

Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation



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1. INTRODUCTION

a. Background and rationale

This document presents good practice to assist humanitarian actors designing and implementing cash programmes, including multipurpose cash (MPC) and cash for sectoral outcomes. The rationale for this document is the **growing challenge of inflation and currency depreciation in contexts in which humanitarian cash assistance is being implemented and/or could be implemented**. The need to document existing practice has been underscored by COVID-19, which has exacerbated economic volatility in many humanitarian contexts, and increased humanitarian needs. This is an area of ongoing learning; hence this is a collation of good practices to date, and the document is intended to be updated on a regular basis.

The **document has been drafted collaboratively by the Donor Cash Forum (DCF)**, given donors' role in ensuring the optimal use of funds to meet humanitarian outcomes, and in driving coherence and Value for Money (VFM) among humanitarian actors. It is aligned with the intent of the [Joint Donor Statement on Humanitarian Cash Transfers](#) to maximize the efficiency and effectiveness of cash assistance – but is not donor guidance per se.

The **content was sourced through a consultative process coordinated through the CaLP network**. The consultation process involved dedicated CWG meetings and written feedback. Inputs were gratefully received from donors, Cash Working Groups and the global Food Security Cluster, individual agencies, and individual consultants (see Acknowledgements for further detail). This **consultation was complemented by a review of existing literature on the topic**, which has been referenced throughout the document.

b. Overview of the document, including audience

The document starts with an overview of key concepts, presented in an accessible way for humanitarian actors. The **guidance part of the document is intended to mirror the response analysis process** and is structured as follows: [Situation Analysis](#), [Response Analysis](#), and [Response Options](#). It **contains the type of information and analysis required to make programming decisions in these contexts**. It is not intended to provide tailored solutions, but rather to help guide and document decision-making.

Examples from different contexts have been integrated as text boxes throughout the text. These are intended to illustrate concepts and demonstrate how steps and options have been carried out in practice. In addition, **in-depth case studies of Zimbabwe, South Sudan, Lebanon and Yemen** have been developed alongside the review. These illustrate the type of analysis and the decision-making processes carried out in these countries. **Lessons learned from these case studies** have also been integrated as text boxes throughout the text.

The document is relevant for different humanitarian audiences, namely coordination bodies, in particular Cash Working Groups (CWGs), individual agencies and donors. The implications of different steps and options for these different audiences are outlined. The document is also relevant to contexts 'only' affected by inflation.

2. KEY CONCEPTS AND THEIR RELEVANCE TO HUMANITARIAN PROGRAMMING

This section summarizes some of the key concepts relevant to inflation and currency depreciation, and what the implications are for humanitarian programming. These concepts have been chosen because they impact humanitarian cash assistance. The explanations are intended as a basis for the audience to understand the issues discussed.

a. Inflation

Inflation is the increase in prices of goods and services in an economy over a given unit of time. It is typically measured **at a national level and as a percentage increase per year**, based on the average price level of a basket of selected goods and services in an economy.[1]

This is important because the rise in the general level of prices means that **money buys less than it did in the previous period**. This can affect people's purchasing power and limit their ability to meet their basic needs.

Inflation should be distinguished from localized price fluctuations resulting from the ebb and flow of the supply and demand for various goods. It should also be distinguished from price fluctuations linked to seasonality or other cyclical or punctual shocks. It is rare for inflation to occur in one region of a country without a localized shock.

It is important to **understand the causes of inflation and the relationship to currency depreciation** (see below). For example, if inflation is not linked to depreciation, inflation may affect the price of local products but not necessarily of imported goods.

The main causes of inflation are:

- Cost-push inflation – for example, higher oil prices feeding through into higher costs;
- Devaluation – increasing the cost of imported goods;
- Depreciation and devaluation – increasing the cost of imported goods;
- Demand-pull inflation – aggregate demand growing faster than aggregate supply (growth too rapid) – e.g., failed what harvests in some of the world's major producers; and
- Monetary policies – that influence money supply.

diverge from the mean price – is also a consideration for humanitarian programming, as a highly volatile rate of inflation may make programming more challenging.

[1] Using [CaLP definition](#), [Investopedia](#), and [CRS MARKit](#)

b. Hyperinflation

Hyperinflation describes rapid, excessive and **out-of-control rises in inflation, of 50% per month or higher.**

- Hyperinflation arises under extreme conditions, particularly i) depressed economic conditions, ii) deteriorated socio-economic conditions and rule of law and iii) high levels of domestic conflict and government instability.[2]
- An episode of hyperinflation starts when there is a month in which price levels increase by at least 50% month-on-month. When the monthly inflation rate drops below this threshold and remains below it for at least one year, the episode of hyperinflation is considered over. [3]

Example of hyperinflation in Venezuela:

In December 2017, Venezuela officially entered into hyperinflation when it recorded a monthly rise in its consumer prices index (CPI) of more than 50%. Hyperinflation has continued ever since, reaching an all-time high of 130,060% in 2018, according to the Central Bank. Other independent estimates put this figure at over 1 million percent.* At the same time, Venezuela has experienced currency depreciation of more than 90% per year. Such deterioration of purchasing power has contributed to a rise in the use of foreign currency, although it has not been excluded from these dynamics. In 2020, the price of the family food basket in US dollars is estimated to have increased by 45%. *Source: FCDO Venezuela*

*Official Central Bank data is considered inconsistent and unreliable. Likewise, independent estimates may differ, as prices are increasingly difficult to track under hyperinflation.

c. Hard currency and dollarization

Hard currency:

- Hard currency refers to **money issued by a nation seen as politically and economically stable**. Hard currencies can sometimes be accepted as a form of payment for goods and services and even preferred over domestic currency. The typical example is US dollars (USD).
- Hard currencies can be particularly useful when local currencies are not stable – in contexts of rapid depreciation in the exchange rate.

Dollarization:

- Dollarization is when a **country officially begins to recognize USD as a medium of exchange or legal tender** alongside or in place of its domestic currency. This is distinct from unofficial dollarization, which occurs when dollars are 'illegally' used as a form of tender.

[2] [IMF Working Paper \(2018\) 'The Modern Hyperinflation Cycle: Some New Empirical Regularities'](#)

[3] Cagan (1956) [in WFP \(2017\) 'South Sudan western trade corridor in times of hyperinflation'](#)
<https://documents.wfp.org/stellent/groups/public/documents/ena/wfp290341.pdf>

- Dollarization typically occurs when the local currency has become unstable and begun to lose its usefulness as a medium of exchange for market transactions.
- Dollarization is important in these contexts as it typically enhances monetary and economic stability and can allow humanitarian assistance to be more effective. However, it necessarily involves loss of economic autonomy in monetary policy.[4] *See example on dollarization in Lebanon.*

d. Exchange rates

Exchange rates are the values of one country's currency in relation to another currency. This is important because, if the value of the national currency falls, it becomes more expensive to buy imported goods.[5]

Official exchange rate:

- This is set by the Central Bank, so that governments can trade with each other, and import hard foreign currency. This can be a **floating exchange rate system** (whereby market forces determine a floating currency's value loss) or a **fixed exchange rate system** (whereby the Central Bank firmly sets the currency's value relative to another currency and can 'devalue' the currency by lowering the exchange rate).
- The **purpose of the official rate is to balance supply and demand for the local currency** and for hard foreign currency; problems occur when the relative supply and demand become out of balance.[6] Governments can also manipulate exchange rates to enhance their revenues. International organizations operating in a given country may be restricted to buying local currency at this rate.

Example from Yemen:

Yemen has a conflicted currency situation between its Northern and Southern Governorates, as a result of the printing of new notes by the Internationally Recognized Government (IRG)-controlled Central Bank of Yemen in Aden. As a result, the two Governorates use different denominations. There are therefore different markets for trading recently printed denominations and the older currency denominations printed back in 2014, resulting in different exchange rates. *Source: Working Paper - Yemen's Currency Crisis and the Corresponding Impacts on Markets - October 2020*

[4] Using [Investopedia](#)

[5] Using [CRS MARKit](#)

[6] In general, it is unlikely that cash programmes are at a sufficient scale to impact supply and demand of the local currency or foreign hard currency, but the international community more widely may be sufficiently large.

Example from Zimbabwe:

Foreign currency shortages and management of the official exchange rate have resulted in the emergence of a thriving parallel market for foreign currency. The margin between the official exchange rate and the parallel market is around 42% (as of May 2021). Prior to May 2020, the Zimbabwe dollar (ZWL) was the only legal tender and the official exchange rate was fixed at 25 ZWL for USD 1 and was mandatory for all humanitarian actors. Hence WFP beneficiaries, for example, had to exchange their USD entitlement into ZWL for purchasing at this official rate, leading to an increasing loss of actual purchasing power. *Source: Country Case Study.*

Market/Commercial exchange rate:

- This is the rate used by commercial banks and formal forex traders. Central Bank policy should ideally be to stabilize the commercial exchange rate. Therefore, in some contexts commercial banks and/or forex traders can be subject to regulation to keep their exchange rates in line. Alternatively, they can set their own rates. Therefore, a range of commercial rates may coexist.
- International organizations operating in a given country may be authorized to buy currency at a commercial rate or at a different – potentially preferential – rate.

