

BRIEF NO.2

Global impact of the war in Ukraine: Billions of people face the greatest cost-of-living crisis in a generation

UN GLOBAL CRISIS
RESPONSE GROUP
ON FOOD, ENERGY
AND FINANCE

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Executive Summary

A war is always a human tragedy, and the war in Ukraine is no exception. The ripple effects of the conflict are extending human suffering far beyond its borders. The war, in all its dimensions, has exacerbated a global cost-of-living crisis unseen in at least a generation, compromising lives, livelihoods, and our aspirations for a better world by 2030.

After two years of fighting COVID-19, the world economy has been left in a fragile state. Today, 60 per cent of workers have lower real incomes than before the pandemic; 60 per cent of the poorest countries are in debt distress or at high risk of it; developing countries miss \$1.2 trillion per year to fill the social protection gap, and \$4.3 trillion is needed per year - more money than ever before - to meet the Sustainable Development Goals (SDGs).

The ability of countries and people to deal with adversity has therefore also been eroding. As the war erupted, global average growth prospects have been revised downward; many countries' fiscal balances have deteriorated, and the average household has lost 1.5 per cent in real income due to price increases in corn and wheat alone. Worldwide, more people have been facing famine-like conditions, and more people have faced severe hunger emergencies. The lingering effects of the pandemic, coupled with the war in Ukraine and the impacts of climate change, are likely to further increase again the ranks of the

poor. And as poverty increases so does vulnerability, particularly for women and girls.

Countries and people with limited capacity to cope are the most affected by the ongoing cost-of-living crisis. Three main transmission channels generate these effects: rising food prices, rising energy prices, and tightening financial conditions. Each of these elements can have important effects on its own, but they can also feed into each other creating vicious cycles - something that unfortunately is already starting. For instance, high fuel and fertilizer prices increase farmers' production costs, which may result in higher food prices and lower farm yields. This can squeeze household finances, raise poverty, erode living standards, and fuel social instability. Higher prices then increase pressure to raise interest rates, which increase the cost of borrowing of developing countries while devaluing their currencies, thus making food and energy imports even more expensive, restarting the cycle. These dynamics have

dramatic implications for social cohesion, financial systems and global peace and security.

Food should never be a luxury; it is a fundamental human right. And yet, this crisis may rapidly turn into a food catastrophe of global proportions.

This catastrophe has been years in the making, but since the war it has become unbearable for many countries. In 2022, between 179 million and 181 million people are forecasted to be facing food crisis or worse conditions in 41 out of 53 countries where data are available¹. In addition 19 million more people are expected to face chronic undernourishment globally in 2023, if the reduction in food exports from the Russian Federation and Ukraine result in lower food availability worldwide². Record high food prices, exchange rate devaluation and inflationary pressures are key factors. While the FAO food price index had reached a record high in February 2022 before the war started, since then it has had some of the largest one-month increases in its history, with its record high in March 2022. And yet, despite a very challenging situation today, some factors suggest the food security situation may get much worse still in coming seasons.

Higher energy costs, trade restrictions and a loss of fertilizer supply from the Russian Federation and Belarus have led to fertilizer prices rising even faster than food prices. Many farmers, and especially smallholders, are thus squeezed to reduce production, as the fertilizers they need become more expensive than the grains they sell. Critically, new fertilizer plants take at least two years to become operational, meaning that most of the current supply of fertilizers is limited. Because of this key fertilizer issue, global food production in 2023 may not be able to meet rising demand. Rice, a major staple which up to now has low prices because of good supplies, and is the most consumed staple in the world, could be significantly affected by this phenomenon

of declining fertilizer affordability for the next season.

Time is short to prevent a food crisis in 2023 in which we will have both a problem of food access and food availability. If the war continues and high prices of grain and fertilizers persist into the next planting season, food availability will be reduced at the worst possible time, and the present crisis in corn, wheat and vegetable oil could extend to other staples, affecting billions more people.

Export restrictions on food and fertilizers have surged since the start of the war. The scale of current restrictions has now surpassed that experienced during the food price crisis in 2007/08, which contributed to 40 per cent of the increase in agricultural prices. Trade restrictions today affect almost one fifth of total calories traded globally, which further aggravates the crisis. All food crises are distributional in nature. This one is no different. Export restrictions prevent the trade needed to bring essential food supplies and fertilizers to where they are most required.

In one way or another, everyone is exposed to the shock waves of the war. The level of exposure of a country and its ability to deal with the shock determine a country's vulnerability. And this is a challenge in the developing world. The UN Global Crisis Response Group, together with the United Nations Regional Economic Commissions, undertook a global vulnerability assessment on the capacity of countries to cope with each of the channels of transmission and the vicious cycles they can create. The results confirm a widespread picture of vulnerability: 94 countries, home to around 1.6 billion people, are severely exposed to at least one dimension of the crisis and unable to cope with it. Out of the 1.6 billion, 1.2 billion or three quarters live in 'perfect-storm' countries, meaning countries that are severely exposed and vulnerable to all three dimensions of finance, food, and energy, simultaneously.

1 See Global Network Against Food Crises Report 2022 http://www.fightfoodcrises.net/fileadmin/user_upload/fightfoodcrises/doc/resources/GRFC_2022_FINAL_REPORT.pdf

Notes: All websites in footnotes were accessed in May 2022. The term "dollars" (\$) refers to United States dollars unless otherwise specified.

2 Forthcoming State of Food Security and Nutrition in the World 2022 Report.

This vulnerability of Governments and people can take the form of squeezed national and household budgets which force them into difficult and painful trade-offs. If social protection systems and safety nets are not adequately extended, poor families in developing countries facing hunger may reduce health-related spending; children who temporarily left school due to COVID-19 may now be permanently out of the education system; or smallholder or micro-entrepreneurs may close shop due to higher energy bills. Meanwhile countries, unless a multilateral effort is undertaken to address potential liquidity pressures and increase fiscal space, will struggle to pay their food and energy bills while servicing their debt, and increase spending in social protection as needed.

The clock is ticking, but there is still time to act to contain the cost-of-living crisis and the human suffering it entails. Two broad and simultaneous approaches are needed:

- 1 Bring stability to global markets, reduce volatility and tackle the uncertainty of commodity prices and the rising cost of debt. There will be no effective solution to the food crisis without reintegrating Ukraine's food production, as well as the food and fertilizer produced by the Russian Federation into world markets – despite the war.
- 2 Increase people and countries' capacity to cope. This means helping the most severely exposed countries help their poor and vulnerable populations, by increasing countries' fiscal space and liquidity access so that they can strengthen social protection systems and safety nets and hence enhance the ability of people to deal with adversity.

Taken together, this suggests – as the United Nations Secretary-General said recently – that “there is no answer to the cost-of-living crisis without an answer to the finance crisis”. All available rapid disbursement mechanisms at international finance institutions must be reactivated, and a new emission of Special Drawing Rights must be pursued. It is also important,

however, to ensure resources are well spent. To complement efforts to create social protection systems, countries can respond to the crisis with additional targeted and/or, time-bound emergency measures, which should be aligned with sustainable development needs and not allocated universally. Lastly, a domino effect where solvency problems create a systemic developing country debt crisis must be avoided at all costs. The G7 and G20 need to rise to the challenge in putting forward debt restructuring instruments that are fit for purpose.

To succeed, strong political will across the multilateral community is needed. Piece-meal approaches will not work. What will, is a comprehensive approach that looks at the emergency today without forgetting about the future. The vicious cycles this crisis creates shows that no one dimension of the crisis can be fixed in isolation.

This crisis touches all of us. It is everyone's problem and a common responsibility. Yet, we must accept that not everyone is affected equally. Some countries, communities and people are more vulnerable than others, and those need to be assisted first. It takes a world to fix a world, what is needed now is to start.

