LEARNING BRIEF

CASH ASSISTANCE IN CONTEXTS OF HIGH INFLATION AND DEPRECIATION:

Challenges, Dilemmas and Way Forward

CALP NETWORK
CHOICE & DIGNITY FOR PEOPLE IN CRISIS

This learning brief discusses the key issues and proposed approaches that emerged from consultations with a variety of stakeholders across Africa and beyond, on the actions needed for effective implementation of cash assistance to contexts of high inflation and depreciation. Our gratitude goes to all who contributed their views through key informant interviews and workshops carried out with Zimbabwe, South Sudan, Malawi, Nigeria and Burkina Faso cash working groups, as well as at the global level.

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Cover image: Maimuna Bello, widow and mother of 10 children, buys food items in Yankaba Market in Kano, Nigeria. Many people in Nigeria are struggling to support their families due to rapidly escalating food prices. ©Adetona Omokanye/WFP. April 2021

INTRODUCTION

Cash assistance is an effective response option because of its potential to enable choice among recipients. In most scenarios, it offers the best value for money and is a relatively fast and effective way to save lives, alleviate suffering, and preserve human dignity in a humanitarian context. As global inflation[1] continues to affect the most vulnerable populations most severely, humanitarian organisations are grappling with ways to maintain effectiveness, efficiency and coherence of cash assistance in a volatile economic environment.

This brief discusses the key challenges, dilemmas and recommendations garnered from technical support provided to cash working groups (CWGs) in Zimbabwe, South Sudan, Burkina Faso, Nigeria and Malawi in February and March 2023. The technical support was built on *CALP's Cash Assistance in Contexts of High Inflation and Depreciation*[2] and WFP's *Doing Cash in a Context of Economic Volatility: What to Do and What to Keep in Mind.*[3]

SITUATION ANALYSIS

Many of the countries covered in this note have experienced high levels of inflation over the years, often due to factors such as political instability, low productivity and fiscal pressures. In some cases, inflation has been so severe that it has led to hyperinflation, where prices increase at an extremely rapid rate, making it difficult for people to afford basic goods and services. At the same time, many of these countries have also experienced currency depreciation, which can further exacerbate inflation by making imports more expensive.[4] In recent times, the economic impacts of the COVID-19 pandemic, expansionist monetary policies, elevated fuel prices and the 2022 Russia/Ukraine conflict, among other factors, have sparked global inflation not seen in decades. In addition, a stronger dollar compounded the economic vulnerabilities in the countries by raising the cost of imports. These shocks alongside exchange rate pressures have led to the emergence of parallel exchange rates in many of the countries.

To address heightened inflation and currency depreciation, as well as exchange rate pressures, these countries have implemented a variety of monetary and fiscal policies. In 2022, South Sudan allowed its currency to float, with the consequence of devaluation of the local currency. In Malawi, periodic foreign exchange auctions aimed at floating the kwacha have been announced. In Zimbabwe, a multi-currency system and open foreign exchange auctions were employed to address the problems of high inflation and parallel exchange rates. These kinds of changes in monetary policy and sectoral policies have often had the greatest impact on cash assistance operations.

The economic volatility continues to impact cash assistance programmes by causing fluctuations in the cost of basic commodities and services and thereby reducing the purchasing power of the recipients. Consequently, frequent increments in the amounts provided are needed to ensure transfers remain adequate to meet the basic needs of affected populations.

1 Inflation refers to a sustained increase in the prices of goods and services in an economy, while depreciation refers to a decrease in the value of a country's currency relative to other currencies. Both phenomena can have negative effects on an economy, including reduced purchasing power and increased costs for consumers and businesses.

2 *Cash Assistance in Contexts of High Inflation and Depreciation* www.calpnetwork.org/publication/good-practice-review-on-cash-assistance-in-contextsof-high-inflation-and-depreciation/

3 *Doing Cash in a Context of Economic Volatility: What to Do and What to Keep in Mind* www.calpnetwork.org/wp-content/uploads/ninja-forms/2/WFP-Interim-Guidance-Cash-and-economic-volatility-EXT.pdf

4 Depreciation can be caused by a variety of factors, including trade imbalances, low foreign investment, and high inflation rates.