Parallel exchange rates and black market rates:

- If the official and commercial rates are overvalued, which is often the case, **a parallel market exchange can arise**. There may be a range of exchange rates operating in parallel, which could vary significantly by region (see 'Example from Yemen' text box, p. 7). These markets often emerge when there are government restrictions on exchanging currency through commercial exchange forums, making such exchanges illegal ('black') markets. International organizations should never engage in black market activity.

Preferential exchange rate:

- A country may also opt to implement a system of multiple foreign exchange rates at which its currency is legally exchanged. Some currency users may have an exchange rate that is better for them or 'preferential'.
- Preferential exchange rates can be used to help populations in need. **Preferential rates can be granted to aid agencies through negotiation with the government, to support humanitarian assistance to go further.** Preferential rates can also be given to importers of 'essential' goods such that they can buy more with the same amount of local currency, while importers of 'non-essential' goods have a less encouraging exchange rate.[7] *See associated Lebanon case study, as an example of six concurrent exchange rates.*

[7] Using [Investopedia](#)

e. Depreciation

- **Depreciation (appreciation) is a fall (rise) in the value of currency, typically within a floating exchange rate system.** Depreciation or appreciation are typically reported as a percentage fall or increase in the value of the local currency relative to hard currency (e.g., the Lebanese pound had lost nearly 90% of its value to the USD[8] since October 2019). Depreciation can be reflected in a growing gap between the official rate and the commercial and black market exchange rates.
- Depreciation can lead the Central Bank to devalue its currency, making a conscious decision to lower its exchange rate, as part of a fixed or semi-fixed exchange rate system.
- If depreciation is rapid, it can cause individuals to exchange their money for foreign currency to protect its value, resulting in capital flight, putting further downward pressure on the currency.
- To limit further depreciation and capital flight, governments can impose formal capital controls, including domestic cash withdrawal caps that limit the amount that account holders can withdraw. This can restrict the options available for humanitarian organizations to deliver cash assistance and make payments to providers. If these restrictions are persistent, they can lead to scale-up of electronic money providers and transaction volumes in some contexts, though this is limited if there is an accompanying banking/financial crisis. [9]
- The possible reasons for depreciation are interest rates, inflation, negative trade balance, monetary and fiscal policies, and political instability.
- In humanitarian contexts, depreciation is likely to contribute to rising inflation because of higher import prices. A depreciating exchange rate in itself also makes exports more competitive, increasing demand for exports. Depreciation, and the associated loss of value of physical banknotes, can also lead to liquidity shortages, if the Central Bank cannot print currency and/or it cannot be widely distributed fast enough.
- Increasing costs of imports are particularly harmful to countries that have high food imports, such as Yemen which imports 88% of its food supply. [10]

[8] <https://lirate.org/>

[9] In many contexts, liquidity challenges are coupled with a banking crisis, which ultimately translates into a significant shift to a cash economy, hindering ability to scale-up electronic money transactions. Banking crises are when there are widespread bank runs (an abnormally large number of depositors trying to withdraw their deposits because they do not trust the bank will have reserves for withdrawal in the future).

[10] [ACAPS \(2020\) Yemen: Food supply chain](#)

Example from South Sudan:

The Government of South Sudan relies on oil for its budget revenues. The reduction in output of oil production, reduced demand and low oil prices in the international markets have limited the already stretched foreign currency reserves in the country. In August 2020, the Bank of South Sudan (BSS) announced the depletion of foreign exchange reserves. Following this announcement, the exchange rate (South Sudanese Pound/USD) in the parallel market depreciated at an alarming rate, further widening the difference with the official exchange rate to about 448%. Further, decisions by the government to change the local currency has led to additional depreciation of the SSP in the parallel market. Source: WFP Market update, Sept & Oct 2020

With local currency, there is little constraint other than depreciation in terms of liquidity and acceptance by the beneficiary or local markets at the local level. As South Sudan is a heavily import-dependent country, the depreciation of the SSP leads to overall reduction in the amount of USD cash, and hence drop in volume of imports. Source: *Country Case Study*.

f. Devaluation

- **Devaluation occurs when a country makes a conscious decision to lower its exchange rate in a fixed or semi-fixed exchange rate regime.** This contrasts with depreciation whereby, under a floating exchange rate system, the rate is set by the market.
- Devaluation affects prices in the same way as depreciation.

Example from Iraq:

The Iraqi dinar was devalued by 18% against the USD. The devaluation was a policy decision, rather than a market decision, taken by the government to address budget deficit and decrease in oil revenue (WFP 2021). Food prices rose by 15–20% immediately following the devaluation, as monitored through the JPMI and WFP, and appeared to stabilize at the new level in the weeks after. Source: [WFP \(2021\) Iraqi Dinar devaluation and the price of the food basket](#)

g. Transfer value and MEB

The following definitions are specifically relevant to the design of cash assistance.

A Minimum Expenditure Basket (MEB)[11] requires the identification and quantification of basic needs items and services that can be monetized and are accessible in adequate quality through local markets and services. Items and services included in an MEB are those that households in a given context are likely to prioritize on a regular or seasonal basis. An MEB is inherently multisectoral and based on the average cost of the items composing the basket. It can be calculated for various sizes of households.

[11] [Using CaLP definition](#)

A Survival Minimum Expenditure Basket (SMEB)^[12] includes goods and services for ensuring that a household's minimum survival needs only are addressed. Delineating the threshold for survival and differentiating a SMEB from a MEB is not currently a standardized process.

Transfer value: The transfer value is the amount provided to recipients of cash assistance, either as a one-off or recurrent payment. It should be sufficient to cover or contribute to regular basic needs and other sector-specific needs that are not regular basic needs. CaLP provides [guidance on setting transfer values](#).

[12] Using [CaLP definition](#)

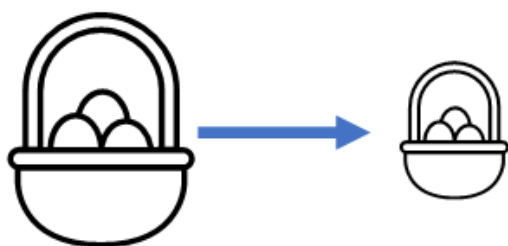
3. IMPLICATIONS FOR HUMANITARIAN CASH ASSISTANCE

a. How inflation and depreciation affect programming

The impact of inflation and depreciation on humanitarian assistance are not limited to cash assistance as they also influence broader operational costs for humanitarian agencies (including salaries, transport, logistics, etc.) and may affect the cost of other assistance modalities (if these are purchased locally). However, **cash assistance is uniquely impacted by inflation because it reduces beneficiary purchasing power, while possibly also increasing the delivery cost.** Ultimately, the problem lies with people being able to purchase less than intended with the assistance.

Depreciation on the other hand is trickier to 'classify'. **For a fixed USD budget, humanitarian agencies can have access to more local currency, so can in principle continue to provide the same transfer value or even increase it or reach more people** (assuming that programmes can be adapted in a timely way). The problem is when concurrent inflation outpaces the possible increases in transfer value (and associated purchasing power) that could be made because of the currency gains. In a context of depreciation, parallel exchange rate markets may arise. If this is the case, and with budgets fixed in hard currency, **agencies can be locked into an official exchange rate lower than the parallel rate** (see [Exchange rates section under Concepts above](#)). Financial service providers (FSPs) or the Central Bank may be able to benefit from better rates relative to those applied to humanitarian agencies, and thus benefit from the difference between exchange rates. Inflation and depreciation can also result in **shortage of physical banknotes, which affects the feasibility of direct cash assistance.**

Inflation: being able to buy less



Depreciation: supposedly able to distribute more. Parallel exchange rate markets - ultimately benefiting banks.

USD => FSP => LBP

These factors directly **impact the purchasing power of beneficiaries, and thus the achievement of intended humanitarian outcomes.** In such scenarios, humanitarian assistance must be adapted. Growing levels of vulnerability and widespread reduction in purchasing power can prompt discussions regarding reach, targeting, etc. However, **this review focuses principally on maintaining the purchasing power of those already targeted, through policy and programming options.** The complexity of responding to such situations may also lead to different approaches between organizations, creating inequity and confusion. An underlying principle of the guidance below is therefore the **importance of harmonized approaches between donors and implementing agencies.**

b. Overview of the analysis and decision-making process

Based on experiences to date, this Good Practice Review presents the **analysis and decision-making process for adapting cash assistance in contexts of inflation and depreciation**. This is framed within overall response analysis,[13] which informs decision-making on the suitability of different modalities. **Underpinning the review is an overall commitment, enshrined through the [Grand Bargain](#) and the [Joint Donor Statement](#) to scaling-up cash**, so the analysis is based on an intent to maintain the provision of cash assistance, while ensuring humanitarian outcomes, for as long as possible.

The [Situation Analysis](#) section summarizes what you need to know about the context in relation to inflation and depreciation. The [Response Analysis](#) section summarizes the key information points which will guide your decision-making and help you to identify the type of scenario you are dealing with. Finally, the [Response Options](#) section provides possible solutions for those different scenarios. The diagram on p. 12 summarizes this process.

