ECONOMIC IMPACTS OF COVID-19

EFFECTS ON HUMANITARIAN CRISES IN THE MIDDLE EAST

January 2021

MERCY CORPS
Humanitarian Access Team

Contents

Executive summary 3
Objectives and audience 4
Main crosscutting themes 5
Remittance flows 5
Budget and service delivery crisis 5
Inflationary crises and financial flows 6
Political and economic fragmentation 7
Unemployment 7
Topline recommendations 8
Background and context 9
Crosscutting themes 11
Remittances 11
Budget and service delivery crises 14
Inflationary crises and financial flows 18
Unemployment 22
Political and economic fragmentation 24
Forecasting and Trends 27
Operational challenges for aid organizations 31
Recommendations 32
Country backgrounds 35
Syria 35
Lebanon 37
Yemen 39
Iraq 42

EXECUTIVE SUMMARY

The COVID-19 pandemic has greatly impacted economies across the globe, not least those in the Middle East. The collapse of global oil prices, in addition to country-wide shutdowns and border closures in response to the COVID-19 pandemic, have exacerbated dire economic conditions in a number of countries already experiencing political and economic crises, mass displacement, and conflict. These factors are driving political, institutional, and economic fragmentation across Lebanon, Syria, Iraq and Yemen in particular, and ultimately pushing millions of the region's inhabitants into a further dependence on humanitarian assistance.

This paper examines four particularly vulnerable humanitarian contexts: Syria, Yemen, Lebanon, and Iraq. While focusing on these countries, it also tackles the role regional states play in their economies, notably Turkey, Iran, and countries in the Gulf. This paper examines how the economic impact of COVID-19 intersects with other, similarly devastating crises in the region to worsen the impact on Yemeni, Syrian, Lebanese, and Iraqi societies.

While there are many differences between the four states on which this report focuses, the reasoning for adopting a regional perspective is multifaceted. Firstly, all of these countries are experiencing major humanitarian crises and are host to some of the largest and most complex aid responses globally. Secondly, all of these countries exhibit a relatively similar set of economic characteristics, notably inflated, ineffective and hard to sustain public sectors, a predominance of service sectors in employment, and dependence on international trade to provide a majority of goods and services. Thirdly, all of the states are disproportionately affected by the significant decline in oil prices – largely due to COVID-19 – either through their own export receipts, or from a major dependence on remittances and investment from oil-exporting countries in the Gulf. Fourthly, all of these states are experiencing severe macroeconomic shocks, with most experiencing severe currency volatility largely driven by falling domestic output and large trade imbalances. Fifthly, many of these states are linked by both informal and formal finance and trade networks, with crises in one country often affecting another. Finally, all of the states addressed in this report have been unable to implement robust and meaningful supportive interventions to counter the impact of COVID-19 related shutdowns.

Furthermore, this paper's regional focus is intended to highlight the economic entanglement and interdependence of Middle Eastern economies. While in many ways the Middle East is poorly integrated economically – there are some major interdependencies, largely driven by the role of regional formal and informal financial systems, the importance of oil production and export directly and indirectly throughout the region, and the role that transnational political and military conflicts have continued to impact the entire region, rather than being focused on any one state. Specifically, the region is rife with interlinked financial and capital systems, natural resource transfers, and labor market and remittances transfers – making each economy dependent on others, and consequently any economic shock affecting one, also plays a major part for the region as a whole.

All of these themes have implications for humanitarian and development actors seeking to respond to rising needs in these countries. Despite being driven by often systemic issues and conflict, requiring long-term development sensitive approaches, humanitarian need is also increasing exponentially across the region, with little end in sight amid shrinking global aid budgets. In addition, the complexity surrounding the economic crises being experienced in these countries presents major programmatic challenges to aid efforts, some of which pre-date COVID-19, but have and will be exacerbated by it. Within the context of rising need and limited resources, aid organizations will need to better understand and effectively respond to these challenges going forward.

OBJECTIVES AND AUDIENCE

This paper is aimed at audiences linked to the humanitarian and development sector in the countries addressed, primarily with the goal of promoting the benefits of a more regionally sensitive understanding of the many issues faced in the countries of focus. Ultimately the report aims to enhance the implementation of policies and guide responses that understand the importance of regional and transnational dynamics in the contexts within which many state focused programs operate. While several institutions are heavily focused on the economies of the region, Mercy Corps sees a gap between the broader needs of time sensitive conflict and political analysis and the more in depth understanding of how these interact with an in depth understanding of political economies and economic trends more broadly.

Many of the key informants interviewed for this paper, especially those who have worked in multiple regional contexts, highlighted that a number of the issues being faced in each country reflect broader regional issues. However, these tend to be viewed systematically within the silos of each state's response. While there is a strong understanding of how COVID-19 is impacting the globe more broadly, this tends to be applied to regional contexts on a case by case basis, rather than understanding how it interacts with complex transnational economic dynamics. Specifically in the case of the Middle East, within a region highly interconnected through political, conflict and economic systems.

Repeatedly, issues in one country's context have had a major flow on impact in others, with the response to understanding this being reactive and country specific. Analysis ecosystems within different countries continue to struggle to talk with one another. Mercy Corps see this broader regional perspective as an opportunity for donors, policymakers and implementers alike to think about how interventions can be designed and implemented in a manner more appropriate to the interlocking political, security, cultural and economic trends witnessed across many of the states addressed. This also includes a more nuanced understanding by humanitarian, peace and development actors to better understand how to further the potential complementarities between sectors which unfortunately continue to be isolated and poorly coordinated. This study also highlights the importance of understanding regional dynamics when seeking to integrate governance and market system support strategies, and when seeking to design and implement interventions that are able to foster diversification, connectedness and inclusion in economic systems, that can sit awkwardly within a specific country focus.

MAIN CROSSCUTTING THEMES

Remittance flows

- Remittances are estimated to drop in the MENA region by 19.6 percent due to economic disturbances largely attributed to COVID-19, and up to 70 percent in Yemen.
- Syria, Yemen and Lebanon are dependent on money inflows from their expatriates.
- Within Syrian government-controlled areas, remittances are one of the remaining sources of foreign hard currency. Families rely on incoming receipts due to a lack of internal economic activity and employment opportunities.
- Yemen is extremely vulnerable to disturbances in remittance receipts, as remittances serve as the main source of support for Yemeni families after humanitarian aid.
- Approximately 75 percent of Syria's remittances come from Saudi Arabia, Lebanon, Jordan, and Turkey, where COVID-19 precautionary measures have led to or exacerbated economic complications, heavily affecting labor sectors within which Syrians predominate.
- Iraqi migrant workers abroad, specifically those in Iran and Kuwait, are highly vulnerable to the loss of employment and other economic consequences of COVID-19. Consequently, remittances from these regions may be "substantially reduced," impacting their relatives in Iraq who rely on these funds for basic living costs.

Budget and service delivery crisis

- The IMF recommended that states in the region reorient their spending to provide increased social safety nets and targeted tax relief and subsidies. An inability to provide this will likely increase inequality, in turn a major driver for future conflict.

- The Iraqi government's ability to provide services is almost entirely dependent on petroleum exports, which make up 90 percent of its budget. As such, concerns have been raised over how it will be able to navigate through its current budgetary commitments, which are based on a WTI oil price of $56 a barrel.

- Lower oil prices could offer fiscal relief for Lebanon, however, the endemic mismanagement of the electricity sector will likely lead to further wastage of public funds.

- Budgetary constraints have led the Syrian government to scale back numerous social projects, including a doubling of the price of subsidized bread in October and a reduction on quantity of other food items attached to the government's e-card system, as well as rations for the armed forces. Such cutbacks have led to backlash from the public, many of whom are dependent on government subsidy programs for their basic food items.

Inflationary crises and financial flows

- Lebanon, Syria, and Yemen all share the negative conditions of dwindling reserves of foreign currency and resulting liquidity crunches challenging the financing of imports. As such, inflation has risen in these countries amid a lack of state resources to combat rising prices.

- In Lebanon, year-on-year inflation rose from 11.36 to 112.39 percent from February to July 2020, then reaching levels of hyperinflation from July to August. It was the first MENA country to experience levels of hyperinflation in July. This has also exacerbated other issues such as poverty, of which the rate had almost doubled from 28 percent in 2019 to 55 percent by May 2020, while the extreme poverty rate will rise from 8 percent to 23 percent.

- OCHA noted in August that humanitarian programs in northwest Syria have faced challenges preserving the value of assistance "due to fluctuating exchange rates and multiple currency conversion".

- As in the cases of Lebanon and Syria, Yemen suffers from serious constraints with financing imports, upon which the country is heavily dependent. Currency depreciation has led to higher prices and is the biggest driver of humanitarian need in Yemen.

- Unlike other countries in the region, Iraq has not suffered from extensive inflation or exchange rate devaluations. In part, this is due to the Iraqi state's ability to peg the Iraqi dinar to the US dollar. Furthermore, following an initial spike in prices, the Iraqi government implemented strict price control mechanisms in order to prevent runaway inflation witnessed throughout the region.

Political and economic fragmentation

- The repercussions of the COVID-19 pandemic raises the possibility of further political and economic fracturing in states carved up between a patchwork of competing authorities.
- The knock-on effects of COVID-19 might exacerbate the centrifugal forces of Syria's political economy. Border crossings between lines of control areas have regularly been shut down, slowing trade and movement between areas which has significantly affected economic activity, especially in areas under government control.
- In Yemen, a lack of capacity to enforce economic policies, combined with an inability to implement key services, has eroded the influence of the central authorities. Consequently, the influence and independence of governorate-level authorities have increased – especially in wealthy eastern governorates such as Marib and Hudaydah – resulting in them controlling what remains of hydrocarbon revenues. In Aden and other southern governorates, the rise and institutionalization of the separatist Southern Transitional Council has furthered this process.

Unemployment

- The COVID-19 pandemic has deeply impacted small businesses in the region and disrupted labor markets, raising questions of whether humanitarian and development aid interventions should be focused in regions where vulnerable populations have lost sources of income.
- It is estimated in Lebanon that the COVID-19 outbreak and related containment measures have pushed nearly a third of Lebanese citizens into unemployment so far.
- In Iraq, following the outbreak of the pandemic, only 23 percent of the workforce was working as normal, according to an ILO survey, while 25 percent of those who were working prior to the lockdown had been permanently laid off.
- Public space closure and avoidance adversely affected commercial businesses in Syria. This was particularly felt by daily laborers and those working in the informal economy, who account for a major portion of Syria's labor force. According to the UN, unemployment in Syria has risen to 50 percent from the already high estimate of 42 percent in 2019.

TOPLINE RECOMMENDATIONS

- Increase focus on market support programs, cash assistance and provision of basic needs immediately.
- Increase focus on supporting market resilience through effective aid implementation, with immediate support to assist livelihoods and value chain development to improve domestic production and market resilience.
- Encourage donors to look at more regionally designed and sensitive programming across countries in the Middle East.
- Increased sharing of 'lessons learnt' between INGOs across country contexts could contribute to more adaptive programming that is responsive to regional trends.
- Advocate for support and protection of more inclusive financial services, both for small and medium sized businesses to help boost low and medium skilled labor opportunities and microeconomic growth.
- Given the critical role regional migration/refugee remittances play in supporting millions of at risk families, aid actors should advocate to the international community to address fundamental challenges such as effective access to financial services, as well as protections in host countries from damaging legal frameworks, especially in the context of 'nationalization' policies.
- The crisis in governance and legitimacy stemming from the economic fallout of COVID-19 could be an opportunity for the aid sector to use the increased dependence on foreign aid flows to push for more effective governance reforms from local actors, and further possibilities for partnerships between INGOs and government actors in the pursuit of these reforms.

BACKGROUND AND CONTEXT

The COVID-19 pandemic has greatly impacted economies across the globe, not least those in the Middle East. The collapse of global oil prices, in addition to country-wide shutdowns and border closures in response to the COVID-19 pandemic, have exacerbated dire economic conditions in a number of countries already experiencing political and economic crises, mass displacement and conflict. **These factors are driving political, institutional, and economic fragmentation across a number of states, and ultimately pushing millions of the region's inhabitants into a further dependence on humanitarian assistance.**

The collapse of oil prices, largely due to the reduction in global economic activity spurred by COVID-19, has affected the primary source of export revenue for a number of Middle Eastern states. **The World Bank notes that lower oil prices not only impact oil-producing states such as Iraq but also oil-importing states such as Syria and Lebanon, where investments and remittances are in decline.[1]**

Regional transfers and remittances from oil-rich states that implemented COVID-19-related economic shutdowns have also decreased significantly. These are normally a major source of hard currency for states in the region without access to oil-export revenues. **Remittances to countries in the Middle East and North Africa (MENA) region are expected to drop at least 20 percent in 2020, according to the World Bank.[2]** The slide in remittances within the region's countries is difficult to quantify due to the opacity of available data, but is bound to result in harsher consequences in vulnerable states heavily dependent on remittances, such as Yemen, Lebanon, and Syria.

States with depleted reserves of foreign currency such as Syria, Yemen, and Lebanon, face further challenges obtaining foreign bailouts, driving deeper exchange rate depreciation and high levels of inflation. This has eroded purchasing power within such states, which are highly dependent on the import of basic commodities such as food, fuel, and medical supplies. High levels of inflation and economic decline are in turn eroding the role of formal financial sectors in favor of informal ones, increasing obstacles and black market activity, which in turn creates market inefficiencies, a lack of oversight on financial flows, and insecurity more broadly.

