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

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CALP NETWORK

CHOICE & DIGNITY FOR PEOPLE IN CRISIS

This report is a culmination of the invaluable contributions of many individuals working in cash assistance both in **Nigeria** and beyond. We would like to particularly appreciate **the Nigerian National Cash Working Group** members for their engagement and insightful contributions. We are extremely grateful to **Victor Lahai (UNOCHA)** and **Mary Sunday (IMMAP)**, 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 **Vicente Palacios** who is also the author of this report. The CALP Network team provided technical support under the leadership of **Mirko Tommasi** who also reviewed the report.

Cover image – Maryam Muhammed, 28, plays with her children in their home on return from the WFP distribution centre in Anka, Zamfara State, Nigeria, after receiving cash assistance. WFP Nigeria continues their famine prevention work by offering food, nutrition and cash distributions across Northwest Nigeria. ©Damilola Onafuwa/WFP. February 2022

INTRODUCTION

This report captures the key points from discussions with stakeholders in Nigeria 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 Nigeria 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 at country level. 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. This report, together with similar reports from four other countries (Burkina Faso, South Sudan, Malawi and Zimbabwe), is intended to serve as examples for other cash working groups seeking to better adapt cash programs to contexts of high inflation and depreciation.

SITUATION ANALYSIS

Nigeria is currently experiencing high inflation rates, foreign exchange scarcity, high unemployment, rising debt levels, and the aftershocks of the COVID-19 pandemic. Despite being Africa's largest economy, Nigeria's economic growth has been sluggish in recent years. This has been compounded by the worst flooding the country has seen in a decade with more than 3.2 million people directly affected in 2022. In recent years, humanitarian support for Nigeria has been relatively stable[1]. However, most of the key informants (KIs) interviewed predicted that funding will decrease in 2023. During the last years, the largest portion of funding has gone towards food security, accounting for 34% of the total funding in 2022.

In 2022, the annual rate of inflation for Nigeria was 22%[2], up from 17% in 2021 and 13.2% in 2020[3]. This rate is well above Nigeria's Central Bank objective of stabilizing at 11.5% per annum.[4] The high inflation rate had several negative effects on the Nigerian economy, including reducing the purchasing power of individuals and eroding the value of savings. It also led to higher interest rates, which made borrowing more expensive and slowed down economic growth.

The gap between the official and unofficial market rates has skyrocketed during 2022 – from almost parity[5] at the beginning of 2022 to a 68%[6] difference at the end of 2022. According to the official rate, the Naira devaluated only 9% against the USD in 2022; however, in the parallel black-market, the Naira devaluated at 79% compared to the USD. In addition to the eroding purchasing power, the growing

[1] Humanitarian organisations reported on FTS funds amounting 770 million USD in 2019, 815 million USD in 2020, 814 million USD in 2021 and 850 million USD in 2022. https://fts.unocha.org/countries/163/summary/2022

[2] Central Bank of Nigeria https://www.cbn.gov.ng/rates/inflrates.asp

[3] World Bank data https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=NG

[4] Central Bank of Nigeria https://www.cbn.gov.ng/MonetaryPolicy/Conduct.asp

[5] ₦435 to US$1 in the parallel market vs. ₦411 to US$1 in the official market as at the 1st of January 2022

[6] ₦754 to US$1 in the parallel market vs. ₦447.58 to US$1 in the official market as at the 1st of January 2023

gap between the official and parallel black-market rates have also reduced the value for money of cash programs. Historically, cash actors that were holding budgets in hard currencies, could counteract the loss in purchasing power due to inflation and currency depreciation, by reprogramming the currency gains. Currently, cash actors are mandated to use only the official exchange rates, which has a significant impact on humanitarian actors.

To curb inflation and assert control over the cash circulating outside of the banking system ahead of the presidential election, Nigeria embarked on a banknote redesign at the end of 2022. Nigerians had only two months to exchange their Naira for the new denomination. For a country with more than 85% of the banknotes outside of the banking system, where 40% of the population is unbanked and where there's only 4.5 bank branches for 100,000 adults, this period was too short according to the International Monetary Fund[7]. Parallel to the banknote redesign, Nigeria implemented stringent cash withdrawal policies. The objective of the interdependent currency redesign and strict cash withdrawal policy was to push the nation towards a cashless economy. However, the cash crunch has led to hardship and widespread protests, particularly among those who work in the cash-dependent informal economy and for citizens who live in rural areas.

