

Delivering Cash Assistance during an Economic Crisis:

Adapting to preserve recipient dignity, assistance value, and operational agility

1 Summary

Lebanon has been reeling from an unprecedented economic and financial crisis since mid-2019 with serious negative impacts on economic development, severe social implications, and a sharp deterioration of public services. This case study compiles UNICEF Lebanon's lessons learned from the provision of cash assistance during the country's current economic crisis. Given the significant effects of the severe depreciation of the local currency as well as the banking crisis and rising social tensions, the note captures the lessons learned from the adaptations undertaken. By switching assistance in mid-2021 from LBP into USD and changing modality from a bank issued ATM card to cash-over-the-counter through a Money Transfer Operator (MTO), UNICEF was able to provide value for both recipients and donors at a time of high volatility and inflation, while delivering dignified, safe, affordable and reliable access to cash assistance.

2 Background to Lebanon's economic crisis

Ranked as one of the most severe economic crises in the last century¹, Lebanon has been reeling from a deep economic and political crisis since mid-2019, further exacerbated by the Port of Beirut explosion, the COVID-19 pandemic, a protracted refugee crisis, and recent global supply shocks. The collapse of Lebanon's unsustainable, false economic model which had overwhelmingly benefitted the country's banking sector, led to Lebanon's downgrading by the World Bank in July 2022 from upper middle-income to lower-middle income status, following a significant contraction of GDP². A collapse in the provision of public services is underway.

The financial sector, that previously featured a strong banking system, has incurred significant losses and ceased to perform typical functions as a financial intermediary, instead imposing informal restrictions and capital controls on individuals. The currency depreciation of over 98% (see figure 1), rising unemployment, triple digit inflation and the withdrawal of price subsidies, all in the absence of a macro-economic stabilization framework, have resulted in a steep rise in the cost-of-living that has pushed millions of individuals into multiple types of deprivations. Existing evidence suggests that prior to the crisis, nearly three quarters of Lebanese people were already income vulnerable,³ while close to 90% of Syrians and Palestinians cannot afford their basic needs to survive.⁴ Today, many families face impossible trade-offs between meeting their basic needs for food, healthcare, education or rent – and are resorting to increasingly desperate measures to make ends meet.

Figure 1: Evolution of the USD LBP Parallel-Market Exchange Rate in Lebanon



Source: data from www.lirate.org

3 Lebanon as a showcase for “cash at scale”

Since its inception in 2014 as a modality for assistance in response to the Syria Crisis, cash assistance in Lebanon provided much needed, effective support to individuals to help meet their needs given the availability of markets for basic goods and services and an ample choice of delivery modalities, mainly reliant on the highly developed commercial bank system. Lebanon was considered a showcase of “cash at scale”, leveraging the availability of its highly developed private financial infrastructure. **In response to the current economic crisis, some agencies have further scaled up cash assistance** including the Government of Lebanon (GOL) that has been working to expand its poverty targeted social safety net⁵ and introduce social grants.

The vast majority of recipients of assistance in Lebanon express a preference for ‘unrestricted’ cash assistance (i.e. cash in hand) over in-kind support (such as food hand-outs or vouchers).⁶ Feedback from recipients themselves, indicates that in the current context, cash assistance promotes their dignity and choice by allowing them to identify and prioritize family needs, spending on the goods and services they need at any given moment. Evidence also indicates that cash assistance triggers a positive ‘multiplier’ effect on local markets.

4 Effects of the unfolding crisis

Prior to the crisis, Lebanon demonstrated good indicators on financial access compared to other countries. In 2017, Lebanon ranked 8th globally on commercial bank penetration and the 13th for ATM penetration.⁷ Between 2002 and 2019, as banks increasingly benefited from Lebanon’s unsustainable economic model, the number of ATMs in Lebanon grew three-fold (from 686 to 2035 respectively). These were interoperable and accessible by all bank customers across the country.⁸

As the economic crisis translated into a deep financial crisis that put the banking sector at risk of collapse, people lost confidence in the economy and financial institutions. Banks imposed restrictions that barred depositors from accessing their accounts and closed branches and ATMs across the country. Lebanon has been increasingly moving towards a “cash economy” since 2020. Between 2019 and June 2022, the number of available ATMs dropped by 20%, but most damaging to access was the fact that banks ceased interbank operations for ATMs, meaning that individuals could only use their own bank’s ATMs and no longer those of other banks. This massively reduced the number of ATMs accessible to individuals.

