

ADAPTING CASH PROGRAMMING TO INFLATION, DEPRECIATION AND ECONOMIC VOLATILITY IN MALAWI

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This report is a culmination of the invaluable contributions of many individuals working in cash assistance both in **Malawi** and beyond. We would like to particularly appreciate **the Malawi National Cash Working Group** members for their engagement and insightful contributions. We are extremely grateful to **Mathias Funsanani (WFP)** and **Steve Kamtimaleka (Save the Children)** who were leading the national cash working group at the time, for their guidance and direction.

The work was undertaken by the Neviro team under the leadership of **Diana Tonea** who is also the author of this report. The CALP team provided technical support under the leadership of **Sapenzie Ojiambo** who also reviewed the report.

Cover image – 2020 – 2021 lean season response cash distributions in Malawi. ©Tawonga Ngoma/WFP. December 2020

INTRODUCTION

This report captures the key points from discussions with stakeholders in Malawi to help identify the actions needed for effective implementation of cash assistance in view of economic volatility characterised by high inflation and currency depreciation. The recommendations are a product of extensive consultations with a variety of actors both within Malawi as well as at regional and global levels. The purpose of the work was to support country cash working groups (CWGs) to agree on actions to develop clear predictable processes for adapting cash programming in line with the economic trends. The report proposes some actions to be taken forward at country level.

Although the work was undertaken in support of the coordination role of the cash working group, many of the identified solutions require the engagement and action of a variety of stakeholders including governmental authorities, humanitarian country teams, donors, individual organisations and agencies. The report, together with similar reports from South Sudan, Nigeria, Zimbabwe and Burkina Faso, is intended to serve as an example for other cash working groups seeking to better adapt cash assistance programs to contexts of high inflation and depreciation.

SITUATION ANALYSIS

The annual year-on-year inflation rate for 2022 stands at 21.0 percent compared to 9.3 percent registered in 2021¹. The Malawi Kwacha (MKW) official exchange rate has been constant at around 1025 kwacha to the USD after the May 2022 devaluation². Key informants reported parallel exchange rates of between 1500—1600 MKW per USD³.

The Reserve Bank of Malawi (RBM) has recently announced periodic foreign exchange auctions aimed at determining and maintaining the clearing price for the Malawi Kwacha against the US dollar and other currencies. This effort aimed at free-floating the currency has been well received by the international community. However, this de-facto devaluation has been contested by some sectors of the economy in the country⁴. At the time of writing this report, the effect the foreign exchange auctions would have on the difference between the official and unofficial exchange rate was still unclear⁵.

In rural areas, the economy is very localised and people rely on subsistence farming. According to the Famine Early Warning Systems Network, in both rural and urban areas, prices for maize and other alternative staple foods have continued to trend higher than last year and the five-year average. In October 2022, the average price of maize was 162 percent higher than the previous year and 132

¹ Malawi: Inflation rate from 1988 to 2028 according to Statista

<https://www.statista.com/statistics/520536/inflation-rate-in-malawi/>

² The Reserve Bank of Malawi devalued the Malawi Kwacha by twenty-five percent at the end of May 2022.

³ As of 1st March 2023

⁴ Several articles reflect criticism to the devaluation, https://mpr.a.ub.uni-muenchen.de/114341/1/MPRA_paper_114341.pdf. Most vocal criticism came from the Consumer Association, the Economics Association of Malawi, and the Financial Market Dealers Association <https://times.mw/devaluation-could-hurt-poor-malawians/>

⁵ In the first auction to date, only 3 out of the 8 main banks participated and the effect on the official transfer rate was minimal.

percent higher than the five-year average⁶. In Malawi, maize is considered the main staple food and people often buy it to store value.

Tobacco accounts for more than 50 percent of the nation's total foreign exchange earnings. Its price decline on the international market has led to a decline in revenue, which has impacted the foreign currency reserve used to import foreign necessities. Malawi's reliance on imports for most processed foods exacerbates the impact of low foreign exchange availability on inflation. Market trends and food prices are dictated by the availability of maize and its price in the country.