In March 2023, the Supreme Court of Nigeria declared that the country's old banknotes will remain legal tender/in circulation and be used concurrently with the new Naira currency until the end of 2023. The court declared that the Nigerian government's implementation of the cashless system and the Naira redesign strategy violated the country's constitution. At the time of writing this report, it is still not clear what the real impact of the new ruling will be.

Before the currency redesign, the weekly over-the-counter withdrawal limits for both individuals and corporations were N100,000 and N500,000, respectively. The limits for cash withdrawal across all channels were increased after December 21st to N500,000 and N5,000,000 for individuals and corporations, respectively. However, there are serious liquidity constraints. Cash implementing organisations in Nigeria have been significantly impacted by the restriction on cash withdrawals and the redesign of banknotes. Most of the cash assistance was paused in January and February because of these two policies.

According to most of the KIs interviewed, Nigeria is still not prepared to transition to a cashless society nor significantly reduce the use of cash, particularly in rural areas. There is good coverage of telecom networks in urban areas, while network services in rural areas are either subpar or non-existent[8]. FSPs coverage remains low. The programme recipients' financial inclusion and literacy levels in the BYA[9] states are lagging.

[7] https://www.nasdaq.com/articles/imf-says-nigeria-should-consider-extending-banknote-swap-deadline

[8] According to the Nigerian Communication Commission, in 2022 one third of Nigerians were living in areas with poor or no access to telecom network services.
https://medialandscapes.org/country/nigeria/telecommunications/mobile-coverage

[9] BYA refers to Borno, Yobe and Adamawa, the three states in North-East Nigeria mostly affected by conflict and the Lake Chad crisis.

RESPONSE ANALYSIS

In Nigeria, cash actors are mostly concerned with rising food prices and the lack of liquidity. Cash recipients have reported that while the received cash assistance meets their basic needs, it is insufficient given the current inflation and currency depreciation[10]. While some organisations have unilaterally increased the minimum expenditure basket (MEB) and transfer value (TV), according to many key informants, the transfer values did not accurately reflect the recent decline in purchasing power.

Many humanitarian organisations that provide CVA in Nigeria still prefer using vouchers over cash[11]. Value vouchers have been sheltered from the recent liquidity issues but not from inflation and devaluation.

Frontloading and group assistance are other solutions currently used by organisations. While determining transfer values, some organisations have also taken redemption or transportation costs or participants into account and have upgraded the transfer value.

Most of the humanitarian aid is allocated to the rural Borno, Yobe and Adamawa (BYA) states affected by flooding and armed conflict. In these regions, infrastructure is under-developed, and there is an over-reliance on physical currency. Although there are not many options for cash delivery in the BYA states, some actors have piloted alternative delivery methods, such as bank accounts, smart cards, and direct vendor payments.

RESPONSE OPTIONS & RECOMMENDATIONS

The researchers are proposing the following recommendations, based on global best practices and literature review.

PRINCIPLES TO GOVERN THE RESPONSE

Even in the context of high economic volatility, CVA actors should continue to prioritize MPCA distributions over vouchers and in-kind assistance, where markets are functioning.

Although the use of vouchers has proved beneficial in the initial months of the liquidity crisis, **CVA actors should explore shifting towards more multipurpose cash assistance (MPCA) once the situation normalises.** MPCA offers a higher degree of freedom, preserves the dignity of participants, and strengthens local markets more than the current large-scale voucher programs.

Regular revision of the MEB and adjusting the transfer value (TV) to maintain purchasing power and counter inflation and/or currency depreciation[12]. This measure can be implemented by either

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[10] Cash Barometer, Ground Truth Solutions https://reliefweb.int/attachments/6d1112af-3ae8-473e-90f1-e2e5af965331/GTS_Nigeria_CashBarometer_December_2022_en.pdf
[11] According to KIs, around 80% of CVA is provided via e-vouchers and closed loop smart cards. The remaining 20% is delivered via bank transfers, mobile money, and transfer agents.
[12] Guidelines on how to calculate MEBs and TVs can be found at https://www.calpnetwork.org/publication/calculating-the-minimum-expenditure-basket-a-guide-to-best-practice//

reprogramming the currency gains[13] from budget savings and from obtaining or negotiating a better or preferred foreign exchange rate for humanitarian actors. Cash actors can collectively negotiate more favourable exchange rates with the Government or Central Bank or obtain better/more competitive exchange rates through sourcing local currency on the FOREX market. When inflation and currency depreciation exceed currency gains, cash actors should negotiate for additional flexible funding from donors to cover the TV increase, or otherwise reduce the caseload (see below depth vs breadth dilemma).