CHALLENGES AND DILEMMAS

When attempting to maintain the effectiveness of cash transfer programmes in the face of inflation/depreciation, implementing organisations and donors frequently face several challenges and dilemmas. The dilemmas pertain to policy and programme design, rather than technical issues, with no clear right or wrong answers and which require further interrogation and evidence-building. Challenges refer to issues for which there are no straightforward solutions, and which require the concerted effort of different types of actors to resolve. The principal dilemmas and challenges identified during the work conducted across the five countries include:

I BREADTH VS. DEPTH[5]

In contexts of high inflation/depreciation, constant increases in the transfer value are required to maintain the purchasing power of programme recipients. With the same funding levels, organisations implementing cash assistance must consider whether to keep increasing the transfer values and reduce the number of recipients or maintain lower transfer values if they want to assist the same number of recipients, which would mean a reduction in the purchasing power of recipients. In the face of funding limitations and increasing humanitarian needs related to frequent and cyclic climatic shocks in the region, there is a need to reflect on what this decision means for an effective cash response. Soon the Nigeria CWG will conduct an analysis on the breadth vs. depth issue to determine if programme effectiveness can be maintained. In other countries, like Malawi the government recommended a reduction of the lean season cash transfer values from 40,500 MWK to 2,500 MWK due to lack of resources.

Some reflections

- After a shock, all affected individuals face increased risk and vulnerability, making it difficult to assess comparative needs. Over time, socio-economic circumstances tend to differentiate vulnerable individuals and households from less vulnerable ones, allowing for the application of targeting criteria. If it is possible to conduct vulnerability assessments, apply targeting criteria, and have de-duplication mechanisms in place, *depth* might be the way forward. However, in cases where the needs outstrip available resources by far, the decision is often more difficult to make. In the cases analysed, these preconditions were met, and organisations in Burkina Faso, Malawi and Zimbabwe, as well as some in South Sudan, opted for *breadth*. In any case, further context-specific research is needed to support a collective decision on how to treat the depth vs. breadth issue in contexts of massive needs and finite resources that are impacted by high inflation and currency depreciation, to determine a shared course of action.
- The development of a minimum expenditure basket (MEB) is not an exact science and involves compromise and subjective judgement.6 Also, in some cases, the methodology of estimating adequate transfer values has been questioned (e.g., in Somalia, where alternative approaches have previously been sought)[7] and is an area that requires further research. In addition, some studies have indicated that when the question is posed to communities, respondents often indicate it is fairer to assist more people with lower amounts rather than supporting few people with higher amounts.[8] On the other hand, the adequacy of assistance is a core tenet of humanitarian aid. Breadth is often the path with the least amount of resistance, but it can result in a programme with little relevance and impact if recipients cannot use the assistance to cover a significant portion of their most fundamental needs. While there is no right or wrong solution to the dilemma, a joint understanding and coordinated action remain relevant in both scenarios. In cases where a decision is made to reduce the transfer values to reach more people, the gap between the ideal transfer values and the agreed one needs to be adequately and clearly documented and tracked; with a view to return to the ideal value as soon as conditions allow.

[5] Within humanitarian assistance, depth refers to the amount of assistance delivered to each programme recipient and breadth refers to the number of individuals assisted. In the context of cash assistance, this means applying a higher transfer value that will cover a greater proportion of the minimum expenditure basket (MEB) to fewer recipients as opposed to maintaining the transfer value for a higher number of recipients and covering a smaller percentage of their needs.

[6] *Calculating the Minimum Expenditure Basket: A Guide to Best Practice* www.calpnetwork.org/wp-content/uploads/2022/10/Calculating-MEB-A-guide-to-practice.pdf

[7] *Evaluation of the 2017 Somalia Humanitarian Cash-Based Response* www.calpnetwork.org/publication/evaluation-of-the-2017-somalia-humanitarian-cash-based-response/

[8] *Community Reflections: The Cumulative Impact of Keeping People Informed* www.calpnetwork.org/publication/community-reflections-the-cumulative-impact-of-keeping-people-informed/. See also *Evaluation of the 2017 Somalia Humanitarian Cash-Based Response* www.calpnetwork.org/publication/evaluation-of-the-2017-somalia-humanitarian-cash-based-response/

2 ADMINISTRATIVE AND BUREAUCRATIC BARRIERS

In some of the cases analysed, key informants referred to a reluctance of donors to reduce the number of recipients in the middle of programme delivery, because it requires administrative changes to the grants or due to complications in the policy environment. For example, large donors such as ECHO and USAID require bureaucratic approval processes when the number of recipients is reduced, which can take months to process. Consequently, organisations tend to continue to assist recipients with lower amounts than recommended, even if they are no longer adequate to meet the needs.

