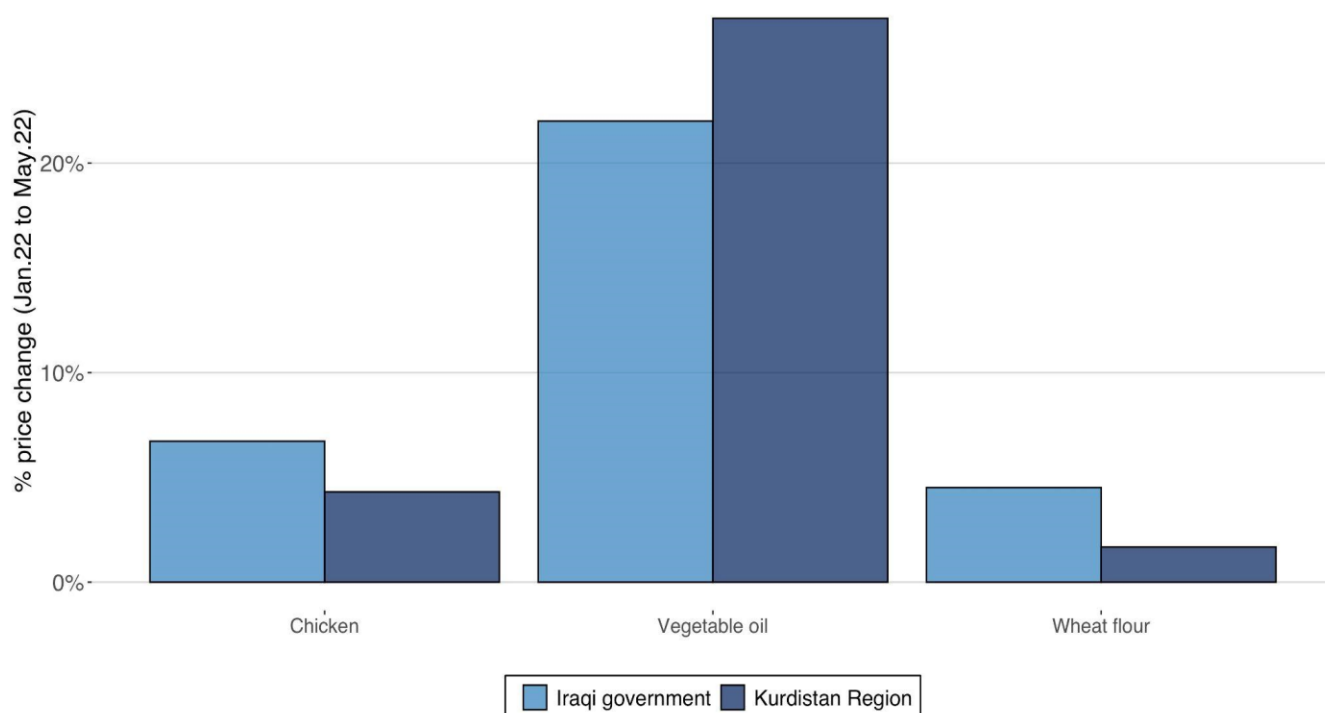


FIGURE 11. CHANGE IN SELECTED FOOD PRICES IN IRAQ FROM JANUARY 2022 TO MAY 2022 (USD).¹²⁶

121 Observatory of Economic Complexity, 'Iraq', May 2022.

122 UNICEF, 'Running Dry: water scarcity threatens lives and development in Iraq', August 2021.

123 World Food Programme, 'Iraq Market Monitor Report', March 2022.

124 World Food Programme, 'Iraq Market Monitor Report', March 2022.

125 World Food Programme, 'Iraq - Food Prices', May 2022.

126 *Ibid.*

Energy and Transportation Sector

Unlike other countries in the region covered by this report, due to its high level of oil production, Iraq is expected to rather benefit from international sanctions on Russian oil supplies. Iraq produces 4.26 million barrels of oil per day, the majority of which is exported to China, India, and South Korea.¹²⁷ As many other countries cut off Russian oil, Iraq has the potential to grow its position within the European market.¹²⁸ As such, no substantial impact has been yet felt by Iraq in the Energy sector, even if the Kurdish region witnessed a small increase in fuel prices between January and May 2022¹²⁹, although the effect of increased global transportation costs to ship imported key commodities into Iraq will still be borne by Iraqi consumers.