At the time of writing this report, Malawi is suffering the consequences of tropical cyclone Freddy. This cyclone, as of 15th March, caused the displacement of 40,631 households while 324 people died⁷. Malawi is also experiencing its most deadly cholera outbreak in the last two decades, putting 4.8 million people in 15 priority areas in need of aid, according to OCHA. Once the first case was detected in Machinga district at the end of February 2022, the outbreak was formally announced on 3rd March 2022. By 18th February 2023, the outbreak had claimed the lives of over 1,400 persons and registered over 45,400 cases⁸.

RESPONSE ANALYSIS

The Department of Disaster Management Affairs (DoDMA) in the Office of the President and Cabinet (OPC) is the main cash actor in Malawi and is co-leading the Cash Working Group (CWG). DoDMA has developed the 2022/23 MVAC⁹ Humanitarian Response Programme, which will be used to mobilise resources and effectively coordinate the humanitarian program to address the needs of the food insecure. For the lean season of November 2022 to April 2023, the MVAC required USD 76 million for implementation. **The government-led Social Protection (SP) mechanism¹⁰ is the largest cash program in the country.** It targets the ultra-poor and according to the MVAC, 3.8 million people will be assisted¹¹. The modality depends on the situation and the availability of maize on the markets, with most participants preferring cash transfers. The two modalities are the following.

- In-kind food response: 50kg bag of maize per vulnerable household.

⁶ Malawi Food Security Outlook October 2022 to May 2023 <https://reliefweb.int/attachments/f3ece2a1-738a-4be7-8bdf-386b800ca3bb/FEWS%20NET%20Malawi%20Food%20Security%20Outlook%20October%202022%20-%20May%202023%20Final.pdf>

⁷ Malawi: Tropical Cyclone Freddy DoDMA Situation Report No 4 https://reliefweb.int/attachments/219fa00c-d1a2-49fa-8488-52762430c68e/DoDMA%20Sit%20Rep%204%20Cyclone%20Freddy%20_150323.pdf

⁸ Malawi Cholera Flash Appeal 2023 (February – June 2023) <https://reliefweb.int/report/malawi/malawi-cholera-flash-appeal-2023-february-june-2023>

⁹ The Malawi Vulnerability Assessment Committee (MVAC) is a multiagency committee made up of government, non-governmental, UN, and academia representatives which conducts assessments to inform policy and response planning to mitigate livelihood and food insecurity. https://fews.net/sites/default/files/Malawi_ND_Snapshot_Final.pdf

¹⁰ Currently entirely funded by donors including the European Union, Irish Aid, GIZ, World Bank, etc.

¹¹ Minutes of the Malawi Cash Working Group on 22 September 2022.

- Cash response: Monthly transfer of MWK25,000 per household to cover (a proportion of) the minimum food basket¹². The current indicated transfer value does not cover the cost of a 50kg bag of maize in some markets according to FEWS NET¹³.

WFP remains the main international humanitarian actor in Malawi. During the 2022–2023 lean season, WFP’s response is supporting 360,000 food insecure people (80,000 households) through three modalities: in-kind food transfers, cash transfers, and mix modality of both in-kind and cash transfers. Equally, 11,000 refugee households (approximately 48,000 refugees) in the Dzaleka refugee camp received e-payments for the month of February 2023.

CWG actors in the country are required to harmonise the transfer rates and follow the government recommended transfer values currently set at MWK25,000 per household; and the government of Malawi has to approve all transfer value revisions. Although the government can review the transfer values periodically, at least once a year, there are significant delays when it comes to the actual implementation of the revised transfer values. The upward revision of the transfer values is usually conditioned by the availability of donor funding for the Malawi Social Protection mechanism. While the need to harmonise the humanitarian cash transfer values with the existing Social Protection scheme shows consistency across the response, key informants (KIs) have pointed out the challenge they now face with adjusting the transfer values for inflation. As result, many cash recipients have lost significant purchasing power due to the inability of cash actors to revise the transfer values upwards.

To address this significant challenge, some actors have resorted to using a mixed modality approach, by topping up the harmonised MPCA transfer values with in-kind distributions. KIs have reported that there is an overall preference for in-kind maize distributions.

RESPONSE OPTIONS, RECOMMENDATIONS & PROPOSED ACTION PLAN

The researchers make the following recommendations, based on global best practices, key informant interviews and the workshop with the CWG.