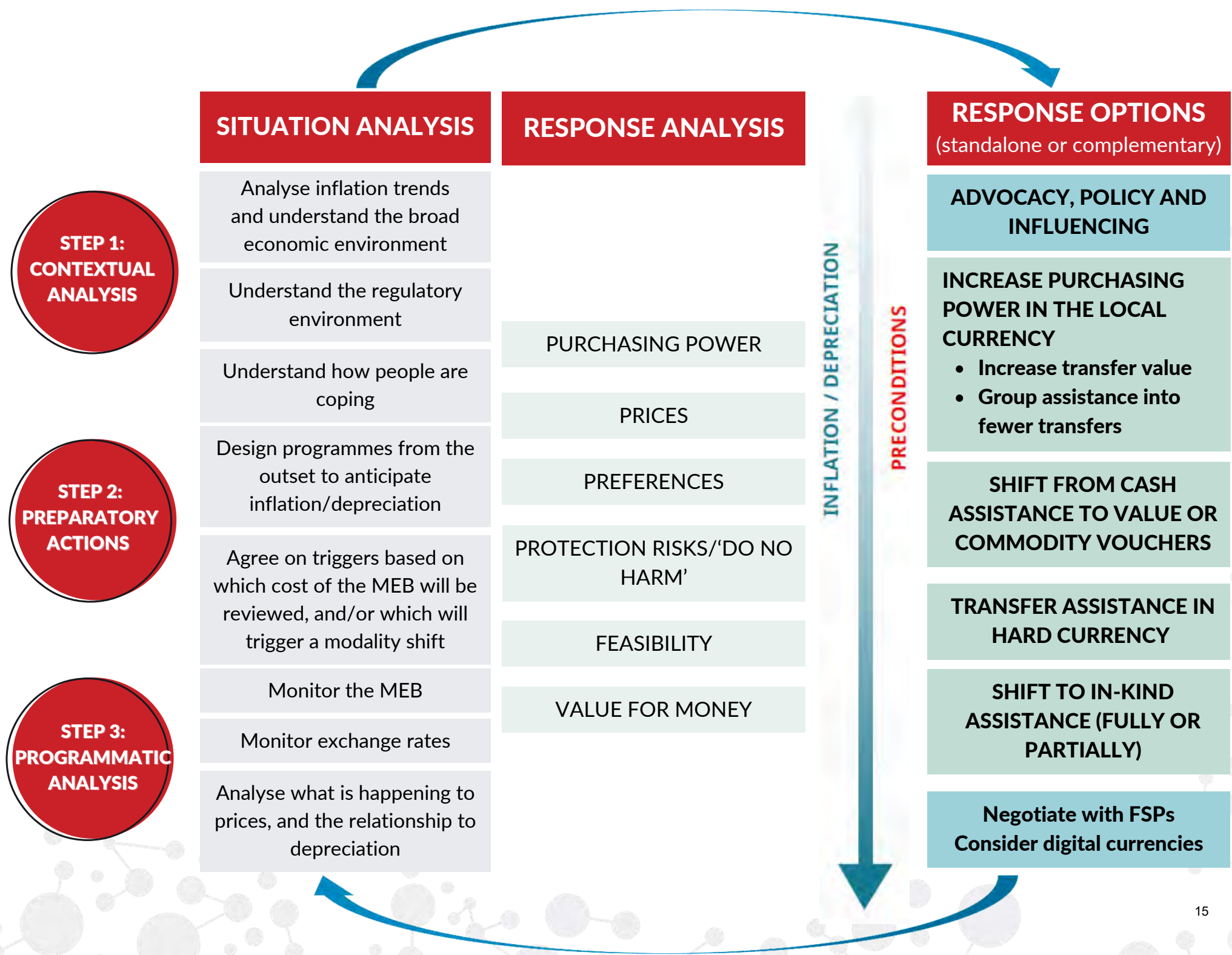
c. Stakeholders

There are a number of key stakeholders involved in such a process, irrespective of context. The principal stakeholder is the people in humanitarian need, who should drive decision-making, based on their behaviour and preferences. The immediate humanitarian stakeholders involved in taking and operationalizing these decisions are **humanitarian implementing agencies, donors and coordination bodies**. The implications of the steps and options for these actors are highlighted throughout the guidance. In addition, the **Humanitarian Country Team** (or equivalent) may be a key stakeholder and decision-maker for some of the policy and programming options (though noting that the suitability of this forum will depend on the extent to which the government is engaging constructively in stabilizing the inflation/depreciation situation).

Beyond humanitarian actors, the **central government** is an instrumental player in enabling or limiting some of the options. More specifically, **Central Banks** lead on monetary policy, which in turn defines devaluation and associated exchange rates. The Central Bank will also define **Financial Service Provider regulation** and the implications for the use of different currencies, liquidity, etc. For voucher-based options, **traders/vendors** are also a key stakeholder with whom to negotiate set prices and/or exchange rates.

Social protection actors delivering cash assistance (which will likely also include the government) are another key stakeholder, as decisions around the adaptation of humanitarian cash assistance should optimally be coordinated with social protection programmes, particularly in refugee contexts in which different approaches could significantly impact social cohesion. As such, the longer-term implications and sustainability of humanitarian programming adaptations should be considered, including their potential ambition to strengthen social protection systems over time.

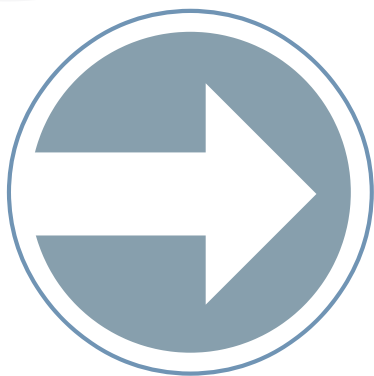
[13] For extensive guidance and tools on Response Analysis, see CaLP's programme quality toolbox: <https://www.calpnetwork.org/resources/programme-quality-toolbox/>



4. SITUATION ANALYSIS

Introduction

The **Situation Analysis** section summarizes what you need to know about the context in relation to inflation and depreciation. It is structured in 3 steps: [Contextual analysis](#), [Preparatory actions](#), and [Programmatic analysis](#). **Each step is structured as follows:**



**WHY THIS IS
IMPORTANT?**



**WHAT DO YOU
NEED TO
KNOW/DO?**



**WHAT ARE THE
IMPLICATIONS FOR
DIFFERENT ACTORS?***

These steps should be carried out on an ongoing basis, to ensure programmatic decisions are based on the most up-to-date knowledge of the evolving context. They can be carried out at the outset of a programme, or during the course of implementation to inform adaptations. **Preparedness (for all steps) is key, in order to anticipate changes in the environment.** This recognizes that there is a lag in responding to macroeconomic changes (i.e., until transfer values can be adjusted), which should be reduced as much as possible. In support of coherent and harmonized programming, these **steps should ideally be carried out at inter-agency level, led by the Cash Working Group** (or equivalent), and involve all the relevant stakeholders listed above.

*noting this may differ from country to country, e.g., based on capacities of the CWG

Step 1: Contextual analysis

a. Analyse inflation trends and understand the general macroeconomic environment



- To understand the causes of inflation/depreciation.
- To understand how typical inflation trends in programme locations are for that time of year/type of crisis.
- To understand the difference between nominal prices and real prices.



- Understand key elements of the structure of the economy, including public debt (as a signifier of possible devaluation risk), monetary policy (including the exchange rate regime), import/export dependency (which is indicative of how prices may be affected if depreciation happens).
- Analyze the historical relationship between exchange rates and prices, and the extent and duration of lag between currency shifts and consequent price fluctuations (*see also Step 2c*).
- Source and analyse information on 'typical' inflation trends, e.g., the Consumer Price Index (CPI), or the Wholesale Price Index – which can be useful to anticipate inflationary pressures driven by import prices. These will typically provide monthly and yearly inflation data, as a basis for comparison with price monitoring data in programme locations.
- If they exist, analyse price transmission mechanisms, either within country or from global to local prices (essentially, how sensitive is the economy to price changes happening elsewhere?).
- Compare local prices and national or regional prices (e.g., through the CPI) to understand the extent to which prices in programme locations are sensitive to price changes happening elsewhere (See [CRS' MARKit worksheet 8](#))



- The CWG, supported by dedicated specialized agencies or functions (e.g., [REACH](#), [WFP's VAM](#)), is responsible for compiling this data, and engaging with economists to support its analysis.

Example of analysing the macroeconomic environment in the South Sudan CWG:

High inflation and its negative impact on the exchange rate mobilized the CWG to work on collective solutions. CWG meeting agendas focused on an analysis of the economic situation and understanding of the implications for humanitarian projects. This process involved external actors, including banks and economic experts. It was also agreed that there was a need for more frequent price data collection, and therefore the monthly market monitoring conducted by JMMI was reinforced with a second round of data collection in a reduced number of locations, covering a reduced number of key items. *Source: DG ECHO, November 2020*

b. Understand the regulatory environment (for FSPs, for international organizations, dollarization of the informal market, withdrawal limitations, etc.)



- This will determine the scope for advocating for preferential exchange rates.
- It will influence the choice of FSP, and inform the feasibility of dollarization.