1. The largest cost-of-living crisis of the twenty-first century to date

The largest cost-of-living crisis of the twenty-first century has come when people and countries have a limited capacity to cope. The war in Ukraine has trapped the people of the world between a rock and a hard place. The rock is the severe price shocks in food, energy and fertilizer markets due to the war, given the centrality of both the Russian Federation and Ukraine in these markets. The hard place is the extremely fragile context in which this crisis arrived; a world facing the cascading crises of the COVID-19 pandemic and climate change. A shock of this magnitude would have been a significant challenge no matter the timing; now, it is of historic, century-defining proportions.

A cost-of-living crisis due to severe price shocks

- The FAO food price index is at near-record levels and 20.8 per cent higher than at this time last year.³
 - Energy market volatility has increased with recognition that a prolonged conflict will lead to higher energy prices in the medium to long term. Crude oil has now reached over \$120 per barrel and energy prices overall are expected to rise by 50 per cent in 2022 relative to in 2021.⁴ The price of European natural gas in particular has risen ten-fold compared to 2020. Many large natural gas importers have committed to dramatically reducing reliance on Russian natural gas through higher imports of Liquefied Natural Gas from other countries, which may
- potentially price out some developing countries from the Liquefied Natural Gas market on which they rely for energy imports.⁵
 - Fertilizer prices are more than double the 2000–2020 average.⁶
 - Maritime transport costs are more than triple the pre-pandemic average,⁷ due to the lingering effects of the COVID-19 crisis and the destruction of the transport infrastructure (and especially the ports) of Ukraine, as well as higher volume of traffic and congestion related delays and other factors such as rising fuel costs. On North-South trade routes, the aggregated fuel cost increase of the last three months is estimated to already result in a 5-to-14% increase of total maritime transport costs.⁸
 - Rising interest rates and growing investor uncertainty has eroded both the value of developing countries' currencies, as well as their capacity to borrow in foreign markets. After the first 100 days of the war, the currencies of 142 developing countries have depreciated, on average, by 2.8% against the US dollar (2.7% YTD), and their bonds yields have increased by an average of 77 basis points.⁹
 - Of greatest concern are the vicious cycles beginning to emerge along the transmission channels of the crisis. Higher energy prices, especially diesel and natural gas, increase the costs of fertilizers and transport. Both factors increase the costs of food production. This leads to reduced farm yields and to even higher food prices next season. These, in turn, add to inflation metrics, contributing to what were already increasing interest rate pressures and tightening financial conditions. Tighter financial conditions erode the buying power of the currencies of developing

3 Calculations based on FAO Food Price Index data, <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

4 World Bank, 2022, Commodity markets outlook, April 2022: The impact of the war in Ukraine on commodity markets, available at <https://openknowledge.worldbank.org/handle/10986/37223>. See <https://www.bloomberg.com/energy>.

5 Ibid.

6 UNCTAD secretariat calculations, based on data from the International Food Policy Research Institute.

7 UNCTAD, forthcoming, The war in Ukraine: What it means for the logistics of international trade.

8 Ibid.

9 UNCTAD secretariat calculations, based on Refinitiv data.

countries, further increasing the import costs of food and energy, reducing fiscal space and increasing the costs of servicing debt.

- And the story does not end there. The vicious cycles created by a cost-of-living crisis can also spark social and political instability. Higher inflation means higher food and energy prices, and a higher cost of living. This in turn reduces families' real income, and with it, their living standards and their opportunities for a better future. Some families start making painful trade-offs: reducing meals or the quality of them, dropping out of schools, or reducing healthcare spending. Often these decisions affect women and girls the most. These decisions have worrying long-term effects, from higher poverty levels, to rising inequality, lower education, lower productivity and declining real wages. All this reduces the ability of people and governments to cope with a crisis, further fuelling social and political unrest.

The compounded crises of the pandemic and climate change have limited people's and countries' capacities to cope

People's capacity to cope is decreasing

- Since 2019, the number of people living in extreme poverty has risen by 77 million and the number of people facing acute food insecurity has risen to 193 million.¹⁰
- Worldwide, three out of five workers, mostly in developing countries, have lower real incomes than before the pandemic.

- In Africa, 58 million people living just above the poverty line are at risk of sliding into poverty due to the combined effects of the pandemic and the war in Ukraine.¹¹
- About 4.1 billion people lack social protection.
- The gender gap in global working hours has increased due to the pandemic; globally, women spend 18.9 hours weekly in employment, or 57 per cent of the average 33.4 hours worked by men.¹²
- More than 20 million people are forcibly displaced each year due to climate change effects.¹³
- Nearly 90 million people in Asia and Africa who had previously gained access to electricity, can no longer afford to pay for their basic energy needs.¹⁴
- Globally, between 2019 and 2021, 30 million people lost access to clean cooking fuel and the global figure now stands at 2.4 billion who lack access.
- In 2020, 15 million people in sub-Saharan Africa who had recently gained tier-1 electricity access were no longer able to afford it and slipped back into energy poverty¹⁵. About 568 million people in Sub-Saharan Africa lacked access to electricity in 2020¹⁶.

Countries are also weaker to cope with this new crisis

- The UNCTAD global gross domestic product (GDP) growth forecasts for 2022 have been revised downwards by a full percentage point since the start of the war¹⁷, while the IMF has

10 United Nations Inter-Agency Task Force on Financing for Development, 2022, Financing for sustainable development report 2022, available at <https://developmentfinance.un.org/fsdr2022>; Data on acute food insecurity in 2021 for 53 countries monitored by the Global Network Against Food Crises, 2022, Global report on food crises, available at <https://www.wfp.org/publications/global-report-food-crises-2022>.

11 United Nations Economic Commission for Africa (UNECA).

12 International Labour Organization (ILO), 2022, ILO monitor on the world of work, ninth edition, available at https://www.ilo.org/global/publications/books/WCMS_845642/lang--en/index.htm.

13 See <https://www.unhcr.org/climate-change-and-disasters.html>.

14 IEA, IRENA, UNSD, World Bank, WHO. 2022. Tracking SDG 7: The Energy Progress Report. World Bank, Washington, D.C.

15 See <https://www.iea.org/commentaries/the-pandemic-continues-to-slow-progress-towards-universal-energy-access>.

16 Tracking SDG 7, the Energy Progress Report. IEA, IRENA, UN Statistics Division, the World Bank, WHO, June 1, 2022. Available: <https://trackingsdg7.esmap.org/>

17 UNCTAD, 2022, Trade and development report: Tapering in a time of conflict, available at <https://unctad.org/webflyer/tapering-time-conflict-trade-and-development-report-update-march-2022>.

The International Monetary Fund, in the world economic outlook update in April, also downgraded the growth prospects of 143 countries.

The ability of countries to cope with crises is being eroded



0.8–1%

downgrades due to the war

expected GDP growth in 2022
from 3.6% to 2.6%



3 out of 5 workers

have lower real incomes

than before the pandemic



60% of the

poorest countries

face rising debt levels

and a high risk of distress



\$1.2 trillion financing gap

in social protection

in developing countries



\$520 billion

is the annual cost of climate disasters
to the global economy

revised downwards their growth forecasts for 143 countries.