In addition, as the economy collapses, **the local currency’s value depreciated daily vis à vis the USD, decimating people’s purchasing power in an economy that is heavily reliant on imports.** Compared to the initial official rate of just LBP 1,507 to the USD, the value of the LBP against the USD on the parallel market reached an all-time low of LBP 140,000 to the dollar in March 2023, thereby losing 98% of its value (Figure 1). **Overall inflation in the country has reached triple digits three years in a row.**¹⁰ It is estimated that the cost in LBP of the Food Survival Minimum Expenditure Basket (SMEB), representing the bare minimum of food diversity and quantities required per person, has increased by more 747 percent since January 2021.¹¹

The magnitude of the crisis exposed major pre-existing weaknesses in the largely lacking national social protection system in Lebanon. As more people fell into poverty and others continue to struggle with lifecycle vulnerabilities, social assistance programmes have not been able to meet rising needs. Lebanon’s social protection system remains highly fragmented and with limited coverage, preventing an agile and adequate response.

5 Implications of economic collapse for delivering cash assistance

The current economic crisis that Lebanon has undergone has had major repercussion on the delivery of humanitarian cash assistance, including:



Loss of value to recipient: the rapid depreciation of the local currency and subsequent soaring inflation aggressively erodes the value of cash assistance provided in the local currency, hence diluting the effects of the transfer. Frequent revisions of LBP transfer values did not keep pace with this loss of value as the Lebanese lira has continued to devalue.



Unfavorable exchange rates: the market (or unofficial) exchange rate began to diverge from the official, fixed exchange rate in mid-2019. Donor funding for cash assistance to recipients in LBP is received by agencies in USD and had to be converted into LBP for transfer. Using the official exchange rate or anything below the market exchange rate resulted in a significant difference against the value of received donor funding and thereby reducing the amount of funds available to reach people in need^{12 13}. By September 2021, a preferential humanitarian exchange rate was secured for humanitarian cash assistance closer to the parallel market rate.



Reduction of cash collection points imposes increased costs on recipients: when recipients were restricted to withdrawing cash assistance only from the ATMs of their contracted bank and not from all banks, the number of redemption points shrunk overnight from around 1,500 ATMs to just below 172, a mere, 11.5% of the previous total.¹⁴ Slashing the number of redemption points available to recipients significantly increased the time and cost involved in accessing assistance, particularly for those in rural and hard-to-reach areas.



Rising tensions, safety risks and overcrowding at remaining ATMs: cash assistance is considered to fuel intra-community tensions.¹⁵ Several partners have reported challenges in recipients accessing ATMs to redeem cash assistance safely due to high levels of queuing and crowding as well as recurrent incidents of physical violence and harassment at ATMs.¹⁶

6 Adapting to the new context

Whereas many cash programmes still distribute assistance in LBP, the issue of dollarization of assistance has continued to gain traction. In 2020, UNICEF implemented an emergency cash transfer programme in response to the Beirut blast to 80,000 vulnerable individuals in the poorer, worse affected areas. **To deliver the cash in the increasingly challenging environment, UNICEF piloted the provision of cash in USD using a money transfer operator (MTO) with very large geographical coverage across the country¹⁷.** Following the positive experience of this pilot, UNICEF launched the “Haddi” (meaning ‘next to me’) **national child grant** in June 2021 – **providing the cash entirely in USD and through MTOs, making Haddi the first large-scale cash assistance programme to be dollarized after the 2019 crisis**, assisting both Lebanese and non-Lebanese populations. The decision to dollarize Haddi was driven by the need to protect both recipients and donors against the rapid depreciation of the LBP, as well as ensure recipient accessibility to and safety when withdrawing the assistance.

UNICEF’s plan to dollarize its assistance for Haddi was approved under Phase I of the Strategic Cash Taskforce’s dollarization plan, which recognized that “under the current circumstances, the provision of cash assistance in USD was the optimal solution, noting that it remains a temporary measure, in the absence of a transparent and fair exchange rate framework together with a financial stabilization program.”¹⁸ **It met the preconditions set for dollarization agreed upon, including providing assistance to both Lebanese and Syrian populations and implementing risk mitigation measures relating to the provision of cash in USD** (see Table 1). Regular and close monitoring of implementation and potential risks was carried out, including one pulse survey within the programme’s first 24 hours and three in its first week as well as detailed surveys. None of the potential risks materialized at any scale.

