BETTER FX

A GUIDE TO IMPROVED FOREIGN EXCHANGE PRACTICE IN THE UK CHARITY SECTOR

CFDG
PROMOTING BEST PRACTICE IN CHARITY FINANCE

STAMP OUT Poverty

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CONTENTS

FOREWORD – Sir Stuart Etherington, NCVO 2

PREFACE 3

INTRODUCTION 4

SECTION 1: THE CHARITY EXPERIENCE

1A: Case Studies

1. Build Africa: Market-watching 9
2. WaterAid: Foreign Currency Procurement and Management 11
3. War on Want: Improving Effectiveness 13
4. The Brooke Hospital for Animals 15
5. MERLIN: Hard Currency Focus 17
6. Oxfam: Execution, Systems, Risk 19
7. The British Council: Top to Bottom Review 21
8. Traidcraft Exchange: Learning from Experience 24
9. Plan International: Centralising Foreign Exchange Management 26

1B: Analysis and Conclusions 29

SECTION 2: A PRACTICAL GUIDE TO FOREIGN EXCHANGE

Articles

1. Choosing a Foreign Exchange Provider – INTL Global Currencies 35
2. Foreign Exchange Risk – Lloyds TSB Commercial 37
3. Hedging – Lloyds TSB Commercial 41
4. Foreign Exchange and Accounting – Crowe Clark Whitehill 45
5. The Impact of Foreign Exchange Rate Volatility on Charities' Purchasing Power – Royal Bank of Scotland 50
6. Key Questions to Consider When Procuring Foreign Exchange - Plan International 53
7. Good Practice Checklist – Cass Business School 56

Appendix 1: Service Provider Chart 57

Appendix 2: Useful Links 67

FOREWORD

This guide is both welcome and timely. I'm under no illusions about how tough the coming year is going to be, which is why there is a real need for detailed, accessible guidance on a range of financial issues. This is essential to build both the knowledge and the confidence to make the right decisions in order to secure the long-term financial health of our sector. We are working hard to support our members in the challenging months and years ahead and we are very grateful for this important contribution from our colleagues at CFDG and Stamp Out Poverty.

It is true that we are seeing greater political interest in, and profile for the sector, but this is against a challenging economic backdrop: rising demand and falling income is a real issue for many of our members and significant cuts to government funding are still to come. In this context, the means by which our diverse sector can best maximise its resources is uppermost in the minds of our three organisations.

The precise scale of cuts is not yet known, but whilst there will be new opportunities, particularly around the future of public services, these will inevitably impact heavily upon our sector. The majority of sector funding from the state flows through local government and a period of unprecedented cut backs will coincide with radical decentralisation and far less monitoring of local decisions from the centre. Cuts to funding from government and a challenging economic picture mean that measures to boost the sector's financial health, particularly those measures which can be identified and found quickly, will be essential.

There is a clear need to extract maximum value from resources in these difficult times. This must not be seen purely as a debate about how to secure funding and diversify sources of income, essential as these are. That is only part of the solution. All organisations in our sector need to think seriously about their cost base and how their expenditure can be reduced whilst continuing to play a full and active role in communities here and abroad.

As this useful guide for the sector demonstrates, there are clear savings to be made in seeking the most attractive rates when purchasing currencies and improving procurement practices. Whilst this will clearly be of most relevance to charities that have significant overseas activities, taking a proactive approach to managing resources will be of considerable interest to our whole sector. Part of the responsibility for mitigating the impact of reduced funding lies with funders, including the Government. Working in partnership and adopting consistently good practice in funding can minimise the impact of cuts. However, the primary responsibility for ensuring that our sector can continue to play its vital role in civil society lies within the sector itself. As organisations that hold the sector's interests close to our hearts, NCVO, CFDG and Stamp Out Poverty are committed to supporting charities in working more effectively, working collaboratively and in making the necessary changes to weather the storm.

Sir Stuart Etherington

Chief Executive of the National Council for Voluntary Organisations (NCVO)

PREFACE

By way of introduction, in the foreword to *Missing Millions* (the predecessor report to this one) I described how we came to commission work to improve foreign exchange provision in the UK charity sector.

"Sometimes, as you determinedly set about one course, you may occasionally discover something unexpected, but of great importance, that you never would have observed had you not already been a fair way along the road. For Stamp Out Poverty, that road has been the pursuit of a small levy on foreign exchange transactions to raise new revenue to increase finance for development… In the course of gaining this knowledge, it became apparent to us that organisations in the charity sector were likely to be paying considerably over the odds for the currency they needed to operate in the developing countries in which they work."

Over a number of years we had consulted with the specialist FX provider, INTL Global Currencies, whose clients mirrored many of Stamp Out Poverty's own members, to help us understand the field of foreign exchange. Now we asked them whether they would support work to encourage debate about improving choices in FX provision for the sector. To give them credit, they immediately embraced the long-term value of opening up discussion in this way and pledged their backing to the project. It is fair to say that without INTL's contribution in terms of advice and support these publications would not have come about.