The UN Economic and Social Commission for Western Asia's (UN-ESCWA) initial estimate projects that at least (US) $152 billion will be wiped off the gross domestic product (GDP) of Arab states due to the COVID-19 pandemic.[3]

[1] International Finance Corporation, *COVID-19 Economic Impact*, May 2020, p. 1-2

[2] World Bank Group, *COVID-19 Through a Migration Lens::Migration and Development Brief 32*, April 2020, p. 24

[33] UN-ESCWA, *COVID-19 Economic Cost to the Arab Region*, March 18, 2020, p. 1

GDP growth in the MENA region could drop to an average of 5.7 percent, and fall by 13 percent in some economies. Lebanon is expected to be one of the hardest hit, with a GDP contraction of 19.2 percent.[4] This economic contraction will have serious consequences on labor markets, with UN-ESCWA projecting at least 1.7 million jobs could be lost across Arab states in 2020.[5] True numbers might be even higher when taking into account underemployment. As **micro, small, and medium sized enterprises have likely suffered a massive hit due to the pandemic, vulnerable groups such as youth, women, and migrant workers who are often employed by these enterprises stand to bear the brunt of economic slides.[6]** The service sector in particular is a key component of Arab economies, serving as the main employer in the region.[7]

The OECD notes that government responses to the COVID-19 pandemic have and will continue to place a heavy strain on states in the region with limited fiscal resources.[8] Countries across the Middle East, including Lebanon, Syria, and Iraq, suffer from heavy levels of public debt. While the COVID-19 pandemic has impacted the Middle East region as a whole, the virus and its economic repercussions will especially burden the fragile and conflict-stricken states of Syria, Yemen, Iraq, and Lebanon, threatening further economic and political fragmentation.

The humanitarian implications of these dynamics are potentially devastating. Most countries in the region are highly import dependent, with the cost of basic food being heavily impacted by the loss in value of domestic currencies. In many cases, even small devaluations, or a reduction in trade financing subsidies, can have devastating results. With Iraq, Lebanon, Syria, and Yemen all contending with multilayered political, economic and security crises before the advent of COVID-19, even small increases in the relative cost of food to local populations – through reduced purchasing power due to price inflation driven by currency depreciation, or reduced earnings – can threaten to push large numbers into a dependence on humanitarian aid. For millions more, remittances have served as one of the most important lifelines outside of the framework of humanitarian aid, and in some cases, such as Yemen, they are likely to be far more important. The loss of these inflows not only directly affects the capacity of citizens to survive in the context of weak public services, conflict, and economic crises, but are also crucial sources of hard currency for governments already reeling from the scarring of oil export receipts.

---

[4] International Monetary Fund, *Lebanon Economic Monitor Fall 2020*, Fall 2020

[5] UN-ESCWA, *COVID-19 Economic Cost to the Arab Region*, March 18, 2020, p. 2

[6] Daniel Egel, Charles P. Ries, Howard J. Shatz, RAND Corporation Blog, *Economic Consequences of COVID-19 in the Middle East: Implications for U.S. National Security*, April 1, 2020

[7] UN-ESCWA, *COVID-19 Economic Cost to the Arab Region*, March 18, 2020, p. 2

[8] OECD, *COVID-19 Response in MENA Countries*, June 9, 2020, p. 7

CROSSCUTTING THEMES

Remittances

The COVID-19 pandemic has sharply curtailed remittance flows within the Middle East. The World Bank estimates that remittances will drop on average in the MENA region by 19.6 percent due to economic disturbances largely attributed to COVID-19.[9] **Remittances serve as a lifeline for disadvantaged people in countries affected by conflict and deteriorating economic conditions that have resulted in inflation amid depreciating spending power.** Remittances play an outsized role in the economies of many countries in the region, including Yemen, Syria, and Lebanon.

Yemen is especially vulnerable, as **remittances serve as the main source of support for Yemeni families after humanitarian aid.** Remittances are also the main source of currency for importers, ahead of both humanitarian aid and Saudi Arabia's import financing support for the Central Bank of Yemen. In August, the Yemeni representative for the UN Development Program (UNDP) sounded the alarm over a reduction in remittances, saying that it "will translate into millions becoming poorer and going without food and water."[10]

Yemen's remittance inflows are heavily dependent on Saudi Arabia's economy. The World Bank estimates that approximately 800,000 Yemenis work in Saudi Arabia, remitting about $3 billion per year to their home country.[11] Other estimates run far higher, with over 1.5 million Yemeni workers in Saudi Arabia following wide scale migration amid the conflict in their home country.[12] The total remitted to Yemen could stand as high as $10 billion. The World Bank notes that collecting remittances information in Yemen is challenging and that there is no reliable, high-frequency data to confirm that remittances have dropped.[13] An Oxfam International report from June cited money transfer providers, who reported an 80 percent drop in remittances between January and April.[14] **Meanwhile, UNDP's Yemen representative said that remittances are projected to drop by up to 70 percent.[15]**

While potentially not as vulnerable to remittances reductions as Yemen, both Syria and Lebanon are dependent on money inflows from their expatriates. Approximately $7.5 billion was remitted to Lebanon in 2019, making up 12.7 percent of the country's GDP, according to

---

[9] World Bank, *World Bank Predicts Sharpest Decline of Remittances in Recent History*, April 22, 2020

[10] Auke Lootsman, UNDP, *COVID-19 ravages an already desperate Yemen*, August 19, 2020

[11] World Bank, *The Republic of Yemen Unlocking the Potential for Economic Growth*. 2015

[12] Conversations with economic analysts familiar with Yemeni diaspora numbers.

[13] World Bank Group, *Yemen Monthly Economic Update*, May 2020, p. 4

[14] Oxfam, *Remittances to Yemen plummet as needs surge amid war and coronavirus*, June 1, 2020

[15] Auke Lootsma, UNPD, *COVID-19 ravages an already desperate Yemen*, August 18, 2020

World Bank estimates.[16] A 2015 report by BlomInvest Bank estimated that remittances from Gulf countries "represent 60 percent of total transfers to Lebanon."[17] Total remittances to Lebanon in 2019 stood at $7.4 billion, a slight increase from $7 billion in 2018 and $7.1 billion in 2019.[18] Lebanon's central bank (*Banque du Liban*) has not issued remittances statistics yet for 2020, but their last available numbers from November and December 2019 show the lowest monthly rates since March 2008.[19] The World Bank estimates Lebanon's remittances will drop 17 percent in 2020.[20] These remittances are estimated to make up around 40 percent of average household income, as well as a similar percentage of the funding for education and healthcare.[21]

Decreased remittances will hurt the spending power of a population already impacted by rising inflation. At the same time, this trend will limit already dwindling supplies of US dollars available for importers, leaving open the potential for further inflation. While Lebanon's financial crisis has caused a highly-publicized US dollar liquidity crunch in the country, mechanisms remain in place for continued remittances in foreign currencies. Lebanese banks offer the option to create sub-accounts to receive foreign exchange via their correspondent accounts abroad. Money service businesses, for their part, were under orders to pay out remittances in local currency at the official exchange rate below the rates offered on the black market.[22] Following the August 4 blast at the Beirut port, the central bank issued a circular allowing the same businesses to pay out in dollars.[23] However, it is unknown how long this measure will last and, even if it should continue, there will continue to be a significant liquidity shortage in the market.

As with other countries in the region, statistics on Syria's remittance inflows are lacking. The Central Bank of Syria does not release relevant data for calculating remittances.[24] The World Bank, for its part, estimates Syria's remittances to total over $1.6 billion annually since 2010, constituting 15 percent of the country's nominal GDP. The true numbers could be far higher. [25] In April, Damascus University professor Ali Kanaan projected remittances had dropped 50 percent,

---

[16] World Bank Group, *COVID-19 Through a Migration Lens::Migration and Development Brief 32*, April 2020, p. 23

[17] BLOMInvest Bank, *Lebanon Drilling into the Benefits of Falling Oil Prices*, March 15, 2015, p. 5

[18] Byblos Bank, *Lebanon This Week 637*, June 15, 2020 ; Byblos Bank, *Lebanon This Week 580*, April 13, 2019

[19] Banque du Liban, *Data Series: A42 Workers' Remittances* ; Banque du Liban, *Data Series: A31 Compensation of Employees*

[20] World Bank Group, *COVID-19 Through a Migration Lens: Migration and Development Brief 32*, April 2020, p. 36

[21] CARE, Context Analysis, October 2020.

[22] Topalian, Nohad, Al-Mashareq, *Central Bank of Lebanon tightens rules for electronic transfers*, April 2, 2019

[23] The Daily Star, *Lebanese pound buoyed by BDL measures, foreign aid*, August 7, 2020

[24] The Syrian Observer, *Value of Annual Remittances to Syria at $1.5 Billion (translated from Damas Post)*, March 1, 2018

[25] The World Bank, *Personal remittances, received (current US$) – Syrian Arab Republic* ; Christou, WIll, Syria Direct, *Economic disaster looms as coronavirus lockdowns reduce remittances to Syria*, April 12, 2020

from $4 million daily ($1.46 billion annually) the previous year to $2 million daily ($730 million annually).[26] **Approximately 75 percent of Syria's remittances come from Saudi Arabia, Lebanon, Jordan, and Turkey, where COVID-19 precautionary measures have heavily affected labor sectors within which Syrians predominate.[27]**

Within Syrian government-controlled areas, remittances are one of the remaining sources of foreign hard currency. Families rely on incoming receipts due to a lack of internal economic activity and employment opportunities. In March 2018, a pro-government newspaper reported that total remittances inflows were 36 percent higher than total wages and salaries earned in Syria.[28]

Despite Syria's dependence on remittances, the Syrian government has implemented restrictions on money inflows, including the closure of 'unofficial' monetary offices, and strict laws leading to the imprisonment of those trading or carrying foreign currency.[29] Official mediums of financial exchanges – such as the

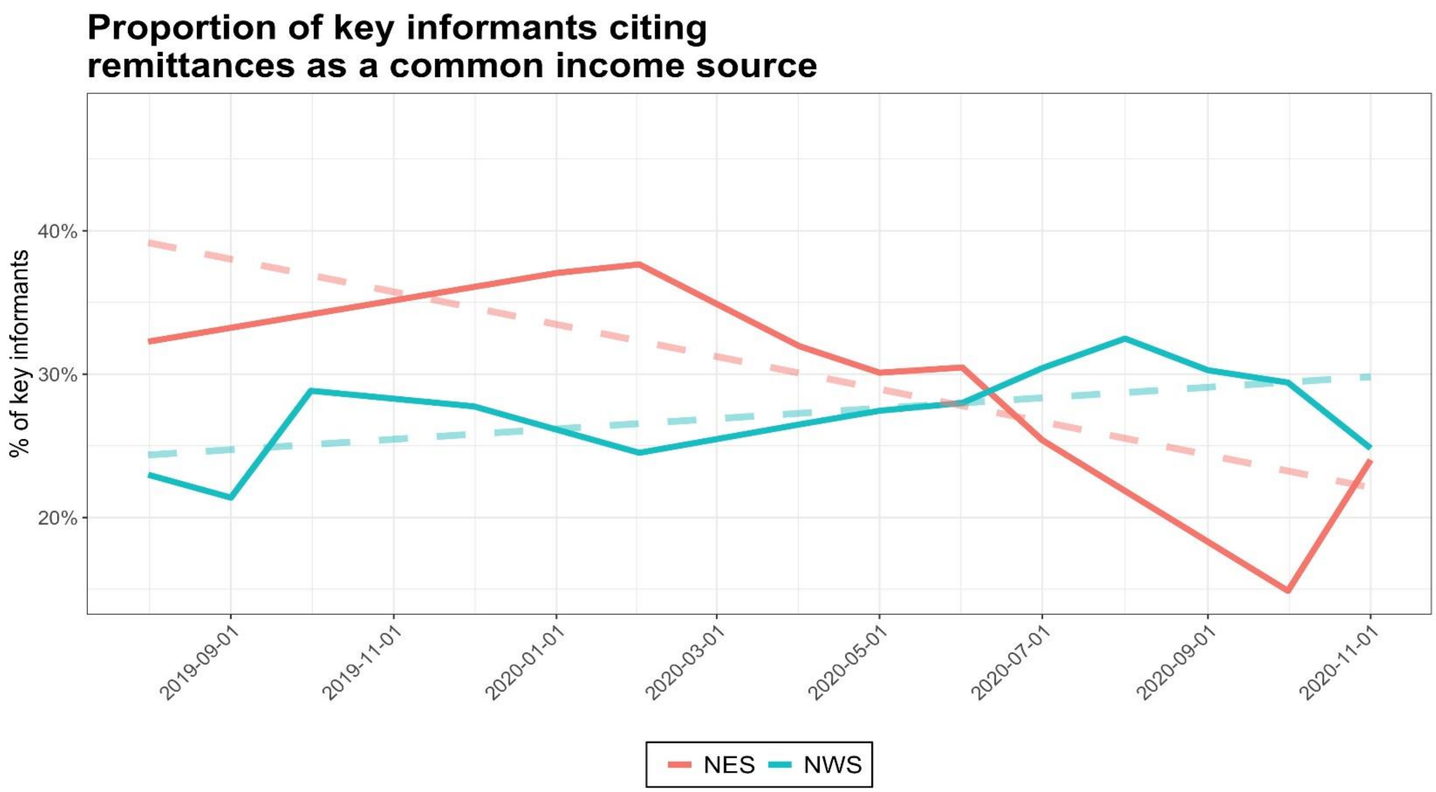

Figure 1: Proportion of key informants citing remittance as a common source of income, Jan 2018 - July 2020

---

[26] Al-Iqtisadi, *Daily remittances to Syria expected to decline to $2 million*, April 8, 2020

[27] Countryeconomy.com, *Syria – Migrant remittance*

[28] The Syrian Observer, *Value of Annual Remittances to Syria at $1.5 Billion (translated from Damas Post)*, March 1, 2018

[29] Haley Schuler-McCoin, Synaps Network, *Picking Empty Pockets*, July 8, 2020 ; Mercy Corps - Humanitarian Access Team, *Thematic Report: Government of Syria Responses to the Financial Crisis*, May 7, 2020

Syrian International Monetary Transfer Agencies (IMTAs) and banks – are not popular due to hefty transaction fees, which can total up to half the value of the transaction. As such, the majority of Syrians living abroad transfer their money through unofficial *hawalas*.[30] A comprehensive crackdown on unofficial exchanges is unlikely as Syrian government-affiliated businessmen have a stake in black market transfers that also benefit the government.