With regards to official vs. parallel market exchange rates:


- Do rates differ depending on the type of organization?
- What scope is there for advocacy to the Central Bank for a preferential rate for humanitarian organizations?
- Can commercial banks set their own exchange rates?
- Do these rates differ between banks and other FSPs?
- Do rates differ between transfer modalities (e.g., bank transfers, mobile money, cash notes)?

With regards to the use of hard currency:

- Are there limitations in relation to the import or use of hard currency for humanitarian organizations?
- Is it possible to purchase goods and services in hard currency? If so, what types of goods and services?

- Can suppliers (i.e., FSPs or traders) be paid in hard currency inside or outside the country of operation?
- Can the target population safely access and spend money in hard currency, either physically or electronically?
- Does this vary by population group?

With regards to liquidity:

- What are the possible liquidity constraints (at national and local level) in the local currency as a result of inflation and depreciation?
 - What about in hard currency (including for small notes, which are likely to be needed for cash transfers)?
 - What is the capacity of banks and traders to make large-scale transfers in the hard currency?
 - Are there transfer or withdrawal limitations in either local or hard currency, to limit further depreciation and capital flight? (e.g., as imposed in [Ethiopia in 2020](#) or [Sudan in 2018](#))
 - What scope is there to use digital platforms? If there is a good level of financial infrastructure, access and literacy, together with an enabling operating framework, it may be possible to strengthen the use of digital transactions through, e.g., prepaid cards.
- 
 - Ideally, CWGs should coordinate a process of defining key questions and collating information. If they do not have the required capacity, this should be coordinated at inter-agency level, e.g., through the Humanitarian Country Team (HCT).

Example of the cash liquidity crisis in Zimbabwe:

The economy in Zimbabwe has been facing a cash liquidity crisis as economic agents cannot access cash from the banks, even in the local currency. Most banks are failing to disburse the Z\$2000 weekly cash withdrawals for individuals. The shortage of cash in the market is due to the tight monetary policy that the Central Bank has been pursuing. Although the economy has witnessed an increased official use of USD, the key challenge on the ground is shortage of smaller denominations. This shortage is affecting transactions in USD in both the urban and rural economy. *Source: Country Case Study.*

Example of analyzing the feasibility of providing assistance in USD in North-West Syria:

The cash feasibility assessment for North-West Syria (NWS) concluded the following regarding the effects of inflation and the feasibility of disbursing assistance in USD:

- Providing assistance in USD is the best practice to guarantee the purchasing power of beneficiaries. There are no major concerns about external factors of inflation impacting the feasibility of cash-based interventions in NWS. Exchanges on markets are made in Syrian Pounds, yet nominal prices are indexed on either USD or Turkish Lira, and vendors guarantee their capital in foreign currency as well.
- High rates of inflation should be monitored closely as they could generate growing tensions with non-beneficiaries. Similarly, the risk of vendors taking advantage of the current situation should also be given close attention.
- The main challenge to cash assistance is also related to the distribution of multipurpose cash in USD. There is limited availability of some denominations in USD in NWS. There are some subsequent concerns about available liquidity in USD for local markets if cash assistance was to be scaled up.

Source: [IOM & CWG, Cash feasibility assessment, North-West Syria \(2020\)](#).

c. Understand how people are coping



- This will provide you with information on people's existing behaviors and preferences, which can guide the appropriateness of different response options.
- This will help ensure no harm is done to the coping mechanisms of the broader population in targeting only the most vulnerable.



- Use beneficiary surveys, assessments and/or monitoring to understand how affected people are coping. Possible mechanisms include: transferring currency holdings to hard currency or other available currencies; purchasing assets with longer value capacity; rapid bulk purchases after receiving any local currency injection; or buying commodities which can then be sold or monetized, such as airtime.

Example of a harmonized approach to designing MPC for inflation in North-West Syria:

The Northern CWGs in opposition-held territories in Syria (northwest and north-east) have developed guidance on the distribution of MPC in USD, which is clearly communicated to donors. This stipulates a harmonized unit cost for MPC at 120 USD per month per household. The transfer value agreed upon at the CWG level is actually 100 USD, but this leaves 20 USD as a reasonable buffer against shifts in market dynamics, without triggering project modification that could lead to unnecessary delays in delivering assistance. A buffer amount was added to the MPC unit cost when calculating their proposed budget for emergency MPC. This buffer amount is primarily a provision for market- and currency-related shifts, including inflation. If such a shift does not occur and prices of SMEB items remain stable or decrease, the budget surplus allows distribution of MPC to a greater number of vulnerable households. *Source: NW Syria CWG, 2021*



- This type of analysis should ideally be coordinated at CWG level, and conducted through individual agencies as part of their ongoing engagement with communities.

Step 2: Preparatory actions



A key learning from the case studies suggests that preparedness is key to appropriate and timely adjustments to programming. For example in Zimbabwe: 'In hindsight, it would have been useful to have had an agreed threshold with regards to the erosion of transfer value by which the programme would have had to switch to a different option/modality, taking into account administrative procedure and necessary timeframes to adjust. This would have avoided leaving it to the individual agency's "tolerance" for purchase power losses. Once the modality has been switched it is hard to push the system to revert back again. Therefore, considerable time is needed as it is not a very agile system when operating at scale. The CWG could take a lead in developing SOPs for managing volatile current situations.'

a. Design programmes from the outset to anticipate inflation/depreciation



- This should provide the required price information, and the contractual and budgetary flexibility to envisage different programming options.



- If donor rules allow, make provision in the budget for a contingency fund/crisis modifier (held either with the donor or the implementing agency). This should ideally be based on a projected inflation rate relative to the change in the relevant exchange rate – if the relevant exchange rate depreciates in line with inflation, then there would be no need for the crisis modifier, as the foreign exchange would buy enough additional local currency units to offset the inflation. See the Red Cross/Red Crescent [Transfer value calculation template](#), which includes a budget line for ‘Average expected inflation during the project period’.
- The contingency fund must be supported by a plan with key actions, developed pre-crisis, and which continues to be updated as the situation evolves. These actions should be pre-agreed by donors.
- Assess the operational feasibility of a) frequently adjusting the transfer value, and b) switching modalities, and put in place potential preparatory measures.
- Contractually agree on triggers for a potential modality switch (see [Step 2b](#) below).
- Build operational capacity to implement a mix of modalities/mechanisms.
- Identify potential additional sources of funding (e.g., through emergency funds) which could be requested as an addition to existing budgets.



- Donors need to provide adequate funding for inter-agency price monitoring mechanisms as a basic common service (e.g., REACH).
- Donors need to be aware of the financial risks and related costs, and provide budget flexibility accordingly, ideally in a coordinated way across donors, and cognizant of the risks of issues such as differential exchange rates between agencies.
- Agencies need to design budgets accordingly.
- The CWG can coordinate a process of agreeing on a ‘buffer’ amount for inflation.



Programmatic flexibility was highlighted as a key learning point from the case studies. For example, from Lebanon: The humanitarian cash sector must be flexible and adaptable to changing circumstances, in times of instability. Early and robust contingency planning must be prioritized, as should strengthening the evidence base, particularly under emerging themes for which data is still limited (e.g. Lebanese vulnerability, nutrition, market assessment). While contingency planning is now underway and an MSNA is planned, there is still a risk that events will overtake the ability to respond. South Sudan also noted there is a need for donors to be flexible, taking into account the impact of fluctuation in project design and planning vs. implementation period, and to work with partners to ensure optimal value for money and continuity of assistance.

b. Agree on triggers based on which the cost of the MEB (and associated transfer values) will be reviewed; and/or which will trigger a modality shift

All the points below should also apply to cash assistance designed for specific sectoral outcomes and not explicitly based on an MEB.



- Agreeing this in advance will facilitate speed and coordination of decision-making around a change in transfer value.

Example of the MEB set in USD from Zimbabwe:

The CWG has set the MEB and transfer value in USD to combat the hyperinflation of the local currency. However, revisions are not made very regularly (one value set end of 2019, was revised in May 2020 with effect of 1 July). This needs to be improved to provide accuracy and clarity. There is monthly price monitoring for general goods, but the CWG has no mechanism to monitor the MEB and its changes on a monthly basis. In Zimbabwe, this is less of an issue as USD prices do not fluctuate that much, but quarterly revisions would be useful. The MEB is set in USD because USD prices are the most stable and provide value to beneficiaries. *Source: Country Case Study*



- This is part of operationalizing the MEB methodology and should be contextualized based on typical inflation trends, and seasonal/cyclical price volatility ([see Step 1a above](#)). Guidance should also consider how the MEB and transfer values will be adjusted following a sudden shock, which is anticipated to have an effect on inflation.
- Triggers can be defined using historical data and/or know-how of market actors to understand what variations exist, and how localized these are.
- It may be relevant to calculate the cost of the MEB (or sectoral goods) in hard currency as well as in local currency, in a context where a hard currency (typically USD) can be used for certain purchases.
- Consider at what geographical level the cost of the MEB (or sectoral goods) and associated transfer values will be reviewed. This should consider the feasibility and appropriateness of having multiple transfer values, and an understanding of market systems and the impact of inflation in one area on broader supply chains.
- Ensure that discussions on transfer values consider the availability of the required denominations.