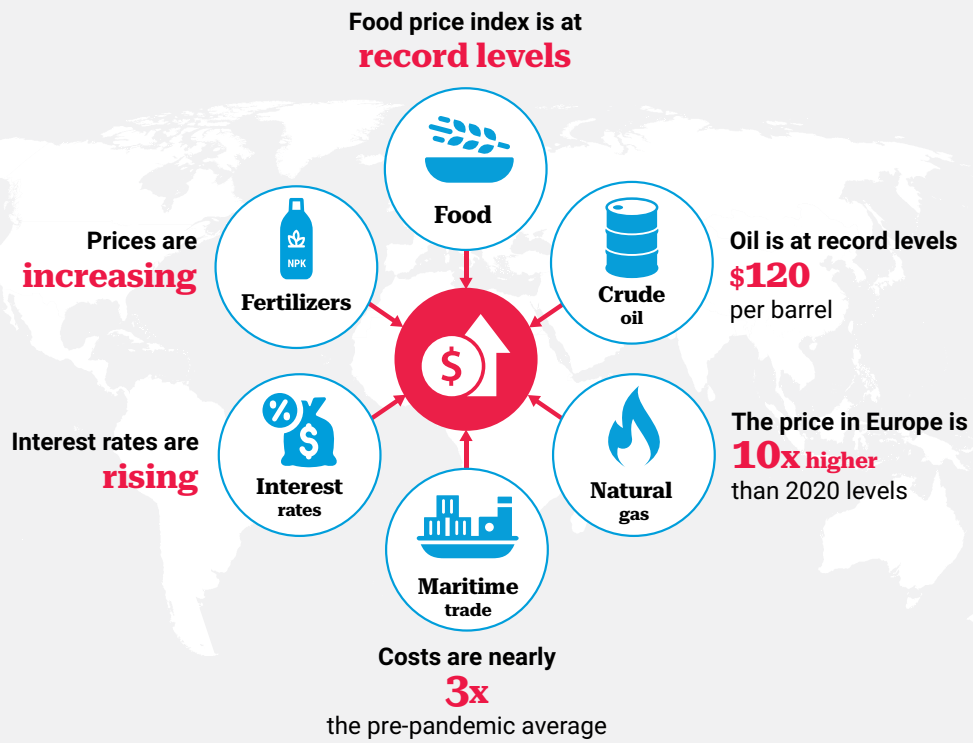
- In developing economies, public debt levels increased from 55.7 to 65.1 per cent of GDP between 2019 and 2021 and, in 2022, these economies are estimated to require \$311 billion to service public external debt, a figure that amounts to 13.6 per cent of government revenues.
- Globally, 60 per cent of the poorest countries are in debt distress or at a high risk of debt distress.¹⁸
- ILO has estimated that the social protection financing gap is \$1.2 trillion per year in developing countries.¹⁹
- UNCTAD estimates that the annual financing gap for achieving the Sustainable Development Goals is \$4.3 trillion, revised upwards from \$2.5 trillion, which was estimated to be needed annually as of 2015, when the 2030 Agenda for Sustainable Development was adopted.
- Climate disasters cost the global economy around \$520 billion per year²⁰, with a disproportionate share of the adverse effect being borne by developing countries who are forced to redirect domestic public money towards adaptation and loss and damage efforts, as opposed to development spending.

¹⁸ See <https://blogs.imf.org/2022/04/07/restructuring-debt-of-poorer-nations-requires-more-efficient-coordination>.

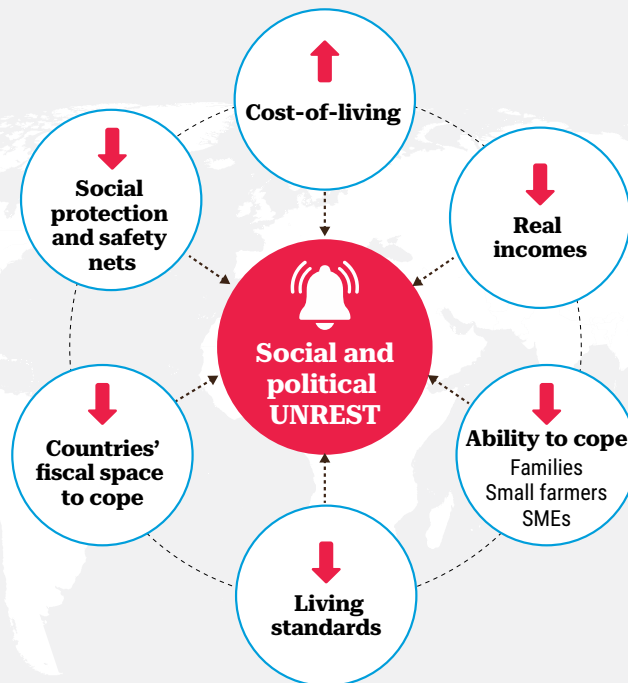
¹⁹ ILO, 2020, Social protection spotlight, available at https://www.ilo.org/secsoc/information-resources/publications-and-tools/Brochures/WCMS_755475/lang--en/index.htm.

²⁰ See <https://www.worldbank.org/en/results/2017/12/01/climate-insurance>.

Vicious cycles are emerging



Vicious cycles may trigger social and political unrest



2. Impacts of the cost-of-living crisis on people

The crisis is rapidly constraining household budgets. This has important implications in terms of poverty levels, real incomes, educational attainment, as well as food and energy access. These impacts are also highly regressive, as they affect poorest households, as well as women and girls, the most. Its effects on food insecurity, malnutrition and hunger are particularly alarming in the current context.

Impact of the war on poverty, incomes and energy access

- According to the World Bank, taking into account only the price increases for corn and wheat, the average household has lost 1.5 per cent in real income since the start of the war,²¹ a figure that varies greatly by country. Figure 1 shows that averages can hide more than they reveal when the impacts are disaggregated.

High food prices will affect the most vulnerable in society the most

- High food and energy prices will affect the most vulnerable in society the most, especially in developing countries, in which more than 50 per cent of the income of the poorest households is spent on food (figure 2).²²
- But a great portion of the groups considered “non poor” are also very vulnerable due to their close proximity to the poverty line. It is very important to include these groups, that are also hard hit by the crisis, in the safety nets and social protection networks, not only to help the poor but also to preclude further impoverishment from these vulnerable

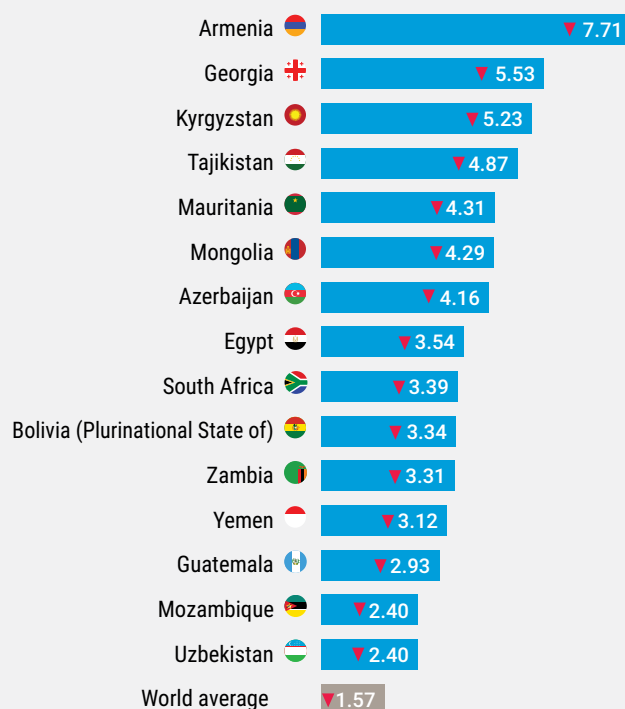
group. Many of these vulnerable groups are in urban areas and thus often form the base of social instability processes.

- A 10 per cent increase in food prices erodes the buying power of these households by more than 5 per cent, or about as much as poor families in developing countries spend on average on health.

