WFP World Food Programme

AISHA IS MOTHER OF SIX CHILDREN AND THEY ARRIVED IN LEBANON IN 2016, SEEKING REFUGE FROM THE SYRIAN CONFLICT. DURING THE TWO LOCKDOWNS AND THE COVID-19 PANDEMIC, THE ECONOMIC SITUATION HAS WORSENED, AND THE FAMILY STRUGGLED TO BUY ANYTHING BEYOND THE ESSENTIAL FOOD ITEMS.

"Life has been tough with the food prices increasing almost three-folds this year. We use the cash to pay for different expenses. First off, we pay the rent and electricity. We then buy essential food items, such as rice, sugar, and oil. Whatever is left of the cash is used for Amira's education and any urgent medication for the family."

AISHA AND HER DAUGHTER AMIRA, SYRIAN REFUGEES IN LEBANON

DOING CASH IN A CONTEXT OF ECONOMIC VOLATILITY:

WHAT TO DO AND WHAT TO KEEP IN MIND

CASH-BASED TRANSFERS DIVISION

DECEMBER 2022

INTRO

This document outlines what to do and what to keep in mind when delivering cash and scaling up operations in contexts of economic volatility[1] with a view to **increasing WFP's impact and cost efficiency, maintaining people's purchasing power, and ensuring operational continuity**.

The document is intended to support **Cash Officers** responding to or working in contexts of economic volatility and provides recommendations for assessing the impact of the economic context on operations, ensuring an appropriate transfer modality and mechanism, adjusting the transfer value, doing top ups or lump sum payments, ensuring competitive exchange rates, and factoring economic volatility into preparedness. It outlines **possible approaches**[2] for each of these topics and describes **what to do** and **what to keep in mind**[3] while implementing them. Engagement and alignment with colleagues from Programme, Research Assessment and Monitoring, Finance, and Supply Chain colleagues is important.

Economic volatility is a complex topic and might be new to many country offices, so reach out for specialised expertise and advice from HQ to support implementation of these considerations or to develop tailored approaches to your context.

WHO TO CONTACT?

For more information or discussions on the content of this document, please contact **Guadalupe Galambos** and GLOBAL.CBTSUPPORT@wfp.org.

[1] A context of economic volatility is one where the economic and/or financial conditions change frequently, leading to macroeconomic instability and uncertainty. Common sources of economic volatility are inflation, changes in international food and energy commodity prices, currency fluctuations as depreciation, liquidity issues -i.e., lack of cash in the economy-, shortage of hard currency, and changes in financial regulation, among others.

[2] Please note that not all approaches will fit all contexts and implementation timeframes can vary across countries.

[3] Note that other general recommendations that apply to all contexts are not outlined (e.g., timely and clear communication, trying to deliver unconditional and unrestricted cash, applying a gender lens, and applying an essential needs approach, among others).

OUTLINE OF THE DOCUMENT

CLICK ON THE TITLES TO JUMP TO THE CORRESPONDING SECTION IN THE DOCUMENT

UNDERSTAND THE ECONOMIC CONTEXT AND OUTLOOK – PARTICULARLY FROM THOSE MOST AFFECTED BY THE CRISIS:

Understanding how the economic context and outlook affect the people we serve, and our operations is the first step for assessing the need of programmatic changes.

- Speak to the people we serve
- Assess the impact of the economic context and outlook on operations

ENSURE THE RIGHT TRANSFER MODALITY TO MEET PEOPLE'S NEEDS:

Delivering cash whenever possible will allow people to better overcome economic distress while making informed decisions on the modality will ensure we do what's best for the people we serve.

- Continue doing cash whenever it's possible
- Switch to unrestricted cash
- Consider a hybrid modality

ADJUST THE TRANSFER VALUE, DO TOP UPS, OR LUMP SUM PAYMENTS:

Increasing the amount of cash that people receive can restore their purchasing power in contexts of increasing prices.

- Adjust the transfer value, the frequency of payments, or the process for adjusting it
- Do a top-up or a lump sum payment

ASSESS THE SUITABILITY OF THE DELIVERY MECHANISM:

Using a delivery mechanism that is fit for the economic and financial situation can improve our impact while enabling other programmatic outcomes.

- Change the delivery mechanism
- Extend, expand, modify, or incorporate new FSP contracts
- Ensure cash availability
- Implement alternative redemption schemes and arrangements with retailers for vouchers

ENSURE ACCESS TO COMPETITIVE EXCHANGE RATES:

Obtaining local currency at a competitive rate can significantly influence our costs and the impact we have.

- Obtain local currency at convenient rates
- Advocate for preferential exchange rates
- Make transfers in hard currency

CONSIDER ECONOMIC VOLATILITY IN YOUR PREPAREDNESS AND ENGAGEMENTS:

Getting prepared to face different scenarios of economic volatility and distress will reduce the risks for programmatic outcomes and operational continuity.

- Factor in economic volatility into your preparedness
- Engage, coordinate and partner strategically
- Leverage the economic expertise and funding from International Financial Institutions

UNDERSTAND THE ECONOMIC CONTEXT AND OUTLOOK – PARTICULARLY FROM THOSE MOST AFFECTED BY THE CRISIS

UNDERSTANDING HOW THE ECONOMIC CONTEXT AND OUTLOOK AFFECT THE PEOPLE WE SERVE, AND OUR OPERATIONS IS THE FIRST STEP FOR ASSESSING THE NEED OF PROGRAMMATIC CHANGES.

SPEAK TO THE PEOPLE WE SERVE

Understanding people's changing concerns and struggles due to the economic context is crucial for implementing solutions that address their needs.

WHAT TO DO?

- *Understand* people's main *concerns and pain points* people are facing due to the economic situation. These might be different to WFP's operational challenges and what we imagine people need. You can use focus group discussions for this.
- Make sure you have a *community feedback mechanism* (CFM) in place and the operators are well-equipped and supported. If you don't have a centralized system (such as a helpline/call centre, community monitors, etc) or if you're starting your cash operations, we recommend getting a CFM as soon as you can. A CFM will allow you to better track technical problems in the distribution and redemption -which can be more frequent in contexts of economic volatility- and will allow us to better monitor the outcomes of the programmes and hear back from the people we serve.
- Evaluate if the changing context requires *modifying* the type/frequency of the *monitoring and assessments*.

ASSESS THE IMPACT OF THE ECONOMIC CONTEXT AND OUTLOOK ON OPERATIONS

Understanding the economic context and outlook as well as its impact on operations and the people we serve is very important for making any necessary adjustments to your programmes.

WHAT TO DO?

Together with your Research Assessment and Monitoring (*RAM) officer* identify the possible impact of the current economic situation. Consider if and how the following economic factors could be affecting or could affect your operations:

1. Local *price* increases
    - WHY? Price increases affect people's purchasing power, i.e., how much people can buy with the cash they receive and how predictable this is.
    - WHAT TO DO? If prices are increasing significantly, please see the section on transfer value adjustment and lump sum payments. Price increases could also be significantly affecting non-beneficiaries. Consider if it would be reasonable and possible to increase the reach of cash programmes.