- Set concurrent triggers related to information on income levels (i.e., to be able to understand how people's own capacities/resources are changing). Monitoring expenditures or (as a proxy) casual wages can be indicative of purchasing power and help inform these triggers.
- It will be challenging to define a trigger for the change in modality, given the multitude of factors to consider. However, these factors and the proposed process should be documented to inform future guidance. See [Nigeria Food Security Cluster 'Guidance Note on change of transfer modality' \(2020\)](#).



- The CWG, in collaboration with other clusters/sectors, should lead a process to agree on these triggers, and document this accordingly.
- Donors should be consulted on the process and informed of the outcome of the discussion. They should also fund processes to generate this analysis, and facilitate the availability of associated contingency funds.
- Individual agencies should review the feasibility of these theoretical changes from a budgetary and operational point of view.
- If monitoring the MEB (of cost of sectoral goods) in a hard currency, the CWG would need to add the local exchange rate to the price monitoring, so that the MEB price in local currency can be converted.

Example of defining MEB and transfer value revision triggers in Yemen:

The CMWG agreed on the following process and triggers for the revision of the SMEB and transfer values. The costs of the SMEB commodities will be monitored for three consecutive months and an SMEB Technical Working Group (TWG) meeting will be called for deliberation every three months. An ad hoc meeting can be called if the cost of commodities breaches the threshold, which is 95% of the current proposed transfer values.

- If the situation worsens, then the revision of transfer values will be initiated.
- If the situation stabilizes with the convergence of prices in North and South, then the TWG SMEB can also propose to have one transfer value across the country.
- All decisions will be taken based on evidence and consultations with respective clusters.

Source: Yemen CMWG, 2020

Example of defining MEB and transfer value revision triggers in Somalia:

In Somalia, MPC values are recommended at 80% of the cost of the total MEB (though not all donors fund this full amount). The cost of the MEB is published monthly by FSNAU. The CWG uses the FSNAU MEB as the basis for calculating transfer value recommendations. When changes in basket prices exceed 10% for a given region, an upward review of the transfer amount is recommended to maintain the purchasing power of the beneficiaries. Source: Somalia CWG, 2019

Step 3: Programmatic analysis

a. Monitor the MEB (or the cost of sectoral goods)



- To track the evolution of purchasing power by comparing the cost of the MEB against people's income (or proxy measures thereof).
- To monitor when triggers have been reached for adjusting transfer value and/or modality ([see Step 2b above](#)).



- What:
 - The cost of the full MEB should be monitored, as there may be significant variations in how the prices of different commodities and services are affected by inflation/depreciation.
 - For sector-specific cash assistance which is intended to support the purchase of specific items, it is still recommended to monitor the cost of the full MEB, as this provides information on the ability of recipients to meet their basic needs overall, which in turn will influence the use of a 'labeled' transfer.
 - Where an MEB is not in place and/or is not being monitored, other sources of price data should be analyzed (e.g., Consumer Price Index) and used to estimate changes in the prices of items prioritized by beneficiaries.
 - The MEB may also need to be monitored in USD (or other hard currency) if commodities and services can be purchased by recipients in this currency and assistance is being (or may be) provided in more than one currency.
- When: The frequency of monitoring should be increased if price fluctuations are significant month-on-month. This is not for programmatic reasons (since transfer values will be changed at minimum on a monthly basis) but for information purposes. Weekly or biweekly price monitoring might be appropriate to ensure access to the latest decision-making.
- Where: Determine whether the MEB needs to be monitored in additional locations (e.g., if there are significant local price variations). This could be limited to the level of disaggregation, based on which adjustments to the programme would be feasible.



- Individual agencies are responsible for price monitoring in their programme areas, ideally contributing to an inter-agency analysis process.
- The CWG (most likely with the support of specialized agencies, e.g., REACH) should be responsible for compiling and analyzing market data from different sources, e.g., CPI, WFP's VAM, and comparing it to the MEB.

Example of monitoring the (S)MEB in multiple currencies in North-West Syria:

REACH produces [monthly analysis](#) of the cost of the SMEB in SYP and USD, and analysis on exchange rates, which it compares to six-month trends. For example, data for March 2021 shows that the value of the regional SMEB reached 422,032 SYP, a 21% increase compared to February and an 85% long-term increase since September 2020. The SMEB in USD depreciated slightly from 116 USD in February to 113 USD. Exchange rate information confirms that the informal USD/SYP regional median exchange rate increased by 2% since February and reached a regional median of 3,726 USD/SYP. The six-month change, a 75% increase since September 2020, highlights that the value of the SYP remains an unstable currency against the USD. This data is a basis for sense-checking programming decisions relating to the choice of currency. In addition, the CWG and REACH have developed a tool to track the use of multiple currencies in programme locations. This compiles data on questions including 'What currency is the most used in the community to purchase basic/essential commodities, and why', as well as data on the stability of the exchange rate.

Source: REACH NW Syria, 2021

For guidance on developing and monitoring MEBs, see: [CaLP's MEB Tipsheet](#) (2019), and [WFP's MEB guidance](#) (2020).

b. Monitor exchange rates



- It contributes to understanding the relationship between depreciation and inflation (see [Step 3c](#) below).

- It allows comparison between official and parallel exchange rates.



- Monitor parallel exchange rates (considering rates for different delivery mechanisms) and compare these to the official exchange rate.
- Identify exchange rate 'hotspots', whereby depreciation is high and expected to deteriorate further (see WFP alert mechanism).
- Analyze how the government is responding, and what impact its response may have on prices, purchasing power, withdrawal limits and liquidity.

Example of WFP currency alert mechanism:

WFP identifies potential price hotspots (and alerts) by monitoring currency exchange rates year-on-year. A currency is declared a hotspot if both of the following conditions apply:

- 1) Year-on-year, the local currency depreciates by at least 25% relative to the USD; and
 - 2) Year-on-year, the local currency depreciation relative to the USD accelerates by at least 10%
- An alert is declared if one of the above two conditions holds.

Source: [WFP currency changes & hotspots dashboard](#)



- Exchange rates should be embedded into regular price monitoring, and analysed at inter-agency level.
- OCHA Information Management capacities should also be drawn on to produce analysis.

For more guidance, see [WFP's Exchange rate monitoring guidance note](#) (2019).

Example of government monetary policy in Haiti:

In October 2020, there was a sudden and spectacular appreciation in Haiti's national currency (from 118 HTG to the USD at end of August to 65 HTG to the USD in early October). This was linked to the Government's attempt to control speculation in the currency exchange market, including through buying back gourdes. However, because Haiti is a dollarized economy with more than 60% of bank deposits kept in US dollars, many Haitians saw their buying power cut in half because prices overall (even of imported goods) did not necessarily adjust.

c. Analyze what is happening to prices, and the relationship to depreciation



- To assess the extent to which price fluctuations are seasonal/cyclical or unusual; are they linked to national inflation trends and to exchange rate variation, and if so, how?
- To understand the extent of correlation/causality, and typical time lag, between changes in exchange rates and prices.
- Analyze the implication for different types of goods (recognizing that imported goods may be more affected by exchange rates than local products).



- Analyze prices by type of commodity or service (based on MEB monitoring data).
- Analyze the correlation between this data and official inflation data (see [Step 1a](#) above) as an indication of how localized price variations are. However, note that, given the MEB is typically much simpler than e.g., the CPI, it will likely be more volatile.
- Analyze national inflation forecasts (if these are available), and what trends to anticipate.
- Analyze the correlation between this data and exchange rates (see [Step 1b](#) above). A basic way of assessing the influence of exchange rates is to convert local prices to a hard currency – if the price graph appears more stable, it is likely that exchange rates have been affecting local prices. However, it is also important to understand the fundamental macroeconomic environment (see [Step 1a](#) above). Some countries may also have historical analyses of the price to exchange rate correlation.
- Determine which goods and services are the most affected by price changes.
- Assess the implications for modalities other than cash (i.e., in-kind local purchase, and vouchers).



- This should ideally happen at CWG level, but will also require analytical expertise from economists (whether from the government, donors or humanitarian/development agencies).