FIGURE 1

As food prices rise, incomes at home fall: Estimated impacts of corn and wheat price inflation on real household income, various countries

(Percentage)



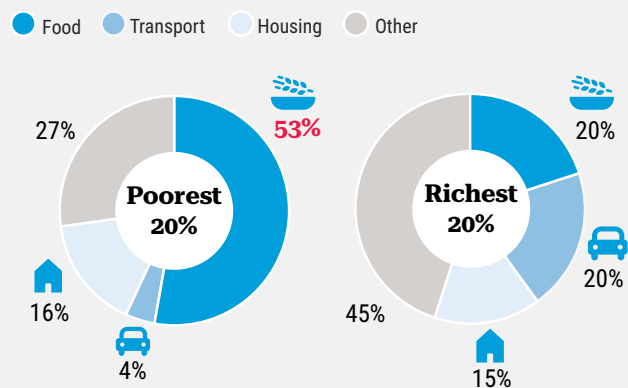
Source: UN Global Crisis Response Group, based on Artuc et al., 2022.

21 E Artuc, G Falcone, G Porto and B Rijkers, 2022, War-induced food price inflation imperils the poor, 1 April, available at <https://voxeu.org/article/war-induced-food-price-inflation-imperils-poor>.

22 World Bank, 2019, Inflation in emerging and developing economies: Evolution, drivers and policies, available at <https://www.worldbank.org/en/research/publication/inflation-in-emerging-and-developing-economies>.

FIGURE 2

The poorest will be the hardest hit as food prices rise: Composition of consumption expenditure by household, emerging and developing economies



Source: UN Global Crisis Response Group, based on FAO.

- Steep rises in the cost of living will increase poverty worldwide. The pandemic already caused a tremendous rollback in poverty reduction. The challenge is further exacerbated by further rises inflation resulting from the war in Ukraine. The World Bank

**The war in Ukraine,
among other factors may bring up to**

**95 million
people**



into extreme poverty

suggests that the war in Ukraine may bring up to 95 million people into extreme poverty, making 2022 the second-worst year ever for poverty alleviation, behind only 2020. In general, 10 million people are pushed into extreme poverty for every percentage point increase in food prices.²³

- ILO estimates that all of the partial recovery in paid hours of work witnessed globally in 2021 may be erased by the second quarter of 2022.²⁴
- The rising energy prices will increase energy poverty, leading people to return to using biomass, which can disproportionately affect women. When energy resources are too expensive or scarce, women spend more time fulfilling the energy needs of households. Access to energy also plays a key role in women's small-scale income-earning activities in the informal sector.

Impact of the war on food security

- Fast-growing numbers of hungry people are at the leading edge of the cost-of-living crisis.
- In 2022, between 179 and 181 million people are expected to face Crisis or worse conditions (IPC/CH Phase 3 or higher) in 41 out of the 53 countries where data are monitored by the Global Network Against Food Crises.²⁵
- The increase in hunger since the start of the war may in fact be higher and more widespread. In planning ahead for its operations in 81 countries, as of now WFP estimates that in just two years, the number of severely food insecure people doubled from 135 million pre-pandemic to 276 million at the start of 2022. The ripple effects of the war in Ukraine are expected to drive this number up to 323 million in 2022.²⁶

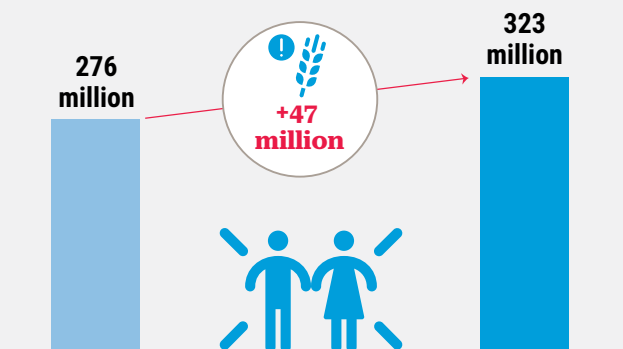
23 See <https://blogs.worldbank.org/opendata/pandemic-prices-and-poverty>.

24 ILO, 2022.

25 Global Network Against Food Crises, 2022, Global report on food crises, available at <https://www.wfp.org/publications/global-report-food-crises-2022>.

26 Based on WFP estimates as of 6 June 2022.

Ripple effects of the war on food security in 2022



Estimates of number of people facing acute hunger in 81 countries

Source: World Food Programme, 2022

- 36 million people are forecasted to face Emergency conditions or worse (IPC/CH Phase 4 or higher) in 36 countries in 2022, according to the Global Network Against Food Crises.²⁷ Because of the shock of the war, among other factors, the number of chronically undernourished people are expected to increase in 2022, according to FAO. Under a moderate shock scenario, the global number of undernourished people in 2022 would increase by 7.6 million. Under a severe shock scenario, the number of undernourished people will increase by 13.1 million.²⁸
- Simulating the export shortfall expected from Ukraine and the Russian Federation during 2022 and 2023, and assuming no increase in the global availability of food as a result of increased food production elsewhere, FAO expects the number of undernourished people will increase by close to 19 million in 2023.²⁹

The livelihoods of more than 2 billion small producers, farm labourers, rural workers and their families are at risk, not least because they already cannot afford a healthy diet.³⁰

- Women comprise 43 per cent of the agricultural labour force in developing countries and account for two thirds of the world's 600 million poor livestock keepers.³¹
- At particular risk are young informal workers contributing to family farms, home-based micro-level entrepreneurs and unskilled workers, as well as the poor in rural and urban areas, particularly those whose incomes depend on the agri-food economy, including many refugees and displaced people.

People are coping with the crisis on a day-to-day basis through actions with worrying long-term consequences for nutrition and early childhood development therefore converting what can be a short-term crisis into a long-term protracted crisis with severe consequences on long term poverty, income distribution and development outcomes for decades to come if immediate actions are not taken. Some of the most worrying signs of these are:

- People are already reducing food purchases, and may be reducing the number of nutritious items, skipping meals or eating smaller portions. Women and girls who often eat less and eat last are particularly affected.
- Families are cutting back on health visits and cooking fuel. Children are being taken out of school and put to work.
- Working animals are being sold and families are taking on more debt, at higher interest rates.

27 Global Network Against Food Crises, 2022, Global report on food crises, available at <https://www.wfp.org/publications/global-report-food-crises-2022>.

28 See page 25, <https://www.fao.org/3/cb9013en/cb9013en.pdf>

29 Forthcoming State of Food Security and Nutrition in the World 2022 Report

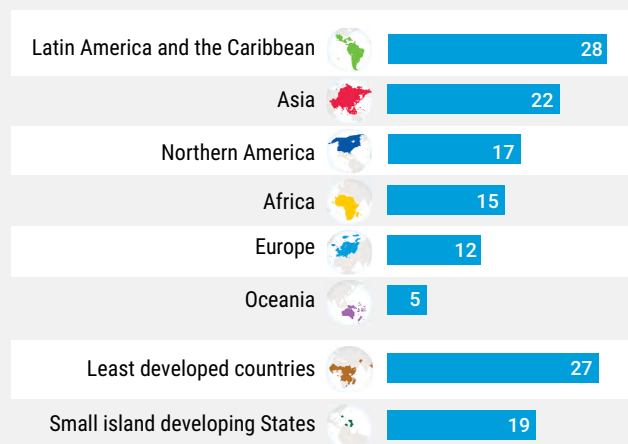
30 See <https://www.fao.org/documents/card/en/c/ca9692en>.

31 See <https://www.fao.org/publications/card/en/c/8989aace-6356-5e14-b7bf-ad8fdb7148c6/> and <https://www.fao.org/publications/card/en/c/cdd8428e-95bf-534c-9997-f2cb82a6491c/>.

FIGURE 3

The cost of importing food keeps rising worldwide: Changes in food import bills by region, 2020–2021

(Percentage)



Source: UN Global Crisis Response Group, based on World Bank, 2019.

Even before the war, food import bills across developing countries had risen due to higher prices in global markets. In particular:

- By the end of 2021, the global food import bill was \$268 billion higher than pre-pandemic levels, with nearly two thirds of the increase concentrated in developing countries. In most cases, the bulk of these increases were due to price effects, as opposed to higher quantities imported, especially in Africa, Asia and Europe.
- The cost of food imports in 2020–2021 grew most quickly in Latin America and the Caribbean and in the least developed countries (figure 3).