The provision of top-ups and lumpsums are a good solution when cash actors need to harmonise with Social Protection and government transfer values. In situations where the revision of the MEB takes a long time, cash actors can provide a top-up or lumpsum as an interim measure. In some cases, the need to harmonise humanitarian TVs with social protection schemes has limited the ability to raise TVs as often as required to maintain purchasing power.

E-payments, mobile money or vouchers. When dealing with liquidity issues, cash actors should prioritise e-transfers or mobile money, although this is conditioned by the availability of e-payments and mobile network infrastructure as well as financial literacy. Other adaptation measures to address liquidity issues in areas where e-payments are not feasible, include the use of vouchers, with preference given to value vouchers.

In-kind assistance has very high operational costs, offer less value for money[14], and requires a high level of organisational flexibility to shift between modalities. Generally, inflation and currency depreciation do not justify shifting to in-kind assistance. However, in situations where all other measures have been exhausted, especially in those with very high differences between official and parallel exchange rates or non-functioning markets, in-kind assistance could be delivered. Cash actors should have a clear plan of returning to cash on agreed thresholds.

As a measure of preserving the purchasing power, the delivery of hard currency remains one of the best measures. However, the delivery of hard currency is controversial in many contexts, as it is highly regulated by the government and not permitted – as is the case of Nigeria.

RECOMMENDATIONS TO THE CWG AND TO THE CASH ACTORS TO BE CONSIDERED INTERNALLY

Depth vs breadth dilemma[15]. The CWG and the cash actors in Nigeria 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. OCHA reports that although access is getting better, the humanitarian situation is getting worse. Also, humanitarian organisations can now reach previously inaccessible populations that are in greater need. There is a need to conduct

[13] In this context, currency gains refer to the savings realised at the conclusion of the project because of a depreciating local currency relative to the project's currency.

[14] https://www.wfp.org/publications/cash-and-kind-transfers-humanitarian-settings-review-evidence-and-knowledge-gaps

[15] 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 CVA sector in Nigeria, this means applying a higher transfer value that will cover a greater proportion of the MEB to fewer recipients as opposed to maintaining the transfer value for a higher number of recipients.

additional research and 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 TV, 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 TV rate and not adjust to inflation, they might be able to assist additional participants through a horizontal expansion of the program, when they incur currency gains from currency depreciation (if the budget is in hard currency) or can access more funding.

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

Cash actors and CWGs should develop contingency/anticipatory planning for future economic or policy changes. The CWG and its members must be equipped with the means to adapt to changing inflation/currency depreciation conditions. The mechanisms, processes, and delivery platforms must be in place to preserve the purchasing power of the recipients. **Actors should include a continuum of measures that take into consideration long-term trends, have preparedness and contingency planning in place to prepare for economic volatility.**

Adjusting to inflation and currency depreciation should not be a one-off event. As such, **the CWG should have clear decision processes outlined in SoPs that detail the procedures to reach an agreement over MEB and transfer value adjustments**[16]**.** The SoPs should include different scenarios and proposed common strategies, agreed criteria and thresholds that should prompt a discussion at the CWG level, and a step-by-step guidance note on the revision process. **Once the purchasing power is significantly reduced**[17], the CWG should convene a meeting and initiate a discussion with its members. The SOP should also include a timeframe for implementing the new transfer value[18].

Factor in Point of Sale (PoS) charges, redemption costs and transportation costs in the transfer value. Some organisations have adopted this strategy to partially offset the inflation and depreciation effects of new modalities or transfer mechanisms, as well as the additional costs incurred as a result. This should be applied more broadly, particularly when switching modalities[19]. While this could only partially offset the impact of inflation on purchasing power, it could reduce the pressure brought on by the change.

Provide top-ups for all income-generating interventions with the MEB. Key informants have reported that some of their livelihood program recipients have used their income-generating assistance to

[16] For the S/MEB calculation process and tools, please access https://www.calpnetwork.org/wp-content/uploads/2020/03/MEB_CALP.pdf
[17] The authors recommend a threshold of 20–25% purchasing power reduction. WFP has a 15% threshold to start internal discussions about transfer values.
[18] According to the KIs, since a standard MEB revision is a lengthy process involving numerous stakeholders, more than one or two revisions per year are unrealistic. Nevertheless, if the appropriate mechanisms are in place, TVs can be reviewed quarterly if inflation/depreciation rapidly erodes purchasing power.
[19] When the assistance to Cameroonian refugees was shifted from in-kind to MPCA in 2022, UNHCR included in their entitlements compensation for withdrawal and other costs.

cover basic needs. When including vulnerable households in income-generating activities, the cost of the MEB must be factored in the total transfer.