For more guidance, see [CRS' MARKIt guidance](#) (p. 40)

Example of the link between market prices and currency fluctuations in Yemen:

Currency fluctuations, while an independent phenomenon with multiple factors impacting them independently, can be used as a proxy indicator for the market prices of commodities. Due to Yemen's dependence on imported goods, analysis suggests a direct correlation between currency depreciation and price inflation, including the increase in cost of imported staple food commodities. Overall, analysis shows that food commodity prices mimic changes in exchange rates. However, WASH commodity prices do not immediately reflect changes in the exchange rates, given most WASH items are non-perishable and can be purchased and stored in bulk, so the vendor does not need to raise prices until their next bulk purchase. *Source: ECHO internal case study on Yemen price volatility – October 2020*

5. RESPONSE ANALYSIS

Based on the information acquired through the situation analysis, the response analysis section summarizes the key information points which will guide your decision-making. These will help to identify the type of scenario you are confronted by and to assess the appropriateness and feasibility of different response options. This process should be repeated on an ongoing basis, as part of continuous situation analysis, on the understanding that any of the options can be 'reversed' to switch back to the previous programming modality. In particular, the questions relating to protection risks should be continuously monitored. As emphasized throughout this review, ideally this analysis should be collectively agreed and documented, and present a coherent view as a whole.[14]

Example of the impact of inflation and depreciation on purchasing power in Turkey:

Since 2017, the annual inflation rate in Turkey has been exceptionally high (above 10%). This has a severe impact on the prices of a wide range of goods, such as electricity, housing and clothing. Food prices have hit people in Turkey particularly hard: they rose by more than 18% in the last year. At the same time, the Turkish Lira has been steadily depreciating since mid-2016, despite short-term fluctuations in the exchange rate. As of March 2021, the TL-EUR exchange rate is around 8.5 (against 3.4 at the start of the ESSN in September 2016). This high inflation rate and the depreciation of the Turkish Lira means that the ESSN transfer value has devaluated. While 120TL was worth 30,32 euro in June 2017, it is only worth 14,04 euro in March 2021. The ESSN transfer value has thus lost more than half of its original value in the past four years. Even though there is the possibility of a strengthening of the Turkish Lira, the likeliness of it returning to the value seen in 2017 is unlikely in the short or medium term. *Source: IFRC, 2021*

Response analysis in contexts of inflation and currency depreciation should encompass the following points, within a broader response analysis process. This section does not cover how response analysis should be conducted,[15] but rather the specific elements for consideration in contexts of inflation/depreciation.



Purchasing power

- Assess the impact of inflation and depreciation on purchasing power (based on price and income data).



Prices

- Are prices stable or stabilizing relative to historical and seasonal trends?
- What is the relationship between inflation and depreciation, and what are the implication for the prices of different goods and services (e.g., local vs. imported) and the use of different delivery mechanisms?

[14] Example: [IOM & CWG, Cash feasibility assessment, North-West Syria \(2020\)](#)

[15] For extensive guidance and tools on Response Analysis, see CaLP's programme quality toolbox: <https://www.calpnetwork.org/resources/programme-quality-toolbox/>



Preferences

- Identify the preferences of beneficiaries regarding different options (disaggregated by age, disability, gender and locations).
- Review the coping strategies adopted to address the loss in purchasing power.
- Examine the access to currency of different beneficiary groups.



Protection risks/'Do No Harm'

- Evaluate the potential protection risks or coping strategies (e.g., hoarding of hard currency) in relation to use of currencies.
- Appraise the protection concerns, at both the intra-household and community levels, which could be mitigated or exacerbated.
- Consider the potential impacts of different options from an inclusive perspective (age, diversity, gender, disability)
- Review the sensitivities of different population groups (e.g., those between nationals and refugees) and assess the implications for social cohesion.
- Assess the coherence of the humanitarian and social protection assistance responses.



Feasibility

- Identify the options which are possible within the regulatory environment.
- Gauge the extent to which the governance environment is favourable for stabilizing purchasing power and facilitating programming adaptations.
- Determine the existing (or potential) digital solutions which could mitigate the impact of inflation on beneficiaries.
- Weigh the acceptability/feasibility of different options from the donor point of view.
- Assess the capacity of organizations to implement programme options in a timely way.
- Analyze the sustainability of the possible programme modifications (from a budgetary and/or operational perspective).



Value for money

- Compare the cost-efficiency of different options.
- Assess the cost-effectiveness of different options.

Example of risk analysis tools and templates informing response analysis in Lebanon:

Under the leadership of the RC/HC, a value-for-money, Economic and Risk Analysis for currency-based disbursement of humanitarian and development aid (focusing on direct cash assistance) was drafted. This is to be accompanied by a document analysing specific risk and mitigation measures focusing on programmatic, operational and protection aspects. This document is under discussion at the HC level. Source: *Country Case Study*

6. RESPONSE OPTIONS

Introduction to the response options

The **outcome of the response analysis contributes to the preconditions/scenarios for the policy and programming options** presented below. These options are not **mutually exclusive, nor necessarily exhaustive**, and will be influenced by the specificities of the context and of the macroeconomic environment. These options can be considered at programme design stage as well as throughout programme.

implementation, and are not limited to proposal stage. It is also possible, and encouraged, to opt for a hybrid approach, blending two or more options.

Decision-making should be taking place at inter-agency level, ideally led by the CWG, with engagement and endorsement of the HCT and donors as appropriate. This section begins with an advocacy and policy section, after which, a number of programming options are outlined.

Example of a mix of options to respond to the liquidity crisis in Sudan:

One of the effects of the economic crisis in Sudan is the shortage of cash, as the government has limited the quantity of cash that could be withdrawn per day. This has had consequences on humanitarian operations, including on cash and voucher assistance. As agencies were not able to ensure cash distributions as planned, a number of responses were put in place, including: some partners moved to voucher disbursements, as it was possible to pay traders through bank transfers to the traders/shops; other partners used shops for distributing the cash to recipients and reimbursed them through bank transfers; and others had exemptions in terms of cash withdrawal (e.g. UN). *Source: ECHO internal example, 2019*

Advocacy, policy and influencing

What policy issues could be addressed through advocacy and influencing?



A key learning from the case studies was that advocacy with governments, FSPs and regulators was important for any successful programme. Lebanon, for example, stated that 'Advocacy with the government on issues such as exchange rates, dollarization, cash transfer values and refugee protection is ongoing at several levels. Dollarization of aid will be offered to supranational agencies at the market rate, pending the establishment of an official exchange platform between Central Bank, commercial banks and main exchange houses. There will be lesson-learning which can be derived from the experience here and inform future advocacy efforts.'

Development and diplomatic actors can exert leverage on policymakers to address the root causes of inflation/depreciation through issues like balance of payments support or exchange rate reform. Humanitarian actors should be aware of such ongoing efforts to influence the macroeconomic situation, and produce supporting arguments relating to humanitarian concerns. Specific policy issues which directly relate to the humanitarian mandate, and which should be advocated for by humanitarian actors are:

- Preferential exchange rates, to mitigate the effects of depreciation, and increase the value of assistance in local currency;
- The ability to disburse in hard currency, which provides additional options for continued cash assistance in a context of high depreciation;
- Changes in the regulatory environment to facilitate the use of electronic payments;
- The ability to withdraw large sums of money in a liquidity crisis, and the implications for cash-flow, fund transfers, and the range of available delivery mechanisms;
- Factors affecting local inflation, such as the ability of vendors (as well as staff) to be able to freely cross internal borders (e.g., during COVID-19 lockdowns in Nigeria).

These policy reforms will affect the feasibility and appropriateness of the different programming options presented below. Such policy efforts should be cognizant of the context and whether the government and/or other stakeholder are intentionally benefiting from the difference between the official rate and the market rate, as this will influence the advocacy strategy.

Examples of humanitarian agencies negotiating for preferential exchange rates:

Example from Lebanon:

Following the urgent need to neutralize the impact of currency fluctuations and proliferation of exchange rates across humanitarian and development funds, the donor group, World Bank and RC/HC formalized the request for dollarization of aid or access to a preferential rate at the market rate in a letter to the Government of Lebanon. Recent communication from the Governor of the Central Bank acknowledged the possibility to access improved/preferential exchange rates, although specific implications on operational modalities remain ambiguous. The LOUISE (UN) agencies and World Bank have negotiated a preferential exchange rate of 6,240 LBP/USD. *Source: Country Case Study*

Example from South Sudan:

As a result of the inefficiency of the cash transfers, two-thirds of the USD value is kept by the FSPs due to the differences between official and market rates. There has been continuous advocacy from the CWG and their partners to have access to better rates, and UN agencies have been lobbying with government to narrow the gap between the market rate and the official exchange rate. The International Monetary Fund (IMF) and World Bank have also been raising concerns about the distorted value of the local currency. An NGO forum has collectively been raising the same concern, and the South Sudan Bankers Association has been engaging BSS to intervene in the market through auctions and strengthening settlement of the foreign current clearing market. *Source: Country Case Study.*



Who needs to be involved?

- The Central Bank is a key stakeholder for all the policy issues presented above. Engagement on such issues requires a robust understanding by humanitarian actors of the macroeconomic environment, including on issues such as public debt, monetary policy (including the exchange rate regime) and import/export dependency (which is indicative of how prices may be affected if depreciation occurs).
- Advocacy will likely need to be led by the HCT, and require collaboration with and leverage of bigger actors (IMF, WB), while also considering the needs and status of smaller actors.
- In many contexts, donors will be able to engage directly with the government, but in others they may rely on the UN or others to do so.

Programming options

Each of the programming options is structured as follows: Scenario; Preconditions; What to do; Implications for humanitarian actors (including risk mitigation strategies); and Implications for the beneficiary. As represented in the diagram at the end of [Section 3c](#), the order in which the programming options are presented is linked to the severity of the situation in terms of inflation and depreciation (i.e., option (a) may be most feasible when inflation and depreciation are not too high). However, this should not be considered as prescriptive, and nor should the options be considered as standalone.