Stamp Out Poverty's members include some of the UK's leading development charities, such as Oxfam, Save the Children and ActionAid, and our mission is to boost funds to developing countries. We believe that *Better FX* strongly builds on the formative work of *Missing Millions* and can serve as a toolkit that can potentially save the UK charity sector many millions of pounds each year. This money, rather than being lost in excessive charges, can instead be spent to benefit people in more disadvantaged parts of the world.

David Hillman
Director, Stamp Out Poverty

When Stamp Out Poverty approached us about furthering understanding of FX and the potential savings such knowledge could unlock for the sector, we were delighted for the opportunity to be involved in such a unique and important piece of work. *Missing Millions* demonstrated how a seemingly straightforward and possibly taken for granted process – the procuring of foreign currency – could be reviewed and improved to enormous effect.

Missing Millions identified potential sector-wide savings of £20-50 million if charities introduced competitive tender and improved procurement processes. However, *Better FX* seeks to show how this can be done.

This publication is not a highly technical guide for a niche audience. Instead this is a guide for any charity who has some dealing in foreign currency. It aims to enhance efficiency and help charities make the most of every pound; an aspiration at the heart of CFDG. If you can take away only a few ideas for improvement which can be applied to your charity, this publication will have achieved its aim.

This publication demonstrates an area where charities can work with the banks and wider financial sector. Service providers have a wealth of knowledge and experience in this area and the sector should not shy away from utilising this to their maximum advantage.

I would like to thank Lloyds TSB Commercial and INTL Global Currencies not only for sponsoring this publication, but for their continued support throughout the process of production which has been invaluable. The charities who have shared their experiences and other generous contributors too deserve thanks, in showing how innovation and a proactive approach can bring great benefit to any organisation - large or small.

Caron Bradshaw
Chief Executive, CFDG

INTRODUCTION

Who is this publication intended for?

Better FX is a practical guide for charities and social enterprises wanting to start, improve, or learn more about foreign exchange procurement practices. Many UK charities and social enterprises operate globally – most work in development, but some engage in trading overseas. These charities are therefore exposed to the uncertainties surrounding purchase of foreign exchange.

This publication is not intended to be a technical guide on all aspects of foreign exchange procurement. Instead it aims to provide guidance to users. If a more detailed understanding is required, you should seek professional advice.

Importance of this publication

In 2009 Stamp Out Poverty published *Missing Millions*. This report raised awareness of the problems non-governmental organisations (NGOs) face when they purchase operational currencies for use in development and humanitarian work.

MISSING MILLIONS

Missing Millions identified potential sector-wide savings of £20-£50 million through effective foreign exchange procurement

The report showed that many millions do not make it to their intended destinations because charities often encounter uncompetitive rates and misleading transfer fees when purchasing local currency. In this way, the full amount of money that ought to reach the field to save lives and improve livelihoods, is not realised.

Hidden losses

The losses identified are not immediately evident. This is because neither those giving the money - institutional funders such as the Department for International Development (DFID) – nor those receiving the money – UK charities and their partners abroad - necessarily know this money is being lost. The reason for this is that donors do not ask of recipients that they seek the best price for local currency. At the same time, recipients may rely on a single financial institution, such as their regular bank, to deliver the currency they require. As a result there has previously been little focus on the difference between what organisations have actually been paying for local currency and the best price that this currency could have been purchased for.

Summary of findings:

- Charities need to introduce a process of competitive tender when procuring currency to ensure the best rates are obtained.
- Utilising expert FX providers – who have a good understanding of the regions where charities work – to obtain competitive rates, adds value.
- Sharing lessons learned amongst NGOs and key stakeholders is important to good foreign exchange procurement.
- The sector is prone to 'hidden losses' resulting from a missed opportunity to obtain the most competitive rate on the day of trade, because charities tend to purchase currencies traded at low volumes.

The commissioning of this subsequent report and the case studies discussed within it, are testament to the extent to which progress is being made, policy change is taking place and material savings across the sector are being realised.

It is currently a difficult time for charities. It has long been acknowledged that the recession will have a delayed and prolonged effect on the sector, which is likely to be exacerbated as the effects of Government spending cuts start to be felt across the economy and throughout general society. International aid budgets have been ring fenced; however there is a much greater requirement for increased effectiveness. As a result, charity finance professionals have to be more strategic with their spending. There is a need to review all processes and costs to ensure that all funds are making the maximum impact they possibly can. The management of foreign exchange transactions and foreign exchange risk, therefore, will be more important than ever.

This publication aims to provide a practical toolkit that delivers solutions to many of the obstacles faced by charities in the procurement of foreign exchange. This publication provides information, specific to the sector, which will grow and develop into a reference point on foreign exchange for charities. The ultimate objective of this publication is to ensure that the sector, as a whole, is armed with the knowledge required to make sure that every penny granted or donated by governments or individuals, makes the maximum impact in the places in the world where these funds are intended.

Using this publication

Section 1 explores the foreign exchange practices of nine UK registered charities of varying size and structure. The case studies demonstrate how international NGOs have reviewed their currency procedures and made substantive changes to the ways in which they purchase local currency and manage foreign exchange risk. They illustrate why a 'one-policy-fits-all' approach to the procurement of currency is not possible. The case studies provide a snapshot of the sector as a whole, outlining how size and internal structures influence and at times direct an NGO's approach to currency procurement. Drawing on the lessons learned, these case studies can help other charities wanting to review their foreign exchange procurement practices.