2. *Exchange rate* fluctuations
    - WHY? Changes in the exchange rate affect the cost of the operations and availability of local currency. Consider that the depreciation of the local currency implies WFP gets more local currency for each US dollar and this can be used to either increase the transfer value, do a lump sum, or extend the reach of people served. Note that exchange rate depreciations can also affect food affordability and availability as imports become more expensive in local currency.
    - WHAT TO DO? If changes in the exchange rate are constantly affecting your costs of operations or if you observe that the exchange rate WFP has access to is significantly different than the market -or black market- exchange rate, please contact us and we can support in understanding what the implications and best course of actions are, with support of the Finance Treasury Division.
3. Changes in *financial regulation*
    - WHY? Changes in financial regulation can disrupt or affect cash operations or significantly affect the people we serve (e.g., if there are withdrawal restrictions or bans to bulk transfers).
    - WHAT TO DO? Consider if changing delivery mechanism would make things better. Please contact us for alternatives, as advocating with the regulator for changes or adjustments in regulatory frameworks.
4. Impact on the *FSP/CP*
    - WHY? The economic and financial situation could affect our operations due to the impact it has on the Financial Service Provider/s (FSP) or Cooperating Partners (CP) we work with.
    - WHAT TO DO? Speak with your FSP/CPs to understand the current and potential impact of the economic context on their overall risk profile (profitability, liquidity, capacity to source funding, capacity to comply with prudential regulation, etc.), and on their operations and ability to deliver as per agreement with WFP. The Finance Division can support conversations with the FSP, conduct FSP Due Diligence and recommended risk mitigation measures where necessary.
5. *Liquidity* shortages, i.e., little availability of banknotes and coins
    - WHY? Timely availability of banknotes and coins in areas served is crucial for ensuring good programmatic outcomes and could be at risk when there's high inflation.
    - WHAT TO DO? If the country of operation is experiencing a liquidity shortage, please contact us for support. Note that whenever possible, digitizing payments can be a good alternative.
6. *Local markets' supply*
    - WHY? Availability of goods in local markets is very important for successful cash programmes and cash shortages and hard currency shortages, among other factors, can lead to food shortages due to the impossibility to import or make transactions.
    - WHAT TO DO? If you see local markets are experiencing a shortage of goods, please contact us. Whenever possible WFP can support markets to re-stock (or even support governments efforts to keep markets supplied), maintaining cash transfers and all its benefits.
7. *Other*

- Consider if other factors, including international developments, such as changes in commodity and fuel prices, restrictions to foreign exchange operations, and others can also impact operations or the people we serve.

ENSURE THE RIGHT TRANSFER MODALITY TO MEET PEOPLE'S NEEDS

DELIVERING CASH WHENEVER POSSIBLE WILL ALLOW PEOPLE TO BETTER OVERCOME ECONOMIC DISTRESS WHILE MAKING INFORMED DECISIONS ON THE MODALITY WILL ENSURE WE DO WHAT'S BEST FOR THE PEOPLE WE SERVE.

CONTINUE DOING CASH WHENEVER IT'S POSSIBLE

Maintaining or doing cash assistance in contexts of economic volatility will be possible and beneficial for the people and communities we serve in most cases.

WHAT TO DO?

- Assess alternative ways in which *cash could still be a good option* for the people we serve (see also section on changing the delivery mechanism).
- If you're *considering stopping doing cash* due to inflation, please *contact us beforehand* to support you in analyzing if there are other cash mechanisms that could work.
- If you're considering a modality change, identify how the main economic developments affect *all modalities* (unrestricted cash, commodity voucher, value voucher, and in-kind) from the perspective of the people and communities we serve (e.g., convenience for them, benefit they get, etc.) and from WFP's perspective (e.g., cost of delivery, timelines, etc.).
- In case you need support in analyzing the *total costs of your cash operations* using a corporate methodology to support your modality choice, please contact us.
- *Communicate* any changes in transfer value or mechanism that are done in view of maintaining cash and purchasing power in a clear and timely manner.

KEEP IN MIND:

- If we keep *constant the CBT transfer value* while prices are increasing, then people receiving cash are experiencing a *de facto reduction in purchasing power*. For recommendations on how to calculate the purchasing power of our cash transfers, please see Annex 1.
- *Maintaining cash* in inflationary contexts (adjusting the transfer value when possible) allows people to still prioritize their needs.
- Compared to other modalities, cash usually has *lower implementation costs* which can make it still a good option, mostly in a context where rises in procurement and shipping costs have increased the cost of delivering food rations and global supply chain disruptions have led to higher lead times.
- Meeting *non-food needs* is increasingly costly when there's inflation, even for people receiving food assistance. This means people will likely resort to selling (higher) parts of the food received to meet other needs, which in turn could lead to *market distortions*.

- Changes in modality could affect *funding needs*. For example, if you change from cash to in-kind, so as not to discontinue the assistance, you will temporarily face higher costs to pay at the same time for the cash being transferred and the food being procured and shipped for future cycles.

See Annex 2 for more details on how the people and communities we serve, and WFP's costs are affected by the current economic context (a standard economic context was assumed) both for the case of in-kind and CBT operations.

SWITCH TO UNRESTRICTED CASH

Giving cash in complex times can improve people's lives by giving them more choice and flexibility.

WHAT TO DO?

- *Switch* from restricted entitlements as paper or electronic vouchers *to unrestricted cash* whenever possible, assessing what would be the best possible delivery mechanism.

KEEP IN MIND:

- International and local factors of economic volatility can imply some *prices are more volatile* than others. This may lead to the original basket to which cash was restricted not being optimal. In this type of contexts, the flexibility of unrestricted cash can be more impactful than ever.
- Cash can allow people to meet other important needs that due to inflation or other reasons they might not be able to meet otherwise (e.g., paying the transport to a nutrition clinic). In this way, it can also prevent negative coping mechanisms (e.g., selling a goat or the food bought due to lack of available cash).
- Doing unrestricted cash can maximize positive *spillovers* to the community which in a context where everyone struggles can be very beneficial.
- Note that *vouchers* are the recommended mechanism only if there is no possibility to give cash to people physically (e.g., because there are no banknotes due to a liquidity problem) nor digitally, if it is not possible to secure the purchasing power in local currency even by adjusting frequently the transfer value and it is not possible to transfer in foreign currency, or if it relates to protection risks.

CONSIDER A HYBRID MODALITY

Complementing cash with food delivery and vice versa can be a good alternative when it's not possible to secure cash's purchasing power or to provide more flexibility to people receiving food, respectively.

WHAT TO DO?

- Assess how the *purchasing power* of cash has evolved, i.e., what people can buy with the transfers we do.
- If you identify that it has dropped considerably and you already have food delivery activities in your pipeline (e.g., for other programmes or regions), consider if *complementing cash with* certain *food* items (taking those items from the cash bundle) might allow people to better cover their essential needs.

- If you are delivering food and funding allows, consider *complementing food assistance with cash* in order to provide people with some flexibility to meet other needs and prevent any negative coping mechanisms.
- *Speak to people* to understand if this would be a preferred option.

KEEP IN MIND:

- This is a good *alternative* mostly if it is not possible or economically efficient to continue increasing the transfer value in line with price increases or if local price and market dynamics prevent people from meeting their essential needs.
- It will be easier and faster to implement in places where *WFP already delivers food* for other programmes or has delivered food in the recent past.
- If increasing the transfers and complementing with food delivery does not seem to improve people's capacity to meet their needs or there are other major restrictions related for example to regulation or access, you can *deliver food* until delivering cash is possible again. If you think this would be a good alternative in your country office, *please contact us.*

ADJUST THE TRANSFER VALUE, DO TOP UPS, OR LUMP SUM PAYMENTS

INCREASING THE AMOUNT OF CASH THAT PEOPLE RECEIVE CAN RESTORE THEIR PURCHASING POWER IN A CONTEXT OF INCREASING PRICES.