Governments can also deter adaptation of transfer values to inflation trends where the system in place requires their approval of the new rates prior to application. Budgetary constraints, political considerations and capacities of administration and systems can be barriers to adaptation of transfer values, particularly where government authorities seek to harmonise humanitarian transfer values with social protection transfers.[9] Moreover, frequent changes in the recommended transfer values (usually by cash working groups) can hamper organisations' ability to adhere to proposed changes due to related administrative burdens. On the other hand, administratively heavy MEB revision processes have in many cases hampered timely adaptation of transfer values.

Some reflections

- Forecasting of future trends regarding inflation and the cost of the MEB alongside contingency planning could help support donor budgeting and alleviate some of the administrative burdens related to adjusting transfer values to ensure that they are keeping up with the market trends. The practicalities of forecasting are discussed further in this document under 'Recommendations'.
- Donors should consider the minimum portion of basic requirements that is worthwhile to disperse. If grants must be modified because the choice is made to assist fewer recipients while maintaining purchasing power, donors should reduce the administrative load placed on their partners to achieve this.
- Working with relevant government representatives on an acceptable and predictable process to guide future updating of transfer values could help ease the bureaucratic impediments and reduce time taken on the approval process by government.
- The process to adjust transfer value should be simple enough to be carried out regularly within the capacities of the CWG. Full revisions of existing MEBs should be considered separately from revisions of the cost of the MEB and revisions of transfer values, which should occur more frequently.
- Implementers struggle with very frequent revisions of transfer values where there are rapid fluctuations in the cost of MEBs due to the processes needed to adjust the values internally and communicate the changes to the recipients. Cash Working Groups could explore ways of reducing this burden by, for example, incorporating the economic outlook into CWG processes and mechanisms so that they allow for a paced approach to adaptation of the transfers.

3 HARD CURRENCY[10]

One of the ways in which humanitarian actors have managed to mitigate the consequences of high inflation on cash assistance is by planning and (in some cases) delivering transfers in hard currencies. When officially permitted, the use of hard currency is an adaptation of the programme that affords implementers of cash assistance significant stability.

In Zimbabwe, the ability to distribute in US dollars has revitalised cash assistance following many years of arduous modality changes and adaptations. Beneficiaries favour cash assistance over other modalities because the hard currency preserves purchasing power. Recently, South Sudanese organisations began distributing in US dollars, which prompted the government to prohibit the use of hard currency to protect the value of the South Sudanese pound.

[9] *Transfer Values: How Much is Enough? Balancing social protection and humanitarian considerations* www.calpnetwork.org/publication/transfer-values-how-much-is-enough-balancing-social-protection-and-humanitarian-considerations/

[10] Hard currency refers to money that is issued by a nation seen as politically and economically stable that is not likely to depreciate suddenly or to fluctuate greatly in value. The US dollar stands out in particular as it enjoys status as the world's foreign reserve currency. See Investopedia's 'Hard Currency: Definition, Examples, Vs. Soft Currency' www.investopedia.com/terms/h/hardcurrency.asp

In some contexts, humanitarian actors have previously advocated to distribute cash transfers in hard currencies.[11] Hard currency shelters recipients from depreciation and most costs associated with higher inflation rates. However, if not well managed, the benefits could be subjugated by possible negative consequences of their use. Wide-scale adoption of hard currencies or 'dollarisation'[12] can contribute to further decline in the value of a local currency by undermining trust in it. Partial dollarisation could also inadvertently propagate inequalities between those with access to the hard currency and those without – pushing the latter further into poverty because of declining purchasing power. Where humanitarian assistance is distributed in hard currency, these inequalities could fuel or worsen community tensions.[13]

Some reflections

- In contexts where economies are fully dollarised or allow use of multiple currencies, disbursement in hard currencies should be considered. In situations where there is a clear indication to use local currency or where there is a lack of clarity, cash actors should use local denominations and employ other inflation/depreciation programme adaptations.
- Other approaches that have been proven to work include budgeting in donor/hard currencies and implementing in local currencies, which allows organisations to take advantage of the exchange rate gains. This approach, coupled with joint advocacy for preferential exchange rates, could help mitigate some of the inflationary impact on budgets.
- There is potential within some emerging technologies to address the problem of currency depreciation. For example, GiveCrypto's programme in Venezuela demonstrated that the value of transfers could be preserved using cryptocurrencies delivered via cell phone application.[14] The technology enabled recipients to hold onto their transfers and spend them when needed, without fearing loss of value due to hyperinflation in the intervening time. As these technologies evolve and new ones emerge, humanitarian actors could explore possibilities to utilise them to address some of exchange rate-related challenges without causing harm to recipients.

