



Information Note: Ukraine Crisis and its impacts on northwest Syria markets

A. Situation Overview

Russia - Ukraine conflict started on 24th of February 2022 is having an impact on global markets with particular repercussions on markets in northwest Syria (NWS) for some key items. This crisis further hampers global supply chains. Despite the context being very dynamic, the strong interdependence between Turkey and NWS, will most likely translate into supply chain problems in the area. Currently available information suggests a tendency towards a hyper-inflationary scenario in the region with repercussions in NWS, with potential supply shortages, unavailability of some items in the markets, further erosion of people's purchasing power, as well as loss of employment.

Even though NWS markets have demonstrated strong resilience during the decade-long conflict, the current situation is unprecedented. The strength of markets to expand their supply is being significantly challenged. Higher inflation rates will further erode purchasing power, which will translate **unaffordability** of strategic productive inputs such as fertilizers, seeds, fodder, fuel and bread. Active and newly established micro and small businesses, already strongly hit by Covid-19 crisis and previous economic deterioration, may be forced to close, hence further weakening local economic recovery opportunities and contributing to already very high levels of unemployment and widespread poverty.

The following are some of the trends observed:

- **Fuel;** Brent crude oil prices rose significantly and are expected to reach up to \$140. Oil production in Syria is currently very limited. Diversification of sources (including investment to green energy resources), with proper feasibility assessment, might prevent high price peaks.
- **Natural Gas;** Turkish electricity production is highly dependent on natural gas. In NWS, electricity is mainly imported from Turkey, where the prices have increased 125% since January 2022. This increase in prices caused several demonstrations recently and may continue to fuel protests and tensions.

Projection for Fuel and Natural Gas:

Fuel and electricity prices are highly likely to increase even further this year and beyond. This will have a knock-on inflationary effect on most basic commodities, transportation and other services, and will also raise the cost of inputs for local production overall, while further eroding the already degraded purchasing power of the conflict-affected populations in NWS.



- **Wheat¹** is a strategic crop that is culturally and economically the most important staple in Syria. Bread from wheat flour is the most important food item for the communities, and it is essential for food security of the most vulnerable people. Currently, food prices have skyrocketed in most areas across NWS especially in Idleb. Non-subsidized bread price is 5TRY for 550 grams of flat bread. Ukraine and Russia are one of the main producers and exporters of wheat globally. Turkey's wheat market is dependent on imports from Russia and Ukraine.

Projection for wheat:

The Government of Turkey will be banning export of locally produced wheat and may regulate the export of flour throughout this year, leading to future increase in bread prices in NWS. Moreover, subsidies that different authorities have been providing to bread could cease due to higher production costs. All these would have a huge impact on the production of staple food and agriculture-based livelihoods in the region. As part of the wheat value chain, bread and livestock fodder may become increasingly unaffordable or unavailable in the near to medium-term, as both are highly dependent on electricity and fuel during production. The scarcity of wheat flour is a concern in NWS for many households and for bakeries located in towns and rural areas. Land under cereal cultivation has shrunk due to the expansion of conflict areas and IDPs camps across NWS; drought has also affected wheat and barley production as last year's harvest was lower than the average production.

- **Oilseeds;** As Turkey is the largest oil seed importer from Ukraine, and considering its share of exports towards NWS is significant, stakeholders should closely monitor availability of the referred product on the NWS Syria markets, as well as affordability of it.

Projection for oilseeds:

Like other commodities, oilseeds and the cooking oil created from them, are at risk of being inaccessible due to increased prices or reduced supply. Therefore, it is also important to continue to monitor supply and accessibility.

B. Impact on NWS markets and humanitarian response

1. Impact on voucher programs

- The pre-decided transfer values for voucher support no longer have the same purchasing power as intended when designed. The market assessments used to inform these values are outdated with the rise of prices not only in TRY but also in USD. For instance, the restricted vouchers for fertilizers, seeds, etc. are no longer sufficient to buy the planned amount of supplies from the markets given current prices.
- In some areas, vendors are unable to cancel contracts with suppliers for the items they were importing from Turkey, such as sugar, sunflower oil, and margarine. Therefore, it is impossible for beneficiaries to redeem their vouchers for these items.

1.1. Impact on bakery support programs

- Budgets made reflecting earlier wheat prices will no longer allow the purchase of sufficient flour to reach agreed upon targets on bread production.

¹ "Conflict-related cost increases for wheat and pulses procurement come on top of already surging prices over the past year, which have made WFP operations 36 percent more expensive than they were on average in 2019. The Russian military invasion has brought shipment from Ukraine to a halt and paused Russian grain deals, amidst uncertainty around sanctions. An estimated 13.5 million tons of wheat and 16 million tons of maize are frozen in the two countries – 23 and 43 percent of their expected exports in 2021/22." **Food security implications of the Ukraine conflict**, World Food Programme, March 2022, p.3

- Different stakeholders subsidizing bread by providing flour to bakeries, may abruptly stop their support, which will cause popular unrest and further pressure on humanitarian service providers.
- Bakeries may not be able to keep running as a result of soaring maintenance and production costs linked to high electricity and oil prices as well as wheat scarcity. Existing budgeted costs from humanitarian service providers may be insufficient to meet needs and to honor grant agreements with donors.