Joint market monitoring exercises should include predictive analyses, as the MEB relies only on a snapshot of the current market. The market monitoring should include a predictive and trend analysis element to calculate the transfer values based on possible future scenarios. This could be also useful for budgeting and as an advocacy tool towards donors and to reduce the frequency of revisions where the rate of inflation is very high. The Nigerian CWGs should develop SoPs for joint market monitoring exercises and information sharing.

Continue monitoring beneficiary preferences. The CWGs and its members should continue monitoring the preferences of program recipients. Driven by external factors, the needs, and preferences of cash recipients will vary, and cash programming must adapt to accommodate these differences. In addition, the preference of program recipients must be contextualised[20], even if people are often resistant to change due to perceived risks to their entitlements[21].

The preferences of program recipients are an ideal barometer for gauging the situation. Recipients requesting in-kind assistance is an excellent indicator of the fact that there is a disconnect between the transfer value and the expenditure basket. In evaluating the efficacy of the various mechanisms, the perspectives and experiences of the recipients are also indispensable.

Include financial literacy and financial inclusion initiatives within cash programs. Providing program recipients with access to financial instruments enhances the resilience of cash programs. In an economy with high inflation and depreciation, most recipients will immediately spend or cash out the assistance. In the event of a crisis or a sudden policy change, however, it is easier to switch mechanisms when program recipients have greater financial literacy and are also familiar with e-payment mechanisms.

RECOMMENDATIONS TO THE CWG AND THE CASH ACTORS TO ENGAGE WITH EXTERNAL PARTNERS

Advocate for preferential exchange rates and explore the best rate possible. Obtaining a preferential exchange rate is a lengthy and difficult process. However, in other humanitarian responses, like in the case of South Sudan, organisations providing cash were able to obtain preferential exchange rates[22]. In the meantime, cash actors should explore ways of obtaining the best possible rates within the law[23].

[20] Modality preferences: Are uninformed choices leading us down the wrong road? https://www.groundtruthsolutions.org/news/modality-preferences-are-uninformed-choices-leading-us-down-the-wrong-road

[21] Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation https://www.calpnetwork.org/publication/good-practice-review-on-cash-assistance-in-contextsof-high-inflation-and-depreciation/

[22] UN preferential exchange rate.

[23] 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. In other situations, such as Malawi, remittance banks provide better exchange rates than commercial banks because of currency trading desks.

Cash actors should investigate ways to reduce exchange rate losses by carrying out transfers from their headquarters more frequently.

Donors should demand cash actors to align their transfer values. In Nigeria, there is currently a lack of harmonised transfer values among cash actors. This practice is creating a culture of inequitable access to humanitarian assistance, as participants could receive different TVs from different organisations. All humanitarian partners should use the transfer values as outlined by the CWGs and donors should enforce the use of aligned transfer values[24]. This is particularly important in a context of high inflation and currency depreciation where organisations might be tempted to raise transfer values unilaterally.

Mapping different modalities and mechanisms at the CWG level. As evidenced by the recent liquidity crisis, the cash actors in Nigeria were unable to change modalities in a timely manner during the first months of 2023. This has caused most of the organisations to suspend cash transactions during the months of January and February. Cash actors should start mapping out the various cash modalities and delivery mechanisms available in Nigeria[25]. A recommendation would be to have standing agreements with various financial service providers and vendors which would enable cash actors to quickly shift modalities or mechanisms in line with participant preferences. This measure could safeguard the purchasing power in case of a rapid change of legislation or economic environment. Cash actors should collectively explore other options for cash redemption such as QR codes, pre-paid cards, and transfers to vendors to minimise the use of banknotes.

In rural areas, the high reliance on physical cash and the lack of infrastructure for e-payments are significant obstacles, but in urban and semi-urban areas, new delivery mechanisms that do not require cashing out should be investigated.

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 16 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 forty 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.

[24] In case of gains from a hard currency exchange rate, organisations should look more into increasing the number of people to assist rather than increasing the transfer value if this is not agreed at the CWG.
[25] The most efficient way to collect FSP information is via a remote survey, requesting the FSPs to compete a standard questionnaire requesting information about coverage, delivery methods, access to liquidity, fees, among others. Other methods could be either invite them to the CWG or conduct key informant interviews.