An analysis of all of the case studies is provided at the end of section 1. This draws out similarities and differences in approach and provides reasoning for this. The analysis also highlights the tools needed to implement useful changes regarding foreign exchange procurement within charities.

Section 2 is a practical guide to foreign exchange. It seeks to harness the expertise of the financial sector, as well as individuals from the charity sector and academia. Section 2 utilises expert knowledge of currency markets and risk management and applies, where appropriate, processes to assist UK charities. It includes articles discussing key subject areas, such as hedging tools for minor currencies and the role of inflationary pressures on purchasing power, all of which have been written by expert advisers.

This is followed by a chart of all world currencies, outlining which foreign exchange providers can deliver either a spot rate, non-deliverable forward (NDF) or forward contract for a given currency. It sets out the basic structure of SWIFT payment system charges and how these charges are applied by each bank/broker listed. It is CFDG's intention to update this chart on the website regularly.

The purpose of the world currency chart is to assist charities in encouraging competition amongst financial institutions and remittance firms when purchasing foreign exchange.

GLOSSARY

Economist Intelligence Unit: A research and analysis resource, providing information and advice to companies, financial institutions, governments and universities.

Fair value accounting: Accounting based on valuing an asset at 'fair value', that is, the estimated market price of the asset based on a number of objective factors.

Forward contract: An agreement between two parties to buy or sell an asset or currency at a certain future time, for a certain rate agreed today. The difference between the spot and forward price is the forward premium or discount, generally considered in the form of a profit, or loss, by the purchasing party. Forwards like other derivative securities can be used to hedge risk.

Hard/major currency: Currencies such as the Dollar, the Euro and Sterling are often described as hard currencies because they are very liquid, and the bid/ask spread is usually small.

Liquidity: Liquidity refers to an abundance of buyers and sellers in the market, resulting in large volumes traded without significant price swings.

Minor (also known as soft/exotic/esoteric) currency: Currencies such as the Ethiopian Birr and Malawian Kwacha are often described as minor currencies because they are not easily traded. They can be highly illiquid and very volatile.

Multi-banking platforms: A platform which can track rates and run reports on a number of different banking suppliers, allowing for a comparison.

Non-deliverable forward (NDF) contract: A derivative instrument for hedging the exchange rate risk. Non-deliverable forwards are contracts that, rather than delivering the currency in question, instead compensate the parties for movements in the exchange rate between the execution date and final settlement date. As such an NDF removes almost as much risk as a physically deliverable forward, but also requires an additional "spot" exchange transaction as the contract expires.

Pegged currency: Where the exchange rate of a currency is fixed against another country's currency.

Preferred supplier agreement: An agreement with a number of suppliers, usually to mutual benefit.

Restricted funds: Funds which must be used for the purpose for which they were given, for example, as specified by the donor.

Spot rate: Cash price per unit of currency. The current exchange rate for trading a currency in the open market.

Spread: The bid/ask spread is the difference between the price quoted by a market maker for an immediate sale (bid) and an immediate purchase (ask). The size of the bid/ask spread in a given commodity is a measure of the liquidity of the market and the cost of the exchange.

SWIFT payments: Secure international payment instructions between banks, central banks, multinational corporations and major securities funds.

Target rate order service: A target rate order is an order placed with a brokerage to buy or sell either shares or currency if/when the price reaches a pre-specified price.

Unrestricted funds: Funds which a charity can spend as it chooses, as opposed to being restricted to a particular purpose.

Value/settlement date: The date when the value of an asset or currency is determined.

Volatility: This is the likelihood of fluctuations in the exchange rate of currencies. It is a probability measure of the threat that an exchange rate movement poses to an investor's portfolio in a foreign currency.

LIST OF ABBREVIATIONS

ABA: Approved Banking Arrangement

EIB: European Investment Bank

CCCD: Child Centred Community Development

FD: Finance Director

FX: Foreign Exchange

IMF: International Monetary Fund

LC: Local Currency

(I)NGO: (International) Non-governmental organisation

NDF: Non-deliverable Forward

SOFA: Statement of Financial Activities

SORP: Statement of Recommended Practice

SSAP: Statement of Standard Accounting Practice

SWIFT: Society for Worldwide Interbank Financial Telecommunications.

UITF: Urgent Issues Task Force

UK GAAP: Generally Accepted Accounting Principles (UK)

Section 1:
The Charity Experience

Section 1A: Case Studies

1. **Build Africa:** Market-watching
2. **WaterAid:** Foreign Currency Procurement and Management
3. **War on Want:** Improving Effectiveness
4. **The Brooke Hospital for Animals**
5. **MERLIN:** Hard Currency Focus
6. **Oxfam:** Execution, Systems, Risk
7. **The British Council:** Top to Bottom Review
8. **Traidcraft Exchange:** Learning from Experience
9. **Plan International:** Centralising Foreign Exchange Management

Section 1B: Analysis and Conclusions

SECTION 1A: CASE STUDIES

1. BUILD AFRICA: Market-watching

Charity: BUILD AFRICA

Activity: Helping young people escape poverty through education and income generation.