Advocate with the Government to allow for the regular upward adjustment of the transfer values to maintain recipients’ purchasing power and counter inflation and/or currency depreciation¹⁴. In the case of Malawi, the government decides the MPCA transfer values, with the ultimate objective of harmonising humanitarian and Social Protection (SP) assistance. All cash assistance programs need government approval. **Transfer values need approval only when implemented during the lean season; however, there is a general perception at the CWG level that all transfer values need approval and harmonisation with the SP.** This position needs to be clarified at CWG level.

¹² The food basket initially was at MWK40,500 but reduced to MWK25,000 due to lack of resources. This represents 62% of the food basket.

¹³ Malawi Price Bulletin, February 2023 <https://reliefweb.int/report/malawi/malawi-price-bulletin-february-2023>

¹⁴ Guidelines on how to calculate minimum expenditure baskets and transfer values can be found at <https://www.calpnetwork.org/publication/calculating-the-minimum-expenditure-basket-a-guide-to-best-practice//>

Ideally, transfer values for both humanitarian assistance and the Social Protection scheme should be adjusted for inflation and currency depreciation. However, adjustment of transfer values for SP objectives is contingent to the availability of long-term donor funding. One could argue that while the SP scheme is meant to alleviate poverty, the humanitarian MPCA is meant to cover basic needs during a humanitarian crisis (such as the current tropical cyclone) and should not be subjected to the same requirements especially if it affects the ability of affected populations to meet their basic needs. **This paper recommends that the government allows for an upward adjustment of the transfer values for humanitarian projects which are usually short-term, while it explores modalities to revise the SP transfer values.**

This approach might require defining the objectives of the humanitarian cash response vis-a-vis the Social Protection mechanism. In a country suffering from chronic poverty, it is necessary to clearly define the vulnerabilities that can be alleviated by the humanitarian actors and those that are more structural in nature and that would require longer-term support from Social Protection. According to the KIs, this has been approached well during natural disasters and the COVID-19 pandemic which showed that the SP mechanism can be shock responsive; but lacks a clear definition outside of the disaster response.

At the same time, there is a need for **a predictable agreed upon mechanism of determining the need for adjustment, triggers to review the transfer values, and process to adjust** that can be applied when the triggers are met to reduce the work and time needed to reach an agreement.

When required, **cash actors can increase the transfer values by either reprogramming the currency gains from budget savings and from obtaining or negotiating a better or preferred foreign exchange rate for humanitarian actors.** Cash actors can negotiate more favourable exchange rates with the Government or Central Bank or obtain better/more competitive exchange rates through sourcing local currency on the foreign exchange market. When inflation and currency depreciation exceed currency gains, cash actors should negotiate for additional flexible funding from donors to cover the increase in transfer values.

The CWG should involve development donors and other ministries in the CWG, including the Ministry of Gender and Ministry of Finance, as they are the key drivers of the SP response and strategic discussions. In addition, the involvement of government officials and donors in the development of specific triggers and procedures for adjusting transfer values could help create buy in and a common understanding.

Market price monitoring. Only a few cash actors are currently conducting market monitoring (for example WFP). As such, cash actors should strengthen their market monitoring capacities and share information at the CWG level. There is a need for continuous market assessments and price monitoring to better inform the minimum expenditure basket (MEB) and transfer values adjustment.

The provision of top-ups and lumpsums are a recommended solution in situations when cash actors need to harmonise with Social Protection and government transfer values that remain unadjusted to inflation, as is the case for Malawi. In Malawi's case, the need to harmonise humanitarian cash transfer values with SP schemes has limited the ability to raise transfer values as often as required to maintain purchasing power. As an interim measure, cash actors can increase the amounts distributed to participants through top-ups. During the lean season, frontloading a one-off cash payment could also be a good solution, due to the spike in prices and seasonal inflation trend.