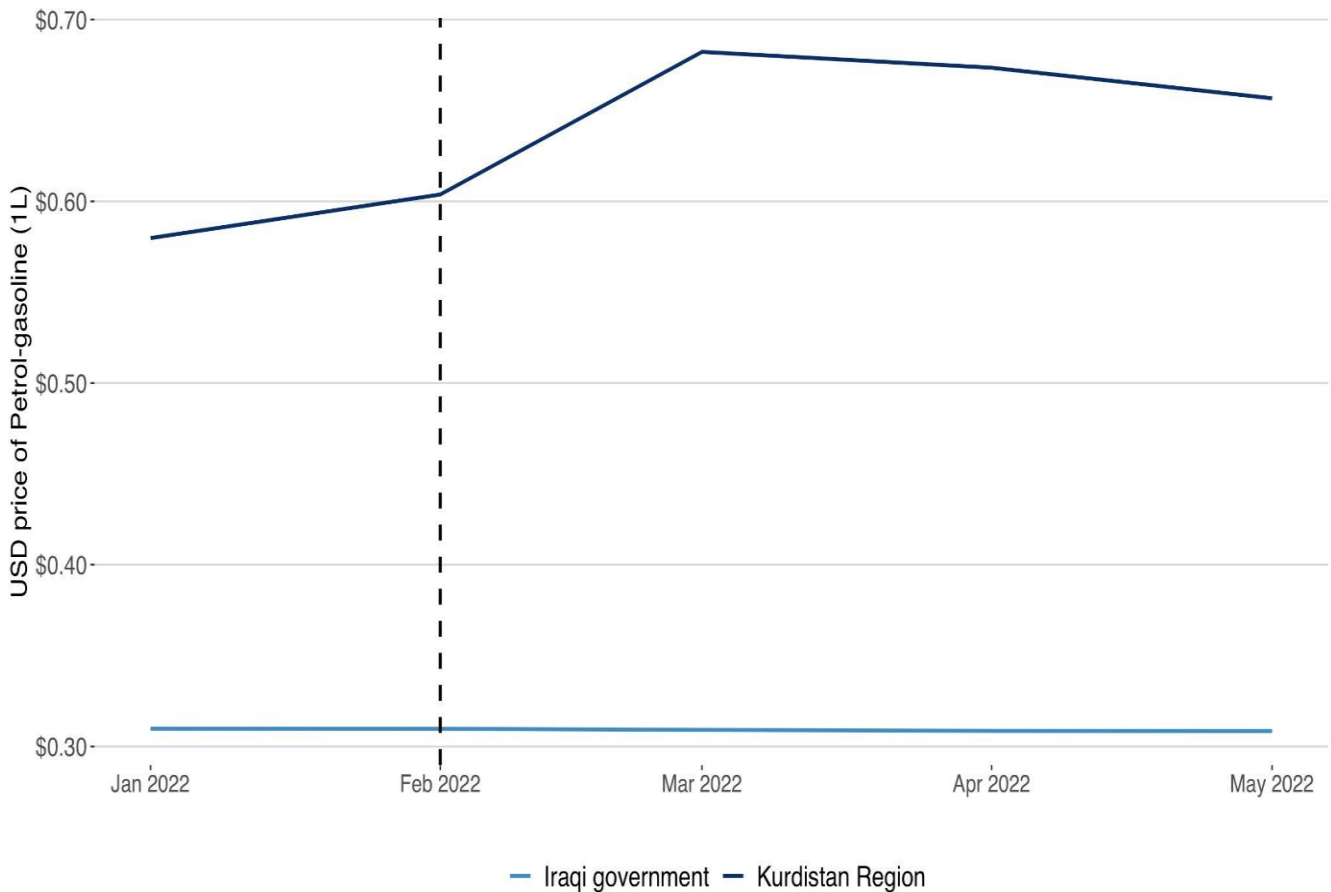


FIGURE 12. FUEL PRICES IN IRAQ FROM JANUARY 2022 TO MAY 2022 (USD PRICE CHANGE).¹³⁰

¹²⁷ Organization of the Petroleum Exporting Countries, ['Monthly Oil Market Report'](#), June 2022.