Annual Income: £2.5million

Currencies Traded: Ugandan Shilling (UGX) and Kenyan Shilling (KES)

Foreign Exchange Expenditure: £700,000 UGX and £500,000 KES in 2010.

Global Reach: Build Africa operates exclusively in rural areas of Uganda and Kenya.

By expanding their supplier list, Build Africa has generated substantial savings. However the key to Build Africa getting full benefit from their currency purchasing arrangements is regular contact with a currency market expert who not only understands the market but also understands the charity's needs.

Build Africa send funds to field offices and closely affiliated partners every month. Each trade is usually between £50,000 and £150,000. As some funds sent are for construction projects, the size of their trades is influenced by seasonal weather changes n-country.

Previous practice and need for change

Originally the finance team were sending funds via their local high street bank. However upon review it was found that there was generally dissatisfaction with the spot rate provided on currency purchases by this specific bank. As a result Build Africa began working with a foreign exchange brokerage firm close to their headquarters in Tunbridge Wells. Upon comparison of rates provided, it became clear that the brokerage firm were consistently outbidding the rates provided by the local bank. On average the difference ranged from between 1-2 per cent per trade. On the basis of this, Build Africa decided to expand their portfolio of providers, and instigated a tender process to identify other firms that could purchase currency competitively. In spring 2009 they invited six financial service organisations to tender.

Tender process

All organisations were assessed against set criteria. The key criteria included:

1. The supplier's ability to provide a bespoke service catered to Build Africa's requirements.
2. Value for money through competitive rates and efficiency in trade execution.
3. The organisation's reputation regarding the timely settlement of funds.

Upon completion of the process it was decided that Build Africa would expand their supplier list to include, in addition to the high street bank and the local foreign exchange brokerage firm, a city-based currency trading specialist. While no further trades have been carried out through the high street bank, it has remained on the supplier list, despite the uncompetitive rates, for benchmarking purposes.

The new process and its benefits

The city-based firm continually tracks Build Africa's operational currencies so that when the spot rate is particularly good they will inform the Finance Director. This provides opportunities to trade at optimal times as opposed to a pre-arranged date for delivery per month. The service was further refined by the supplier per centproviding a target rate order facility.

Incorporating an additional supplier led to savings per trade of 0.5-1per cent. Through expanding their preferred supplier list and services Build Africa have seen total savings of between 2-3 per cent of their currency purchase in a given year, which equates to £40,000. The direct result of these savings was to release enough money each year to fully fund the development of a school for a community in Uganda.

It is important to note that the spot rates for these currencies is extremely volatile (movements of 10 per cent within a month are not uncommon), so having someone proactively watching the market and getting in touch when the rate looks attractive is extremely valuable. Whilst UK cash deposit rates remain low, it has proven a good use of the charity's funds to buy and hold 2-4 months' worth of currency requirements in advance when rates are high. This has shielded Build Africa from the worst of recent market turbulence. While difficult to quantify the exact additional value, it is believed that this "market-watching" service has generated savings of around £30,000-£50,000 in addition to the £40,000 that derive purely from adding suppliers.

2. WATERAID: Foreign Currency Procurement and Management

Charity: WATERAID

Activity: WaterAid focuses on improving access to safe drinking water and improving sanitation and hygiene within the world's poorest communities.

Annual Income: £45.6 million (2009/10).

Currencies Traded: Various (see countries below).

Foreign Exchange Expenditure: In 2009/10 the total expenditure of WaterAid in the UK was £45.2 million.

- £28.5 million was spent on supporting partners to deliver water, sanitation and hygiene.
- £5.5 million was spent on influencing policy in water, sanitation and hygiene.

Of their total income approximately 85% was received in GBP, with 15% denominated in EUR, USD or other currencies. Around 65% of total expenditure is converted to operational or local currency.

Global Reach: Well-established country offices in Bangladesh, Burkina Faso, Ethiopia, Ghana, India, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Tanzania, Uganda and Zambia. WaterAid's strategy for 2009-15 aims to expand and work in a number of other countries including Kenya, Rwanda, Angola, Lesotho, Swaziland, Liberia, Niger and Sierra Leone.

WaterAid's finance team has developed a proactive approach to how they purchase currency when needed. The steps taken to manage exposures illustrate cost saving potential. This highlights the need for an effective foreign exchange management and procurement policy.

Competition

WaterAid assessed their approach to currency procurement and foreign exchange risk management and found that they could increase efficiency in two main areas:

1. The procurement of operational currency.
2. Centralising issues of foreign exchange in how they budgeted and planned programmes and projects.

With regards to the purchase of currency, WaterAid found that the approach of using one bank to transfer either hard or local currency to field offices when needed had resulted in them receiving uncompetitive rates. To increase competition, WaterAid began working with one other bank and two foreign exchange brokers in the UK. This allowed them to compare rates and trade through the organisation that was most competitive at the time of trade.