Unlike the aforementioned countries, Iraq's economy is not heavily dependent on remittances. According to the World Bank, Iraq's personal remittances inflow in 2019 was $743 million, constituting 0.3 percent of the country's GDP.[31] A 2019 UN International Organization for Migration (IOM) survey of Iraqi migrants found that only 7 percent reported sending remittances back home, while 43 percent received remittances from Iraq.[32] According to the **UNDP, Iraqi migrant workers abroad, specifically those in Iran and Kuwait, are highly vulnerable to the loss of employment and other economic consequences of COVID-19. Consequently, remittances from these regions may be "substantially reduced," impacting their relatives in Iraq who rely on these funds for basic living costs.**[33]

Budget and service delivery crises

States in the region already split and debilitated by ongoing conflict, such as Syria and Yemen, face an uphill task confronting the COVID-19 pandemic and its knock-on economic effects. Other states, such as Iraq and Lebanon, were already facing widespread discontent over failures in infrastructure and service provision. A number of countries in the Middle East suffer from high public debt, which impairs these states' abilities to provide services for their populations. The IMF estimates that Arab governments' debt will rise 15 percent in 2020, while fiscal deficits will rise from 2.8 percent of GDP in 2019 to 10 percent in 2020. [34] **The IMF recommended that states in the region reorient their spending to provide increased social safety nets and targeted tax relief and subsidies.**[35] An inability to provide this will likely increase inequality, in turn a major driver for future conflict.

Drops in oil prices and demand will severely strain the Iraqi government's fiscal abilities to address the COVID-19 pandemic and its knock-on economic and humanitarian impacts. Failures

[30] Transfers through official IMTAs are received in Syrian pounds at the 1,256 SYP per USD exchange rate meanwhile they can be r eceived in foreign currency (USD/EUR) and exchanged at the black market exchange rate of 2,170 SYP per USD (As of 26 August).

[31] World Bank, Personal remittances, received (current US$) - Iraq ; World Bank, Personal remittances, received (% of GDP) - Iraq,

[32] International Organization of Migration, *Iraq: Survey on Drivers of Migration*, 2019, p. 4

[33] United Nations Development Programme in Iraq, *Impact of the Oil Crisis and COVID-19 on Iraq's Fragility*, August 2020, p. 10

[34] Middle East online, 'IMF expects MENA debt, unemployment to spike.' April 2020

[35] *Ibid*.

to provide services and dilapidated infrastructure played a role in sparking the protest movement that began in October 2019.[36] The Iraqi government's ability to provide services is almost entirely dependent on petroleum exports, which make up 90 percent of its budget.[37] **As such, concerns have been raised over how the Iraqi government will be able to navigate through its current budgetary commitments, which are based on a WTI price of $56 a barrel.[38]** Iraqi oil revenues fell from $6.1 billion to $1.4 billion between January and April 2020. While there was a slight recovery in the global price, bringing revenues in May up to $2.1 billion, a major funding gap remains, which the government has no long-term way of filling.[39]

Oil revenues fund 90 percent of the government's budget, enabling it to finance basic services and state employee salaries, comprising 40 percent of the country's total workforce.[40] The Iraqi government's fiscal woes have raised concerns that it will be unable to purchase agricultural outputs from farmers and collectives, which would in turn decrease revenues for rural populations that depend on the government as a major buyer.

Iraq's government will face difficult budgetary choices to finance its deficit, which could hit 45 percent of its draft 2020 budget.[41] This major gap led the then newly-elected prime minister, Mustafa Al-Kadhimi, to establish an economic crisis committee as part of an attempt to increase revenues and decrease expenditures. The UNDP in August warned that **"major reductions in government spending will be needed"** and that the government might need to cut expenditures on core social programs in the event of a second wave of COVID-19 disrupting oil markets again.[42]

Following the outbreak of COVID-19, Iraq's government took a number of fiscal measures in an effort to confront the pandemic, providing cash support in using the Iraqi dinar (IQD).[43] The Ministry of Finance provided 50 billion IQD ($42 million) to the Ministry of Health, while the Central Bank of Iraq raised $37 million. The Iraqi government also established a cash transfer scheme for families of workers in the private sector that do not receive salaries or benefits from the government, totaling 300 billion IQD ($254 million). **However, given the funding gap, concerns have arisen over how the government will be able to support the aforementioned outlays as well as existing social programs, such**

[36] Jen Kirby, VOX, *Iraq's protests, explained,* November 5, 2019

[37] Agence France Presse, *Iraq Oil Exports Sink To Comply With OPEC Cuts*, July 1, 2020

[38] Mustafa Saadoun, Al-Monitor, *Is another economic crisis looming in Iraq, with dropping oil prices?,* March 26, 2020

[39] The Oxford Institute for Energy Studies, *Compounding crises: Iraq's oil and energy economy*, July 2020 p. 3

[40] IMF, *IMF Country Report No. 19/249*, July 3, 2019, p. 4 ; United Nations Iraq, *Country Profile*

[41] Shafaq News, *Iraq: 45% financial deficit in the 2020 budget*, September 16, 2020

[42] United Nations Development Programme in Iraq, *Impact of the Oil Crisis and COVID-19 on Iraq's Fragility*, August 2020, p. 8

[43] IMF, *Policy Responses to COVID-19*

as the Public Distribution System food distribution program.

As in the case of Iraq, protests erupted in Lebanon in October 2019 over perceived widespread corruption, inadequate state services, and discontent over the moribund political system. Unlike Iraq, Lebanon has no natural resources to fund state spending and has become the third-most indebted state in the world.[44] In January, the Lebanese parliament approved the 2020 state budget, with analysts saying its forecasted revenues were unrealistic.[45] The Lebanese state outlays heavy spending on debt servicing and importing fuel for its inefficient electricity sector. **While lower oil prices could offer fiscal relief, the endemic mismanagement of the electricity sector will likely lead to further wastage of public funds.[46]** On March 7, 2020, the prime minister at the time, Hassan Diab, announced that his country was defaulting on its foreign debt, one week before the cabinet declared a state of "general mobilization" that would come to include curfews, business closures, and other policies to stem the flow of COVID-19.

The Lebanese parliament approved a 1,200 billion Lebanese pound (LBP) ($800 million at official exchange rate) allocation for a social safety nets program, including an aid package of cash assistance for families impacted by the virus.[47] The Finance Ministry extended deadlines for the payment of taxes and fees and approved the disbursement of dues to private hospitals. **Despite these measures, analysts have questioned how the Lebanese government will finance this package without inflationary spending that could deepen economic hardships.[48]** Since the parliament's approval of the package in late May, the mechanics of cash assistance to families remains unclear. The Ministry of Social Affairs has been tasked with implementing the cash assistance plan in coordination with local municipalities and the Lebanese Armed Forces. **Human Rights Watch warned that asking citizens to apply for aid via municipal officials poses the risk that aid distribution could be "manipulated by political parties and facilitate patronage networks."[49]**

The Syrian government's response to COVID-19, as with that of other states in the region, comes amid already quickly-deteriorating economic conditions. The Syrian state's ability to address the COVID-19 pandemic is curtailed by limited resources. The government's 2020 budget is 4,000 billion Syrian pounds (SYP), which was worth $9.2 billion at the official exchange rate in late 2019, but by March 2020 was equivalent to only $3.2 billion at black market exchange rates.

---

[44] Hesham Shawish, BBC, *How did Lebanon become the third most indebted nation?,* October 25, 2019

[45] Reuters, *Lebanon's parliament passes 2020 budget amid financial crisis,* January 27, 2020

[46] Tom Perry and Ellen Francis, Reuters, *Special Report: Lebanon's power struggle – why a failing state can't get the lights on,* August 10, 2020

[47] IMF, *Policy Responses to COVID-19*; Timour Azhari, Al-Jazeera*, Lebanon's Parliament endorses $300m aid package*, May 28, 2020

[48] Joelle M. Abi-Rached, Euromesco research dialogue advocacy, *The Socioeconomic Impact of COVID-19 on Lebanon: A Crisis Within Crises*, June 2020

[49] Human Rights Watch, *Lebanon: Direct COVID-19 Assistance to Hardest Hit*, April 8, 2020

Approximately 30 percent of the budget is dedicated to paying Syria's increasing public debt.[50]

The crash in the global oil market could afford the Syrian government more space for fiscal maneuvering, as it allocated about 9 percent of its 2020 budget to food and fuel subsidies;[51] the Syrian government is dependent on imports of oil due to the loss of control of petroleum fields in the east of the country. In April, the pro-government newspaper Al-Watan estimated that lower oil prices would decrease import costs by about 20 percent.[52] US and EU sanctions have stymied licit oil sales to the Syrian government, prompting authorities in Damascus to turn to the illicit petroleum trade with Iran and networks extending across Self-Administration lines of control. Oil is purchased from the Self-Administration at below market rates, while the payment mechanism for imports from Iran remains shrouded in mystery, though it is reportedly on convenient terms for the Syrian government.[53]

Budgetary constraints have led the Syrian government to scale back numerous social projects, including amounts of subsidized bread and other food items attached to the government's e-card system, as well as rations for the armed forces.[54] Such cutbacks have led to backlash from the public, many of whom are dependent on government subsidy programs for their basic food items. For example, in July 2020, the Syrian government announced that the price of subsidized sugar would rise from 350 to 500 SYP per kilogram, and rice would increase from 400 to 600 SYP per kilogram.[55] In a bid to soften the economic hardships caused by COVID-19 preventative measures, the Syrian government began to distribute a one-time payment of 100,000 SYP for 20,000 daily and seasonal workers who lost their jobs.[56] As inflation continues to increase, and the pound devalues, the payment may temporarily alleviate some immediate issues of providing food and medicine to the most vulnerable. However, the payments do not offer a long-term solution to those who may find themselves struggling to find a means of income.

The fall in global oil prices raises questions over how the governing authority in the east of Syria – the Self-Administration[57] – will finance its operations. Oil sales have been the main revenue stream in the region, which has suffered

---

[50] Rohan Advani, Syria Direct, *Syrian government budget expenses 2020: visualized*, March 18, 2020

[51] ibid

[52] Ali Nizar Al-Agha, Al-Watan, *The impact of the collapse of world oil prices in Syria: Opportunities to reduce prices and increase reserves*, April 21, 2020

[53] Noam Raydan, Energy Fuse, *Iran's Oil Flow Holds Ground In Syria As Market Share Lost To Battling OPEC Members*, March 16, 2020

[54] The Syria Report, *Pound Devaluation Raises Prices of Subsidised Food Items*, July 8, 2020

[55] Ibid

[56] The Syria Report, *Coronavirus Update: Government Starts Disbursement of Financial Aid*, May 13, 2020 < >

[57] The Self-Administration is in charge of an autonomous region in northeast Syria, covering Deir-Ez-Zor, Ar-Raqqa, Qamishli and Al-Hassakeh governorates east of the Euphrates river

significant capital destruction, displacement, drought, and crop fires that have damaged agricultural output. Oil sales accounted for over 78 percent of the Self-Administration's revenues in 2019, playing a major role in funding its public outputs and security forces.[58] The Self-Administration produces about 55,000 barrels per day of oil, which it was already selling below market prices before the COVID-19 sparked a petroleum market crash. The Self-Administration's oil sales were part of medium-term agreements for political and security settlements, which may allow it to escape the oil crisis relatively unscathed as long as global demand increases in the medium- to long-term. While prices of oil produced in the Self-Administration have not yet been significantly affected by the petroleum market crash, COVID-19 has disrupted export markets. There has been a significant decrease in oil sales to northern Iraq, while exports to Syrian government-held areas remain stable.