¹²⁸ Al Monitor, ['Russian invasion of Ukraine has sharp impact on Iraq's economy'](#), March 2022.

¹²⁹ World Food Programme, ['Iraq - Food Prices'](#), May 2022.

¹³⁰ World Food Programme, ['Iraq - Food Prices'](#), May 2022.

Looking ahead

As has been seen across the region, everyday food costs have risen in Iraq, despite government subsidies. However, following European and US sanctions against Russian exports, European nations have turned to Iraq as an alternative fuel source. This may allow Iraq to strengthen its position in the European market, which it has been losing to Russia for years.

Even if increased oil prices help to alleviate the situation, the protracted crisis in Ukraine will continue to have repercussions. Therefore, in the short term, food prices are expected to further increase, threatening vulnerable households with limited resources who are already dependent on the Public Distribution System and other humanitarian assistance. Decrease and/or cuts in humanitarian aid will only exacerbate the dire situation of the most vulnerable Iraqis across the country.

Due to the global sanctions on Russian oil exports, Iraq is expecting to expand its presence in the European market. If sanctions against Russia last for years, Iraq can invest up to \$10 billion in the oil sector and increase its production to 8 million barrels per day under current oil prices.¹³¹ Any continuation of international supply shortages and cost increases will further impact the population of Iraq, particularly those already vulnerable and in receipt of the services of the PDS, which has already experienced delays due to supply shortages.



C Nelson/Mercy Corps

¹³¹ AI-Monitor, '[Russian invasion of Ukraine has sharp impact on Iraq's economy](#)', March 2022.

Jordan

Context Analysis

Despite challenges, Jordan benefits from a rather well-diversified economy. Trade and finance accounts for roughly one-third of Jordan's GDP; one-fifth is accounted for by transportation, communication, public utilities, and construction; and mining and manufacturing similarly account for almost one-fifth of total GDP.¹³² Remittances from Jordanians working abroad are a major source of foreign exchange, constituting 8.9% of GDP in 2020.¹³³

Since the mid-1990s, Jordan has been afflicted by recession, debt, and unemployment. While Jordan's GDP has averaged around 2% per year since 2016, this hasn't been sufficient to keep up with the country's youthful workforce.¹³⁴

The Syrian conflict, which began in 2011 and has had a detrimental impact on Jordan's development, poverty reduction, and debt accumulation, has heavily impacted the country's relatively weak economic performance. The small size of the Jordanian market, volatility in agricultural production, lack of capital, and the presence of significant numbers of refugees have forced Jordan to seek foreign aid.¹³⁵ Jordan's geographic location also makes the economy highly vulnerable to political instability in the region. Located in the heart of a volatile region, Jordan continues to serve as an anchor for regional stability and global public goods by hosting refugees and supporting cross-border regional cooperation and commerce. The country is one of the first nations to develop a development-focused refugee response approach, hosting an estimated 1.3 million Syrian refugees, or 13% of its overall population.¹³⁶

Contact-intensive sectors such as services and tourism, which are large income generators in Jordan, have been hit hard by the Covid-19 pandemic, resulting in Jordan's first GDP contraction in three decades of 1.6%.¹³⁷ The crisis worsened underlying structural flaws, highlighted unresolved social issues, and put pressure on the country's vulnerable macroeconomic position. Although this was Jordan's first economic decline in three decades, it was among the world's lowest in 2020. In 2022, economic growth is expected to pick up pace as the removal of travel restrictions supports the revival of the tourism industry. However, Jordan's high unemployment rate coupled with higher food and fuel prices will put pressure on households and their purchase power.