Since 2009, WaterAid compares the rates they can receive in-country for hard currency, to the rates provided in the UK for the respective local currency. This is carried out on a real-time basis, meaning that when a cash request is received at the UK headquarters from a country office, it is also accompanied by rates provided by local banks for conversions from GBP. That rate is then compared to the rates provided by the four service providers in the UK. The decision on whether to send hard or local currency has, as one of its primary drivers, been based on where the most competitive rate is coming from. As a result, they now send a combination of hard and local currency to their country programmes.

Long-term trend analysis on the currencies, in order to assess whether sending hard or local would be more cost effective, had been conducted by WaterAid before implementing this model. As a general rule it was found that buying currency in the UK gained a better rate than buying locally. However there were significant variations to that rule meaning there was a need to take a case-by-case approach when requests for funds are made. This enabled WaterAid to take advantage of both the UK and local currency markets for operational currency bought on a spot rate basis.

Economic analysis and risk management

Since 2009-10, the senior management team of the finance department in WaterAid has been tracking and assessing economic data. They currently receive information from the Economist Intelligence Unit on all country programmes. This information includes:

- Issues relating to interest rates
- Inflation and in-country government policy, and how these may impact their procurement of foreign exchange.

In addition WaterAid utilises International Monetary Fund data on inflationary pressures, data from a range of banks and the financial press. This monitoring assists the finance team in their awareness of potential shifts in exchange rates for incoming or operational currency.

With regards to long term planning and budgeting systems, all programme budgets are now completed in operational currencies. Local employees manage programmes and projects in the currency of their country. Therefore they are no longer delegated with de facto currency management for their income and expenditure, as they were prior to the 2008 assessment. Essentially the risk associated with fluctuations in rates has been centralised.

The rate for which all local budgets are prepared is based on the Economist Intelligence Unit rates to remove inconsistencies in organisational judgement on a country by country basis. In certain circumstances, evaluation of the range of economic reports might lead to taking a high level prudent view of potential movements in GBP. USD is used as a proxy rate for this risk evaluation (accepting that not all of the local currencies track USD closely).

Centralising foreign exchange risk through budgeting in operational currency has also resulted in WaterAid absorbing exchange rate risk across their entire country portfolio. To mitigate for potential significant movements or shocks within currency markets, operational reserves calculations factor in the potential impact on cash flow if a significant move in exchange rates were to occur. Holding some hard currencies on the balance sheet (deposits and debtors) also mitigates for some of the exchange rate risk here.

Country	Local currency delivered from UK	USD sent to country programmes	GBP sent to country programmes	EUR sent to country programmes
Bangladesh	No, due to local banking regulations		Yes, due to local bank regulations	
Burkina Faso	Yes			Yes
Ethiopia	Yes			
Ghana	Yes			
India	Yes			
Madagascar	Yes			
Malawi	Yes, but rarely		Yes, mostly	
Mali	Yes			Yes
Mozambique	No			
Nepal	Yes	Yes		
Nigeria	Yes			
Pakistan	Yes			
Tanzania	Yes			
Uganda	Yes			
Zambia	Yes			

Table 1: Outlining the general delivery of currency to WaterAid's established country programmes, having received rates from providers in the UK and locally.

3. WAR ON WANT: Improving Effectiveness

Charity: WAR ON WANT

Activity: War on Want is a London-based NGO that works towards fighting poverty and injustice resulting from globalisation. As a relatively small organisation, War on Want's work is carried out through partnering with local NGOs. These can range from very small groups within rural communities to NGOs working within conflict zones.

Annual Income: £2,488,468 (2008)

Currencies Traded: Guatemalan Quetzal (GTQ), Honduran Lempira (HNL), Colombian Peso (COP), Brazilian Real (BRL), South African Rand (ZAR), Mozambique New Metacal (MZN), Zambian Kwacha (ZMK), Malawian Kwacha (MWK), Kenyan Shilling (KES), USD, Sri Lankan Rupee (LKR), Bangladeshi Taka (BDT), Thai Baht (THB) and Chinese Yuan Renminbi (CNY).

Foreign Exchange Expenditure: Of their total expenditure (£2,416,848) in 2008, 40.49% was sent to partners abroad, which equates to approximately £980,000. As many of the partners receiving funds are small community groups in very rural areas, their banking provisions usually only allow for the transfer of local funds. Consequently the majority of the foreign exchange expenditure is spent on purchasing soft or exotic currencies on a spot rate basis.

Global Reach: War on Want has a total of 31 partners throughout Guatemala, Honduras, Columbia, Brazil, South Africa, Mozambique, Zambia, Malawi, Kenya, Palestine, Iraq, Sri Lanka, Bangladesh, Thailand and China.

The size and structure of War on Want has been a large contributing factor to the way in which they procure foreign exchange. Their experiences offer useful insight on the need to work with foreign exchange providers who best meet the needs of your charity. War on Want's experience also highlights the need to obtain references when assessing potential providers.

Foreign exchange policy

Like many UK based charities, War on Want receive funding from institutional donors such as the Department for International Development (DFID), as well as through public donations. Much of this is in the form of restricted funds. In relation to the restricted funds received, War on Want must ensure that the contracted objectives are met to guarantee future funding. It is therefore essential to ensure soft currencies are being bought at the best price. This additionally enables the completion of projects on the ground, which ultimately secures funding in the future.