According to interviews conducted by Mercy Corps, the Self-Administration has not yet drawn up plans to face decreased demand. In the event demand continues to fall, the Self-Administration will be severely challenged to raise revenues. Increasing taxes will further depreciate economic activity in a region already struggling with unemployment and poverty as well as aggravating sectarian tensions between Arab tribes and the Self-Administration. **Already, public protests over a lack of economic opportunities and perceived corruption have disrupted the Self-Administration, consequently, economic deterioration has the potential to undermine the legitimacy of its governance.**

In Yemen, authorities were already struggling to provide key services, notably paying salaries, electricity provision, and the steady and affordable supply of fuel, prior to the COVID-19 pandemic. However, the pandemic reduced both the capacity of international actors to support local authorities – such as Saudi Arabian grants to the Central Bank of Yemen – as well as plans for the Government of Yemen to significantly increase its revenue streams in 2020 due to renewed oil exports. The collapse in oil prices – and by extension the export receipts of both Yemen and its Gulf patron – as a result of COVID-19 has severely impacted efforts to implement key services throughout 2020. Ongoing disputes over tariff revenues from petrocarbon imports into Yemen between the opposing sides also continues to hamstring efforts to ensure the consistent payment of public sector salaries.

Inflationary crises and financial flows

Among the risks posed by the COVID-19 pandemic is inflation and increases in food prices partly due to the breakdown in global supply chains. While countries such as Syria, Lebanon, and Yemen were already suffering from inflation, the COVID-19 pandemic has compounded their

[58] Mercy Corps Humanitarian Access Team, Syria, *Situation Report: COVID-19 in Areas of Kurdish Self-Administration Control*, May 20 2020

crises. A World Bank survey of food prices in 20 MENA countries from February to September 2020 found that prices were increasing across the region by at least 5 percent.[59] Lebanon, Syria, and Yemen were among the countries suffering from food price increases over 20 percent. **Lebanon, Syria, and Yemen all share the negative conditions of dwindling reserves of foreign currency and resulting liquidity crunches challenging the financing of imports. As such, inflation has risen in these countries amid a lack of state resources to combat rising prices.**

In Lebanon, year-on-year inflation rose from 11.36 to 112.39 percent between February and July 2020, then reaching levels of hyperinflation (understood as month-on-month inflation of over 100%) from July to August.[60,61] It was the first MENA country to experience levels of hyperinflation in July..[62] From February to July, the Lebanese pound plummeted in value on the black market from 2,150 to 7,700 LBP per USD.[63] The rate stabilized for a period and fluctuated around 8,000 LBP per USD as of December 1. However, the outlook for the pound is negative, particularly in light of concerns that the central bank will lift its subsidies on fuel, wheat, and medicine in 2021, when usable reserves are exhausted.[64] **Analysts say the lifting of subsidies on these key commodities could cause "unprecedented price chaos and social unrest" in Lebanon.**[65] Residents already face increasing hardships purchasing foodstuffs and other basic goods. CARE said in mid-July that "having access to food is now a challenge for more than 50 percent of the population."[66] **UN-ESCWA stated in mid-August that the "headcount poverty rate had jumped from 28 percent in 2019 to 55 percent in May 2020," while the extreme poverty rate will rise from 8 to 23 percent.**[67]

Lebanon's deep financial crisis and rising inflation has compounded the difficult situation in Syria. The Syrian pound quickly depreciated in value in relation to the US dollar after Lebanon's financial system started buckling in October 2019. From that time until February 2020, the pound dropped from approximately 650 to 1,000 SYP per USD on the black market.[68] Beginning in March, the Syrian pound dropped

---

[59] September edition, MENA Crisis Tracker

[60] Lebanon Central Administration of Statistics, Consumer Price Index in Lebanon February 2020; Lebanon Central Administration of Statistics, Consumer Price Index in Lebanon July 2020

[61] Arabian Business, 'Lebanon's inflation nightmare intensifies amid economic crisis.' August 2020

[62] Nasser Saidi, The National, How to save Lebanon from looming hyperinflation, August 3, 2020

[63] LiraRate.com

[64] Reuters, Lebanon cenbank can only keep basic goods subsidies for three more months - *source*, August 20, 2020

[65] Tony Akleh, Arabian Business, Price chaos, social unrest warning as Lebanon mulls subsidy dilemma, August 24, 2020

[66] Care, Families swapping children's toys for food as COVID-19 compounds food crisis in Lebanon, July 15, 2020

[67] UN-ESCWA, Poverty in Lebanon: Solidarity is vital to address the impact of multiple overlapping shocks, August 19, 2020

[68] SP-today.com

another 50 percent in value to reach rates a little over 2,000 SYP per USD in early September. As the Central Bank of Syria was reportedly nearly bankrupt in January 2020, with an estimated $700 million in reserves, its ability to stabilize the falling pound is extremely limited.[69]

The World Food Programme (WFP) said that the Lebanese financial crisis sparked a 200 percent increase in food prices in Syria in the period October to June.[70] A study by Damascus University estimated that $45 billion worth of Syrian deposits in Lebanese banks were virtually frozen by the financial crisis in Lebanon.[71] These trapped deposits have reportedly had a serious knock-on effect on Syria's ability to finance imports. According to the WFP, the combination of the Lebanese financial crisis and the effects of COVID-19 increased the number of food insecure people from 7.9 to 9.3 million (46 percent of population). While supply shortages and price increases were an ongoing trend in Syria, COVID-19 fueled further devaluations of the Syrian pound and scarcity of goods.[72] The WFP estimates that year-on-year inflation in May 2020 stood at 115 percent.[73] Since the start of the COVID-19 pandemic, panic hoarding has piled on inflationary pressures as sectors of the Syrian population have stockpiled goods.

In March, basic food staples increased in price from 30 to 130 percent in Syrian government-controlled areas from the previous month, while sterilization items, including facemasks jumped in price by up to 1,500 percent.[74] Data gathered by the Assistance Coordination Unit (ACU) reveals that following the onset of COVID-19, the price of a bread packet increased by 40 percent in northeast Syria and by as much as 340 percent in the northwest.[75] Meanwhile, cooking oil increased by 127 percent in the northeast, 120 percent in the northwest, and 130 percent in Syrian government-held areas. Syrian government subsidized staples have also witnessed significant price increases – in July, a 50 percent increase in the price of subsidized sugar and rice was announced.[76] The government's decision to increase the prices of fertilizers by as much as 100 percent presents obstacles for agricultural workers and farmers to cultivate their lands.[77]

As in the cases of Lebanon and Syria, Yemen suffers from serious constraints with financing

---

[69] Enab Baladi, *The hard currency reserve in the Central Bank of Syria "dries out"*, April 24, 2016 < >

[70] World Food Programme, *Needs analysis informing WFP's Global Response Plan to COVID-19* – June 2020, July 6, 2020, p. 3

[71] Ali Nizar al-Agha, Al-Watan, *Kanaan: Syrian-Lebanese committees and financial and monetary coordination to limit the negative effects on the two countries,* January 9, 2020

[72] World Food Programme, *Needs analysis informing WFP's Global Response Plan to COVID-19 – June 2020*, July 6, 2020, p. 3 < >

[73] Syria Report, *Currency Collapse Increases Social and Political Risks*, June 10, 2020

[74] Mercy Corps Humanitarian Access team, Syria, '*COVID-19 in Government of Syria-controlled areas*.' April 2020

[75] Assistance Coordination Unit, '*Market price index in Syria, Monthly Update*,

[76] Syria Report, *Pound Devaluation Raises Prices of Subsidised Food Items*, July 8, 2020

[77] Enab Baladi, *Agriculture in Houran… High costs and "connections" overburden farmers*, August 4, 2020

imports, upon which the country is heavily dependent. **Currency depreciation has led to higher prices and is the biggest driver of humanitarian need in Yemen.** The Yemeni riyal (YER) has depreciated approximately 20 percent since January in Government of Yemen-controlled areas, sitting at above 800 YER per USD (compared to 250 YER per USD prior to the conflict). Meanwhile in Ansarallah-controlled areas, the riyal has been relatively stable, largely due to an artificial liquidity crisis caused by Ansarallah banning newly printed notes and exerting a far stricter set of policies on currency traders and businessmen. Food prices have increased, generally mirroring the fall in value of the currency.

One of the main factors in the depreciation of the Yemeni riyal is the depletion of the Central Bank of Yemen's foreign exchange reserves. **In March 2018, Saudi Arabia deposited $2.2 billion into the bank to help finance the import of basic food items. These reserves are set to run out soon, with approximately $100 million remaining as of September 2020.** Saudi Arabia has made further support contingent on the Riyadh Agreement's implementation – a troubled political deal between the Internationally Recognized Government (IRG) and the Southern transitional Council (STC).

Another factor contributing to the slide in the Yemeni riyal's value is the reduction in humanitarian aid flows due to a much smaller commitment by donors in 2020. Humanitarian aid has played an outsized role in Yemen's economy over the course of the conflict, providing a lifeline for a large percentage of the population. A total of $3.38 billion was listed as the required total needed to meet the requirements of the UN humanitarian response plan.[78] As of May 26, 2020 only $514.4 million, or 15.2 percent of the total required funds, have been provided.[79] On June 2, donors pledged a combined total of $1.35 billion at the pledging conference.

Unlike other countries in the region, Iraq has not suffered from extensive inflation or exchange rate devaluations. In part, this is due to the Iraqi state's ability to peg the Iraqi dinar to the US dollar. Furthermore, following an initial spike in prices, the Iraqi government implemented strict price control mechanisms in order to prevent runaway inflation witnessed throughout the region. While this may paint a relatively stable picture for Iraq, there is no certainty that price stability will remain. **The devaluation of the dinar is currently being debated in parliament, as a stabilized peg may be too costly for the government and its failing foreign reserves.** Iraq's estimated negative balance of payments has raised concerns that if oil revenues do not recover, increased demand for dollars might force a devaluation of the dinar. **The UNDP warned of "widespread shortages of imported**

[78] OCHA *Financial Tracking Services, Yemen 2020 Country Summary*

[79] Ibid.

goods" if the exchange rate soars amid a shortage of US dollars.[80]

Unemployment

The COVID-19 pandemic has deeply impacted small businesses in the region and disrupted labor markets, raising questions of whether humanitarian and development interventions should be focused in regions where vulnerable populations have lost sources of income. The ILO warned that nearly one-third of the employed population in the region is facing high risks of layoffs or reduced working hours or wages. **Furthermore, workers in the informal economy are bearing the brunt of the COVID-19 crisis, with 89 percent of these workers assessed by the ILO as significantly impacted by lockdown measures.**[81]

While a multitude of studies reveal unemployment has dramatically increased across the region, less attention has been focused on micro-level statistics, such as employment disparities between and within localities and business sectors. **Middle East states with large youth populations, such as Iraq, Lebanon, Yemen, and Syria, are especially at risk from economic consequences.** According to the ILO, slightly over 40 percent of young women in the region are unemployed, while 20 percent of young men are out of work. True figures might be worse, due to endemic underemployment in the region, especially in economically devastated states.[82]

The UN notes that groups of laborers in the region are especially vulnerable to employment and wage earning disruptions posed by COVID-19, including women, who earn on average 78.9 percent of what their male counterparts do on a per capita basis.[83] According to the UN, women stand to lose 700,000 jobs in the Arab region's informal sector, where they comprise 61.8 percent of workers. Also, the UN warns that migrant workers, who make up 40 percent of employees in the Arab region, also stand to suffer employment losses.[84]

Syrian consumers' avoidance of market hubs out of fear of COVID-19 infection as well as closures of public spaces, adversely affected commercial businesses. **This was specifically felt by daily laborers and those working in the informal economy, who account for a major portion of Syria's labor market.** Small and medium sized enterprises account for 90 percent of total employment in Syria and are the most affected by these measures.[85] **According to the UN, unemployment in Syria has risen to 50 percent**

[80] United Nations Development Programme in Iraq, Impact of the Oil Crisis and COVID-19 on Iraq's Fragility, August 2020, p. 9

[81] International Labor Organization, *COVID-19: Labor Market Impact and Policy Response in the Arab States,* May 2020, p. 4

[82] International Labor Organization, *Global Employment Trends for Youth 2020: Arab States*, March 9, 2020, p. 1

[83] UNESCWA, *Policy Brief: The Impact of COVID-19 on the Arab Region An Opportunity to Build Back Better*, July 2020, p. 3

[84] ibid

[85] UNDP, *Employment and Livelihood Support in Syria*, July 2018, p. 24

from the already high estimate of 42 percent in 2019.[86]

Iraq was already shackled by high unemployment prior to the COVID-19 pandemic, which played a role in sparking the protests that erupted in late 2019. **According to the IOM, labor force participation in the country in 2019 hit 48.7 percent, one of the lowest figures in the world.**[87] Iraq's oil-centered economy struggled to create jobs for the overwhelmingly young population, nearly 60 percent of which is under the age of 24.[88] An International Labor Organization (ILO) survey from July found that that **the COVID-19 pandemic was disproportionately affecting young workers, most of whom had no social security or health insurance coverage.**[89]

Following the outbreak of the pandemic, only 23 percent of the workforce was working as normal, according to an ILO survey, while 25 percent of those who were working prior to the lockdown had been permanently laid off.[90] Meanwhile IOM has also found that the economic effects on micro, small and medium sized businesses have been extensive with 71 percent reporting decreased sales, 40 percent reporting decreased employment, and 36 percent reporting salary reduction since the outbreak began.[91] The UNDP noted that **unemployment support is not available for the most vulnerable workers in Iraq**, while the state-run Public Distribution System is not designed to act as an income replacement for the unemployed.[92] **Only 16 percent of economically vulnerable households surveyed by the ILO said they had savings, while 85 percent had savings that would run out in three months.**[93]

