Webinar March 3, 2016
Managing NGO Compensation in Volatile Economies – Q&A

1. What is the difference between depreciation and devaluation?
Generally, devaluation refers to a single currency event, most often initiated by a national government/central bank, where a local currency has its value re-set against another currency, typically a "hard" currency such as USD, GBP, EUR, etc. Depreciation refers to the lose of value between two currencies over time, generally due to market forces in the trading of currencies.
2. Under pay, please explain "support to expatriation"
This simply means that your compensation policy should include those elements that help to support your organization's global mobility provisions. It is important to note that inflation or exchange rate movement impact expatriates and local staff differently.
3. What are good data sources to use (bullet 3 from Set a Trigger Point slide)?
Multilateral organizations such as OECD, IMF, World Bank, UN and Eurostat are reliable sources, though inflation data may be delayed somewhat. Commercial sources include Trading Economics, ECA International (Money Matters Blog) and, for a fee, sources such as the Economist Research Institute.
4. What's the conventional wisdom about being able to rescind or reduce allowances under local labor laws?
You should always consult a labor lawyer on matters involved legal questions. That said, what we described in the webinar should not be problematic as the total income is never being reduced.
5. These are very high short-term occurrences. I assume there will be other discussion about the longer-term (Malawi-type) inflation or devaluation.
In Malawi you have both situations – chronic inflation and periodic, maxi-devaluation. Special measures are the solution for those events which occur once or over a short time period. For chronic conditions, simply monitoring the market and giving multiple salary increases during the year are a reasonable solution. Special measures policies should also include definitions of time periods over which triggers would be assessed.
6. What is the formula, how you calculate cumulative % for inflation and devaluation to make some correlation with compensation.
For devaluation, we compared the exchange rate now versus the rate in effect before the devaluation of May, 2012. For inflation we applied annual inflation successively, to generate a compounded rate. We still don't think there is much correlation, though. That is, the only correlation is to the degree that individual employers take decisions to adjust compensation relative to inflation or devaluation. Our experience is that employers take a wide range of approaches, and it is the aggregate of those often disparate actions that produce a change in market levels of pay.
7. If you move allowance into salary do you ever have a time when you reduce salary if it goes the other way for an amount of time?
No. Under such circumstances, which are rare, you continue to monitor the market and eventually it will catch up.
8. If many employers are providing a Special Measures Allowances, wouldn't that mean that survey data might show that the labor market hasn't moved because base salaries haven't changed? And that would tell us that the labor market isn't responding to the economic situation so maybe we don't need the allowance...but we probably still do.

This is a great example of why, when using survey data, you need to pay special attention to total compensation. While base might not change under the scenario you described, total cash would show the impact. We include "special measures allowances" in our figures for total compensation, though not as base salary, so those allowances would be reflected in comparisons of total compensation.

9. Winding down can present some legal "limits" constraints (once rights are granted is more difficult to remove them. would you have any generic risk management consideration on this?
   We believe the approach advocated here is OK because total income is not decreased. However, we always suggest consulting with local labor counsel for legal advice.
10. Suppose the situation isn't changing over a year after a significant devaluation?
   I think you mean that the market doesn't move much in response to the devaluation. You would stay the course for at least a total of 24 months. We are confident the market would move in the majority of cases by then.
11. Our employees in Malawi have felt that 25% of the depreciation is far too little. And they've pointed out that it's taxable.
   If you are market-driven, then you should reference the market data as part of the conversation with staff. Of course they don't think it's enough, and if the market moved more, they are right! On the other hand, though, they are looking to be kept whole, which is unrealistic. What budgetary impact can you afford? What would your donors expect?
12. How will temporary measures/allowances be seen as temporary when granted allowances cannot be taken back...?
   Labor laws are complex and you should always consult local counsel on these matters. In many countries, for example, incentive pay is permitted even though it could vary up or down from year to year. The concept of a temporary allowance implies it can be removed. Ensuring that total pay remains constant or increasing generally avoids issues of acquired rights.
13. Does the market always catch up within 6 months? Can the market go down?
   Not always, but usually. Our assumption of 25% of the inflation/devaluation is very, very conservative. Theoretically the market could go down, but it rarely happens. More likely pay could be frozen for a spell.
14. The main problem is that often staff are aware that budgets are agreed in stable currencies = so why not compensate them with fluctuations?
   Because other expenses will increase, too, and you have a fiduciary responsibility to your donors. What would your donors say if you pass along devaluation increases automatically without regard to the market? For example, do you pay more for gasoline for your vehicles than the market price, simply because you can "afford" to in hard currency terms?
15. For A&A, we pay in some countries in USD to local residents (no expats). That should take away the devaluation impact, but we are never sure it is that clear-cut. Suggestions?
   One of the take-aways from the webinar is why this is a bad practice. It skews the market, and shelters employees from local conditions in a way which makes it hard to ever undo. Suggestion would be avoid doing this if you can, and try when possible to eliminate it.
16. During Q&A, can Warren or Curtis discuss again why labor costs drives or determines inflation vs. cost of goods?
   Labor costs are driven by the supply and demand of talent. Cost of living is separate. Inflation is

often a factor employers consider when setting their salary budgets, but it really should not be a major element, since data indicates there is not a strong correlation between inflation and market movement.