Over the last year the finance team have made very simple and yet effective changes to the way in which they buy local currency in the UK. They currently use three foreign exchange boutique and remittance firms who are actively in competition for their business. Their policy towards buying foreign exchange is unique in that they do not use any banks when buying foreign currency. This decision was based on a number of factors:

- *Experience of poor service.* War on Want found that although they were buying almost £1 million of currency every year (in addition to holding £1 million in reserves with the same bank), they were not seen as major clients. This was reflected in the quality of service they received.
- *Uncompetitive rates.* The second reason behind their decision to refrain from using UK retail banks in the procurement of currency was due to the uncompetitive rates some provided when compared to exotic currency firms.

War on Want found that through using smaller remittance firms, the standard of service increased because the amount they were trading was no longer seen as negligible. Moreover, the service providers used are exotic currency specialists. Therefore they track prices of these currencies more extensively and

can in some cases provide more competitive rates. There was also a higher emphasis on ensuring delivery of funds within the time specified, and informing the client whenever there was a problem with crediting the beneficiary account.

The system currently in place at War on Want is a very transparent one. They have signed no exclusivity agreements, making clear to all service providers that they will only remain a client for as long as they are consistently receiving competitive rates, with funds delivered on time and to the correct location. All providers currently being used are aware of the fact that the rates they provide are constantly compared to those of other service providers. This means there is never a guarantee that a trade will be carried out with one company.

One of the major difficulties faced by War on Want in relation to buying currency is the ability to benchmark the prices they receive to ensure that the three organisations being used provide rates that reflect market prices. This is very difficult to do when buying exotic currencies because prices are very much determined through identifying the highest demand for GBP (or the hard currency being sold) in the country in question on the day of trade. What they have been able to do, however, is to identify a price range that falls in line with the budget set for given projects to ensure such projects are deliverable. They also carry out historical analysis on prices received in an attempt to identify pricing going forward. This is achieved through monitoring the levels of currency converted as recorded in the local partners' financial reports, and using this to identify the underlying currency rate trend.

Managing the risk associated with smaller foreign exchange firms

When reassessing how they bought currency, the Finance Director of War on Want was very aware of the risk associated with using some smaller foreign exchange firms. On average they are approached at least once a week by service providers claiming to be able to provide the most competitive rates. Many of these organisations are usually unable to deliver on their claims. Furthermore, the stability of the providers' business was also considered. To minimise the risk of using such organisations, War on Want carried out a number of assessments to gauge whether these small specialised providers were well placed to service their requirements, using the following criteria:

- All companies considered met with the FD
- Their websites were investigated
- References from for-profit organisations and charities were requested
- Assessment was made of the provider's compliance procedures
- Assurance that the business followed anti-money laundering and financing of terrorism legislation was obtained.

4. THE BROOKE HOSPITAL FOR ANIMALS

Charity: THE BROOKE HOSPITAL FOR ANIMALS

Activity: The Brooke is an international non-governmental organisation dedicated to improving the lives of working horses, donkeys and mules through direct veterinary treatment and community programmes around animal health and well-being. The charity works with individuals, groups and organisations to ensure working equine animals get the living and working conditions they deserve.

Annual Income: £13.5 million.

Currencies Traded: Indian Rupee (INR), Pakistan Rupee (PKR), Egyptian Pound (EGP), Kenyan Shilling (KES), Ethiopian Birr (ETB), Central African CFA Franc, Nepalese Rupee (NPR), Guatemala Quetzal (GTQ), Jordanian Dinar (JOD), USD and EUR

Foreign Exchange Expenditure: £6.7million.

Global Reach: With over 750 staff in the field they currently work in eleven countries across Africa, Asia and Latin America including India, Pakistan, Egypt, Kenya, Senegal, Ethiopia, Jordan, Nepal, Afghanistan and Guatemala.

Sue Coles, the Brooke's Director of Resources, says that by hedging against currency risk, the charity has protected itself against exchange rate fluctuations that in the three months prior to introducing their FX strategy had cost the charity £128,000, equivalent to more than £500,000 per year (as of 2010).

The need for change

The Brooke's income is in three different currencies (GBP, USD, EUR). Their expenditure is in eleven different developing countries. Each financial year programme budgets are set, with grant commitments denominated in local expenditure currencies. This means the exchange rate risk is centralised and borne by the organisation's Head Office located in the UK. Since its expenditure currencies are not those in which the charity holds its assets or receives income, if exchange rates move adversely then the charity's reserves would be at risk. The Director of Resources therefore made it an immediate priority to design a foreign exchange strategy that would reduce the level of risk to the Brooke and ensure that it met its commitments to its supporters and affiliates in full. They therefore engaged NGO Treasury Services to help them achieve that goal.

The decision was taken to address two related but different issues:

- To mitigate exposure to currency market fluctuations as far as practicable;
- and to introduce an element of competition into the procurement of appropriate hedging products.