ADJUST THE TRANSFER VALUE, THE FREQUENCY OF PAYMENTS, OR THE PROCESS FOR ADJUSTING IT

Adjusting the transfer value is key for restoring purchasing power when prices are increasing.

WHAT TO DO?

- If funding, government arrangements and coordination with other humanitarian actors allow, *increase the transfer value* to compensate for the increase in prices. If you were delivering reduced *rations* due to funding shortage, you can complete the rations or complement with assistance for other essential needs. If this would be too disruptive, consider using lump sums / top ups as outlined below.
- If there is a *depreciating exchange rate*, and therefore WFP is getting more local currency per US dollar, consider if you can use the extra availability of local currency to increase the transfer value, even if temporarily or as a lump sum (see lump sum section).[4] More and more we observe that countries where we operate experience inflation at the same time as currency depreciation. For a more detailed explanation of the linkages between inflation and depreciation please refer to Annex 3.
- Reduce to the minimum possible the *time* between monitoring, decision making, and implementation of the new transfer value to avoid that by the time of implementation the change is already outdated.

[4] The exchange rate to be monitored for this is the one to which WFP has access. See section on preferential exchange rates if the rate is not convenient.

- Establish a mechanism for *automatically adjusting* the transfer value whenever possible. E.g., if inflation is above a certain threshold and there is funding available to make such an increase (e.g., due to a depreciating exchange rate), then the transfer value is increased without the need to agree again with the Cash Working Group (CWG).
- Change the *frequency* of the payment if this can help preserve purchasing power. In certain cases, it might be convenient to group transfers (e.g., if people have bigger needs in a specific period of the year which they cannot meet due to eroded purchasing power), while in others it might be more convenient to make payments more frequently (e.g., when people cannot maintain the value of the transfer throughout the cycle due to inflation).
- *Communicate* any changes clearly to the people we serve, partners, government, and any other stakeholders, explaining both the nature and duration of the change and considering any tensions that may arise. In case you have different transfer values (e.g., depending on the household size) make sure you communicate the logic behind the increase and how this affects all the transfer values.
- *Advocate* for an increase in transfer value of the programmes of the *government* and *other cash actors*. This might be necessary in contexts where the transfer value is agreed and common across different cash actors.

KEEP IN MIND:

- An alternative to adjusting the transfer value is to provide a *top-up or lump sum* payment whenever possible. This would be very useful in cases where it is not clear if it will be possible to maintain the increase in the transfer value. See section on lump sum payments for more information.
- In certain countries, the need to align or get approval from the government for changes in the transfer value might imply WFP doesn't have the possibility to adjust the amount of the transfers, even if the funds are available. In these cases, joint advocacy with other UN or humanitarian agencies is advised, explaining the implications of not adjusting the transfer value. Consider also if doing a lump sum payment as opposed to a transfer value adjustment would be easier in terms of government endorsement.

For more recommendations and considerations consult guidance available on transfer values or contact us for support. For a step-by-step guidance on how to adjust your transfer value please refer to Annex 4.

DO A TOP-UP OR A LUMP SUM PAYMENT

A lump sum payment one-off or a recurring top up to the transfer can help compensate for the loss of purchasing power and allow people to meet urgent needs that require higher liquidity.

WHAT TO DO?

- Add a *lump sum payment or a top-up* to the monthly transfer. This can be very useful for the affected community, as they have cash to hand for unexpected price increases, to pay fixed costs in advance, or have savings in their pockets to weather the volatility that impacts them. Not to mention it is easier for WFP to give lump sums and top ups in contexts where adjusting the transfer value takes a lot of time and effort. For example, in the case the country office had monthly transfers, a lump sum payment could be delivered on top of the monthly transfer every three months -or any other frequency that suits people's needs and the possibilities of the country office.

- Calculate the *amount* of the lump sum or top-up considering not only your budget availability but also any additional needs people might have. The amount can be based on the gap people have to fully meet their essential/food needs, on delivering full entitlements, or any extraordinary needs (for example seasonal needs).
- Align the *timing* of the lump sum payment whenever possible to seasonal or other type of needs (e.g., need for fertilizer and/or agricultural inputs; winter needs/clothing/heating; paying of school fees for the semester, etc.).
- *Communicate* any changes clearly to the people we serve, partners, government, and any other stakeholders, explaining both the nature and duration of the change.

KEEP IN MIND:

- The *benefits* of a lump sum payment include it can make more money available for people in need faster, it allows people to develop their own global food crisis resilience plan (e.g., by investing in farming tools), it reduces WFP's transaction/delivery costs, it helps quickly absorb large grants with tight expiry dates, it helps people cover their most urgent and essential needs according to their priorities, and it avoids competition with the monthly social protection transfer value by being a once-off transfer.
- If you cannot do a top-up or lump sum payment on top of the habitual transfer, you can consider *grouping transfers* (e.g., delivering every three months), considering the below points.
- Consider if it's possible for people to *maintain the purchasing power* of the extra/grouped money they will receive. In contexts of high inflation, ways to preserve value include converting money to hard currency[5] (accessible in some cases), purchasing assets with longer value capacity, stocking in advance, or buying goods that can be later sold.
- Assess if delivering big lump sums could have an *impact on local markets* (e.g., if supply adjusts slowly this could lead to higher local prices until the supply adjusts).
- Consider if having higher transfer volumes can allow to negotiate *lower transaction costs* in the form of better fees or more convenient exchange rates.
- *Liquidity constraints* could condition the possibility of doing bigger payments. If you think this could be the case for your operations, please refer to section on ensuring cash availability.

ASSESS THE SUITABILITY OF THE DELIVERY MECHANISM

USING A DELIVERY MECHANISM THAT IS FIT FOR THE ECONOMIC AND FINANCIAL SITUATION CAN IMPROVE OUR IMPACT WHILE ENABLING OTHER PROGRAMMATIC OUTCOMES.

CHANGE THE DELIVERY MECHANISM

Adjusting the delivery mechanism to changing economic and financial developments might be necessary.

[5] Hard currency refers to currencies that are issued by a country that is seen as politically and economically stable and therefore the currencies are seen as stable.

WHAT TO DO?

- *Assess* if the costs for WFP could be reduced, purchasing power for people increased or operations simplified by *changing the delivery mechanism*. The economic context and financial regulation could have led to other mechanisms being more convenient since the choice of the mechanism was made.
- If you identify that changing delivery mechanism would be better, please *contact* us in order to consider if there would be any waivers (e.g., related to FSP contracting) or extra support that could be granted to speed up the process.
- Consider if certain delivery mechanisms could enable *other programmatic outcomes* (e.g., financial inclusion).

KEEP IN MIND:

- Many times, changes in financial regulation affect delivery mechanisms differently.
- The impact of changes in regulation or economic developments can vary in magnitude. In some cases, they can cause significant disruptions on operations, forcing the Country Office (CO) to change the delivery mechanism (e.g., if the CO is doing mobile money and there is a ban on bulk mobile money payments). In other cases, the cost efficiency of certain delivery mechanisms will be affected (e.g., if a tax to mobile transfers is implemented) or people's purchasing power (e.g., if retailers charge higher prices when paying with mobile money as opposed to cash).
- For an *overview of the different delivery mechanisms* available and an outline of their main features or implications (e.g., financial inclusion, financial risk, etc.), please consult the following table.