“Jordan maintains a 15-month wheat reserve, and its storage of barley is sufficient to meet local market needs for 11 months.”

Jordan has a limited amount of arable land and so relies on imports to meet the needs of the population. The rain-fed uplands' main crops are wheat and barley, while the Jordan Valley area under cultivation provides citrus and other fruits, potatoes, vegetables, and olives. Although underground water wells have been built to expand farmland, much of what was formerly grassland has been converted to cultivate olive and fruit trees, and large areas have been degraded to the point of barely supporting livestock. Furthermore, Jordan has seen a drop in the water level caused by a reduction in yearly rainfall and lower water flow into the main ravines

¹³² Britannica, [‘Economy of Jordan’](#), April 2022.

¹³³ The World Bank, [‘The World Bank in Jordan’](#), May 2022.

¹³⁴ Ibid

¹³⁵ Britannica, [‘Economy of Jordan’](#), April 2022.

¹³⁶ The World Bank, [‘The World Bank in Jordan’](#), May 2022.

¹³⁷ The World Bank, [‘Jordan Economic Monitor, Spring 2021: Uncertain and Long Trail Ahead’](#), June 2021.

that feed to the Dead Sea, as well as a loss in Jordan River flows and warmer temperatures, which increase water evaporation. This has led to the destruction of agricultural lands near the Dead Sea area, contributing to the continued decrease in agricultural production.¹³⁸



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Impact Analysis

Food Security and Agricultural Sector

Jordan depends heavily on commodity imports, importing 95% of its wheat and maintaining a 15-month wheat stock.¹³⁹ Prior to 2021, Jordan imported roughly 17.2% of its wheat from Russia and 17.7% from Ukraine,¹⁴⁰ with the remainder largely imported from Romania.¹⁴¹

However, due to Russian taxes levied on wheat, barley and corn, Jordan did not import any wheat from Russia in 2021-2022, and imported less than 10% of wheat from Ukraine.¹⁴² According to the Chairman of the General Company for Silos and Supply, Jordan maintains a 15-month wheat reserve, and its storage of barley is sufficient to meet local market needs for 11 months, which is expected to safeguard the country against the current global shortage.¹⁴³ As such, the cost of wheat flour has only increased by 8.1%, but other foodstuffs such as vegetable oil have seen a larger price increase of 18.2%.¹⁴⁴

¹³⁸ Al Jazeera, '[Earth Day: Jordan farmers frustrated over shrinking Dead Sea](#)', April 2022

¹³⁹ The World Bank, '[Jordan Economic Monitor, Spring 2021: Uncertain and Long Trail Ahead](#)', June 2021.

¹⁴⁰ Observatory of Economic Complexity, '[Jordan](#)', May 2022.

¹⁴¹ Trading Statistics, '[Jordan Imports](#)', May 2022.

¹⁴² Ibid.

¹⁴³ Arab News, '[Jordan's wheat stock is sufficient for 15 months, official claims](#)', March 2022.

¹⁴⁴ World Food Programme, '[Jordan Food Prices](#)', May 2022.