Lebanon has suffered similar negative effects. A June WFP survey estimated that "the COVID-19 outbreak and related containment measures have pushed nearly one out of every three Lebanese into unemployment so far."[94] The survey found that the loss of wages has hit workers with already unstable sources of income – such as those engaged in casual labor and small businesses – hardest, while employees in the restaurant, services, construction, and entertainment sectors have also been affected. An ILO study published in May assessed that about half of the businesses it surveyed had stopped their operations temporarily during the pandemic, while another 40 percent were

---

[86] UN News, *Security Council: Poverty deepens, along with need, across Syria*, July 29, 2020

[87] UN International Organization of Migration, *Impact of COVID-19 on small and medium-sized enterprises in Iraq*, June 20, 2020, p. 3

[88] Index Mundi, *Iraq Demographics Profile 2019*

[89] International Labor Organization, *Rapid assessment of the impacts of COVID-19 on vulnerable populations and small-scale enterprises in Iraq*, July 2020, p. iii

[90] Ibid, p. 15

[91] UN International Organization of Migration, *Impact of COVID-19 on small and medium-sized enterprises in Iraq*, June 20, 2020, p. 7

[92] United Nations Development Programme in Iraq, Impact of the Oil Crisis and COVID-19 on Iraq's Fragility, August 2020, p. 10

[93] International Labor Organization, *Rapid assessment of the impacts of COVID-19 on vulnerable populations and small-scale enterprises in Iraq*, July 2020, p. iv

[94] World Food Programme, *Assessing the Impact of the Economic and COVID-19 Crises in Lebanon, June 2020*, p. 2

working at reduced capacity.[95] The ILO survey of the impact of COVID-19 on vulnerable populations in Lebanon found that 84 percent of the respondents were temporarily or permanently laid-off due to COVID-19, while 14 percent of the Lebanese respondents, and only 2 percent of the Syrian ones, had social security coverage. [96]

As mentioned above, remittances from wage earners in the Gulf, especially Yemeni workers in Saudi Arabia's informal economic sectors, have dwindled with economic downturn and increasing unemployment in the region. Loss of employment among Yemenis in the Gulf could spur increasing returns going forward, with limited livelihood opportunities in Yemen meaning a further spike in unemployment.

Political and economic fragmentation

The repercussions of the COVID-19 pandemic raises the possibility of further political and economic fracturing in states carved up between a patchwork of competing authorities. The varied countermeasures against the virus taken by rival local authorities pose obstacles to intrastate supply chains and movement of people. These and other consequences of the pandemic might further entrench divisions in the already divided political economies of fractured states such as Syria and Yemen and present logistical challenges to humanitarian aid programs.

In Syria, fragmentation can be analyzed at the national level, where the country is divided between the Syrian government, the Self-Administration in the northeast, and the Syrian Interim Government and Syrian Salvation Government-held areas in the northwest. Fragmentation can also be viewed within these lines of control, where COVID-19 has encouraged further local economic splintering.

At the national level, the knock-on effects of COVID-19 might exacerbate the centrifugal forces of Syria's political economy. Border crossings between lines of control of the Syrian government, the Self-Administration, and opposition-controlled areas have regularly been shut down, slowing trade and movement between areas which has significantly affected economic activity, especially in areas under government control. **One symptom of this fragmentation, which was already underway before the pandemic, is the accelerating trend toward using separate currencies across the country.** In northwest Syria, the Syrian Salvation Government and Syrian Interim Government in July began formally introducing the Turkish lira (TRY) as the currency of transaction in their respective areas of control due to the instability of the Syrian pound.[97] The lira has suffered from its own volatility, dropping from 6.85 to 8.5 TRY

[95] International Labor Organization, *Facing Multiple Crises: Rapid assessment of the impact of COVID-19 on vulnerable workers and small-scale enterprises in Lebanon*, May 2020, p. 8

[96] Ibid, p. 14

[97] Enab Baladi, *Residents of northwestern Syria replace Syrian pound with Turkish lira*, July 1, 2020

per USD between July 1 and November 6. This currency switch presents hurdles in terms of humanitarian work.[98]

The UN Office for the Coordination of Humanitarian Affairs (OCHA) noted in August that humanitarian programs in northwest Syria have faced challenges preserving the value of assistance "due to fluctuating exchange rates and multiple currency conversion."[99] OCHA added that COVID-19's economic effects, including loss of income and inflation, have further marginalized vulnerable residents who already lack "adequate access to currencies in use."[100] Analysis conducted by REACH in August found that 61 percent of residents in northwest Syria (aggregating Aleppo and Idlib data) lacked cash and purchasing power, while 52 percent of vendors suffered from confusion over how to price their products in Turkish lira.[101]

The move to the Turkish lira will undoubtedly strengthen economic connections between northwest Syria and Turkey, while at the same time moving the region further away economically from the rest of the country. While the Syrian government-held areas of the country are facing a steep economic decline, Turkey's economy is battling its own economic shortfalls from the COVID-19 pandemic. Despite the Turkish government announcing a 100 billion TRY ($15 billion at the time) government rescue package to ease losses to business and aid those who are unemployed in late March, the Turkish lira slid in value.[102] Now, foreign reserves sit at their lowest level since 2009 at $77.4 billion, while unemployment has risen from 14 to 30 percent. Trade between northwest Syria and government-held areas has been limited by intermittent military campaigns in the region, with a March 5 ceasefire ending the last round of fighting as the COVID-19 pandemic picked up steam. In April, the Syrian Salvation Government walked back its plans to open crossings with government-held areas in a bid to boost its revenues following local protests.[103]

The economy of the Self-Administration region has increasingly shifted away from the use of the Syrian pound for major economic transactions involving civil service and commodities trade.[104] A June analysis by REACH found that 73 percent of vendors reported US dollars were being stockpiled with 45 percent of vendors facing trouble procuring the currency. Despite increasing demand for the dollar, REACH field teams found that the rapidly deteriorating pound continued to be the main currency used in local markets, including for the purchase of food,

[98] XE Currency Converter

[99] UN OCHA, *Syrian Arab Republic: Recent Developments in Northwest Syria - Situation Report No. 19*, August 21, 2020, p. 2 < >

[100] Ibid, p. 2

[101] REACH, *Summary of key findings for northwest Syria (NWS):* August 25, 2020 < >

[102] Bloomberg, '*Turkey announces $15.4 billion plan to counter virus outbreak*'. March 2020

[103] Agence France Presse, *Syrians in Idlib protest opening of trade link with regime*, May 1, 2020

[104] Center for Operational Analysis and Research, *Cash crash: Syria's economic collapse and the fragmentation of the state*, July 2020

hygiene, and other basic items.[105] The bifurcation of currencies presents the same challenges of preserving value of humanitarian assistance as in the northwest.

One research organization, the Center for Operational Analysis and Research (COAR), noted that greater access to US dollars in the Self-Administration affords the region leverage in trade over Syrian government-held areas.[106] Government-controlled territory is not wheat self-sufficient, with 72 percent of Syria's wheat for 2020 planted in Self-Administration areas.[107] **The Self-Administration has used its comparative fiscal strength to try to corner the wheat market within Syria, leaving the cash-strapped Syrian government more dependent on wheat imports from Russia for its food security.[108]** In March, the Self-Administration officially sealed its borders with the exception of humanitarian traffic due to COVID-19. Humanitarian traffic into northeast Syria, for its part, has been plagued by restrictions beyond those posed only by the pandemic.[109] In April, Human Rights Watch (HRW) criticized long-standing government restrictions on aid to northeast Syria, as well as a January UN Security Council Resolution to end its authorization of UN aid supplies coming into the region from Iraq.[110]

Yemen has witnessed severe economic fragmentation throughout the conflict, as the country has dealt with both a lack of effective central economic policymaking mechanism since 2017, and the political cantonization around the country as a result of the conflict. Ansarallah's economic institutions have largely implemented an independent set of policies in areas under their control, primarily focusing on managing access to foreign exchange for traders, and restricting the value of the Yemeni riyal. Additionally, a lack of capacity to enforce economic policies combined with an inability to implement key services such as public sector salaries consistently, has eroded the influence of the central authorities. **Meanwhile, the influence and independence of governorate-level authorities have increased – especially in the comparatively wealthy eastern governorates** such as Marib and Hudaydah – resulting in them controlling what remains of hydrocarbon revenues. In Aden and other southern governorates, the rise and institutionalization of the separatist STC has furthered this process.

In Iraq, economic fragmentation is largely framed along the divide between the Administration-held territories and Baghdad, as well as through the economic influence exerted

[105] REACH, *Summary of key findings for northeast Syria (NES)*, June 18, 2020

[106] Center for Operational Analysis and Research, *Cash crash: Syria's economic collapse and the fragmentation of the state*, July 2020

[107] Will Christou and Rohan Advani, Syria Direct, *Damascus struggles to secure wheat supply amidst coronavirus crisis*, May 18, 2020

[108] Center for Operational Analysis and Research, *Self Administration bids to corner grain market as SYP collapses*, June 8, 2020

[109] Amberin Zaman, Al-Monitor, *Kurdish-led northeast under lockdown as Syria announces first coronavirus case*, May 30, 2020

[110] HRW, *Syria: Aid Restrictions Hinder Covid-19 Response*, April 28, 2020

by neighboring countries such as Turkey and Iran, from where a vast majority of Iraq's imports originate. The economic divide between Baghdad and Erbil began earlier, due to policies implemented by Saddam Hussein limiting the consumption of agricultural products in the rest of Iraq. This divide has been exacerbated by the role played by Iraq's neighbors, whose dominance of the local market in certain goods is often violently enforced.[111]

FORECASTING AND TRENDS

Sub-national economic fragmentation will continue, with detrimental effects.

Geographic economic fragmentation will continue, possibly at an accelerated pace, in the coming months. Conflict, combined with the weakness of central monetary authorities, have seen local authorities and armed actors move to consolidate control over local economies and resources. In some cases, this is increasing inequalities in resource distribution, such as in Yemen, where independent-minded governors in the country's east are demanding a far greater share of resource rents than previously, despite these areas having much smaller populations. In Syria, a similar dynamic has centered on oil and wheat production assets in the northeast. Decreasing resources and economic decline driven by COVID-19 will only increase the pace of this pre-existing dynamic, potentially further exacerbating the impact on affected populations. This may lead to further deterioration of household economic activity, and an increased need for a larger humanitarian response in some of the Middle East's most vulnerable areas.

Regional financial institutions degradation will have transnational impact.

Increasingly, the degradation of regional financial services, at least partly driven by the economic impact of COVID-19, but also due to pre-existing dynamics, will have a negative impact on regional economies. The financial crisis in Lebanon has already had a severe impact on Syria, Iraq, and Yemen, with billions of US dollars being held in accounts that are no longer accessible, and likely mostly or fully lost. The loss of these essential services add to the costs incurred in critical transactions throughout the region such as remittances, upon which many of the economies addressed in this report depend. The degradation of formal financial networks will increase dependence on informal financial service providers and *hawalas*, which in turn add significantly to the costs of doing business or the millions of micro transactions that expat labor forces often rely upon to support family.

---

[111] Agence France Presse, Gangs, smugglers, poison? Iraq's dead fish kick up stink, September 2, 2020

While the global economic downturn has led banks across the world to face negative rating pressure, globally, financial forecasts are predicting a recovery in 2021. However, this is largely based on a strong capital and liquidity position, strong public support, and strong government support. However, these key variables are largely missing from Middle Eastern financial institutions. More importantly, there are a string of other factors also compounding the financial sector's ability to rebound stemming from Lebanon's crippled financial sector, Syria's broken central bank, and Iraq's limited financial reach due to its decreased oil revenue stream, all pointing to limited private and public assistance moving forward. Finally, the Middle Eastern economies mostly lack the resources needed for an economic rebound. With exports hit hard by COVID-19, and internal demand also shrinking, there is a lack of capital and ability to regenerate some of the losses made over the past eight months, making the outlook dire.

Remittance scarring across the region from COVID-19 has been significant, and may take time to recover, increasing balance of trade deficits and affecting the lives of millions dependent on these payments.

Across most of the states addressed in this report, with the exception of Iraq, remittances are both a safety net of last resort for millions, as well as one of the few remaining sources of foreign currency available for importers. While a drop in remittances has the obvious effects of harming the livelihood and economic wellbeing of local households – by decreasing consumption, capital accumulation, and lowering human capital development – a drop in remittances has also had other macroeconomic outcomes, driving currency volatility, lower investment, and reduced tax receipts for governments already dealing with large budget deficits. The degradation of formal financial services throughout the region will also continue to see the vast majority of remittances operating through opaque informal financial service providers, or *hawalas*. Although many of these issues pre-dated, or emerged in concert with the COVID-19 outbreak – bank de-risking in Yemen, financial crisis in Lebanon, and sanctions on Syria and Lebanon – this multiplies the costs incurred by states already seeing remittance flows deteriorate significantly as a result of COVID-19. Informal financial transfers through remittance networks also raise the risk of money laundering and terrorism financing.

It is possible that Gulf states, continuing to feel the pinch of slower economies and reduced oil exports, will further nationalization policies, which in turn will reduce work opportunities for regional diaspora from Syria, Lebanon, or Yemen, either forcing them to return home to countries with shrinking domestic work opportunities, or pushing them into informal sectors with lower protections and income opportunities.