EXTEND, EXPAND, MODIFY, OR INCORPORATE NEW FSP CONTRACTS

Revisiting FSP contracting in volatile contexts can reduce continuity risks and improve cost efficiency.

WHAT TO DO?

- *Assess* if due to the changing economic situation you *need to revisit your FSP contracts*. As mentioned in the first section, speak to your FSPs to understand the current and potential impact of the economic context on their risk profile and ability to deliver the payment service to WFP as per signed agreement.
- Include *clauses* in the new/modified contract that could help deal with further volatility (e.g., allowing WFP to change the frequency of payments or source local currency if the need arises) and allow to mitigate WFP risk exposure (e.g., change flow of funds, stagger payments to FSP and perform reconciliations more frequently, etc.).
- Agree with FSPs on *multiple delivery mechanisms* together with their costs whenever possible, so that the delivery mechanism can be easily adapted as the context changes.

KEEP IN MIND:

- Ensure the procurement team leads the engagement with the current FSPs with respect to any contractual amendments, as needed.
- In case the economic and financial conditions of the country have significantly deteriorated since the completion of the latest Financial Sector Intelligence (FSI), consider making an updated assessment of the financial sector, economic situation and FSP capabilities.

ENSURE CASH AVAILABILITY

Ensuring liquidity for WFP and in local markets is critical for a timely delivery and to avoid disruptions. Considering liquidity availability in the choice of the delivery mechanism is crucial.

WHAT TO DO?

- Make sure enough *cash is available* both for WFP to distribute and for people to receive their full entitlement through the current delivery mechanism.
- Ensure there are enough *cash out or redemption points* and if possible, increase and diversify them. Having two or more redemption points close by can avoid people traveling and finding the redemption point has no money.
- *Stagger the payments* if this can help the FSP get enough banknotes, replenish ATMs, or reduce overcrowding. This will be a good option whenever there's shortage of banknotes.
- Ensure that *retailers'* operations are not affected by liquidity shortages (both for cash and vouchers operations).
- *Advocate* with the Central Bank for prioritized delivery of banknotes to prevent disruptions or solve other operational constraints (e.g., limits to withdrawals or large-scale transfers). Do this as early as possible.
- Consider if other *delivery mechanisms* might be less affected by liquidity shortages.
- Assess if *digitization of local economies* could be incentivized. *Digitizing transfers* whenever possible will be a first step but will not be enough if people only or mostly cash out their entitlements. Where possible, sensitize about the use of digital money for doing transfers and making payments, among others. The impact might not be immediate, but it will contribute to digital financial inclusion while enabling people to keep performing their normal transactions.

KEEP IN MIND:

- If there is very restricted access to banknotes and there are no other alternatives for delivering cash (e.g., hard currency or digital payments), you can also consider implementing *value vouchers*. For more information on how to implement vouchers, please *contact us*.

IMPLEMENT ALTERNATIVE REDEMPTION SCHEMES AND ARRANGEMENTS WITH RETAILERS FOR VOUCHERS

Revising frequently the redemption schemes and arrangements can improve the outcome of your operations.

WHAT TO DO?

- *Evaluate* if there would be *other redemption schemes* that could reduce beneficiaries' exposure to price and exchange rate fluctuations. Some alternatives are setting the value in US dollars, using a points system indexed to a hard currency or inflation, agreeing preferential prices or exchange rates with retailers, and paying retailers in US dollars (mostly when currency shortages can prevent proper stock levels), among others.
- Ensure *prices* of contracted retailers are not increasing more than those of non-contracted retailers. Mostly because in inflationary contexts it is hard for people to keep track of prices and report unfair prices to WFP.

KEEP IN MIND:

- Consider if there would be any *protection risks* or *market distortions* brought by these changes (e.g., doing preferential prices might create social tensions or lead to people buying food for reselling it).

ENSURE ACCESS TO COMPETITIVE EXCHANGE RATES

OBTAINING LOCAL CURRENCY AT A COMPETITIVE RATE CAN SIGNIFICANTLY INFLUENCE OUR COSTS AND THE IMPACT WE HAVE.

OBTAIN LOCAL CURRENCY AT CONVENIENT RATES

Negotiating competitive rates on donor funds ensures better value for money and may better protect the purchasing power of our beneficiaries.

WHAT TO DO?

- If the exchange rate you are getting is not competitive (i.e., other FSPs or markets offer better exchange rates), assess the options for *changing the sourcing of local currency.* Ways to source local currency include competitive process of currency exchange through authorised entities, contractual arrangements with FSPs for doing CBT, local currency receipts from service provision or other special agreements with government or local entities, and local currency receipts from contributions.
- Monitor closely the evolution or emergence of unofficial *parallel exchange rates*. If you observe a significant divergence between the official rate applied to WFP and parallel exchange rates (either applicable to specific operations or black-market rates), please contact us and the Finance Division.
- Assess if changes in *financial regulation* imply different exchange rates are applicable to different transaction types or mechanisms. This could make other mechanisms, FSPs, or contract types/clauses more convenient.
- Contact the Finance Treasury team for support in considering or implementing other options for obtaining local currency at competitive rates.

KEEP IN MIND:

- Ensure advocacy for preferential exchange rates is done at the highest possible level, with conversations being led by the country management. This will minimize reputational risks and maximize the possibility of successful negotiations.

ADVOCATE FOR PREFERENTIAL EXCHANGE RATES

Accessing preferential exchange rates based on WFP's humanitarian mandate can significantly increase CO's capacity.

WHAT TO DO?

- *Engage proactively* and at a high level *with the FSP and national regulatory authorities* in contexts where significant deviations between official and parallel (non-official) foreign exchange rates exist.
- *Negotiate* access to preferential rates as close to parallel (or black-market) exchange rates as possible, in accordance with applicable regulatory framework.
- Foresee a *mechanism to adjust* the preferential rate so that, if depreciation continues, it is updated. Options could be to link it to parallel rates or inflation, among others.
- Consider if it would be possible to *extend the reach of the preferential rate* to other humanitarian institutions or if the entire UN or humanitarian sector could *advocate jointly* for more leverage.
- If there are upcoming or outstanding programmes or loans from *International Financial Institutions (IFIs)* as the World Bank and the International Monetary Fund, consider if it would be possible to include a clause on the preferential rates for humanitarian actors.
- In case you are delivering *vouchers*, you can advocate with the retailers for better implicit exchange rates if paying them in US dollars (this could be the case if for example retailers will then sell the hard currency at a black-market rate).

KEEP IN MIND:

- In case a preferential rate is agreed with the Central Bank, the Ministry of Finance, or other government institutions, the sourcing of local currency could also be done through an FSP.
- The preferential or more competitive exchange rate could also be implicitly incorporated in other agreements. For example, WFP could procure basic food commodities on behalf of the government in cases where there's hard currency shortages or could provide a service that is paid for in local currency, but at a convenient exchange rate which allows to minimize risks associated with carrying local currency.

MAKE TRANSFERS IN HARD CURRENCY

Doing transfers in hard currency can secure people's purchasing power when prices are more stable in foreign currency and constantly adjusting the transfer value is not a feasible option.

WHAT TO DO?