The review process

The first stage was to forecast expected cash flows. The budget set for the financial year for each of the Brooke's "affiliates" (in-country partner organisations responsible for implementing the Brooke's programmes) is in effect a maximum grant payment. The Brooke's affiliates have few means to obtain alternative funds and, historically, have tended to underspend. Although it is difficult to make such forecasts with a strong degree of certainty, they are essential to avoid persistent over or under hedging of foreign exchange rate risk. The Brooke opted to hedge between 50-80 per cent of each grant commitment, taking into account specific factors (such as any unspent balances from previous financial years) in each case.

It was important to identify "natural" hedges amongst the Brooke's income and expenditure, in order to avoid unnecessary transactions. For example, income denominated in Euros was expected to be sufficient to offset expenditure on programmes in Senegal, where the currency (the West African CFA Franc) is explicitly pegged to the Euro. Similarly it was noted that the Nepalese Rupee is pegged to the Indian Rupee and so, for currency risk management purposes, both

exposures could be managed using the more liquid of the two currencies (the Indian Rupee).

This initial analysis led to the observation that 80 per cent of the Brooke's currency risk could be accounted for by exposure to four currencies:

1. the Egyptian Pound (EGP)
2. Indian Rupee (INR)
3. Pakistani Rupee (PKR)
4. Kenyan Shilling (KES)

In order to minimise the potential impact on limited personnel resources, the decision was taken to hedge only these four currencies for the current financial year – with a view to expanding the programme more broadly in future years. It was also decided to approach a second international bank of sufficiently good credit rating, alongside the Brooke's existing relationship with a major high street bank. This helped ensure that all needs could be covered. The Brooke decided against using a large set of banks. Although this would have introduced more competition to the tender process and may have resulted in better pricing, the Brooke concluded that the benefit was more than offset by the increased workload on the Brooke's finance team that would be required to manage multiple banking relationships. In the event, both the Brooke's existing bank and the newly introduced bank were able to offer similar solutions for all four currencies required.

Traditional "physically deliverable" forward contracts were available only for the Kenyan Shilling, whereas "non-deliverable" forward contracts are available for the Indian Rupee and Egyptian Pound. Neither are currently available for the Pakistani Rupee, and so a third solution had to be employed: the Brooke opened an "offshore" Pakistani Rupee account at the London branch of one of the international banks and purchased Pakistani Rupees up front. This has the dual benefits of allowing the Brooke's central finance team to maintain control over the funds, as well as the perceived additional safeguard of holding the funds in the UK until they are required to be transferred to the affiliate in Pakistan – neither would have been the case if the entire budget had been transferred in full and in advance.

A further benefit of transacting forward contracts is that forward exchange rates are more beneficial than spot rates for currencies with higher interest rates. This was the case for all currencies the Brooke looked to hedge, and was reflected in the exchange rates obtained for the three currencies hedged using forward contracts.

Example: Benefit of forward transactions

Egyptian pounds required in six months' time were purchased at a forward exchange rate of 8.87. This is more than 3 per cent (not annualised) better than the prevailing spot exchange rate of 8.59. At the time the decision is made, hedging using forwards was therefore 'cheaper' than an assumption of unchanged exchange rates through the year. For the Brooke this meant a £25,000 saving against the budgeted spot rates.

Involvement of the board

This was the first time that the Brooke had implemented a foreign exchange risk management strategy in this manner, and it required approval by the Board of Trustees. The process itself had to be managed carefully. In particular, initiating a new banking relationship and setting up the required facilities to execute forward transactions took place in a series of discrete steps, each of which required Board signatories – a challenge to manage when the full Board meets only quarterly. Nevertheless, the Director of Resources was successful in involving the Trustees and the unanimous approval obtained at the Board meeting is a strong sign of support for future years. This leaves the team free to concentrate on delivering their programmes in the field without worrying about exchange rate movements for the rest of the financial year.

Andrew Derry, NGO Treasury Services

5. **MERLIN:** Hard Currency Focus

Charity: MERLIN (MEDICAL EMERGENCY RELIEF INTERNATIONAL).

Activity: MERLIN is a health-based charity that works in areas of the world where people have been affected by natural disasters or civil unrest. They provide medical assistance where such services have been destroyed, remaining until a long-term solution is provided.

Annual Income: £46.3 million (2009)

Currencies Traded: EUR, GBP, USD, Afghanistan Afghani (AFG), Ethiopian Birr (BIR), Congolese Franc (CDF), Central African CFA Franc, Myanmar FEC, Rwandan Franc (FRW), Indonesian Rupiah (IDR), Israeli New Shekel (NIS), Nepalese Rupee (NPR), Philippine Peso (PHP), Sundanese Pound (SDP), Ugandan Shilling (UGX), Kenyan Shilling (KES), Sri Lankan Rupee (LKR), Myanmar Kyat (MMK), Pakistani Rupee (PKR).

Foreign Exchange Expenditure: Of their total income (£46.3 million in 2009), 61% is spent on operations in the field, meaning that a significant proportion is used to buy currency.

Global Reach: Currently working in 16 countries across the world: Afghanistan, Central African Republic, Democratic Republic of Congo, Ethiopia, Ivory Coast, Haiti, Kenya, Liberia, Myanmar (Burma), Nepal, Pakistan, Palestinian Territories, Philippines, Somalia, Sudan and Zimbabwe.