Harmonization of instruments and approaches came out as a key learning from the case studies. For example, in Zimbabwe, 'With the re-dollarization of the economy, NGO and UN implementors have adapted their programmes at different speeds and using different modalities. Context is an important driver in determining modality selection and delivery mechanism. However, there may be efficiency gains associated with some harmonization of modalities and delivery choices, and important advantages to beneficiaries if platforms are simplified. The CWG would be ideally positioned at this time to conduct a delivery system mapping exercise including FSPs to better guide implementing agencies. Opportunities to drive down transaction costs through collective bargaining and improvements to services could then be realized with a coordinated approach.'

a. Increase purchasing power in the local currency



Scenario

- Inflation is predicted to stabilize/fluctuate;
- The currency is not depreciating rapidly.

i. Increase transfer value



Preconditions

- The cost of the MEB has reached pre-determined thresholds.
- There is scope in the budget to increase the transfer value and/or additional funding can be sourced.
- Implementing agencies can convert funds from hard currency to local currency frequently enough to mitigate the effects of depreciation.



What to do?

- Adjust the value of the MEB or the cost of sectoral items (on an ongoing basis) in line with market monitoring data (based on pre-agreed thresholds). NB: the value of the MEB (or sectoral items) will typically be calculated in local currency, but may also be in hard currency (see [Step 2a](#) above).
- Adjust the transfer value (on a regular basis) based on the updated cost of the MEB, and the intended programme objectives, in coordination with all relevant stakeholders (NB: budget constraints may mean that the increase is not sufficient to address the gap between needs and income/assistance).
- Confirm triggers for the next upwards or downwards revision of the MEB/cost of sectoral items and transfer value (NB: this should be based on the same thresholds as initially established).



Implications for humanitarian actors (including risk mitigation strategies)

- Requires contingency funds or additional budget and/or could be funded through exchange rate gains;
- Requires a strong communication strategy with eligible and non-eligible populations;
- In a context of parallel exchange rates, the cost-effectiveness of this approach will depend on the proximity of the exchange rate used by the agency to the parallel exchange rate.
- Requires contingency funds or additional budget and/or could be funded through exchange rate gains;
- Requires a strong communication strategy with eligible and non-eligible populations;
- In a context of parallel exchange rates, the cost-effectiveness of this approach will depend on the proximity of the exchange rate used by the agency to the parallel exchange rate.

Example of exchange rate savings financing transfer value increases in Turkey:

The ESSN COVID-19-related top-up payment of TRY 1,000 per household was divided into two TRY 500 tranches. The first of these was paid at the end of June 2020, with the second following a month later. These payments supplemented the normal ESSN payment cycle that provides TRY 120 per person or TRY 600 a month. IFRC were able to provide top-up payments to the whole ESSN caseload of some 301,136 households (at an estimated cost of EUR 40m) in part due to favourable exchange rate gains but also as a result of the flexibility of ECHO's operating procedures. The depreciation of the TRY against the EUR provided some fiscal headroom; however, were this not the case, IFRC would likely have struggled to match the Government of Turkey's approach.

Source: SPACE, [COVID-19 and the Emergency Social Safety Net \(ESSN\) and Conditional Cash Transfers for Education \(CCTE\) programmes](#) (2021)



Implications for the beneficiary.

- Increasing the transfer value will increase purchasing power, but the increase may not be sufficient to address the gap between needs and income/assistance, particularly if prices continue to increase.
- Changes in transfer value may cause confusion for beneficiaries and non-beneficiaries.
- The availability (or not) of required denominations which correspond to the transfer value may affect beneficiaries' ability to withdraw the full amount, particularly if depreciation has also led to a liquidity crisis.
- Problems related to inequity/social cohesion may arise, particularly if the increase is not harmonized across actors and/or agencies negotiate different exchange rates. This could create discrepancies between, e.g., refugees and the host population.

A potential modification to the option above would involve donors taking on the risk of currency conversion, by providing the grant (or a percentage of the grant) in the local currency. This could be appropriate in a scenario where the donor can benefit from preferential rates relative to the implementing agency. However, this is not currently common practice.

ii. Group assistance into fewer transfers

This means frontloading assistance by providing two or more rounds of cash assistance as one transfer, at the time of the first cycle (i.e., before the value of the assistance can depreciate further).



Preconditions

- Programme objectives can still safely be met by grouping transfers.
- Beneficiaries can buy goods relating to the programme objectives in bulk, and can transport and store them safely over time, without affecting household living conditions and power dynamics, or attracting greater protection risks.



What to do?

- Ensure this is the beneficiaries' preferred option versus continuing to receive regular assistance, noting the risks documented below.
- Transfer one or more rounds of assistance as one transfer. This could be repeated multiple times during the programme, though the effectiveness would likely reduce if prices continue to rise.



Implications for humanitarian actors (including risk mitigation strategies)

- Warning! The risks to beneficiary safety (if carrying larger amounts of cash), transport and storage (for goods purchased) need to be systematically assessed and monitored.
- This approach requires a strong communication strategy to explain the rationale for a larger transfer, and sensitize beneficiaries to use the assistance for the initial programme objectives.
- Avoid using inflation/depreciation as a rationale for double rations for food assistance.



Implications for the beneficiary

- This option comes with substantial risks for beneficiaries. It should only be considered if they have the capacity to be able to purchase in bulk and safely store goods before purchasing power decreases.
- May create a demand spike in market prices if people are trying to buy multiple months of basic needs commodities all at the same time, instead of spreading out purchases.

- Unintended negative effects on social cohesion may occur if some groups receive a transfer significantly higher in value than what others are receiving.
- It may lead to greater risks, for example, receiving three-months' worth of winter cash (for fuel) before the beginning of winter season may increase fire risks within the home.

b. Shift from cash assistance to value or commodity vouchers



Scenario

- Inflation is rising;
- The currency is depreciating (though not too rapidly);
- Inflation and depreciation have led to liquidity constraints in local currency.



Preconditions

- It is operationally feasible to shift some or all of the assistance to being voucher-based (noting that this may be suited to some types of expenditures but not others, e.g., rent).
- Analyses demonstrate that vouchers can be more cost-effective than cash in meeting programme objectives. This may include e-voucher providers accessing preferential exchange rates relative to other FSPs.
- This assumes that the traders take on the exchange rate risk. Different contractual options are: payment in hard currency based on a set exchange rate (which may change over time) or payment in local currency.



What to do?

- Agree set prices between the humanitarian agency and contracted merchants, to mitigate price fluctuations (noting that for value vouchers, this price list will need to be exhaustive), and agree on what basis these will be reviewed.
- Carry out frequent price monitoring to guide the value of the voucher, and to ensure that prices are not being hiked for value vouchers.
- When contracting traders, build in mechanisms to mitigate price fluctuations/inflation.
- If paying traders in hard currency, encourage them to display the exchange rates they are pricing goods at (given the prices of goods can change several times in line with exchange rate fluctuations) – though note that this may be illegal in some contexts.
- Consider that electronic voucher systems can also offer increased flexibility to adjust the transfer value of the vouchers (in line with inflation and changing exchange rates) compared to paper vouchers, for which set denominations are often pre-printed months in advance of the distribution.
- Consider establishing a hybrid model whereby traders can provide a cash-back option – if they have the adequate liquidity.



Implications for humanitarian actors (including risk mitigation strategies)

- Need to look at how the value of vouchers affects vendors' ability to re-stock and guarantee the value of their capital once exchanged for the vouchers they have redeemed and ensure that the approach mitigates potential losses for the traders. Contractual terms should not disincentivize participation by traders.
- Vouchers will likely imply a higher administrative and operational burden.
- This may be an opportunity to expand the use of digital solutions that could facilitate cashless operations. An additional consideration, which may be feasible in some contexts, is to use international transfer mechanisms (e.g., such as [RedRose](#)) to transfer funds from abroad through closed loop card-based systems.

Example of preference for vouchers over cash in Nigeria:

Ground Truth Solutions' analysis found that recipients of cash assistance appear to feel the brunt of price changes more than voucher recipients who are more resilient to market shocks. With commodity or value-based voucher programmes, prices of goods are agreed in advance with vendors, meaning that any changes in the market price cannot be passed on to voucher recipients. In contrast, cash recipients purchase on the open market and must therefore compromise on either the quantity or quality of goods when prices increase. Indeed, our analysis found that people who receive cash are slightly (6 percentage points) more likely to express a preference for in-kind aid compared to those who receive vouchers. *Source: Ground Truth Solutions, Cash Barometer Nigeria (2020)*



Implications for the beneficiary

- Recipient choice will be restricted – particularly with a commodity voucher.
- If a value voucher is provided, this may limit the ability of the recipient to find goods/services at a preferential market rate (in a context of multiple parallel exchange rates), given that they are limited to purchasing from a reduced number of traders.