- Ensure regulatory and operational *feasibility,* assessing if WFP could legally access and distribute hard currency or there is scope to advocate for this. Evaluate if FSPs and/or CPs could distribute in hard currency.
- *Speak to the people* in order to understand if they would agree with this and if they are familiar enough with the use or exchange of foreign currency.
- Make sure people would be able to either *pay directly* in hard currency (and if there is enough visibility of prices in this currency) *or convert money* to local currency at a reasonable rate, either physically or electronically.

KEEP IN MIND:

- Transferring in hard currency is a good alternative when it's not possible to obtain a competitive exchange rate.
- Find out if there would be availability of *small denomination bills* that might be needed depending on prices and the transfer value. Consider grouping transfers if that can help.
- Assess if this decision would have any *protection risks* associated and consult people for their preferences.

CONSIDER ECONOMIC VOLATILITY IN YOUR PREPAREDNESS AND ENGAGEMENTS

GETTING PREPARED TO FACE DIFFERENT SCENARIOS OF ECONOMIC VOLATILITY AND DISTRESS WILL REDUCE THE RISKS FOR PROGRAMMATIC OUTCOMES AND OPERATIONAL CONTINUITY.

FACTOR IN ECONOMIC VOLATILITY INTO YOUR PREPAREDNESS

Including scenarios related to economic volatility in your preparedness will ensure you respond quicker and more efficiently in contexts of economic distress.

WHAT TO DO?

- Identify what would be *possible economic scenarios*, considering international and local developments.
- Assess their potential *impact* on operations, both from an operational and a purchasing power perspective as well as for both modalities and all existing mechanisms.
- Define what *actions* could be taken if each scenario materialized, again thinking both on how to deal with operational complications and purchasing power deterioration in each case.
- Consider for each scenario if there would a *solution* that could be *implemented beforehand* without much effort that could facilitate things significantly if that event materialized. E.g., if delivering in US dollars might be needed in the future, start preparing the contracts for being able to do so.
- Include these scenarios and actions identified in your *response plan* or other preparedness documents.
- Refer to Annex 5 for examples what could be included in a *response plan or contingency plan* in relation to economic volatility, including what could be possible responses to different economic scenarios.

ENGAGE, COORDINATE AND PARTNER STRATEGICALLY

Drawing from analysis and preparedness plans from other cash actors or partnering for this purpose can reduce the efforts needed to adjust to changing economic context.

WHAT TO DO?

- *Engage* with other cash actors to find out if they are doing any analysis or preparedness plans that could be of use for WFP or the entire cash community.
- *Coordinate* changes in the response with other cash actors whenever possible, considering above all the impact that coordination (or lack of coordination) can have on the people we serve.
- Assess if it would be strategic to *partner* with any cash actor, institution, or government for improved outcomes.

KEEP IN MIND:

- Engaging, partnering, and coordinating can take time so take into considerations these trade-offs.

LEVERAGE THE ECONOMIC EXPERTISE AND FUNDING FROM INTERNATIONAL FINANCIAL INSTITUTIONS

Making use of the expertise of other institutions to better understand the economic situation and outlook can enhance your preparedness plans.

WHAT TO DO?

- Identify if the World Bank and International Monetary Fund have *outstanding programmes* in the country of operations.
- If so, *engage* with them where possible. They will very likely have economists analyzing how the economy could unfold which could provide useful insights for the preparedness.
- Assess if there would be scope for partnering with IFIs for *funding*. This could be the case for example if there are or could be discussions around debt swaps (this can happen when a country is facing high debt distress and creditors decide to condone part of the debt for it to be spent instead with development purposes). In certain cases, clauses that facilitate our humanitarian and development activities can be embedded in IFI programmes or agreements (e.g., an agreement with the International Monetary Fund could enforce that humanitarian agencies have access to competitive exchange rates stablishing specific criteria, among others).

ANNEX

ANNEX 1: CALCULATING THE IMPACT OF PRICE INCREASES ON PURCHASING POWER

The loss of the purchasing power happens when there is a decrease in how much consumers can buy with a given amount of money. This happens whenever prices increase. To put an example, if a kilo of rice in local currency is worth $ 2 (local currency units), with $ 2 I can buy 1 kilo of rice. If after a certain period, prices increase by 100% -i.e., they duplicate-, the same $ 2 will be now buy half a kilo of rice (or what is the same, I will need $ 4 to buy 1 kilo).

For our cash programmes, we are interested in knowing how much we would need to increase the TV (if possible) to maintain the same level or purchasing power so that people can continue to buy the same things (both in terms of amount and quality).

The increase in the TV would need to be equivalent to the **price increase** to restore or maintain the purchasing power.

For this reason, you can calculate the price increase since the current level of the TV was set up.

Depending on the data collected or available you can calculate the change in the price of:

1. The Minimum Expenditure Basket (MEB) or Survival MEB (SMEB) (preferred if available)
2. A food basket

Or you can take the change in prices of an already stablished basket, as:

3. Inflation (headline preferred and otherwise food inflation)
4. Other price increase metrics that might be collected by WFP, partners, or government

When calculating price increases, consider together with your *RAM officer* if there is data available for different areas or settings (e.g., rural vs urban areas) as trends may differ. If this is the case, and you identify that the trends are different, calculate the price increase for the different areas or settings. You can estimate the loss of purchasing power (i.e., how much less people can buy due to the price increase) with the following formula:

initial price for the basket selected / current price for the basket selected - 1

If this yields -50% for example, this means people can buy 50% less compared to before (this would be the case of the above-mentioned example).

It is important to note that provided WFP usually has **US dollars** and generally distributes in local currency, it might be possible to compensate for the price increase with the extra funds that a local currency depreciation imply (see last part of Annex 3).

ANNEX 2: IMPACT OF THE ECONOMIC CONTEXT ON CASH AND IN-KIND OPERATIONS

	IN-KIND		CBT	
ECONOMIC CONTEXT	Increase in global food costs Increase in shipping costs		Increase in local prices (inflation) Depreciation of local currencies (in some cases)	
PROGRAMMATIC ALTERNATIVES	**Maintain the same reach and amount of food delivered**	**Adjust either the amount of food or people served**	**Maintain the same reach and TV (measured in local currency)**	**Adjust the TV to compensate (fully or partially) for inflation***
BENEFICIARIES	People have a priori (most) food needs covered, but other increasingly costly and important needs might force them to sell food, which means they don't manage to cover all their food needs	People are worse-off receiving less food or less people are being served Other increasingly costly and important needs might force them to sell food, which means they don't manage to cover all their food needs	Even if the TV is the same in local currency, purchasing power decreases if prices are increasing (it's as if it was a de facto TV cut) People can prioritize their needs	Purchasing power is (partially or totally) preserved People can prioritize their needs and are increase their financial resilience
LOCAL MARKETS AND COMMUNITIES	Market distortions can be created if people sell food to meet other needs Higher delivery costs imply a smaller share of funding reach people and communities directly		People's expenses contribute to enhancing local markets and benefit others in the community Lower delivery costs imply a higher share of funding goes directly to people and local markets	
WFP'S COSTS	Total costs and costs per ration increase significantly due to increasing food procurement and shipping costs	It is possible to keep total costs constant but costs per ration increase	Costs would be constant in US dollars under a fixed exchange rate or could decrease if the local currency is depreciating	Costs could increase in US dollars, could stay the same, or decrease**, however beneficiaries are better off in all cases (even when cost for WFP increase)

* Adjustment of TV could be due to higher funding received, higher exchange rate (which implies higher availability of local currency for each US dollar) or a reduction of the people served which allows to give the rest of the people more (this could be the case for example if other agencies or the government start serving part of the people we serve).