Broader macroeconomic challenges will likely continue to drive currency volatility in largely import-dependent countries, decimating local purchasing power and

pushing further millions into poverty and a dependence on humanitarian aid.

There has been some stability and improvement in currency rates for many Middle Eastern economies since June. For example, the Syrian pound appreciated from 3,000 SYP per USD in June to just over 2,200 SYP per USD in October, however, has once again depreciated to 2,700 SYP per USD in early December, while the Lebanese pound is now fluctuating between 8,000-8,500 LBP per USD from its low point of 9,800 LBP per USD on the parallel market in June. However, these slight improvements look to be just a temporary pause in yet another decline. Structural issues and shortages are now showing their effects of significant inflation and risk of hyperinflation. Lebanon has already become the first Middle Eastern economy to witness official hyperinflation in 2020, the impact of which will be exacerbated with the expectation that the central bank lifts its subsidies on fuel, wheat and medicine, in early 2021. Furthermore, Syria is also at risk of following suit. With economic opportunities effectively evaporating, the current fuel and food shortages in government-controlled areas, as well as decreased economic linkages between areas of control, prices are likely to increase throughout 2021.

The Syrian government and Central Bank of Syria's dependency on selling debt security over the past 18 months to stabilize the failing pound may push them into a tight corner. With no effective tax revenues, and a lack of foreign reserves, it is difficult to see how they will repay these securities within the next 18 to 24 months when they are due, especially with a 7 percent premium. This could potentially lead to the Syrian government defaulting on its debt or printing funds to cover its debt obligations if assistance is not extended by an international partner, a situation less and less likely given the current and increasing number of economic and financial sanctions placed on it.

Broader economic decline will increase competition, and, while in some cases will erode traditional patronage and service delivery frameworks, in other cases will see them strengthened.

On one hand, a reduced role and capacity of the state due to the economic impact of COVID-19 will see many turning to traditional patronage support systems, which in turn will promote conflict and political fragmentation. On the other hand, however, these important traditional systems themselves may be heavily eroded, as the resources to maintain traditional patronage and clientelistic networks – often siphoned from the state – disappears. This could lead to increased competition for fewer state resources, possibly increasing the likelihood of political fragmentation and armed conflict. Likewise, the degradation of state services will increase the sway of non-state actors. Extremist groups will likely experience a resurgence across all the countries covered in this report. Growing popular discontent with poor service delivery will fuel both opportunities for positive change, and the risk of further conflict.

MERCY CORPS
Humanitarian Access Team

Humanitarian, development and peacebuilding budgets will likely shrink amid rising need.

The global economic downturn caused by COVID-19 has, and will likely continue to intersect with other dynamics driving smaller donor portfolios for the region, particularly in the countries addressed in this report. This is particularly the case in Syria, Yemen, and Iraq, with the blast response in Lebanon leading to a time specific upswing in aid funding. Lower levels of aid inflows will, in some cases, compound the macro-economic challenges already being faced by these states. In Yemen, aid inflows form a significant portion of the foreign exchange available to local financial institutions, and in some cases the only source of foreign exchange available to these institutions, which in turn plays an important role in providing importers with hard currency.

Reduction or removal of import financing schemes will see major increases in the real cost of basic necessities such as food.

Import financing from central banks throughout the region will likely continue to be curtailed as foreign currency reserves dwindle or deplete. Lebanon is already facing a dramatic removal of critical subsidies on key commodities such as fuel, food, and medicines, forcing traders to rely on the market for foreign currency at rates higher than those previously provided by the Lebanese central bank, resulting in a significant increase in prices. The ongoing lack of new funding from Saudi Arabia to the Central Bank of Yemen similarly will also push traders to the market, reducing the value of the Yemeni riyal and increasing the cost of food significantly. The result of this will be major increases in the cost of basic goods, as well as shortages.

In the context of continuing economic decline due to both COVID-19 and other factors, the relationship between formal state economic institutions and major state-adjacent segments of the private sector will continue to be opaque.

While in many ways a longstanding characteristic of many regional economies, the often opaque and unclear distinction between businesses and state has become more pertinent in the context of economic downturns of 2020, an issue that will likely continue into 2021. With central banks and other institutions no longer capable of carrying out their basic functions, states will increasingly lean on major private sector actors to carry out these functions, especially around trade. This continues to be most pertinent in Syria, with large scale state losses in 'private' Lebanese accounts, as well as high profile state intervention in businesses such as was seen with the Syrian government's treatment of Rami Mahklouf's business empire,[112] but are also major themes in Iraq, Yemen, and Lebanon. Both international businesses and aid actors will continue to face risk when interacting with local economies.

[112] BBC, 'Rami Makhlouf: The rift at the heart of Syria's ruling family.' May 2020

OPERATIONAL CHALLENGES FOR AID ORGANIZATIONS

The multiple economic crises being faced in Lebanon, Syria, Iraq, and Yemen, and in particular their impact on local financial services, present major programmatic challenges for aid actors. In addition, significant risks exist in these contexts, towards which aid organizations are often poorly prepared to engage.

Significant currency volatility will continue to disrupt humanitarian programming, especially in Lebanon, Yemen, and Syria. During periods of intense currency volatility, traders will often refuse to accept payments in local denominations for aid procurements. Cash programming can also be severely disrupted if paid in local currency, as the real value decreases or increases rapidly. The effects of program financing have already been seen in much of the Middle East with volatile exchange rates, the closure of *hawala* agencies, and even the banning of use of some currencies.

Further, long-term program planning will struggle to address the risk of inflation, depreciation, and general market volatility. In Syria, for example, the prices of some basic imported food items have increased up to as much as 300 percent over the past six months, while some goods have become impossible to source. Further, due to large currency volatility, some regions are rejecting the use of local currencies in favor of more stable foreign denominations. This is currently happening in northwest Syria, where the Turkish lira and US dollar are now widely used as local currencies. This leaves questions over budget allocations, beneficiary numbers, and the ability to provide assistance for food and non-food items if current trends worsen. Further, some of the protectionist policies have led to a shortage of some key goods, namely temporary export restrictions on health and medical supplies. There may be a greater need for aid organizations to focus on the provision of medical services and equipment in the Middle East, especially in countries like Lebanon, as government subsidies are planned to cease in November 2020.

Major differences between black market exchange rate values and those set by formal institutions present risks for aid actors, which will continue to be faced going forward. This is currently the case in Lebanon and Syria, and somewhat the case in Yemen. Aid organizations are often bound by local laws (or international norms in the case of UN agencies), to operate in domestic currencies purchased from formal institutions at the set government rate. This will result in aid inflows being converted at formal rates vastly different from the real value of the domestic currency, and are therefore subject to major capture/arbitrage by private- or state-owned financial institutions.

Aid organizations will continue to pay large premiums for financial services, which will likely increase in some contexts, ultimately reducing the real benefit for beneficiaries. In all of the contexts addressed in this report, financial services are a major challenge for aid actors, more so in areas where formal financial actors are absent and there is a dependence on informal ones such as *hawala* networks.

Access to liquidity will continue to be a challenge, and in some contexts may completely halt programming. Many regional financial systems, due to the impact of COVID-19 along with the variety of other economic crises taking place, will periodically experience challenges accessing liquidity. This is particularly the case in Yemen, and somewhat the case in Lebanon and Iraq. A lack of access to liquidity will continue to delay and disrupt critical programming.

Amid ongoing economic decline, aid inflows will increase in importance both due to the role they play in local economies and rising competition over a range of business and political actors to attempt to access rents from the aid response. This may see pressure from political actors to work with certain financial institutions over others, requests that may raise the risk profile of aid actors in complex conflict environments. For example, central banks with dwindling access to foreign exchange may increasingly try to force aid actors to funnel funds through their accounts. This is a regular theme in Yemen, where such efforts would significantly increase the risk of aid actors operating in Ansarallah-controlled areas, with competing economic policies.

RECOMMENDATIONS

- Increase focus on market support programs, cash assistance and provision of basic needs, immediately.
- Increase focus on supporting market resilience through effective aid implementation. Short-term targeting should assist those that have been adversely affected by rising prices and decreasing incomes, specifically those that have lost their income source due to COVID-19 mitigation measures. This may include programs such as cash-based handouts or unconditional cash transfers as well as food security, nutrition, and health-based aid provision.
- Immediate support to assist livelihoods and value chain development to improve domestic production and import substitution interventions for specific goods. This may include key agricultural products. This should include a greater focus of interaction with local producers and

the development of local value-chains and value added industries to increase internal economic connectivity, and regional trade to increase resilience to external shocks.

- Aid agencies should encourage domestic production and regional market interaction in the context of the economic impact of COVID-19. Encouraging domestic production for local consumption may be a major area for sustainable growth, while also trying to increase trade between countries within the region. As some major foreign economies have implemented import substitution policies (eg, Russia with wheat) as a result of COVID-19, a lack of access to foreign goods has led to shortages or significant price increases. However, new internal production, as well as new regional trade partners may fill this gap. This is especially the case for states directly or indirectly dependent on oil export receipts, and may be key in curtailing price inflation, but also, increasing local economic growth and employment.

- Barriers to increased domestic production, (eg, as the politically enforced importation and distribution monopolies of Iranian and Turkish fisheries in Iraq), may become weaker in the context of increasing trade deficits and lower domestic purchasing power, presenting opportunities for aid actors. This could also have the potential to bring greater diversification of local markets and functional diversity, which, in the long run will lower volatility to external shocks.

- Encourage donors to look at more regionally designed and sensitive programming across countries in the Middle East. I/NGOs could further develop this via regional grants.

- Given the strong economic links and parallel crises being witnessed across the region, a more holistic regional approach towards intervention design will be effective in countering institutional isolation between aid organizations, and more effective sharing of lessons learnt across parallel crises.

- Greater integration of aid organizations with regional business networks, such as the Middle East chapter of the World Economic Forum, may assist with development of the private sector, while local public and private sector partnerships may enhance programmatic support and local economic sustainability.

- Increased sharing of 'lessons learnt' between INGOs across country contexts could contribute to more adaptive programming that is responsive to regional trends. Specific regional issues including programing amid inflation and resource scarcity or programmatic funding mechanisms may be specific areas that transpose a number of organizations currently operational in the Middle East.

- There is a need for further investment in regional dynamics, social cohesion and political economies within more rapid/real time frameworks, which will deliver greater relevance to humanitarian issues that are currently being witnessed.
- In many cases, (Syria, Iraq, Yemen) internal borders between areas occupied or controlled by differing governing authorities have been closed due to the COVID-19 outbreak, which has led to severe economic issues, including a lack of trade and freedom of movement. Further understanding of sub-national dynamics can provide insight into how such economic changes may affect different areas of control, and why some may be more adversely affected than others. This may include more sub-national political economic analysis and security analysis, to be integrated and used more widely (there is currently a major gap in literature on the subject).
- Advocate for support and protection of more inclusive financial services, both for small and medium sized businesses to help boost low and medium skilled labor opportunities and microeconomic growth.
- Given the critical role regional migration and refugee remittances play in supporting millions of at-risk families in places such as Yemen, aid actors should advocate to the international community to address fundamental challenges such as effective access to financial services, as well as protections in host countries from damaging legal frameworks, especially in the context of 'nationalization' policies. This may include an increased focus for social protection, specifically supporting increased access to financial services, formal or informal. This could also present greater advocacy opportunities directed toward countries with significant migrant worker populations (such as Saudi Arabia) for better policies assisting financial access for migrant workers.
- The crisis in governance and legitimacy stemming from the economic fallout of COVID-19 could be an opportunity for the aid sector to use the increased dependence on foreign aid flows to push for more effective governance reforms from local actors, and further possibilities for partnerships between INGOs and government actors in the pursuit of these reforms.

COUNTRY BACKGROUNDS

SYRIA

Syria was already struggling with a rapidly declining national currency and runaway inflation when the COVID-19 pandemic began. The Syrian conflict had already displaced millions of Syrians and caused approximately $226 billion in economic losses.[113] A 2017 World Bank study estimates that the country's GDP contracted 63 percent from 2011 to 2016.[114] **The near-total collapse in oil receipts, other trade disruptions, and poorly conceived monetary policy have depleted Syria's reserves of foreign exchange, leaving it unable to properly finance the imports upon which it is heavily dependent.[115]**

The COVID-19 outbreak has exacerbated Syria's economic woes by disrupting trade networks and supply chains, restricting movement, and resultant wide-scale business closures, all of which compound the slide in value of the Syrian pound. As the pound depreciated in value – falling from approximately 1,100 to 1,800 SYP per USD from March 1 to end of May 2020 – food shortages and depressed market activity were reported across the country.