ANNEX: PROPOSED ACTION PLAN FOR THE CWG

An action plan was discussed and agreed upon during the half-day workshop organised by the researchers together with the CWG leadership. The actions are ranked according to the workshop's prioritisation exercise that was done through a poll and opinions expressed during key informant interviews.

PRIORITY 1 ACTIONS

Invite FSPs to attend the CWG and present their solutions to the liquidity issue.

- There is a variety of FSPs, money agents, and vendors in Nigeria that can provide cash and voucher assistance to program recipients. This includes conventional banks, microfinance banks, payment service banks, money transfer agents, remittance services, mobile money startups, e-payment agents, and mobile network operators, among others. The CWG should invite key FSPs to CWG meetings to present how their various solutions can be adapted to humanitarian cash programs.

Agree on triggers and frequency to review MEB. Clear decision process for the transfer rate adjustment (SoP).

- The Nigeria CWG has historically updated the MEB and transfer values annually. Revision of the MEB and transfer values is a laborious procedure involving at least four clusters. A taskforce is currently working on the new 2023 update. With the rise in inflation and devaluation, a yearly review may no longer be sufficient to maintain purchasing power.
- Develop a decision process outlined in a SoP that details the procedures to reach an agreement over MEB and transfer value adjustments.
- The CWG should implement an inflation and depreciation monitoring mechanism to revise the TV without activating a full-fledged MEB revision process[26]. Once the agreed threshold of purchasing power erosion has been reached due to inflation/depreciation, the mechanism should start, and the taskforce independently should revise the TV.

PRIORITY 2 ACTIONS

Collectively discuss with donors to increase modality and transfer value flexibility.

- The donors interviewed during the key informant interviews were not prescriptive in terms of the preferred modality or were advocates for a flexible transfer modality approach, with priority given to MPCA where feasible.
- The CWG should collectively advocate for modality and delivery mechanism flexibility to be incorporated into cash grants at the proposal stage. This flexibility must allow shifting

[26] Organisations such as WFP have inflation triggers that initiate internal discussions about increasing transfer values when more than 15% of purchasing power is lost. Consider implementing similar triggers at the CWG level to evaluate transfer values more regularly.

smoothly between transfer modalities that provide the best value for money and protect recipients against inflation and currency depreciation. In Nigeria, more research is needed to better ascertain recipients' preferences and the best modality to meet their needs.

Jointly coordinate and/or jointly negotiate with the FSPs for better rates and conditions.

- As a contingency measure against inflation/depreciation, the CWG should do a mapping of all available financial service providers (FSPs) solutions, including the transaction costs, KYC requirements, coverage, and cashing-out options. This exercise will be especially valuable for smaller or local organisations, with less capacity to conduct their own FSPs mapping.
- In Nigeria, fees paid to FSPs and vendors account for a sizeable portion of the total cash program cost. Collectively, negotiation with FSPs at the consortia or CWG level could reduce these fees, allowing more funds to be allocated to recipients.

Advocate for better price monitoring and context/market analysis.

- According to the KIs, several organisations conduct price monitoring to guide their operations. Currently, only the Famine Early Warning Systems Network publishes a monthly report on food price monitoring in Nigeria. As of September 2022, the Joint Market Monitoring Initiative has ceased sharing updates. Regular price monitoring must be conducted collectively and shared with the humanitarian community if the situation in the country is to be better understood. The CWG should advocate for the continuation and strengthening of key commodities price monitoring.

Continue the engagement with new regulatory authorities.

- The recent elections might lead to changes at the regulatory authorities. Conduct a stakeholder mapping looking at the top officials for a more targeted engagement. The stakeholder mapping needs to consider the limited leverage that humanitarian organisations have on the general monetary policy, and strike a balance between decision-making, influence, and ability to actively represent the CWG.
- Generate short briefings for key Government officials and raise awareness about the current response and challenges.
- Invite government officials to dedicated CWG sessions where pertinent issues are discussed.

PRIORITY 3 ACTIONS

Continue raising the liquidity issues to the Humanitarian Country Team (HCT).

- The current liquidity issues have a significant impact on the less digitally advanced regions of the country, rural areas, and conflict zones. It also influences the Social Protection (SP) program, with recipients reporting problems cashing-out their benefits. According to key informants, the humanitarian community has limited influence on the liquidity crunch; however, new solutions must be continuously investigated. The HCT has convened specific sessions regarding liquidity, where cash actors should raise additional issues that are vital to the Nigerian cash community, in addition to the liquidity issues.