Table 1: Main potential risks identified and lessons from implementation

Risks	Mitigation measures and lessons learned from monitoring implementation
<p>Inability for agencies to access and disburse funds in USD</p>	<p>All international agencies working in the humanitarian and development sector had access to “fresh” USD accounts and no limitations in transferring cash assistance in USD was encountered during the first phase of dollarization.</p>
<p>Inability of recipients to access transfers at MTO</p>	<p>Initial concerns about recipient’s access to cash assistance at MTOs did not materialise given the large number of redemption points and geographic coverage. For those without ID, the type of documents accepted by MTOs was expanded, and proxy recipients were used for those without any ID, which proved very succesaul.¹⁹</p>

Risks	Mitigation measures and lessons learned from monitoring implementation
<p>Availability of small USD bank notes</p>	<p>Triggering dollarization required notification of the MTO to ensure liquidity of USD, particularly of smaller notes. This was mostly mitigated, with 95% of Haddi recipients not reporting any issue in receiving the required bills on their first visit.</p>
<p>Safety risks for recipients at distribution points</p>	<p>UNICEF internal monitoring finds that the great majority of recipients (95%) did not face any challenges, including security related, when collecting their assistance at the MTO, and feel safe when exchanging the assistance into LBP (99%).</p>
<p>Security risks or exploitation when exchanging assistance in parallel market</p>	<p>The great majority of recipients (99%) report feeling safe when exchanging USD into LBP and reported accessing a fair exchange rate on the market.</p>
<p>Exacerbation of tensions between host and refugee populations</p>	<p>By providing cash assistance in USD to both host and refugee communities, Haddi aimed to address perceptions of unfair distribution of aid.</p>

Sources:

1 Based on Strategic Task Force on Cash Assistance (2022), Independent Evaluation of Phase I Dollarization Process of Direct Cash Assistance to Lebanon: Key Findings, June 2022 (unpublished).

2 UNICEF Haddi Post Distribution Monitoring Reports.

OMT, a money transfer operator that operates more 1,300 branches and agents nationwide and reportedly handles 90 percent of USD cash remittances was selected as the financial service provider²⁰. OMT was judged suitable to deliver Haddi given its large network of outlets, liquidity in USD bills, including low denomination notes, and a contingency plan in place in case of nationwide electricity outage and interruption of internet services. Since June 2021, USD 76 million have been redeemed by recipients of UNICEF programmes safely and without any major liquidity, access or protection related incidents.

7 Lessons learned

The positive experience of UNICEF during the adaptation of its cash assistance was reflected in the independent evaluation of the Phase I of dollarization of cash assistance in Lebanon.²¹ After reviewing practices from different organizations, the evaluation recommended to scale-up such programmes that provide cash assistance in USD, using money transfer operators, to both Lebanese and non-Lebanese. Overall, **key lessons** from UNICEF's experience of adaptation over the two years include:

- **Dollarization can be considered a good practice under the current context:** In Lebanon, dollarization has been shown to be feasible and practical. It is recommended in the current context to scale-up programmes that provide cash assistance in USD through money transfer agencies to both Lebanese and non-Lebanese populations with risk mitigation plans in place.
- **Dollarization preserves the value of assistance:** The dollarization of cash assistance allows protecting recipients against the impact of rapid depreciation of the local currency and thereby against soaring LBP inflation. Data shows that the assistance provided in USD has had a more stable value and helped retain the purchasing power for recipients.²² Receiving assistance in USD provides people with greater flexibility and choice to diversify their expenditures according to their needs. Similarly for donors, providing assistance in USD provided transparency on the value that recipients received given that no exchange rate is used to convert funds into cash transfers.
- **Transfer modalities used can adapt to be as safe and accessible as possible:** by using the over-the-counter transfer modality through a money transfer operator with a large operating network, UNICEF was able to provide an extremely wide geographical access to cash assistance for recipients with little/no crowding and no social tensions or violence reported due to queueing outside. Overall, this reduced transportation/collection costs and ensured a high level of protection and safety for recipients at withdrawal²³. Almost 97% of surveyed beneficiary households said that it was easy for them to receive the cash assistance, and 96% reported a satisfactory experience with the money transfer company.²⁴
- **Adaptation can facilitate effective planning and flexibility:** By providing assistance in USD the transfer value did not need frequent adjustment to keep track of the rapid depreciation. Administrative costs required to monitor redemption and crowd control were also significantly reduced.

8 Conclusion

Following a pilot and in response to the ongoing economic, financial and banking crisis in Lebanon, UNICEF changed its delivery modality and currency for providing cash assistance in June 2021 to use USD instead of LBP and through cash-over-the-counter through money transfer operators instead of bank ATMs. This adaptation was implemented to protect both recipients and donor funding against the rapid depreciation of the local currency and to use a new modality with a high level of protection and accessibility. Lebanon's Strategic Cash Taskforce developed a 'dollarisation plan' for cash assistance which approved the disbursement of USD under UNICEF's 'Haddi' child grant. Implementation of this operational change was based on risk analysis and a detailed risk mitigation plan. As a result, UNICEF was able to maintain recipients' assistance value and preserve full donor funding value in the face of rampant depreciation, while also providing safe, accessible, and dignified access to cash assistance. Increasingly other organizations and programmes have shifted to provide cash-over-counter and in USD, including the national emergency social safety net (ESSN). UNICEF continues to deliver cash assistance to recipients building on the successful experience with the UNICEF Haddi Child Grant Programme and expects to adopt this arrangement with the Government of Lebanon under the two forthcoming national social assistance programmes – the National Disability Allowance and the National Child Grant.