This 40 percent depreciation in the Syrian pound's value further aggravated political tensions and increased poverty levels in Syria. In June, the WFP said that 9.3 million Syrians were food insecure, an increase of 1.4 million since the beginning of the year.[116] The pound's volatility continued through the summer, with the currency dropping to 3,000 SYP per USD before stabilizing around 2,100 SYP per USD in August. Since then, it has again depreciated to about 2,900 SYP per USD as of January 18, 2021. **The depreciation has been reflected in massive price inflations, with the WFP estimating 200 percent year-on-year inflation of food prices in June, while areas outside of Syrian government control have increasingly adopted foreign currency (US dollar, Turkish lira) as a means of exchange to combat the exchange volatility and inflation.[117]**

At the beginning of the COVID-19 outbreak, the Syrian government denied the existence of the virus within government-held areas for several weeks. In April, mitigation measures were implemented across Syria, including lockdowns, curfews, and travel restrictions. Due to limited efforts by authorities to provide aid to the population, these restrictive measures fueled

---

[113] World Bank, Syria Overview

[114] World Bank, *The Toll of War: The Economic and Social Consequences of the Conflict in Syria*, July 2017, p. vii

[115] World Bank, Syria Overview

[116] World Food Programme, *More Syrians than ever before in the grip of hunger and poverty*, June 26, 2020

[117] ibid

economic hardships. The UN estimates that 90 percent of Syrians now live below the poverty line.[118] Syrian employment statistics have been opaque during the course of the civil war in the country, with the World Bank noting that the latest official data are from 2015 and lack granularity. **A 2019 report by the World Bank cited surveys that predicted unemployment rates ranging from 40 to 60 percent.**[119]

Syria's patchwork of ruling administrations has gradually loosened restrictive measures due to economic concerns and fears of political repercussions. In April, the Self-Administration eased a number of restrictions on industrial, agricultural, construction, and commercial sectors in the northeast.[120] This included the loosening of travel restrictions for workers and the reopening of trading hours for specific sectors.

The Syrian government has further loosened their measures, including allowing travel between major urban and rural centers as well as allowing some commerce and trade to reopen. Meanwhile, in mid-April the armed-opposition group Hay'at Tahrir al-Sham (HTS) reopened some commercial crossing points in the

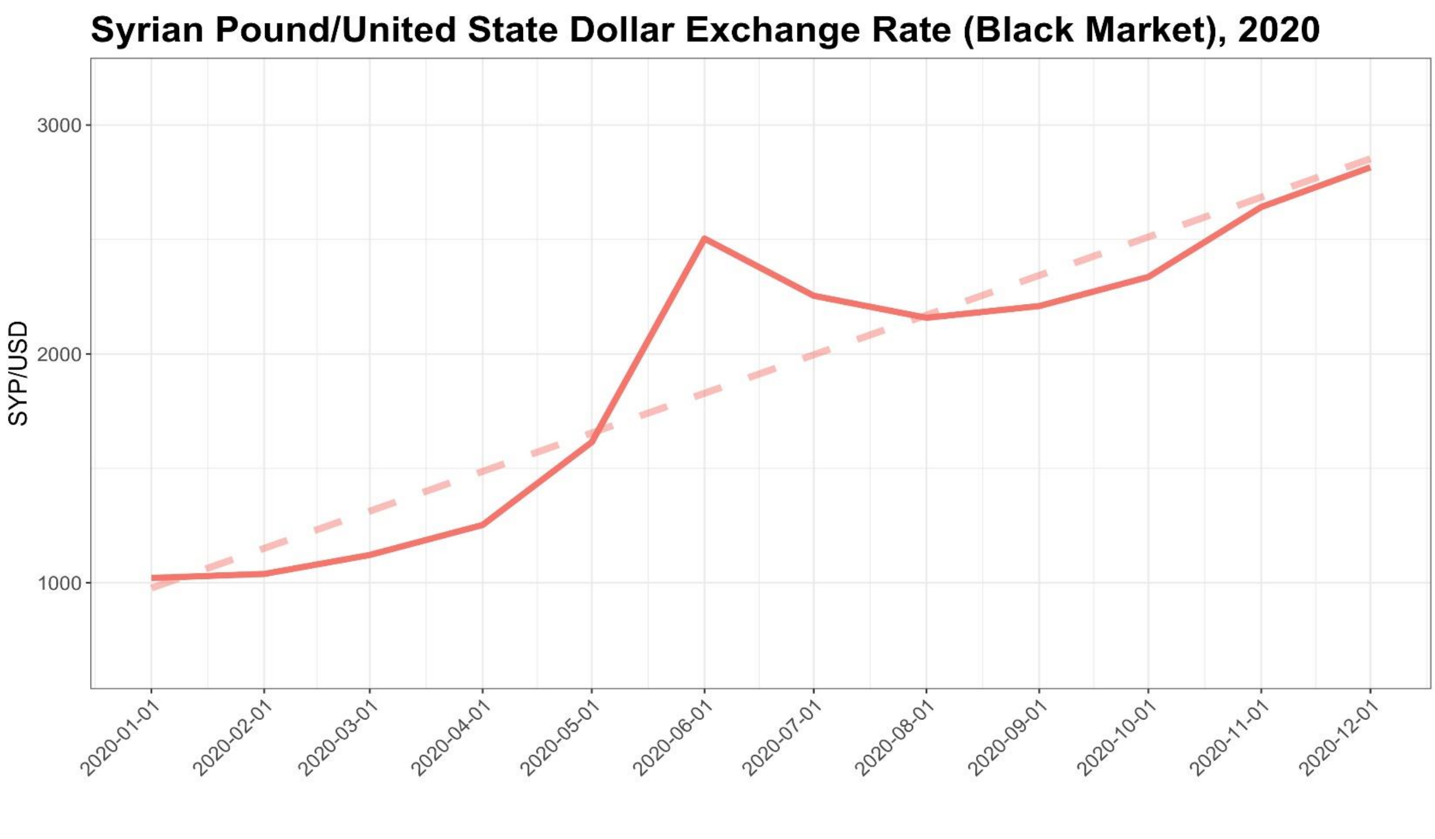

Figure 2: Syrian pound/US dollar exchange rate (black market), Jan - Dec 2020

[118] Norweian Refugee Council, *Nine challenges facing young people in Syria*, August 22, 2020

[119] World Bank, *The Mobility of Displaced Syrians: An Economic and Social Analysis*, 2020, p. 85

[120] Mercy Corps Humanitarian Access Team, Syria, *Thematic Report: Government of Syria Responses to the Financial Crisis*, May 7, 2020 < >

opposition-controlled northwest, and resumed commercial activities with government-held areas that had previously been closed by the Syrian Salvation Government.[121] On April 18, HTS announced its intention to open a new commercial crossing with government-held areas in southern Idlib. This move was not opposed by the HTS-affiliated Syrian Salvation Government.

Despite the loosening of the internal mitigation measures to ease economic woes, there have also been external changes in market systems and supply which may have more long-term effects on Syria's economy. For example, precautionary measures have disrupted international commercial trade with Syrian government-held areas. The governments of Jordan and Lebanon banned air and land travel to and from Syria, which previously contributed approximately $197.3 million in export revenue for the country and were also used for the physical transportation of remittances. Commercial crossings with Self-Administration areas in northeast Syria were also closed, reportedly with the exception of licensed oil transportation tankers. This has hampered illicit trade between Self-Administration and Syrian government-held areas, upon which much of the informal economy depends. Currently, fuel shortages within government-held areas are now witnessing further price inflation and shortages of key basic food items (such as bread) due to decreased transport capacity and increased costs of production.

COVID-19 has also led to strict lockdowns in the four highest remittance-generating countries for the Syrian economy, namely Saudi Arabia, Lebanon, Jordan, and Turkey. This has made it more difficult for Syrian expats living in the aforementioned countries and around the world to send money to their families. Lebanon's financial crisis has left most US dollar deposits in the banking system inaccessible, impacting Syria's economy, which had relied on Lebanese banks for trade financing. Over $20 billion in Syrian deposits are reportedly held in banks in Lebanon[122], while the financial restrictions imposed on currency withdrawals and transfers in Lebanon have essentially frozen these funds. This has made it impossible for those in Syria to access the funds, which were previously a major financial lifeline to Syrian enterprises and households.

LEBANON

Lebanon was already suffering from rapidly-deteriorating economic conditions before the COVID-19 outbreak in early 2020, which has only compounded the country's economic, financial, and political woes. A March 2019 study by the World Bank estimated that 1.5 million Lebanese citizens out of a population of 5.9 million lived below the poverty line, while

[121] It must be noted that HTS' reopening was largely motivated by their own economic motives.

[122] Middle East Eye, *'Syria's economy goes from very bad to worse as Lebanon's crisis hits'*. January 2020

another 3.3 million people were in need.[123] These numbers have dramatically worsened, **with over 50 percent of the population facing challenges accessing food as of July while the poverty rate jumped to 55 percent in May 2020.[124]** Lebanon's GDP is forecast to contract by 12 percent in 2020, and a further 13.2 percent in 2021.[125] A devastating explosion on August 4 at the Beirut port killed over 200 people and caused widespread damage in several neighborhoods. The World Bank assessed damages at $3.8 to 4.6 billion with another $2.9 to 3.5 billion in economic losses.[126]

Lebanon's economy has been burdened by the war in Syria and decades of endemic corruption and mismanagement. By 2019, Lebanon was saddled with the third-highest debt-to-GDP ratio in the world, heavy dependence on remittances, and a looming financial meltdown.[127] In the fall of 2019, Lebanon's banking system began to buckle following years of the central bank's policies to attract US dollar inflows to maintain the official peg of the Lebanese pound.[128] Amid a dwindling foreign exchange inflow since 2016, US dollar liquidity in the country began to dry up while the Lebanese pound unmoored from the official peg in parallel exchange-market trading beginning in July.[129] Protests erupted October 17 against an unpopular government proposal to tax the messaging app WhatsApp's service, which morphed into a nationwide movement against Lebanon's political system and elites. While the government of Saad Hariri, now reinstated prime minister (as of October 2020), resigned on October 29, the grassroots protest movement has persisted, albeit in ebbs and flows.

The deepening banking crisis poses serious obstacles to financial flows. Lebanese residents with US dollar-denominated bank accounts worth over $3,500 – approximately 15 percent of the population – have suffered a de-facto devaluation of their savings and face obstacles accessing their money.[130] Since Lebanon is heavily dependent on imports, US dollar scarcity posed obstacles to financing trade and drove up prices of many consumer goods. Lebanon's economy minister in April told local media that prices of imported goods surged 50-55

[123] World Bank, *Behavioral strategies to support social stability in Lebanon*, May 5, 2019, p. 6

[124] Care*, Families swapping children's toys for food as COVID-19 compounds food crisis in Lebanon*, July 15, 2020 ; UN-ESCWA, *Poverty in Lebanon: Solidarity is vital to address the impact of multiple overlapping shocks,* August 19, 2020

[125] OECD*, COVID-19 Response in MENA Countries*, June 9, 2020, p. 6; Lebanon Economic Monitor

[126] World Bank, *Beirut Rapid Damage and Needs Assessment (RDNA) — August 2020*, August 31, 2020

[127] Hesham Shawish, BBC, *How did Lebanon become the third most indebted nation?,* October 25, 2019

[128] Sami Halabi and Jacob Boswall, *Think Triangle, Extend and Pretend: Lebanon's Financial House of Cards*, November 2019 < >

[129] Lirarate.com

[130] International Monetary Fund*, Financial Access Survey - Lebanon*,; BLOMInvest Bank, *Analysis of Lebanon's Banking Deposits: 2018-2019*, March 4, 2020; Finance4Lebanon, *Status of Deposits in Lebanese Banks*, January 13, 2020

percent.[131] **By July, Lebanon's year-on-year inflation hit 112.39 percent.**[132]

On March 7, Lebanon's prime minister at the time, Hassan Diab, announced his country was defaulting on its debt to foreign creditors. Diab emphasized that the country's central bank was running critically low on foreign currency reserves, and would focus on using these for securing key imports.[133] Amid an uptick in COVID-19 infections, Lebanon's cabinet on March 15 declared a state of "general mobilization" that would come to include curfews, business closures, and other policies to stem the flow of the virus.[134] **The state's attempts to bolster social safety nets have come under criticism for their limited scope and lack of effectiveness. This comes amid skyrocketing unemployment due partly to restrictive measures against COVID-19 implemented by Lebanon's government.**

Towards the end of 2020, an ongoing lack of progress on efforts to form a new government continued to present an obstacle towards any major international support to the country in the form of loans and bail-outs. Emmanuel Macron, **French president, in particular has continued to condition economic support on major political reforms.** Meanwhile, the reduction of subsidies for key commodities such as food and medicine is likely to take place early in 2021, as the central bank is no longer able to support them amid declining foreign exchange reserves. Medicine shortages, already a semi-regular occurrence, will significantly increase amid growing costs. Emigration, in particular since the August Beirut Port blast, has been high, particularly in high skilled sectors such as doctors, further eroding services.

YEMEN

Prior to the COVID-19 outbreak, Yemen was experiencing a major political and economic crisis, which has been exacerbated by over four years of intense civil war. The humanitarian situation in Yemen remains extremely poor. **Prior to the current conflict, which began in 2015, Yemen was experiencing significant structural challenges in the form of an ongoing imbalance of trade, high levels of unemployment, rising food insecurity, and declining government revenues.** Despite being incomplete, the Integrated Food Security Phase Classification (IPC) analysis done in 2020 showed that 25 percent of the 8 million people surveyed are highly food insecure. Of note, the IPC analysis has not included, as yet, data from Ansarallah-controlled areas, where a large portion of Yemen's most vulnerable population resides. This is due to ongoing challenges facing data collection in these areas.