3. A fertilizer crisis and trade restrictions threaten to exacerbate the crisis

A fertilizer crisis and a rise in trade restrictions threaten to exacerbate the crisis into 2023

Two factors – declining fertilizer affordability and rising export restrictions – may worsen the medium-term outlook. Both act by disrupting markets and accelerating the ‘distributional’ component of this crisis: fertilizers may not arrive on time and in the right quantities and prices to the fields where they are needed, and export restrictions may complicate the delivery of essential food supplies to the most vulnerable. In combination, they threaten to transform the current crisis of access into a future crisis of availability.

The fertilizer crunch leads to the threat of a broader and longer crisis

- One out of every two people worldwide depend on agricultural products that use fertilizers. Higher energy costs and a loss of supply from the Russian Federation and Belarus have led to fertilizer prices rising even faster than food prices (figure 4).

Rising fertilizer costs mean many farmers can no longer afford to use fertilizers on crops and cannot increase production to meet global demand

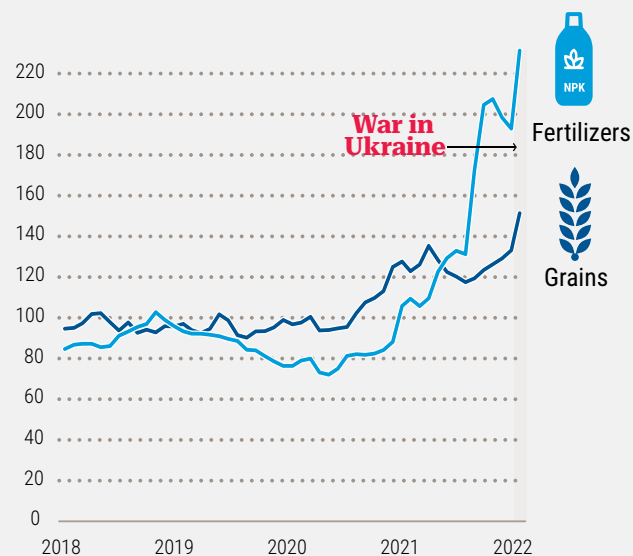
Instead, farmers use much less fertilizer, resulting in lower yields and leading to an overall decrease in food production and availability in coming seasons.

- The decline in fertilizer affordability among farmers is even more significant with regard to crops for which there have not been price increases, such as rice (figure 5).
- The price of rice is 4.6 per cent lower than in the same period in 2021. Rice farmers are

FIGURE 4

The rise in the price of fertilizers outpaces the rise in the price of food: Changes in fertilizer and grain prices, January 2018–April 2022

(Price index, base 100 = average 2000–2020)



Source: UN Global Crisis Response Group, based on data from the International Food Policy Research Institute.

FIGURE 5

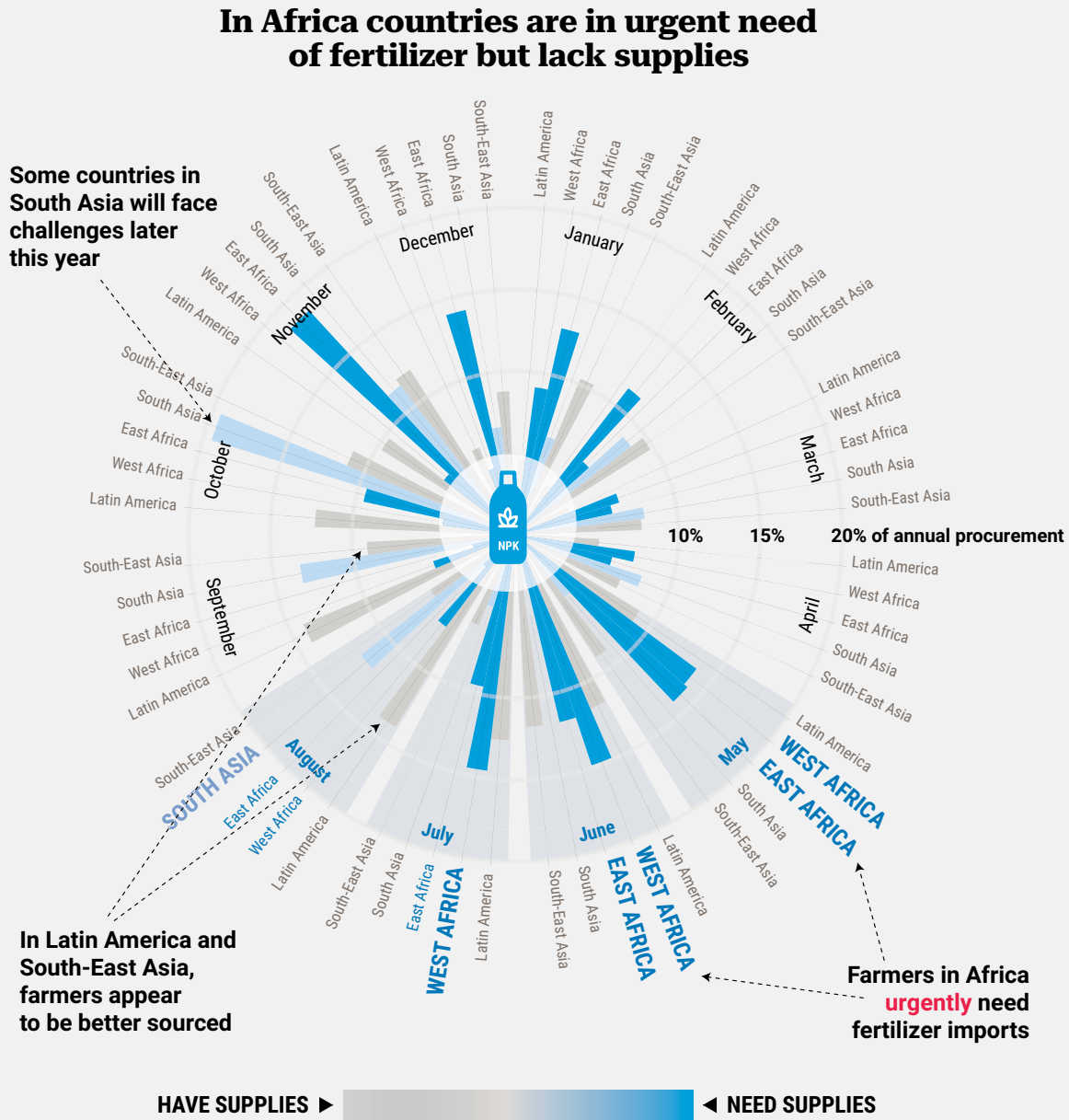
Fertilizers are fast becoming unaffordable for farmers: Affordability of fertilizers as ratio of food prices to input unit value of fertilizers

Commodity	Jan. 2021–Feb. 2022	Change
FAO food price index	1.3 → 0.6	▼ 50%
Rice	1.2 → 0.5	▼ 61%
Cereals	1.4 → 0.7	▼ 53%
Sugar	1.1 → 0.5	▼ 53%
Palm oil	1.6 → 1	▼ 40%

Source: UN Global Crisis Response Group, based on data from FAO.

FIGURE 6

Africa faces an urgent need for fertilizer and the need for supplies across developing countries for upcoming seasons bears close monitoring, particularly for rice crops in Asia: Fertilizer supplies for coming seasons, by region



Source: UN Global Crisis Response Group calculations, based on data from FAO, the International Fertilizer Association, the International Fertilizer Development Centre, the International Food Policy Research Institute and the World Business Council for Sustainable Development.