Mixed modality approach. Generally, inflation and currency depreciation do not justify shifting to in-kind. In-kind assistance has very high operational costs due to increase in fuel prices, offer less value for money¹⁵ and requires a high level of organisational flexibility to shift between modalities. However, unless the cash transfers are indexed to prices, in-kind modalities may be more suitable. The need to harmonise the transfer values with SP schemes, the very high differences between official and parallel exchange rates, and non-functioning local markets present challenges that could undermine the effectiveness of cash assistance responses. As such, mixed modalities with in-kind assistance could be adopted as an interim measure while the transfer values are adjusted to inflation and currency depreciation. Other potential solutions could include a Cash Plus approach, looking at complementary initiatives such as MPCA + livelihoods and productive assets, for example.

E-payments, mobile money or vouchers. In the Malawi example, there is an overall lack of trust in e-payments and there is an overall preference for either direct cash distributions or distributions of maize. E-payments can provide suitable alternatives when dealing with liquidity issues. Cash actors should engage more with financial service providers and explore the issues as well as identify possible ways of jointly addressing them. At the same time, cash actors should identify suitable e-transfers or mobile money, although this is conditioned by the availability of e-payments and mobile network infrastructure as well as financial literacy.

Advocate for preferential exchange rates and explore the best rate possible. Obtaining a preferential exchange rate is a lengthy and difficult process. However, in some humanitarian responses, like in the case of South Sudan, organisations providing cash assistance have in the past managed to obtain preferential exchange rates¹⁶. In the meantime, cash actors should explore ways of obtaining the best possible rates within the law¹⁷. Cash actors should investigate the possibility of reducing exchange rate losses by carrying out transfers from their headquarters more frequently.

Depth vs breadth dilemma¹⁸. The CWG, DODMA and the cash actors in Malawi must consider how to effectively help those who are most in need considering the widening gap between the official and parallel exchange rates and the requirement to increase transfer values. There is a need to come to an agreement on a common framework that considers the current inflation/depreciation and parallel market rates. Cash actors must consider that if they increase the transfer values, they will essentially assist fewer participants if the funding level remains the same. On the other hand, if cash actors decide to maintain the same transfer value rates and not adjust to inflation, they might be able to assist

¹⁵ Cash and In-Kind Transfers in Humanitarian Settings: A Review of Evidence and Knowledge Gaps <https://www.wfp.org/publications/cash-and-kind-transfers-humanitarian-settings-review-evidence-and-knowledge-gaps>

¹⁶ UN preferential exchange rate.

¹⁷ Depending on what stage the exchange is made at, key informants reported varying exchange rates. They stated differences, for instance, depending on whether the exchange is carried out by the sender bank, the intermediary bank, or the receiver bank. Different FSPs have different exchange rates due to the use of money bureaus and can offer rates between the official one set by the Reserve Bank of Malawi and the parallel rate.

¹⁸ Within humanitarian assistance, *depth* refers to the amount of assistance delivered to each program recipient and *breadth* refers to the number of individuals assisted. In the context of the cash assistance sector in Malawi, this means applying a higher transfer value that will cover a greater proportion of the minimum expenditure basket for fewer recipients as opposed to maintaining the transfer value for a higher number of recipients.

additional participants through a horizontal expansion of the program, when they have currency gains from foreign exchange differences.

If the decision is made not to raise transfer values in line with inflation/depreciation and continue assisting the same number of recipients, it is crucial to monitor and acknowledge the gap between the MEB and transfer values. By doing so, cash actors and donors remain cognizant that recipients are unable to meet all their basic needs and, when conditions permit, can raise the transfer values to cover a higher percentage of the MEB.

Conduct more research. Among the five countries object of this analysis¹⁹, Malawi is the country with the least information and analysis on the cash response available in the public domain.

METHODOLOGY

The researchers used participatory approaches to ensure that the perspectives and insights of all key stakeholders were taken into consideration. Primary data collection was conducted mainly through key informant interviews with cash actors. The consultants interviewed a total of 10 key informants including CWG chairs and members, donors, international NGOs, the Food Security Sector, UN agencies and financial service providers. The researchers did not interview cash recipients.

The researchers organised a half-day workshop with over twenty participants. The purpose of the workshop was to discuss challenges associated with implementing cash assistance in a context of high economic volatility, discuss the current response options, discuss mitigation measures, and discuss on a common action plan to address challenges.

¹⁹ Malawi, Zimbabwe, Burkina Faso, South Sudan and Nigeria.