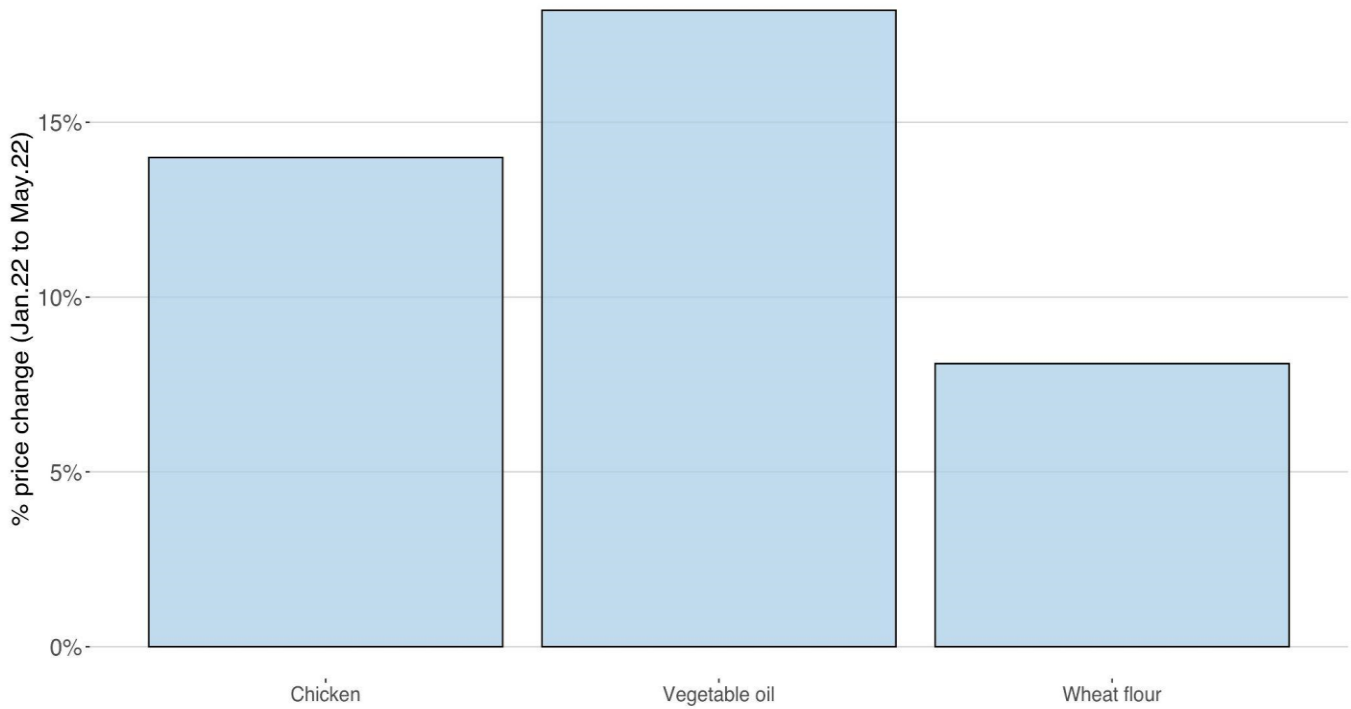


FIGURE 13. CHANGE IN SELECTED FOOD PRICES IN JORDAN FROM JANUARY 2022 TO MAY 2022.¹⁴⁵

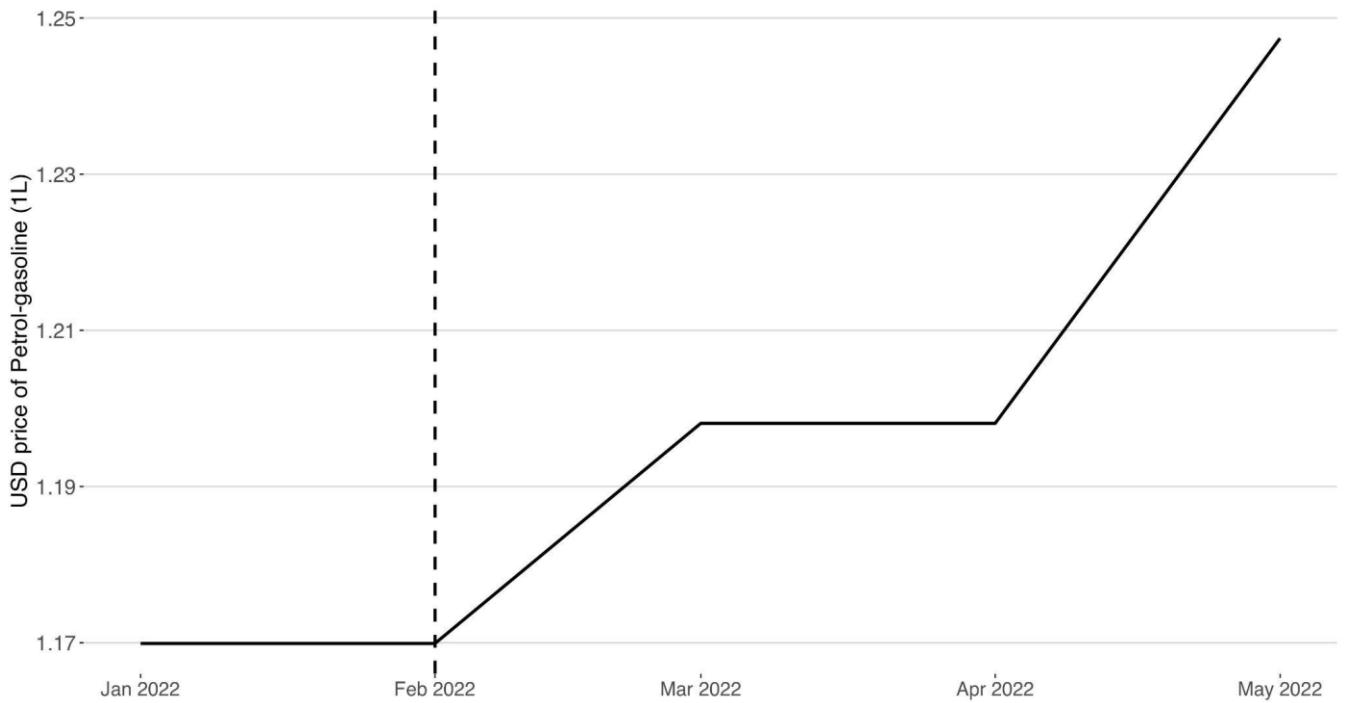


FIGURE 14. FUEL PRICES IN JORDAN FROM JANUARY 2022 TO MAY 2022.¹⁴⁶

¹⁴⁵ Ibid.

¹⁴⁶ World Food Programme, [Jordan Food Prices](#), May 2022.

Energy and Transportation Sector

Government subsidies have softened the impact of rising oil prices, but costs have still risen for Jordanians. Whilst the government did successfully delay an increase in petrol prices, these eventually came into place in April 2022.¹⁴⁷ However, fuel costs have only increased by 2.4%, while the prices of diesel and kerosene did not change immediately due to government subsidies.¹⁴⁸

Looking ahead

Jordan isn't expected to suffer economically in the immediate term, considering wheat stocks are secure, the non-reliance the past years on Ukraine and Russia for wheat import, and the relatively small increase in food and fuel costs compared to other countries.¹⁴⁹

However, Jordan hosts a significant number of refugees who rely on international assistance, including 760,000 refugees registered with UNHCR.¹⁵⁰ Due to the war in Ukraine, experts expect that a significant portion of international aid funding will be diverted to Europe and the response to the war in Ukraine. Accordingly, there is a risk that refugees will suffer from aggravated consequences, while the Jordanian government faces additional financial responsibilities to support refugee communities.

In the medium term, the crisis will have a direct and indirect influence on food security, energy, and food chain prices, which will have an impact on inflation and other critical sectors such as tourism and transportation. According to experts, and despite the minimal expected short-term effect of the crisis in Jordan, the country is expecting to see some relative economic challenges on the horizon due to wheat stocks depleting over time and temporary subsidies on fuel, with consumer prices likely to rise in the future, owing in part to the worldwide impact of the Ukraine war on commodities.¹⁵¹

¹⁴⁷ Arab News, ["Ukrainian crisis hits Jordanian students, imports"](#), February 2022.

¹⁴⁸ Ibid.

¹⁴⁹ The National, ["King Abdullah says Jordan is seeking to contain economic damage from Russia-Ukraine war"](#), March 2022.

¹⁵⁰ UNHCR, ["Jordan issues record number of work permits to Syrian refugees"](#), January 2022.

¹⁵¹ The Jordan Times, ["Trade Ministry allays fear of food shortage amid Russia-Ukraine crisis"](#), March 2022.

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About Mercy Corps

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.



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