4 TRANSFER VALUES

Determining the value of MEBs and appropriate transfer values are the two most important programme adaptations for maintaining purchasing power in an environment of high inflation/depreciation. Nevertheless, cash assistance actors do not operate in a vacuum, and external factors such as other types of payments may influence decisions to do with humanitarian transfer values as well as their acceptance. The two main considerations that often need to be made include:

a. Social protection (SP) vs. humanitarian cash assistance: When SP rates are harmonised with humanitarian cash transfers, revision of transfer values could take time due to the number of actors involved. In contexts of high depreciation, SP actors might resist raising transfer values on the grounds of insufficient resources. In Malawi, the SP actors, with diminishing resources, have set a transfer value that covers a small percentage of the MEB.

b. Wage rates vs. transfer values: Inflation and currency depreciation affect not only cash recipients, but also the wages of the general population. In certain circumstances, transfer values will rise above the median salary, provoking government opposition to further increases. In the case of Burkina Faso, this and other concerns of the government have led to the prohibition of cash and voucher assistance in certain regions.

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

[12] The term dollarisation is used to refer to the acceptance of foreign currency – usually United States Dollars (USD) – as a medium of exchange by a country, either fully or partially. Dollarisation could be official as part of government policy or unofficial.

[13] *See Lebanon case study in ALNAP's the State of the Humanitarian System (page 128)* www.alnap.org/system/files/content/resource/files/main/alnap-2022-sohs-report_0.pdf

[14] NBC News (2019). 'Nonprofits turn to cryptocurrency to help Venezuelans in need'. NBC News 22 May 2019. www.nbcnews.com/news/latino/nonprofits-turn-cryptocurrency-help-needy-venezuelans-n1008726

Some reflections

- Humanitarian actors use MEBs and derived transfer values as tools to define and support recipients' monetizable needs. This promotes efficiency and effectiveness by ensuring that recipients are provided with the cash amounts required to meet their most basic needs. Humanitarian actors should be prepared to advocate for appropriate transfer amounts that are adequate to meet these needs. On the other hand, pragmatic approaches may be needed on a contextual basis to maintain coherence and maximise the impact of limited resources.
- It is important to ascertain the reasoning behind resistance to increasing values beyond wage rates and social protection values. For example, one of the most frequently used arguments for discouraging increase of transfer values beyond wage rates is the fear that this would undermine the work ethic, and while there is limited evidence of this,[15] there might be impacts on social cohesion to consider. In some contexts, a premium may be placed on alignment of humanitarian transfers with social protection values. Understanding the motivation could help advocacy efforts. Top-ups may also help to address some of the concerns – although in many contexts this approach is limited by scarce resources.

5 CHANGING MODALITIES

In contexts of high inflation/depreciation, cash actors often mention reverting to vouchers and/or in-kind transfers as the main fall-back plan for when rates of inflation and related increases in transfer values are no longer tenable. However, there is no evidence suggesting that vouchers/in-kind offer better value for money and better maintain purchasing power. Additionally, modality changes take time and tend to be very challenging and costly. For example, in the cases of Zimbabwe and South Sudan, where economic and market conditions necessitated a shift to in-kind modality, movement back to cash assistance has been slow, even in geographical areas where current conditions allow for it.

Some reflections

- Cash actors must explore other adaptation measures such as raising transfer values, obtaining a better exchange rate or changing delivery mechanisms before considering shifting to other modalities such as in-kind assistance.
- Cash working groups have a role in assessing the feasibility of, and need for cash assistance as part of overall response analysis. A comparative analysis of the cost of in-kind vs. cash assistance could help to support and inform decision-making and recommendations at response level – keeping in mind that the comparison will vary from context to context depending on the nature of the crisis, economic factors, market conditions, and existing infrastructure.

[15] Baird, S., McKenzie, D. and Özler, B. (December 2018). *The effects of cash transfers on adult labor market outcomes. Journal of Development and Migration, 8(22).* https://doi.org/10.1186/s40176-018-0131-9

RECOMMENDATIONS

When implementing cash assistance in contexts of high inflation and depreciation, organisations need to keep up with rapid fluctuations in market prices and other consequences of economic volatility and government fiscal policies. Cash working groups have an important role to play in maintaining coherence of the response and unity of purpose as cash actors navigate these challenges. Timeliness is of the essence. This can best be achieved if the principles and processes governing adaptations are agreed upon in advance and systematised. The following key elements should be considered.