17. Do you mean physically deliver salary in hard currency or denominate the salary in hard currency?
    Both are problematic, but the more challenging one is denominating in hard currency. Still, payment in hard currency could still give rise to distortions and risks with black markets.
18. But bank rates are usually cause of frustration - salary goes up and down depending on daily rate
    Exactly. Once you switch to hard currency you are giving up the control you need to influence your labor costs. Don't do it!
19. Are you suggesting we should consider paying expats in local currency?
    A common solution for expats is a split payment – local currency for local expenses such as ongoing goods and services and housing, and home/HQ payment for expenses at home.
20. What do you think about the Big Mac Index for simple review?
    *Given the comments about the reliability of government inflation numbers, why would you think an index **based on a single item** would be a better choice? We do not think the Big Mac index is a good source. A simple review does not mean you use a simple index. Using grade average data from our surveys would be a simple and much more relevant point of reference.*
21. How do you transition locals that are getting paid in hard currency to local currency?
    *It is very difficult. Depending on the country and the economic situation, you could have multiple local currency increases over a period to compensate. But there also needs to be some honest communication with staff regarding the changes. And, the communication should focus on your organization's competitiveness **in local currency terms**.*
22. What are your thoughts on a stepped approach (10%, 7%, 4%) vs a blanket approach (10% for all staff) when applying a COLA based on inflation rates? In a stepped approach, the highest COLA would go to staff who own lower salaries.
    In general you can vary increases by employee group. We would advise that you always consider market position, and you could very well observe that different groups/levels are in different market positions. You may also have different target market positions depending on level, in some cases.
23. How to come back to local currency when we realize that we are far above the market because of using hard currency instead of local?
    See question #21 above. Communication and transition policies would be important. Keep the focus on market position; if you are in a very strong market position – in local currency terms – emphasize (and celebrate) that.
24. How can NGOs harmonize their approaches, especially USAID implementers? We don't want to reinvent the wheel in, say, Nepal, and it would be great for USAID to allow/approve a common approach.
    USAID has recently been very consistently stating that market-driven data should be used to set salaries, and any references to the FSN scale is inappropriate. It is true, actually – the FSN scale is not really designed for high-level technical specialist roles commonly found amongst contracting organizations. Keep in mind, though, each organization should have their own

policies and practices that link to their own value proposition. For example, some contractors only are present in–country during the contract, while others have renewals and multiple programs which result in a long-term presence. Pay should be different for these two cases.

25. Would you recommend paying in USD in South Sudan?
We would check the prevailing practices, though possibly this would be a place where USD are common. This information is available in our survey. According to our understanding, the market practice in South Sudan is about evenly split now. There have been conflicting/confusing directives from the government about pay currency. Our surveys, and the South Sudan NGO Forum, with which we communicate regularly, are good sources of information on current, prevailing practices.
26. I wanted to ask also about temporary allowances. How can we exit from a temporary allowance special measure when labor law converts any allowance into an automatic benefit if it is repeated?
You may want to consult labor counsel in your country to confirm if your understanding is correct and whether or not our approach could work.
27. How often do you recommend reviewing an updating salary ranges?
In developing markets, we suggest a review take place annually. An adjustment may or may not be needed, but an annual check still makes sense. In markets where inflation is chronically high, or there is ongoing depreciation of local currency, it is our experience that many employers start to implement two pay adjustments each year. In these cases, it would be well to consider reviewing your own market position more than once a year. Our surveys, which are published three times a year, give you the ability to do that.
28. Can you never take away an inflation allowance? Does it all have to be absorbed in the salary, or does that depend on local legislation?
Generally, you cannot reduce employee compensation. We suggest consulting local labor counsel for confirmation.
29. Is there any reliable source for inflation other than the Central bank of the country?
See questions #3 above.
30. Do these same principles apply to staff that are paid as consultants in various countries vs employees with taxes/benefits?
To the extent that you set consultant pay based on the market, yes.
31. I am working with a smaller NGO in South Sudan where there recently has been a high devaluation and inflation, while no inflation numbers are regularly or reliably available. A majority of NGO actors already pay in USD - which largely compensates employees for variances especially as the majority has family members living outside of the country. Would it not be best to follow the market and pay and contract staff in USD (where this is not illegal)?
The situation you have described might be an example of one where USD makes sense, yes. But realize switching back will be very tough and might not be possible for many years. Also see question #25. Our information indicates that the majority does not pay in USD.
32. Can these temporal measures apply in situations where employees get a lump sum salary as opposed to a salary split between base and allowances?
This is really semantics. You could give a higher salary immediately, but then it would impact all

of your pay-related benefits and calculations. Depending on the country, this could be significant.

33. More a comment...Devaluation not only affects cost of imported goods... in developing countries, if there is no price control, suppliers increase prices arbitrarily,,, and with time lag, it is seen formally in inflation rate (as we can see in Zambia for instance...
    Thank you for your comment. Obviously, these factors are strongly interrelated.
34. Were the triggers in the presentation based on your experience?
    Yes. We (Birches Group) have experience managing compensation in developing markets for over 30+ years.