** Costs in US dollars would increase if the % adjustment to the TV is higher than the currency depreciation or the funds made available for reducing the reach. They could stay the same if these changes are of the same magnitude and could even decrease if the local currency depreciation or reduced reach led to more funds than the needed for the desired TV adjustment.

ANNEX 3: INFLATION, EXCHANGE RATES AND DEPRECIATION: DEFINITIONS AND DYNAMICS[6]

Inflation is the increase in prices of goods and services in an economy over a given period of time. It is typically measured at a national level and as a yearly percentage increase, based on the average price level of a basket of selected goods and services in an economy.
The rise in the general level of prices (i.e., inflation) means that the same amount of money buys less than it did in the previous period. This affects people's *purchasing power* and can put at risk their ability to meet their essential needs.
Inflation should be distinguished from localized price fluctuations that result from the dynamics of supply and demand for goods and services. 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. 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 – e.g., higher oil prices leading to higher costs of production or shipping for other goods
- Devaluation and depreciation – a higher exchange rate leads to increasing costs for imported goods
- Demand-pull inflation – aggregate demand growing faster than aggregate supply – e.g., failed wheat harvests in some of the world's major producers
- Monetary policy – related to the money supply, interest rates and monetary policy measures – e.g., high rate of money issuance
- Fiscal policy – unsustainable fiscal deficits not only imply an excessive demand from the government but often also leads to financing of deficits by the central bank through the issuance of money, which in turn fuels inflation

Hyperinflation describes rapid, excessive and out-of-control rises in inflation, of 50% per month or higher. In most cases, hyperinflation is associated with high rates of money issuance.
Exchange rates are the values of one country's currency in relation to another currency, usually a hard currency and in most cases the US dollar. This is important because, if the value of the national currency falls, it becomes more expensive to buy imported goods, and this might in turn lead to higher local prices overall -i.e., inflation.
Official exchange rates are set by the Central Bank, who can choose the rules for how the exchange rate moves. There are three major types of *foreign exchange rate systems*:

- A floating exchange rate or fluctuating exchange rate is a type of exchange rate regime wherein a currency value is allowed to freely fluctuate according to the foreign exchange market. These systems are common in developed nations where the currency value is determined through demand and supply in the financial markets.
- A fixed exchange-rate system (also known as pegged exchange rate system) is a currency system in which governments try to maintain their currency value constant against a specific currency or good.

[6] The definitions and content are based on CALP's Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation. Outline of the types of exchange rate regimes is taken from the ED's Circular on sourcing local currency for WFP operations.

- Pegged floating currencies are pegged to some band or value, either fixed or periodically adjusted. These systems are a hybrid of fixed and floating regimes.

The *market* or *commercial exchange rate* is the one 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 or black-market exchange rates can arise if the official and commercial rates are overvalued, and not in line with people's perception of the currency's value. This is usually the case when there are government restrictions on exchanging currency through commercial exchange forums or performing other operations in foreign currency, making such exchanges illegal ('black') markets. In certain cases, there may also be a range of exchange rates operating in parallel. International organizations should never engage in black market activity.
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 have a higher impact and prevent a big financial cost. Preferential rates can also be given to importers of 'essential' goods such that they can buy more with the same amount of local currency.
A depreciation (appreciation) of the local currency is a fall (rise) in the value of currency, typically within a floating exchange rate system, i.e., determined by the market. Depreciation or appreciation are typically reported as a percentage fall or increase in the value of the local currency relative to hard currency, typically the US dollar.
Similarly, a **devaluation** is also a fall in the value of the local currency, but determined by the Central Bank, mostly in cases where there is a fixed exchange rate regime or a peg. The effects of a depreciation and a devaluation are the same and in the below text the concepts could be used interchangeably.
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, *capital controls* can be imposed, including domestic cash withdrawal caps. This can restrict the options available for humanitarian organizations to deliver cash assistance and make payments to providers.
Some possible *causes for depreciation* are related to interest rates, inflation, negative trade balance, monetary and fiscal policies, and political instability.
A depreciation of the currency can many times contribute to rising inflation because of higher import prices, mostly in countries with a high share of imported goods. On the other hand, it can also make exports more competitive, increasing demand for exports.
Provided depreciations result in a higher exchange rate, this means WFP get more units of the local currency for each US dollar that is exchanged. This could allow country offices to either increase the transfer value (generally to compensate for inflation) or increase the reach of their programmes.
The **impact of inflation and depreciation** on cash operations usually depends on how much both factors are interrelated. Inflation reduces beneficiary purchasing power and could increase the delivery cost. The impact of depreciation on the other hand is trickier to 'classify'. For a fixed US dollar

budget, WFP will obtain more local currency, and could 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). When inflation outpaces the depreciation rate (for the exchange rate that the country office is able to access), then the loss of purchasing power cannot be totally compensated with the currency gains. When black-market exchange rates arise, they usually move very similarly to inflation, and advocating for a preferential rate could therefore support WFP's efforts to maintain purchasing power. Inflation and depreciation can also result in shortage of physical banknotes, which might require adjusting the cash transfers.

ANNEX 4: STEPS FOR ADJUSTING THE TRANSFER VALUE QUICKLY IN AN INFLATIONARY CONTEXT

STEP	DESCRIPTION
MONITOR PRICES	To be able to identify the need to adjust the transfer value (TV), it is important to **monitor prices** or inflation[7] data frequently. This can be either through **monitoring** (e.g., if you have a VAM team or colleague that does it or could do it) or taking **data** that is publicly available (e.g., from national institutions of statistics or central banks).
DECIDE WHAT PRICE DATA TO USE	In general, to decide upon an increase of the TV we don't look at the price of individual goods, but we look at the price of a **consumption basket**. For this purpose, in case you haven't already, decide the price of which consumption basket will be looked at for defining TV increases. Some options are the price of the **MEB** and **SMEB**, the price of the food component of the MEB, **inflation**, or food inflation. Any of these options or any other the country may prefer will be fine, and selection can depend on the context. Price developments and data availability might be different across different **geographic areas**, and this may warrant looking into different price variables. However, if measuring the price increases with a greater degree of detail will imply delays in the TV adjustment, you can **simplify** by taking inflation for all areas of operations. You can consider also which price variable becomes available more quickly (e.g., in certain cases, if you have vouchers, you might be able to track the price of goods purchased without any delay). Generally, inflation and other price data come in with a **delay** which implies we are missing the data for the most recent month/s or weeks. If recent price increases have been high (e.g., higher than 5% per month), and if the trend of inflation is relatively stable, you can discuss with RAM colleagues if it's possible to **estimate** the most recent inflation, e.g., by extrapolating[8] past inflation.
SET THE THRESHOLD THAT WILL TRIGGER A TV INCREASE OR DISCUSSION	Once you have decided what price data to use, define the threshold for the price increase, i.e., how much the price increase must be to trigger an increase of the TV or a discussion about increasing the TV. If you already have one and it allows to maintain purchasing power across time, you can keep using that threshold. Otherwise, we suggest using a **threshold of 10% or 15%** as preferred by the country office. This implies that whenever people are experiencing a loss of 10% or 15% of purchasing power, this triggers a discussion. Consider if the price variable considers seasonal factors or could be incorporating temporary shocks.
DEFINE THE PERIOD BEING ANALYSED	To calculate the price increase, we need to define first which **time horizon** to look at. We recommend always comparing the most recent prices with the **prices at the time that the TV was set** originally. This will allow to see the cumulated loss of purchasing power of our cash transfers. It is important that if people have lost 15% of their purchasing power, we try to restore it regardless of the period through which this 15% loss happened.