Note: Annual procurement requirements are based on data from 2021; fertilizer sourcing progress is measured for 18 countries for which data were available as of 14 May 2022. This graphic shows how the relative share of annual procurement varies across the calendar year by region. It does not however show the absolute differences among regions in quantities imported of fertilizer. For example, Latin America, South Asia and South-East Asia import much higher quantities of fertilizer than West Africa or East Africa in absolute terms, and consequently their food exports will play a larger role in global food availability in the coming seasons.

therefore finding it more difficult to offset rising fertilizer costs with higher sell-side prices. If high fertilizer prices persist into the next planting season, the present crisis in wheat and vegetable oils could extend to a crisis in rice, affecting billions more people in the Americas and Asia.

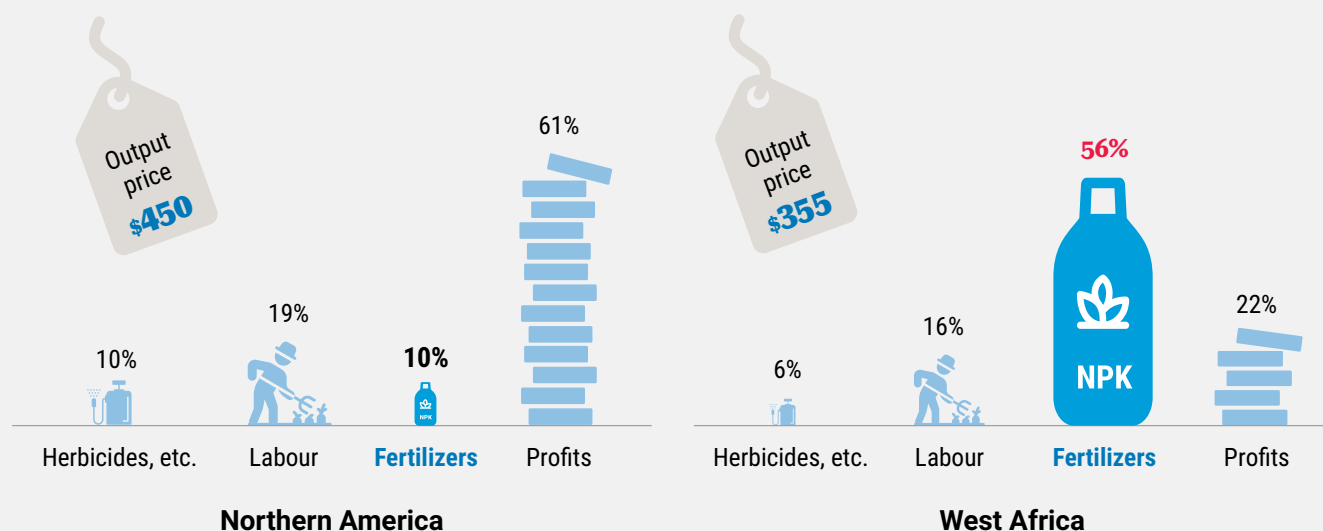
- Rice is the most consumed staple worldwide, feeding more than 3 billion people.³² The clock is ticking on fertilizer availability and procurement for the coming growing seasons across developing countries (figure 6).
- Among regions currently lacking adequate fertilizer sources, the situation in West Africa is the most time sensitive, as the planting season begins in May and June. Planting will

begin in other regions in the coming months, and the increase in fertilizer prices can have different effects depending on the region, compromising the livelihoods of millions of people (figure 7). New fertilizer plants tend to take 2–5 years to become operational, meaning that fertilizer suppliers are unable to react quickly to higher levels of global demand. The issue is therefore distributional in nature because market forces will take too long to correct it. Due to this critical fertilizer issue, without appropriate multilateral action, food prices may continue to increase, including for a wider range of staples.

FIGURE 7

**Rising fertilizer prices disproportionately hurt farmers in developing countries:
Farmer returns at current fertilizer prices**

(Cost in dollars per metric tonne of maize)



Source: UN Global Crisis Response Group, based on data from the African Development Bank and estimates of the costs of production in 2022 by Iowa State University, United States of America.

Note: Soil quality varies around the world and the impact of fertilizer on yield therefore depends on the condition of the soil. It is therefore essential that fertilizer application should be accompanied by careful analyses and safeguarding of soils.

³² See <https://www.irri.org/world-food-day-2019-rice-zero-hunger>.

Export restrictions on food and fertilizers have surged since the start of the war

- The scale of current restrictions has now surpassed that experienced during the food price crisis in 2007/08, affecting 17.3 per cent of total calories traded globally.³³
- This further aggravates the crisis; export restrictions during the food price crisis in 2007/08 contributed to 40 per cent of the increase in agricultural prices over the period.³⁴
- Since 24 February 2022, more than 200 trade-related policy measures have been recorded, both trade-facilitating measures and trade-restricting measures.³⁵ About 80 per cent of these measures affect agricultural products or fertilizers. Of these, 109 measures are export restricting measures such as bans on the export of fertilizers and certain food products, taken by 63 countries.

The situation is critical and strong cooperation is required to avoid more restrictions. The crisis in food and fertilizers will worsen quickly if the international community does not act now. Without immediate preventative steps, current disruptions in food systems will heighten the risk of social unrest in many countries, such as the unrest that occurred in several countries following the food price crisis in 2007/08.

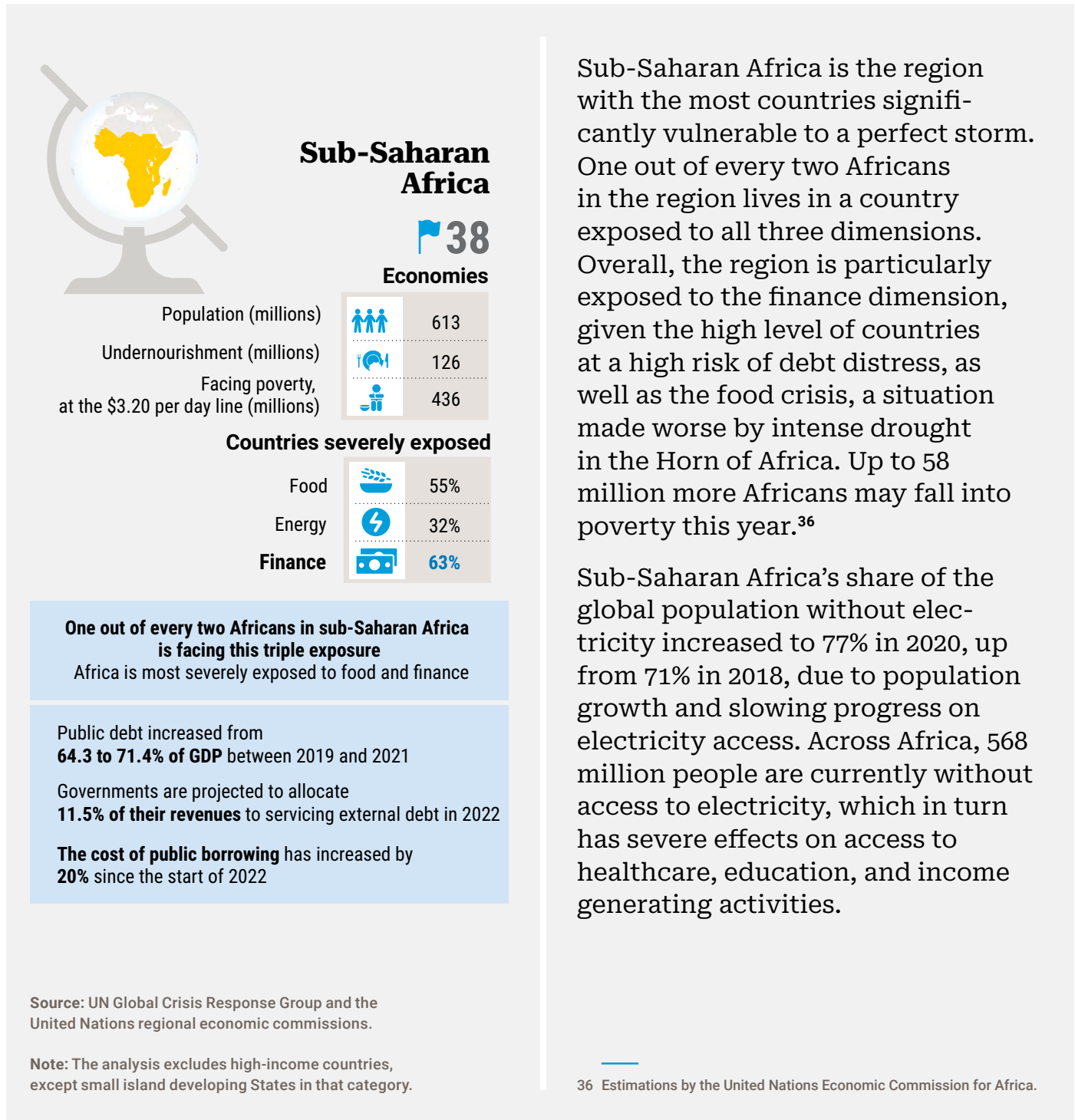
³³ See <https://www.foodsecurityportal.org/tools/COVID-19-food-trade-policy-tracker>.