CLEAR AND PREDICTABLE PROCESSES

In contexts of high inflation and currency depreciation, it may be necessary to raise transfer values multiple times per year to preserve purchasing power. As such, the CWG should have a clear decision process outlined that details the procedures to reach an agreement over MEB and transfer value adjustments.[16] The procedures should include different scenarios and proposed common strategies, agreed criteria and thresholds that should prompt a discussion at the CWG level, and a guidance note on the revision process. When the purchasing power is significantly reduced, passing a threshold, the CWG should initiate a discussion with its members. The procedures should also include a timeframe for implementing the new transfer value. The involvement of key stakeholders such as donors and government authorities during the development of procedures could help to generate buy-in and reduce the time taken to adapt.

Anecdotal data indicates that one of the main reasons adaptations of transfer values are not consistently carried out within CWGs is the conflation of the more immediate need to adapt the cost of MEBs and transfer values to align with current market prices, on the one hand, and a full revision of the MEB, on the other, which is a more time-consuming exercise. There should be a clear separation of the two processes at CWG level. Also, the process of adapting transfer values should be simplified such that it becomes easy to achieve within limited resources.

UNDERSTAND THE ECONOMIC OUTLOOK AND THE CONSEQUENCES

Through regular market monitoring,[17] cash actors can better understand the effects of economic volatility on programme participants. Understanding people's shifting concerns and struggles caused by the economic environment is essential for implementing solutions that meet their needs.[18] Market monitoring should include forecasting that gives an indication of the transfer values based on possible future scenarios. This could be useful for budgeting and as an advocacy tool in conversations with donors. Forecasting could also help to increase the level of flexibility built into the different grants. Cash working groups should develop specific forecasting procedures within joint market monitoring exercises. This may require increased engagement with specialist organisations that have the expertise to carry out this kind of work. There is a need for humanitarian actors to develop a common understanding of what such forecasting could look like and how it could be implemented at country level.

[16] For the MEB calculation process and tools, please access www.calpnetwork.org/wp-content/uploads/2020/03/MEB_CALP.pdf

[17] Market monitoring should include price monitoring both in hard and local currency, exchange rates and availability of goods in areas where humanitarian actors are implementing cash assistance.

[18] *Doing Cash in a Context of Economic Volatility: What to Do and What to Keep in Mind* provides an excellent framework to assess the impact of the economic outlook on cash assistance operations. See www.calpnetwork.org/wp-content/uploads/ninja-forms/2/WFP-Interim-Guidance-Cash-and-economic-volatility-EXT.pdf

PREPAREDNESS AND CONTINGENCY PLANNING

Inflation and depreciation are difficult phenomena to predict, which tend to follow long-term trends. The consequences of monetary and sectoral policies often contribute to the greatest fluctuations in purchasing power. In many contexts, these tend to change frequently as governments seek to curb inflationary pressures in volatile economic situations. These scenarios will often require adaptations to cash responses such as updating of transfer values, and change of modalities and/or delivery mechanisms – which can be lengthy processes. As such, particularly in contexts where there is precedence, it is important that cash actors anticipate these changes and develop contingency plans that include a list of potential options available for a smooth transition to alternative approaches when such policy changes take effect.[19] These plans could be based on historical information and need to be clearly documented and easily accessible (given CWGs tend to experience a high turnover of leads), and necessary tools should be developed and agreed upon ahead of time.

MONITOR AND FOLLOW PROGRAMME RECIPIENTS' PREFERENCES

Cash actors should continuously monitor the preferences and actions of programme recipients. Driven by external factors, the needs and preferences of cash recipients will vary, and cash programmes must adapt to accommodate these differences. Post-distribution monitoring should be conducted more frequently in situations characterised by high inflation and currency depreciation, ideally after each distribution. The choices and preferences of programme recipients serve as excellent indicators of the effectiveness of the response. If, for example, recipients request in-kind assistance, this is often a strong indication that the transfer value and the expenditure basket are not aligned. The opinions and experiences of the beneficiaries are also crucial for measuring the effectiveness of the various strategies.

CONCLUSION

The challenge of implementing cash assistance in contexts of high inflation and depreciation requires forward planning, imaginative and pragmatic solutions, as well as the flexibility to adjust to new ways of working consistent with volatile economic conditions. Collaborative efforts are needed to determine shared courses of action that could help to resolve or at least bring about coherence in addressing the challenges and dilemmas resulting from the impacts of economic volatility on cash programming. While there are some clear ways forward, candid conversations are needed to find common ground on some of the issues.

[19] *Good Practice Review on Cash Assistance in Contexts of Inflation and Depreciation* provides a very useful framework for the analysis of the situation and gives a complete catalogue of the response options available for cash assistance practitioners.