[7] Inflation is the rate of change in the price of a consumption basket.
[8] This means looking at past data on inflation and assuming the trend will remain constant, in order to have a projection or estimate of what inflation could be in the missing most recent month/s.

	If you have another rule or mechanism in place that prevents significant losses in purchasing power, you can continue to use that mechanism.
CALCULATE THE PRICE INCREASE	Together with your RAM/monitoring colleagues you can calculate the **price increase** as the percentage change in the price of the selected consumption basket since the defined period.
COMPARE THE PRICE INCREASE WITH THE THRESHOLD	**Compare** how the price increase compares to the threshold. If the price increase is higher, asses where possible what the drivers of the price increase are; are there seasonal factors or temporary shocks influencing the price increase? If so, a top up or lump sum payment can be considered. Otherwise, if not seasonal or caused by a temporary shock (e.g., because the price variable monitored is de-seasonalized or because the price increase has persisted for some months) proceed with the following steps.
OBTAIN THE TARGET TV INCREASE	The target TV increase -the **optimal TV increase** we would choose in absence of any other restrictions- is equivalent to the price increase. An increase in the TV of this magnitude will allow to restore the purchasing power that beneficiaries lost.
CALCULATE THE TOTAL COST OF THE TARGET TV INCREASE	Estimate how much it would **cost** on an aggregate and monthly basis to increase the TV by the amount calculated above.
ASSESS YOUR FINANCIAL AVAILABILITY	Assess the **funding availability** and if it would be possible to implement a TV increase of such magnitude, considering the **implications** for the budget. Discuss as required with budget and programme colleagues. Consider that if the **local currency** is depreciating, you will have a higher availability of funds, which will in turn allow to increase the TV in local currency.
CALCULATE THE FEASIBLE TV INCREASE	Considering the funding availability, calculate **how much** it would be **possible to increase the TV**. E.g., if you only have half the funds required for the ideal TV increase, then increasing the TV by half of the ideal TV increase would be feasible.
AGREE INTERNALLY ON THE TV ADJUSTMENT	Discuss with the internal Cash Working Group in order to obtain agreement and **approval** of the TV adjustment.
ALIGN WITH OTHER CASH ACTORS	**Discuss and coordinate** with other cash actors. Making a clear case for the adjustment of the TV is super important so that whenever possible all actors adjust accordingly. When it is not possible to align with other cash actors, consider how confusion and tensions can be reduced if people are receiving transfers from different actors. Whenever possible, and if they haven't already, get the Cash Working Group to agree on the mechanism for setting the adjustment. E.g., agreeing on the price variable and period to monitor, the threshold, and how to proceed if not all cash actors can increase due to funding restrictions. Agreeing on this beforehand will reduce the time it takes every time that a TV adjustment needs to be endorsed.
ALIGN WITH THE GOVERNMENT	Ensure the increase in the TV doesn't go against any directives from the government. Depending on the relationship with the government and the context, either **notify, endorse or discuss** the adjustment with the government **whenever necessary**. **If needed, adjust** the increase in the TV to comply with the government's directives.
GET HOP/CD APPROVAL	Obtain the **approval** of the Head of Programme (HoP) and/or the Country Director (CD) for the proposed adjustment of the TV.
NOTIFY THE DONOR/S	**Notify** the donors of the TV adjustment, **explaining** briefly the background (economic context and how this is affecting the people we serve), the rational (the need to maintain purchasing power for beneficiaries, and how the increase in TV was calculated), how the increase will be funded (e.g., higher availability of local currency due to higher exchange rate, additional funding, etc.), and when it will be implemented. Offer the possibility to explain further whenever needed and let us know in case you need support for this.
NOTIFY THE FSP/CP ABOUT THE ADJUSTMENT	Let the FSP/CP know that changes will be requested to the amounts transferred so that they can **prepare for it in advance**. Whenever possible agree with your FSP/CP to communicate changes in the TV in fast and easy ways (e.g., via email).

GENERATE THE NEW PURCHASE ORDER	File the **new purchase order** with the adjusted amounts and **cancel the old one** in case of need. Consider having **more frequent purchase orders** if you will need to adjust the TV very frequently.

ANNEX 5: PLANNING IN CONTEXTS OF HIGH ECONOMIC VOLATILITY

The information in this annex can be used to guide both a **response plan**, if the scenario has already materialized, or to inform a **contingency plan**, if there is a probability that any of the scenarios materializes. The table references mostly recommendations outlined in the document which would fit different scenarios. Please refer to the sections linked in the recommendation to better understand what the recommendation entails.

To identify which scenarios better describe your country or could materialize, you can ask for support from your RAM officer, the Regional Bureau and CBT HQ as needed. It is likely that in a country undergoing economic volatility more than one of the scenarios described below takes place at the same time, so the recommendations of the different scenarios can be brought together (e.g., if you observe inflation and liquidity issues, you can consider the recommendations of both scenarios together). Please note that different solutions could be necessary in different contexts in the country (e.g., if there are different dynamics for prices, connectivity, etc.).

In all cases you are advised to continue doing cash transfers and switch to unrestricted cash whenever possible. Speak to the people we serve to understand how the situation impacts or could impact them and what their preferences are as these might have changed due to the economic situation. You are also advised to assess the impact of the economic context and outlook on cash operations following the recommendations in this document and to factor in economic volatility into your preparedness, while engaging with partners as needed.

Please contact us if you have any doubts, comments or if would like to receive support on any of the below or to produce a contingency plan where economic volatility is included.

SCENARIO	DESCRIPTION	IMPLICATIONS AND RECOMMENDATIONS
INFLATION	Local prices are increasing, as measured through headline or food inflation figures, the increase in the MEB (or some components of it), or any other basket that is used to set the transfer value or monitor prices in the country.	**WITH LOCAL CURRENCY DEPRECIATION** **Implications:** Price increases erode purchasing power meaning that people can buy less with the same amount of money. When the local currency is depreciating, WFP gets more local currency for each US dollar we exchange. **Recommendations:** Whenever possible, restore the purchasing power people lost due to price increases, making use of the extra funds available due to the exchange rate depreciation. You can: • Adjust the transfer value, the frequency of payments, or the process for adjusting it • Do a top-up or a lump sum payment • Increase the amount of people served[9] **WITHOUT LOCAL CURRENCY DEPRECIATION (OR LOWER THAN INFLATION)[10]**

[9] Consider that when there is inflation everyone loses purchasing power and more people might be in need. In contexts where it is not possible to increase the transfer value, for example if the government doesn't allow it, the extra funds from the exchange rate depreciation could be used to increase the amount of people served.
[10] This is common when the exchange rate is fixed or the Central Bank controls the exchange rate.