³⁴ See <https://www.ifpri.org/blog/bad-worse-how-export-restrictions-exacerbate-global-food-security>.

³⁵ UNCTAD secretariat calculations, based on data from the Agricultural Market Information System and the Global Trade Alert. The methodology follows that of the International Classification of Non-Tariff Measures; see <https://unctad.org/topic/trade-analysis/non-tariff-measures>.

4. This is a global crisis, not confined to any one region

As a follow-up to the initial UN Global Crisis Response Group analysis, the United Nations regional economic commissions have looked at the capacity of countries to cope, confirming that between 1.6 billion and 1.7 billion people live in countries severely exposed to at least one of the three transmission channels of the crisis, namely, rising food prices, rising energy prices and tightening finances. Of greatest concern, 1.2 billion people live in countries exposed to a “perfect storm” of all three dimensions at once. However, not all regions and subregions are exposed in the same way.











Middle East and North Africa

 8

Economies

Population (millions)		103
Undernourishment (millions)		17
Facing poverty, at the \$3.20 per day line (millions)		20

Countries severely exposed

Food		63%
Energy		75%
Finance		75%

The region is severely exposed to fuel, despite its many energy exporters
Poverty in 2022 could increase by 2.8 million
 (at the \$1.90 per day line)

Public debt increased from **66.6 to 74.5% of GDP** between 2019 and 2021

Governments are projected to allocate **28.1% of their revenues** to servicing external debt in 2022

The cost of public borrowing has increased by **19.1%** since the start of 2022

Source: UN Global Crisis Response Group and the United Nations regional economic commissions.

Note: The analysis excludes high-income countries, except small island developing States in that category, and excludes Lebanon due to data unavailability.

This region is severely exposed to the energy and finance dimensions, especially in the Levant and the Maghreb, despite the region's many energy exporters. Extreme poverty in the region could increase by 2.8 million people in 2022³⁷.

³⁷ Estimations by the United Nations Economic and Social Commission for Western Asia.



Eastern Europe and Central Asia

12

Economies

Population (millions)		202
Undernourishment (millions)		1
Facing poverty, at the \$3.20 per day line (millions)		38

Countries severely exposed

Food		42%
Energy		68%
Finance		75%

The region is exposed to finance, given the importance of remittances from the Russian Federation, which are expected to fall by around 20%

Public debt increased from **43.2 to 51.7% of GDP** between 2019 and 2021

Governments are projected to allocate **11% of their revenues** to servicing external debt in 2022

The cost of public borrowing has increased by **89.8%** since the start of 2022

Source: UN Global Crisis Response Group and the United Nations regional economic commissions.

Note: The analysis excludes high-income countries, except small island developing States in that category, and excludes the borrowing costs of the Russian Federation.




This region is severely exposed to the energy and finance dimensions, given the importance of remittances and energy exports from the Russian Federation.



South Asia

 6

Economies

Population (millions)		457
Undernourishment (millions)		56
Facing poverty, at the \$3.20 per day line (millions)		192

Countries severely exposed

Food		67%
Energy		0
Finance		67%

Nearly 0.5 billion people face at least one severe exposure, particularly with regard to food and finance. This is made worse by severe heat waves affecting the region's crops

Public debt increased from **54.2 to 83.3% of GDP** between 2019 and 2021
 Governments are projected to allocate **28.3% of their revenues** to servicing external debt in 2022
The cost of public borrowing has increased by **41%** since the start of 2022

Source: UN Global Crisis Response Group and the United Nations regional economic commissions.

Note: The analysis excludes high-income countries, except small island developing States in that category.




In this region, 0.5 billion people are severely exposed to the food and finance dimensions, a situation made worse by severe heat waves affecting the region's crops.






East Asia and the Pacific

 11

Economies

Population (millions)		137
Undernourishment (millions)		12
Facing poverty, at the \$3.20 per day line (millions)		25

Countries severely exposed

Food		42%
Energy		58%
Finance		75%

The region is home to many small island developing States that will struggle to pay for rising food and energy imports and face at least one severe exposure

Poverty in 2022 could increase by 2.5 million people (at the \$1.90 per day line) and by 8.5 million people (at the \$5.50 per day line)

Public debt increased from **32.3 to 35.2% of GDP** between 2019 and 2021

Governments are projected to allocate **18.3% of their revenues** to servicing external debt in 2022

The cost of public borrowing has increased by **12.3%** since the start of 2022

Source: UN Global Crisis Response Group and the United Nations regional economic commissions.

Note: The analysis excludes high-income countries, except small island developing States in that category.

The largest countries in this region are not severely exposed, yet many small island developing States in the Pacific are severely exposed to the food and fuel dimensions. In 2022, extreme poverty in the region (including some countries in South Asia) is expected to increase by 2.5 million people and poverty is expected to increase by 8.5 million people³⁸.




³⁸ Estimation by the United Nations Economic and Social Commission for Asia and the Pacific.






Latin America and the Caribbean

19

Economies

Population (millions)		96
Undernourishment (millions)		20
Facing poverty, at the \$3.20 per day line (millions)		17

Countries severely exposed

Food		47%
Energy		53%
Finance		47%

After sub-Saharan Africa, Latin America and the Caribbean has the highest number of countries facing a triple exposure, with 19 in total

Public debt increased from **68.8 to 87.1% of GDP** between 2019 and 2021

Governments are projected to allocate **14.4% of their revenues** to serving external debt in 2022

The cost of public borrowing has increased by **20%** since the start of 2022

Source: UN Global Crisis Response Group and the United Nations regional economic commissions.

Note: The analysis excludes high-income countries, except small island developing States in that category, and excludes the Bolivarian Republic of Venezuela due to data unavailability.

The largest countries in this region are not severely exposed, yet 19 countries face the perfect storm, the second largest group facing all three dimensions, after sub-Saharan Africa.

Follow-up actions

As a follow-up to this vulnerability assessment, the UN Global Crisis Response Group will work closely with the United Nations Resident Coordinator system, with the support of the United Nations Joint Sustainable Development Goals Fund Emergency Modality in Response to the Global Food, Energy and Financing crisis, to identify policy support for national Governments in countries that are severely exposed to the crisis with least ability to cope.