Example of a hybrid cash/voucher model to mitigate the liquidity crisis in NW Syria:

GOAL Syria have found that an electronic voucher system presents more options to manage liquidity issues. Their programme combines value vouchers with cash assistance. Due to issues of availability of certain USD denominations, they distribute two months at once to households. The value is based on the number of people per household, so in addition to doing double distributions, they have also adjusted the proportion of cash vs. value voucher to align with the liquidity situation. They are providing households with a 100 USD note, and the balance as an e-voucher. *Source: GOAL Syria*

Example of the use of e-vouchers in Zimbabwe:

Dan Church Aid (DCA) provides assistance through the RedRose e-voucher platform. The RedRose e-voucher is redeemable in all large retail outlets and some local shops through contracts established with DCA, based on an agreed-upon preferential rate. Large retailers offer food, basic non-food items and other household essentials, making the e-vouchers less restrictive in terms of spending options. This has been identified as the most effective modality in Zimbabwe's current economic context. All other modalities currently present several challenges, including: fluctuating policies affecting effective long-term implementation, erosion due to hyper-inflation, risk of failure to access goods, and risk of failure to access cash due to liquidity challenges. DCA continues to monitor the feasibility of other modalities, and has contracts in place to allow a flexible change. Source: DCA, February 2021

c. Transfer assistance to beneficiaries in hard currency



Scenario

- Situation of very high or hyper-inflation;
- The currency is consistently depreciating.



Preconditions

- The MEB is being monitored in hard currency (ideally) and/or converted into local currency using the market rate.
- Goods and services within the MEB can be purchased in hard currency by the target population, and/or the target population has easy access to currency exchange providers.
- Humanitarian agencies can legally access and distribute hard currency, or there is scope to advocate for this.
- There is adequate hard currency liquidity, in small enough denominations, for beneficiaries in all targeted locations to be able to withdraw their full entitlement.



What to do?

- Conduct a thorough beneficiary consultation to assess preferences and risks, including perceptions of safety/security in relation to handling/carrying specific currencies and how receiving assistance in different currencies would affect beneficiaries' ability to access credit and repay debts.
- Confirm the legality and feasibility of providing assistance in hard currency (noting that this may be possible through some financial institutions and mechanisms, e.g., e-money, but not others).

- If humanitarian agencies (in particular international organizations) cannot legally access and distribute hard currency, consider collective advocacy towards the government on this issue (see policy and advocacy option).
- Set the transfer in hard currency, based on the prevailing market rate in programme locations.
- Identify FSPs with the capacity and reach to do so, in the required denominations.
- Ensure legally binding contracts between FSPs and organizations for timely disbursement of hard currency, using more than one FSP.
- Explore the option of a homogenized agreement framework with FSPs on dollarized disbursement of aid.
- Define one (or multiple) transfer values in hard currency. If the MEB is not already being monitored in hard currency, the transfer value will need to be set in the local currency (as close as possible to the date of distribution) and converted to hard currency using an exchange rate informed by the parallel market exchange rate and its evaluation. Adjusting transfer values in hard currency may be informed by constant monitoring of the MEB in local currency and the evolution of the unofficial exchange rate.
- Ensure liquidity and consider the availability of required (small) denominations.
- In theory, a hybrid approach could also be considered, whereby the transfer is made in hard currency for some sectors/objectives (where expenditure more likely to be in hard currency) but not for others.

Example of the choice of delivery mechanism for the provision of cash assistance in USD in Venezuela:

In 2019, the Venezuela CWG developed a SWOT analysis and identified several promising transfer mechanisms. Among the 14 transfer mechanisms, the group identified bank account transfers, exchange currency agents, cryptocurrency, and various digital cash and voucher mechanisms supported by multinational companies. The identification of national transfer mechanisms, which hold accounts in US dollars as close as possible to the point of purchase, is key to mitigating the effects of hyper-inflation. These allow cash transfers through cards that hold the value in dollars. These financial instruments can help retain much of the purchasing power of hard currency as long as funds are transferred in local currency to merchants at the time of purchase.

Source: CaLP, [Venezuela scoping mission findings](#) (2020)



Implications for humanitarian actors (including risk mitigation strategies)

- Could undermine host government monetary policy and further exacerbate depreciation.
- Reputational risks tied to the lack of formalization and proper socialization of the dollarization decision to relevant authorities and line ministries.
- Might disproportionately bear risks to local actors who may not have option for dollarization. Risk of a two-tier assistance system in the context of 'humanitarian aid perception bias' towards refugee populations, thereby exacerbating social tensions and posing reputational and safety risks on humanitarian actors and their staff.

- Avoid grouping households together to receive larger denominations in hard currency. Anecdotal evidence (e.g., from NWS Syria) shows that this has created protection issues and intra-household conflict.
- Requires a comprehensive multi-actor analysis of protection risks and mitigation measures.
- Requires a robust communication plan to explain the switch to hard currency at national and community level.
- Consider the need for sensitization on the currency, given that people may not be familiar with notes, numbers and values of hard currencies.
- Requires the strengthening of mechanisms to monitor and address specific issues relating to access to hard currency, including protection monitoring, ATM monitoring and crowd control operations at points of cash distribution, daily price monitoring and mapping of shops with best prices, and monitoring rent payments/eviction rates.
- Needs a clear exit strategy.



Implications for the beneficiary

- Provides assistance in a currency which is a store of value, and therefore options to exchange it at a parallel and favorable exchange rate, or to keep it.
- Even once recipients have accessed the transfer, this is not cushioned from fluctuating parallel markets.
- May require beneficiaries to exchange money illegally, and therefore subject them to potential law enforcement risks.
- Risks of money exchangers seeking exploitative margins, and beneficiaries being exposed to exploitative practices and sexual exploitation and abuse (SEA) when exchanging or holding assistance in hard currency.
- Potential price hikes where beneficiaries are known to be receiving assistance in hard currency (and/or for services, e.g., rental), which could also impact non-beneficiaries.

d. Shift to in-kind assistance (fully or partially)



Scenario

- Inflation and depreciation are worsening and cannot be addressed by any of the programming options above.



Preconditions

- Programme objectives can adequately be met through in-kind assistance.
- Agencies have the expertise and operational capacity to deliver in-kind assistance at the required scale.
- Protection risks associated with in-kind assistance can be mitigated.



What to do?

- Assess the risks of inflation/depreciation on in-kind assistance.
- If these cannot be mitigated through local procurement, establish regional or global procurement pipelines established to purchase goods.
- Consider whether a partial switch to in-kind is more suitable for some goods than others and/or some goods (e.g., locally produced) are less affected by inflation/depreciation.



Implications for humanitarian actors (including risk mitigation strategies)

- Will have significant operational implications and associated costs.
- There may be risks related to the reliability of suppliers, particularly in a deteriorating macroeconomic context.
- May have implications for local and national level acceptance.



Implications for the beneficiary.

- Reduces choice, flexibility and dignity.

Example of switching to in-kind assistance from Zimbabwe:

In May 2020, the Government reintroduced the USD as legal tender after it had been made illegal in July the previous year. When the USD was illegal, main assistance operations had to switch back to in-kind as it was increasingly difficult and, in many locations, impossible to find sufficient local currency notes to make transfers in cash. By December 2019, WFP had reverted the entire rural assistance programme to in-kind. With the USD becoming legal again, cash payments have become possible again, however, there is a short supply of USD notes, especially small denominations. Therefore, most organizations have opted for e-vouchers. *Source: Country Case Study*

e. Additional programming considerations

i. Group assistance into fewer transfers

As mentioned in the Venezuela and Zimbabwe examples, an option may be to use **international transfer mechanisms** (e.g., such as RedRose) to transfer funds from abroad through closed loop card-based systems. Such e-voucher-based options may be the most appropriate solutions in some contexts, but they are likely to be highly regulated.

Depending on the regulatory framework, it **may be possible to negotiate preferential exchange rates with FSPs** in-country (which are regularly adjusted) and/or pay the FSP in hard currency, so they take on the exchange rate risk. This can be relevant across most of the options above (except in-kind assistance). It may also be possible to renegotiate the transfer costs charged by the FSP, so these are not adjusted in line with inflation. All these negotiations are likely to be more effective if conducted jointly, i.e., through **common tendering and contracting processes**.

Example of contracting FSPs for the provision of cash assistance in USD in NW Syria:

Some partners have agreements with contracted FSPs/hawalas to set market-based exchange rate the day before, or on the day of distribution. The CWG also recommends to partners that they ask their FSPs to provide currency exchange services at distribution points where possible, and strongly encourages recipients to exchange USD onsite to preferred local currency (SYP or TRY) if available. The messaging could include rationales such as time savings and reduced transportation costs (if they believe they could get better black market rates). *Source: NW Syria CWG.*

ii. Digital currencies

There is **potential for cryptocurrencies to be used as an alternative to local currency** in contexts of inflation/depreciation. In theory, some cryptocurrencies (e.g., Libra) could offer a more stable, low-volatility currency, providing more financial stability for people in crisis and thus refuge from inflation. At the time of writing, there were no examples of Blockchain-based cash assistance programmes that had achieved scale. However, the World Economic Forum's recent announcement of a Global Consortium to develop a governance framework for digital currencies is a welcome step in the right direction.

Another **related area to monitor is Central Bank digital currencies**, which will be operated by the respective monetary authorities or Central Banks of a particular country.

While no country has yet launched these, they could offer opportunities to improve the effectiveness of interventions in fragile and conflict-affected states, as they do not require a significant local presence and can facilitate transfers of funds from international donors directly to the recipients, in real-time, thus mitigating the effects of inflation. This assumes the payment would be made in a developed country's Central Bank digital currency (once they exist) rather than in that of a predatory state.