		Implications: Price increases erode purchasing power meaning that people can buy less with the same amount of money. When price increases are higher than the local currency depreciation[11], we will not have (as much) extra funds to increase the transfer value due to a higher exchange rate. **Recommendations:** Whenever possible, restore the purchasing power people lost due to price increases. You can: • Adjust the transfer value, the frequency of payments, or the process for adjusting it • Do a top-up or a lump sum payment • Advocate for more funds with donors given the loss of purchasing power • Obtain local currency at convenient rates • Monitor the exchange rate and possible emergence of a black-market rate or widening gap between the black-market rate and the official rate (this happens most frequently in contexts of fixed or controlled exchange rates). If this were to happen, see the scenario below. When the purchasing power has been very deteriorated and none of the above-mentioned possibilities can make the situation better: • Consider a hybrid modality or switching to in-kind

GAP BETWEEN OFFICIAL AND BLACK-MARKET EXCHANGE RATE	The black-market (also referred to as parallel) exchange rate is higher than the official exchange rate or is depreciating at a faster pace meaning that the gap is widening (mostly commonly in contexts where the official exchange rate is fixed or controlled by the Central Bank).	**Implications:** When the gap between the official and the black-market exchange rate is high or increases, the efficiency of WFP's cash operations is affected. The fact that WFP cannot obtain local currency in informal markets means we are getting less money for each US dollar than what the market considers a fair value. This not only has a financial implication, but it could also carry reputational risks if the gap is very large.[12]
		Recommendations: In this case, and whenever there might be a risk of a gap between the official and parallel rate, it is recommended to explore options to access in a legal way a more convenient exchange rate. It is important that the exchange rate we obtain is updated over time and sustainable as it is likely that the exchange rate continues to change over time. In these contexts, you can:
		• Monitor frequently both the official and parallel exchange rates
		• Advocate for preferential exchange rates with:
		  • FSP/CP (mostly if you know that the FSP/CP is then selling the USD in the informal markets and it would be legal to set a contractual exchange rate that differs from the official one)
		  • Central Bank (even if then the exchange rate is applied by an FSP)
		  • Government (Ministry of Finance and/or Agriculture) – for example, when the lack of international reserves is limiting the country's importing capacity, we can reach an agreement with the government to import commodities on their behalf and be paid in local currency at a more convenient exchange rate – please contact CBT and FINT HQ for support on this
		  • Retailers (where there's voucher programmes)
		• Make transfers in hard currency (if legal and convenient for people)
		• Change the delivery mechanism (mostly if this could affect the exchange rate we obtain; in contexts where we cannot access a competitive exchange rate, if we can make US dollar payments to retailers, maybe they can offer a better exchange rate than an FSP if they are purchasing their hard currency in the black-market, and this would in many cases be a legal way to obtain a better exchange rate)

[11] This is the case when the change of prices is significantly higher than the change in the exchange rate over a certain period. You can ask for support from the RAM officer in calculating the inflation and local currency depreciation for the same period, expressing the currency as units of local currency for each US dollar. A recommended period to look at would be 3 months.

[12] This is because it could be seen as WFP enabling a big financial gain for the FSP/CP we are working with if we are selling our USD at a very low price to the FSP/CP (i.e., buying local currency at a lower rate) while the FSP/CP can then sell the USD we gave them in the black-market at a much higher rate.

		• Implement alternative redemption schemes and arrangements with retailers (when working with vouchers or considering so)
LIQUIDITY ISSUES	Availability of cash is an issue due to the shortage of physical notes and coins[13]. Restrictions related to access and use of cash could be in place, as e.g., limits to ATM withdrawals.	**Implications:** Liquidity issues mean people might not be able to use cash normally. Cash operations might also be impacted significantly if for example WFP is not able to get all the necessary cash for cash-in-hand distributions or if people are not able to cash out their entitlements in ATMs or through mobile money agents. **Recommendations:** Understand how the liquidity constraints and possible restrictions in place may affect the people we serve and particularly the way they buy what they need. Depending on the main constraints and the context in which we operate, some of the following recommendations could be applied: • Monitor financial regulation related to the access and use of cash and financial instruments • When speaking with the people we serve, ask particularly about any issues related to the access and use of cash • Ensure cash availability by advocating with the FSP/CP and/or Central Bank for prioritization of cash for humanitarian assistance • Change the delivery mechanism (vouchers and mobile money or any digital means could be a good alternative in this case; digital instruments will be useful if people are able to pay and do transactions with them other than cashing out as this would still be a problem when there are liquidity constraints) • Make transfers in hard currency (if there are no issues with liquidity in hard currency and it is permitted and convenient for people) • Implement alternative redemption schemes and arrangements with retailers (when working or considering working with vouchers; consider if complementary measures are needed for retailers to work efficiently due to the liquidity constraints) When none of the above can solve the situation and people are no longer using cash due to the liquidity crisis: • Consider a hybrid modality or switching to in-kind
FOOD SHORTAGES	Availability of food (and possibly other essential goods) has deteriorated, and people are not able to fulfil their needs in the local markets.	**Implications:** Where the availability of essential goods is so limited that people are not able to buy what they need, cash transfers might be less efficient in enabling people to meet their essential needs. **Recommendations:** • Conduct a market assessment to evaluate how well stocked markets are (in coordination with supply chain and RAM) – note that even if markets are not perfectly stocked but they allow for a similar variety than what we could provide via in-kind it would be preferred to keep doing cash assistance given the lower costs and higher flexibility, among other benefits • Evaluate the need of complementing the assistance with market development activities (in coordination with supply chain) • Consider a hybrid modality or switching to in-kind
FREQUENT CHANGES IN FINANCIAL REGULATION	There are frequent changes in the financial regulation introduced by the Central Bank and/or the Ministry of Finance[14] (e.g., related to exchange rate	**Implications:** Changes in financial regulation affect the way people can access and use money and might impact the way in which we transfer money to people. For example, changing regulation could imply our beneficiaries are not able to collect the totality of the assistance on one day (e.g., if a regulation put a small cap on the amount that can be withdrawn) or could require changes in the way we do cash transfers. For example, it could be that doing mobile money transfers is no longer possible (e.g., if a regulation banned bulk payments through mobile money), or that changes

[13] This happens more often in contexts of hyperinflation or sustained inflation, where the value of printed notes is not enough for the current value of things.
[14] Regulatory changes are often used by Central Bank or the Government to shape what can be done in order to contain inflation and international reserve deterioration, among others.

	normative, capital controls, and the access and use of cash or financial instruments, among others).	in FSP contracts are required (e.g., if the Central Bank forced the exchange of foreign currency to take place in a centralized way and our FSP contract included the service of money exchange). **Recommendations:** Changes in financial regulation can take many different forms and impact in a different way the people we serve and our operations. The general recommendations that would apply in any context are: • Monitor frequently the changes in financial regulation. • Try to stablish a relationship with the Central Bank and/or Ministry of Finance, advocating for humanitarian needs whenever they are being compromised by financial regulation. A relationship with the Central Bank can help us understand recently issued normative and the impact on our operations. • Discuss about alternative delivery mechanisms should the current one be affected by changing regulation and engage with the FSP/CP to understand which changes could be easily implemented if it was needed.
SANCTIONS	Sanction regimes have been or could be introduced.	**Implications:** Sanctions can have a significant impact in humanitarian operations by limiting access and the affecting the way in which we can provide assistance. WFP needs to comply with sanctions in place. However, in many cases there are or can be "humanitarian derogations" in place, which allow for exceptions to the sanctions for certain humanitarian operations. **Recommendations:** All cases are different which means there are no standard recommendations. The following however apply to all contexts: • Monitor closely the introduction or changes of sanctions. • Enquire with the Humanitarian Coordinator in the country about humanitarian derogations in place. • Contact the Finance Treasury unit in HQ for support related to how to obtain local currency or move money to the country, among others when sanctions are in place.