Tool: Responding to price changes

## Purpose of the tool

This tool will help you understand which steps can be necessary to respond promptly and efficiently to price changes.

## How to use the tool

This tool goes through the most common responses to price changes, providing you with useful information on their suitability and on which steps they imply.

## Most common responses to price changes

* Regular adjustments to the value of the transfer

This approach is suitable when prices reach levels at which beneficiaries are not able to receive their entitlements. This option requires that the following steps be considered in the project design:

* + Determine how frequently you will make decisions about revising the value of the transfer (monthly, quarterly, etc.).
  + Set cut-off level for prices of key commodities that would trigger the adjustment of the transfer value.
  + Develop a plan to regularly monitor prices and to promptly communicate changes to decision makers.
  + Budget contingency resources to allow for adjustments of the transfer value.
  + Inform beneficiaries about the rationale behind potential adjustments.
  + Sensitize and get the community’s agreement when considering decreasing the value of the transfer, in the case where prices have dropped.
  + Inform local authorities and other agencies on the rationale behind potential adjust­ments, to avoid conflicting approaches with other actors operating in the same area.
* Transfer modality shift

This option should be considered when prices reach such levels that adjusting transfer values is not effective and might harm non-beneficiaries (lack of availability, prices excessively high, etc.). Shif­ting response modalities requires a high logistic and administrative capacity, and requires that the following steps be considered in the project design:

* + Determine how frequently you will make decisions about shifting your project modality (quarterly, six-months, annually, etc.)
  + Set cut-off limits for prices above which modalities will be shifted.
  + Develop a plan to regularly monitor prices and to promptly communicate changes to decision makers.
  + Build and maintain human capacity and competency to enable a modality shift if/when needed.
  + If you plan shifting to in-kind contact the logistics department and inform them about it. They will check the feasibility and make eventual arrangements, such as preparing contingency stocks in local warehouses or setting agreements with national/local government and private sector in order to be able to access resources from public or private stocks.
  + Inform beneficiaries, local authorities on the rationale behind potential transfer moda­lity shifts.
  + Inform local authorities and other agencies on the rationale behind potential transfer modality shifts.
* Agreements with traders

This approach is recommended when prices are highly volatile. It is more feasible with voucher-based projects, in which the types and quantities of commodities can be estimated and the number of traders selected is reduced. Agreements with traders can be established; these aim to keep prices fixed or below a ceiling for a defined period of time (month, trimester, etc.). This choice will depend on the level of price volatility. These agreements might involve advancement of money for traders to stock when prices are relatively low. They can be set either at the beginning of the project or as the problem of price volatility arises.

* Support to the market, services and infrastructure

When price increases are localized (limited to your project area) and not expected (they were not accounted for in the contingency planning), it is likely that the causes are related to the project. In this case, it is extremely important to understand the nature and the causes of the price increase. They can include problems in the physical access to markets, lack of liquidity of traders, insufficient storage capacity, etc. You have to figure out if it is possible to manage these problems by providing some specific support to the market, and/or to related services and infrastructure. This, probably, will require a rapid re-assessment of the market and specialist support may be required.