1.2. Impact on in-kind food kit supplies

- Disruption of supply chains will make it challenging for suppliers to provide kits under existing framework agreements.
- It will be harder to sign long-term framework agreements.
- For particular items such as fuel, problems will arise to find interested suppliers to tender.
- The difference between budgeted prices of food kits, fuel etc. and actual prices will cause contractual risks for humanitarian practitioners.

1.3. Impact on consumer purchasing power and employment

- Purchasing power will continue to decline
- In case of high inflation and weak economic performance, daily job opportunities will be lost, several businesses may be forced to shut their operations, adding to already very high levels of unemployment and poverty, which may cause and fuel in community tensions - both within communities and households, as well as inter-communities - , and put additional stress on humanitarian service providers.

C. Contingency measures and advocacy points

1. Investment in the ongoing agricultural season

- Despite acknowledging limitations to investing into the ongoing agricultural season for wheat and fodder, still until the end of April 2022, the humanitarian community is advised to invest in the provision of **animal feed, fertilizers and supplemental irrigation** (irrespective of modality) to boost local wheat production inside Northwest Syria. This should be complemented with support to the marketing phase of wheat's value chain in June/July-2022.

2. Investment in value chains in the 2022-2023 agriculture season

- Humanitarian funds should invest in local production and improvement of the capacity to prevent any food security crisis in NWS for the 2022-2023 agriculture season through support to farmers by providing seeds and fertilizers for the next winter season in October-December 2022. Additionally, it is recommended to support livestock breeders by providing feed and supporting the cultivation of fodder crops.
- In case the local production will not meet stakeholder's/NGO's expectations, it is optional to shift to regional and international procurement to lower the pressure on the fragile local markets.
- Support animal value chains through the provision of animal feed, vaccination, forage crop production and fodder and animal product marketing.
- Support the inclusion of locally produced crops that are part of the food baskets (i.e. lentil, olive oil, chickpeas, etc.). This can be supported by locally issued grower and processor certificates. This can be extended to the locally produced masks and soap as well. All products can be tested locally (by local experts, labs (if any)) or regionally for further lab testing.

3. Shifting assistance modalities to ensure purchasing power

- In this volatile context, the most effective option is to invest in long-term commodity voucher programming, which will give sustained demand to local vendors to divert their supply chains, support local business and ensure the purchase of the essential goods for the most vulnerable.

4. Flexibility and Reserve for External Shocks by donors

- The increased inflation and volatility may dominate markets in NWS in the foreseeable future. Therefore, establishment of a reserve by the donors, at the beginning of each fiscal year, to cover the costs incurred due to inflation, drought etc. on the costs.
- Flexibility of grant management is the key to enable the continuity of services, in a context where small, local NGOs are the backbone of the humanitarian implementation where hyperinflation and volatility dominate markets.

5. Support to impacted small businesses and consumers

- Reliable and regular assistance, including cash, to suppliers to diversify their supply chains, support productivity, in NWS would mitigate unavailability of goods in the markets.
- Sustain and scale-up support to businesses impacted by this additional external shock
- Support demand including through commodity vouchers, cash assistance, and emergency employment of potential consumers
- Humanitarians should track the impact of the crisis on the employment rates and types of this crisis, and try to prevent the worst case scenario, by providing ad-hoc support to small businesses, which are key stakeholders of humanitarian service provision.

6. Increasing support to market-based programming

- Engagement with the private sector should be a priority with the understanding of the capacity and needs to shift to local procurement in NWS.
- Suppliers and producers of strategic goods such as seeds and fertilizers are the key stakeholders to support.
- Donors should encourage market-based programming and local procurement, by introducing it as a contractual obligation or indicator to achieve.

7. Humanitarian Collaboration on wheat storage

- Stronger coordination and consultation between humanitarian practitioners is needed, especially on silo capacity and stored wheat stocks.

8. Communication and transparency with communities

- The Syrian people should be made aware of the challenges faced by humanitarian service providers in their role of supporting their lives and livelihoods. Humanitarian practitioners must clearly communicate challenges faced and their efforts and plans to address the effects of the current crisis.

9. Engagement with authorities

- Understanding the mitigation plans and measures of the authorities is crucially needed to ensure the complementarity and compatibility of the humanitarian response.

9.1.1. Engagement with the Turkish Government

- Turkey provided waivers for humanitarian cargos on the export of goods such as sugar, on the other hand both the markets in NWS and many humanitarian organizations providing assistance via commercial channels will suffer from the export bans. Stakeholders should engage with Turkish authorities to advocate for the total exemption of NWS from export bans. This is especially important in the context of non-renewal of UNSCR.²

² Turkey banned the export of sugar on 19th of January 2022, to ensure its availability in the domestic market. This decision caused limited availability of sugar in NWS markets, where most of the supply is outsourced from Turkey.



- AFAD is a key player in the provision of subsidized bread in NWS. Its sudden cease of aid delivery impacts bread prices and causes stress on other humanitarian service providers. Strong and close coordination with AFAD on their mitigation plans is needed to ensure complementarity and compatibility of the joint efforts.

9.1.2. Engagement with local authorities

- The mitigation measures and response plan of local authorities can be looked at.
- Advocacy on the opening of commercial routes within Syria would help vendors to diversify their supply chains and mitigate unavailability and unaffordability of items in NWS.