ENDNOTES

1. World Bank (2021), Lebanon Economic Monitor, Spring 2021: Lebanon Sinking (to the Top 3), WB MENA Region
2. World Bank (2022), Lebanon Economic Monitor, Fall 2022: Time for an Equitable Banking Resolution, WB MENA Region
3. ILO (2021), Vulnerability and Social Protection Gaps Assessment – Lebanon, Summary Report, February 2021.
4. Vulnerability Assessment of Syrian Refugees in Lebanon (2022)
5. Coverage in poverty targeted social safety nets was 1.5% of the total Lebanese households pre-crisis, and currently stands at 15% with 7.5% covered under the National Poverty Targeting Programme (NPTP) and 7.5% covered under the World Bank financed Emergency Social Safety Net (ESSN). It is worth noting that both the NPTP and the ESSN are being delivered in USD to recipients. While the NPTP's delivery mechanism still relies on a bank issued ATM, the ESSN, that started disbursing in March 2022, has adopted MTOs to delivery assistance to recipients in USD. Both programmes currently reach around 150,000 extreme poor Lebanese households.
6. WFP & BCG (2017), Food-restricted voucher or unrestricted cash? How to best support Syrian refugees in Jordan and Lebanon? April 2017 (report).
7. Byblos Bank (2018), Lebanon This week, Issue 556 Economic Research and Analysis Department
8. Banque du Liban Data (June 2022)
9. Daily parallel market exchange rate retrieved from: www.lirarate.org
10. World Bank, Lebanon: Country Overview
11. VAM Update on Food Price and Market Trends, WFP, March July 2022 & SMEB Trends published by the Interagency in Lebanon through: Monthly Monitoring of the Survival Minimum Expenditure Basket
12. Delivering Cash Assistance in Volatile Economies – LOUISE Short Case Study, September 2022.
13. The unfavorable exchange rates offered by Lebanese banks to humanitarian organizations have been a source of several journalistic investigation, with several major news outlets claiming they have reported high profits for the banks at the expenses of the poor. For examples, see: Reuters, Lebanese banks swallow at least \$250m in U.N. aid, June 12, 2021; Devex, Inflation, exchange rates undermine value of aid in Lebanon, May 13, 2021
14. Delivering Cash Assistance in Volatile Economies – LOUISE Short Case Study, September 2022.
15. According to the latest results from the Regular Perception Surveys on Social Tensions throughout Lebanon, “the fraction of Lebanese rating the quality of host community and refugee relations as ‘negative’ or ‘very negative’ increased from 35.3% in Wave XIII (April 2022) to 40.0% in Wave XIV (July 2022)”. Unfair aid distribution was found to be a source of tension by 21% of Lebanese and 19% of Syrians interviewed. In addition, 91% of Lebanese and 74% of Syrian interviewed in wave XIII believe that vulnerable Lebanese have been neglected in international aid/assistance programs. according to Wave XII (April 2022) of the UNDP communal relation monitoring tool.
16. Strategic Taskforce on Cash Assistance (2022), Independent Evaluation of Phase I Dollarization Process of Direct Cash Assistance to Lebanon: Report, pp. 27, June 22, 2022
17. UNICEF Lebanon (2021), Beirut Blast Response 2020: UNICEF Lebanon Emergency Cash Transfer, August 2021.
18. Humanitarian and Development Assistance: Disbursement in LBP vs. USD Value-for-Money, Economic, and Risk Analysis, February 2021
19. UNICEF Lebanon, UNICEF Haddi Post Distribution Monitoring Report, January 2023.
20. OMT is the selected service provider through BLOM Bank by the LOUISE joint tender
21. Strategic Task Force on Cash Assistance (2022), Independent Evaluation of Phase I Dollarization Process of Direct Cash Assistance to Lebanon: Key Findings, June 2022 (report).
22. WFP (2023), Food Security and Markets Situation, National Basic Assistance Working Group Meeting, January 2023.
23. Strategic Taskforce on Cash Assistance (2022), Independent Evaluation of Phase I Dollarization Process of Direct Cash Assistance to Lebanon: Key Findings, June 16, 2022.
24. UNICEF Lebanon, UNICEF Haddi Post Distribution Monitoring Report, January 2023.



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