5. Policy recommendations

Given the systemic nature of this crisis, strong political will is needed. Piece-meal approaches will not work. The vicious cycle dynamics this brief highlights show that to solve just the food dimension of this crisis, important efforts will also be needed in energy and finance. Just as a family may skip a meal to pay for a minimum of electricity, a country may be forced to reduce food imports if their currency devalues, or debt service payments increase. **The FAO's recent proposal of a Food Import Financing Facility is a good example of the kind of comprehensive multi-dimensional, multi-stakeholder, quickly deployable policies needed at this time.**

Policies should be structural and consider the medium-term to prevent an even worse crisis, especially on food. The fertilizer issue is key in this regard. **Restoring fertilizer availability and ensuring smallholder access with close monitoring of fertilizer supplies everywhere for the next 6 to 18 months will be critical** to ensure food prices do not increase further and spread to other food commodities, like rice, in coming seasons.

The humanitarian response is key for those already in need, but **a preventative approach is needed to avoid a larger and more general crisis. Policymakers must target wider groups of vulnerable people around the poverty line, and support not only lives but livelihoods.** This includes poor families but also other vulnerable groups, such as informal workers, women and girls, smallholders and other populations already weakened by the socio-economic impacts of the COVID-19 pandemic and adverse climate events, such as drought and extreme heat. This also includes immediate direct support for MSMEs in the agri-food sectors going out of business due to the crisis across the developing world. Without swift attention to this wider group of at-risk populations, the future cost of humanitarian relief for an eventual larger crisis will be far greater.

Even though consensus building is more difficult today, as shown by the lack of joint

communiqués at recent global fora, it is important policymakers continue their endeavours in producing truly needed coordinated and multilateral efforts in the areas which call for urgent treatment.

To break the vicious cycles that feed into and accelerate this cost-of-living crisis, two broad approaches are required, namely, mitigating the impacts of the shock and increasing the capacity of people and countries to cope.

- To mitigate the impacts of the crisis, markets must be made more stable and debt and commodity prices must be stabilized. This is critical to immediately restore the availability of food, for all people and all countries to realize their right to food, with equitable and adequate supplies at accessible prices. As the United Nations Secretary-General, Antonio Guterres has said “an effective solution to the food crisis cannot be found without reintegrating food production in Ukraine, as well as food and fertilizers produced in the Russian Federation, into global markets, despite the war”. Other initiatives include continuing to release strategic food and energy stockpiles into markets, controlling hoarding and other speculative behaviour, avoiding unnecessary trade restrictions and committing to increased efficiency in the use of energy and fertilizers in developed countries.
 - Other measures to improve availability, while also building resilience, can include: increasing local production of different food commodities (encouraging consumption of unfamiliar varieties); diversify sources of imported foods (receiving support, when available, for higher food import bills), reducing food loss and waste; improving availability of, and farmer access to fertilizer; and sustaining the transition to sustainable production as promoted by the 2021 UN Food Systems Summit.
 - To boost energy security, efforts can be made to significantly scale up renewable energy investments across technologies like solar, wind, hydrogen etc. Current global supply chain issues, amongst others, are impacting availability

and costs of materials for renewable energy systems, and interventions such as investments in localized manufacturing/assembly plants in regional hubs.

- Demand management measures should also be explored for energy markets. For Europe in particular, energy demand management practices and technologies should be piloted over the coming months in preparation for the winter.
- This crisis shows the importance of developing energy transition plans and integrated energy plans including ending energy poverty goals.
- To increase the capacity of people and countries to cope, social protection systems and safety nets must be widened and strengthened for urgent use and fiscal space must be increased. Both social protection measures and fiscal space are in fact linked – countries need support from the financial institutions to increase their fiscal space to in turn increase social protection spending, including cash transfers to the most vulnerable. The international community needs to support countries protect their poor and vulnerable. It is important governance issues are addressed to ensure that these resources are well spent. Emergency social protection policies should be targeted, time-bound, consistent with sustainable development goals and not allocated universally.
 - Special attention must be given to the nutritional needs of the vulnerable, as well as women and children.
 - Vulnerable energy consumers must be shielded from soaring prices, including through relief measures funded by windfall taxes on energy companies.
 - As part of the effort to increase fiscal space countries must commit to improving the governance of the seeds and fertilizer distribution mechanisms. Historical inefficiencies and weak governance have been costly and undermined efficient and effective markets.

- Humanitarian assistance is also needed and should be provided early on, in collaboration with development actors, with cash as well as food and other essentials, in ways that strengthen local capabilities and minimise dependence on external groups. In this context, it is critical that countries reconsider proposed cuts to Official Development Assistance commitments, which ought instead to be respected and increased.

There is no answer to the cost-of-living crisis without an answer to the finance crisis in developing countries.

- Existing international financing mechanisms to support strong national fiscal responses need to be fully funded and operationalized quickly. During the recent Spring Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG) not enough commitments were made available for the international finance institutions to use all their capacity to act quickly. Albeit, important commitments to the Poverty Reduction and Growth Trust and the newly created Resilience and Sustainability Trust, which should be allocated immediately. All available rapid disbursement mechanisms at international financial institutions must be reactivated with raised access limits.
- Multilateral development banks (MDBs) must be capitalized and apply more flexible lending ratios. MDBs should also use all tools to increase access to finance for countries including applying more flexible and concessional lending rates and expanding borrowing limits, as well as triggering any and all crisis lending instruments such as the crisis response window of the World Bank. Given tightening financial conditions, bond markets are closed to many countries, and those that can borrow must do so at rates that compromise the sustainability of their debts.
- Given the global nature of the present crisis, IMF interest rate surcharges should be suspended for at least two years.

- A new emission of Special Drawing Rights, as well more pledges to recycle them from countries with strong foreign reserve positions, is urgently needed.

The global debt architecture is not ready to face the current crisis

- The current crisis arrives during a moment of record-high debt levels and rising interest rates. At the start of the COVID-19 pandemic, debt levels were much lower. During the crisis, monetary policy was also much more supportive, with major central banks slashing interest rates and dramatically increasing liquidity in global markets. Current tighter monetary conditions increase the risk of a systemic debt crisis.
- The G20's Debt Service Suspension Initiative should be renewed, and maturities should be pushed back by two to five years.
- The Common Framework for Debt Treatment, which is still to show its use to the few countries that have requested it, needs to be improved.
- A systematic approach to multilateral debt restructuring and relief which includes vulnerable middle-income countries must also be pursued to ensure long-term solutions to current challenges.

In pursuing this ambitious agenda, policymakers should consider the distributional nature of this crisis. Global food and energy markets are under severe stress and market-driven solutions are extremely limited. As the case of fertilizer affordability shows, price rises do not automatically lead to increases in production, which shows how the market may require more time to react than is available. Unprecedented disruptions in global supply chains, marked by unviable transport routes and destroyed infrastructure in Ukraine, are a major component of the recent price rises. These cannot be solved in the short-term.

Policymakers should understand the full complexity of recent rises to the cost of living – in the current context, inflation is more a description than a cause. Actions aimed at containing it by reducing demand, such as increasing interest rates, will not mitigate these supply-led disruptions. At the same time, attempts to preserve limited supply in the face of these disruptions, such as export bans, may also accelerate price volatility and prolong the crisis. The global community should avoid a commodity scramble at all costs. Though there is enough food, energy and resources in the system, record-high prices imply supplies reach only those able to afford them. Concrete efforts should be made to ensure critical supplies of food and energy reach the most vulnerable. Access, price and timing have to be considered together if an integral solution is going to be provided. Today, the world faces a *crisis of access*, where there is enough of everything but at the wrong price, the wrong place, and the wrong time. Tomorrow, the world may face a *crisis of availability*, where essential supplies arrive either too late or in too few a quantity, even despite high prices.

Time is of the essence and it is running out. This Brief aims to show the vicious cycle and trade-off dynamics that sustain and exacerbate this crisis, which will snowball into a wider crisis, if not enough action is taken today. There is still scope to prevent most of the damage from this crisis, and to support countries deal with it before it is too late. The cost of doing this later will be much higher than it is now.