---

[131] Osama Habib, The Daily Star, *Nehme: Prices of imported goods surge 55 percent due to dollar rise,* April 4, 2020

[132] Lebanon Central Administration of Statistics, *Consumer Price Index in Lebanon* - *July 2020*

[133] The National News Agency, *Diab: We have decided to withhold the payments on the eurobonds*, March 7, 2020

[134] The Daily Star, *Government agrees to nationwide lockdown over coronavirus*, March 15, 2020

The conflict in Yemen has led to a major deterioration in export revenues, namely the reduction of oil exports, an increasing reliance on imports of basic commodities such as food and fuel, a largely dysfunctional banking sector, a major reduction in economic activity, and a decline in domestic food production. Since 2015, government salaries, a source of income for approximately 1.5 million Yemenis before the conflict, have been paid on an inconsistent basis, if at all. Companies operating across the country have fractured or ceased operations under the pressure of multiple regulatory and taxation regimes.

The Yemeni conflict has degraded a large component of its domestic agricultural production, devastated industry, and frontlines have either cut key economic routes, or significantly increased the cost of doing business.

Key tiers of the economy have become heavily politicized, including monetary policy, with two central banks operating within an increasingly divergent set of economic policies, and a resulting divergent currency exchange rate system. The depletion of foreign currency reserves and the cessation of central bank import financing in 2017 was addressed by a large deposit from Saudi Arabia in the Central Bank of Yemen. This was then used to finance imports through letters of credit up until 2020. However, this has not been renewed, and 2020

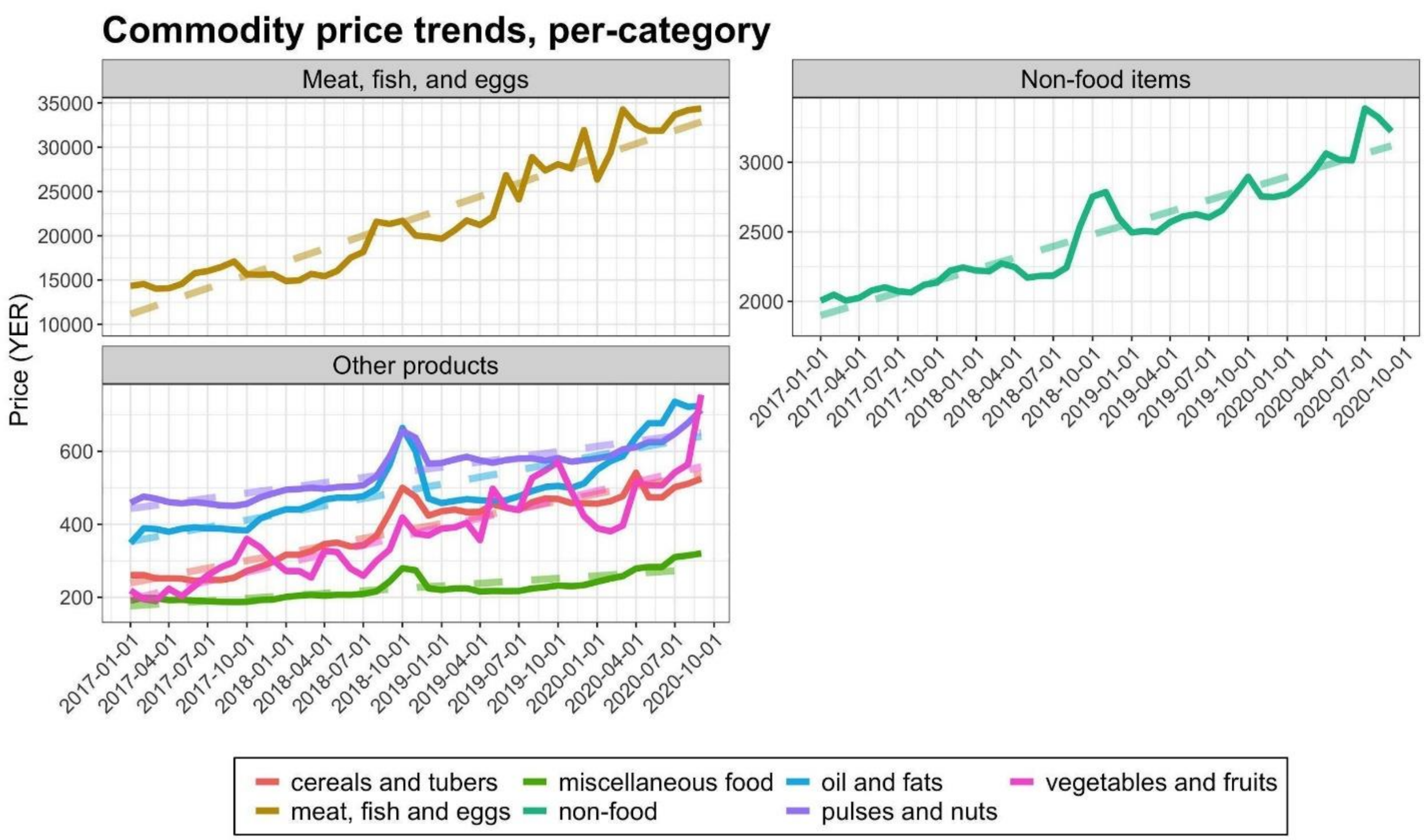

Figure 3: Commodity price trends per category, Yemen, Jan 2017 - Oct 2020

has seen a severe deterioration of the value of the riyal in Government of Yemen-controlled areas. According to the World Bank, a 10 percent drop in the value of the currency has resulted in a significant increase in poverty levels.[135]

Following the initial COVID-19 outbreak, Yemen's economy entered a particularly challenging period, with a significant drop in revenue and foreign currency inflows as a result of the drop in global oil prices in March 2020 and other economic impacts of COVID-19 globally and in Yemen specifically. Within the context of the broader economic crisis in Yemen, COVID-19 has acted as a negative multiplier on a number of issues. The initial impact of COVID-19 shutdowns has had a significant disruptive effect on supply chains and the local economy. Humanitarian aid flows declined significantly during 2020. Although this is mainly due to political dynamics, in particular challenges facing aid implementation in Ansarallah-controlled areas as well as the reticence of Gulf donors to pledge aid to the extent seen in 2018/2019, across the board reductions by a range of countries was likely – at least partly – influenced by the global economic impact of COVID-19 on donor countries.

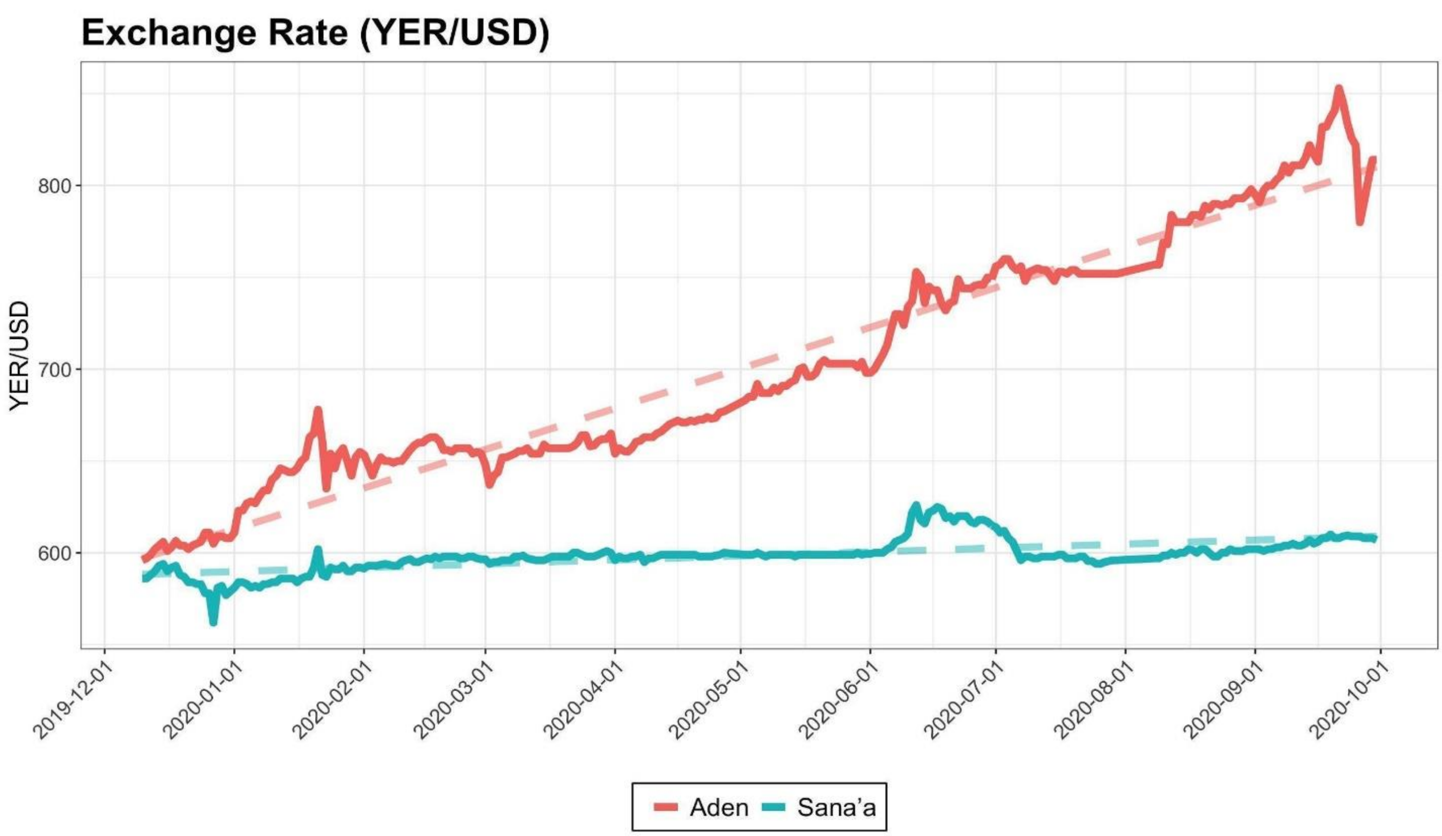

Figure 4: Yemeni riyal/US dollar exchange rate, Dec 2019 - Oct 2020

[135] World Bank, *Yemen's Economic Outlook*, October 2018

COVID-19's impact on Gulf economies has led to a decline in remittance revenue to Yemen, one of the country's largest sources of hard currency. **In addition, the impact of COVID-19 on Saudi Arabia and other Gulf countries likely played a role in their decision to not provide, thus far, further financial support to the IRG, namely any further deposit in the Central Bank of Yemen, which has little reserves left.** These reserves have been predominantly used to finance the import of basic foodstuffs since 2018, and the loss of this import financing will force importers to look to the market to fund imports, place downward pressure on the Yemeni riyal, and ultimately increase the cost of food on the market, potentially pushing millions into a further dependence on the concurrently declining levels of humanitarian aid.

IRAQ

COVID-19's effect on the global economy, in conjunction with internal mitigation measures, has resulted in major economic concern for Iraq. This is largely related to (but in no way limited to) the effect of the plummeting global oil economy in 2020. According to the World Bank, while Iraq's non-oil GDP grew by 4.9 percent in 2019, the country's total GDP is projected to contract by 9.7 percent in 2020.[136] **Of concern is that the oil sector comprises approximately 60 percent of Iraq's GDP and 99 percent of its export revenue.[137] Without this financial lifeline, the Iraqi economy has little to fall back on.**

In July 2018, protests broke out throughout southern Iraq due to a lack of basic service provision and increasing unemployment. Intense protests again erupted in October 2019 in Baghdad and southern Iraq, fueled by public frustration over a lack of services, unemployment, and severe government corruption. The climate of distrust between the government and the population poses concerns as to how the mitigation measures implemented to prevent COVID-19 may further affect the household economic situation, especially for marginalized groups and those dependent on the informal economy.

As the measures restrict economic activity, Iraq's poverty rate may reach 31 percent during 2020 (numbers will not be confirmed until mid-2021).[138] Further, petroleum, the economy's lifeline, is trading at less than 30 percent of its pre-COVID-19 value. **While most mitigation measures have been loosened or removed completely, the economic fallout has been significant, with the most commonly reported fallout of the COVID-19 pandemic being a loss of income or employment.[139]** While restrictions began to be eased on June 14, concerns over the health of the economy remain, especially due to rising unemployment.

[136] Future Directions International, *Iraqi Food Security at Risk in a Year of Mounting Disasters*, August 13, 2020 < >

[137] World Bank, *Iraq: Systematic Country Diagnostic*, February 3, 2017, p. 1 < >

[138] UNICEF, '*Iraq: Systematic country diagnostic*.' *February 2017.*

[139] UN-OCHA, *COVID-19 Addendum to the Humanitarian Response Plan 2020*: *Iraq*, p. 12

Iraq's nascent banking system is increasingly struggling within this context. A significant liquidity crunch took hold in March 2020, for both US dollars and Iraqi dinars, which in turn led to local cash transfer organizations, or *hawalas*, temporarily being unable to function. More recently, Lebanese banks in Kurdistan, of which there are many, have decided to shut down, likely due to increasingly strong compliance requests stemming from the US, or the follow-on impact of Lebanon's ongoing banking crisis. Ongoing budgetary crises have also resulted in many public sector salaries not being paid or delayed, notably in Kurdistan.