MERLIN's approach is an example of good practice for charities that primarily manage their operations using one major currency. Their approach to foreign exchange and the attention given to it is a useful example of how an NGO has become more efficient in the purchasing of currency and management of risk.

MERLIN's foreign exchange process

Although MERLIN is a large transnational NGO, 80 per cent of funding they receive is classified as restricted funding, which has been allocated to a specific project or country. For this reason there is a great deal of attention given to ensuring that foreign exchange risks and issues are minimised as much as possible so that projects remain in budget and are delivered in accordance to contracts agreed with donors.

Unlike some development and humanitarian charities, of the operational currencies bought, fewer than 30 per cent are exotic. A large proportion of operational costs are for the payment of staff in-country. Because this is usually paid in USD or GBP, MERLIN has less of a requirement for local currencies.

Due to their operational focus MERLIN is able to purchase foreign exchange tools that can mitigate the risks associated with fluctuations in exchange rates. One of the major benefits found from having the majority of costs denominated in a hard currency is that they are able to pool all funds received for their various operations when executing trades. Bulk trading means MERLIN aim to buy no less than £500,000 of currency at a time. This is usually split between forward priced and spot rated transactions. In this regard they are able to guarantee very competitive rates.

The benefits of bulk trading

- More competitive rates due to larger trade size
- Reduced transaction costs from limiting the number of trades executed

To help ensure that projects are delivered on time and within budget, the foreign exchange team at MERLIN aim to identify a budgeted exchange rate for currency bought that would ensure project completion. This takes into consideration the length of the project as well as any pre-arranged payment schedules with donors. There is also a margin for unforeseen circumstances. Access to interbank screens alongside implementing online currency trading platforms ensures that they are able to benchmark their budgeted rate, whilst also comparing rates across service providers, ensuring they always remain competitive.

When MERLIN buys local currencies they try to purchase centrally from the UK using specialist firms who focus specifically on currencies traded at low volumes. This is

carried out on a spot rate when payment requests are received.

Supplier arrangement

Before finalising a preferred banking agreement, MERLIN carried out a tender process where they assessed a number of organisations based on set criteria. One of their main considerations was the level of service provided in relation to the rates they received. It was made clear to all providers that they would not work with them if they were unable to provide rates as close as possible to the interbank rate usually received by large for-profit companies.

MERLIN has a preferred supplier agreement with four service providers. They have agreements with two major banks (both of which have extensive international networks), a remittance provider (who services their exotic currency purchases), and a boutique foreign exchange firm that provides risk management advice.

Although their operations and turnover are smaller than many large for-profit organisations, the level of business conducted with providers and the quality of service received is high.

6. OXFAM: Execution, Systems and Risk

Charity: OXFAM

Activity: Oxfam GB is one of the oldest and most well-known humanitarian and development NGOs in the UK. Alongside being a large transnational NGO in its own right, it is also a member of Oxfam International which includes fourteen other member organisations. Unlike smaller charities, Oxfam GB operates country offices in most of the countries in which it works, sending funds directly to programmes in the field.

Annual Income: £318 million (2009/10 – over an 11 month period).

Currencies Traded: Approximately 60 worldwide.

Foreign Exchange Expenditure: Oxfam GB purchases around £150 million of foreign currency each year. This equates to about half of their total income for 2009/10.

Global Reach: Oxfam operates in over 70 countries globally.

Oxfam's experience highlights the benefit of centralising and sourcing currency in the UK. A review of the first 6 months has confirmed that the changes made by Oxfam have been positive and that they will therefore be maintained in the future.

In July 2008, the International Finance Team at Oxfam GB began a project that assessed the effectiveness of the processes used to send funds to field offices. There were a number of useful conclusions drawn and lessons learned throughout, which resulted in the recent overhaul of how Oxfam GB now buys and sends currency overseas. The project had three main areas of investigation: Execution, Systems, and Risk.

Execution

Before the project began, all operations mainly received hard currency (GBP, EUR or USD). The majority of Oxfam's income is received in GBP. As a result, if USD or EUR were sent to field offices it would be bought in the UK and then transferred to the relevant country. There the local operational currency would be sourced.

Upon completing investigations of their existing execution process the procurement and finance team instigated a 'soft market test'. The objective of this exercise was to utilise the expertise and experience of foreign exchange service providers in developing solutions to the problems identified in the 2008 assessment. Although similar to a tender process, the soft market test offered potential suppliers a blank page, encouraging them to share ideas pertaining to the efficient execution of foreign exchange transactions within Oxfam. Oxfam invited 10 financial service providers, including remittance firms, banks and consultancy firms, to contribute to this process. The focus of discussions was on:

1. Achieving competitive rates
2. Increasing efficiency
3. Increasing transparency
4. Increasing visibility relating to bank charges, alongside producing a cash management strategy

It was concluded that it would be more cost effective to centralise the currency conversion process at their headquarters. Country offices would then receive operational funds directly from the UK (mostly local currencies), thereby eliminating the need for them to trade in foreign exchange locally. A key consideration was the opportunity to use the scale of Oxfam's total currency requirements and the efficiency of the UK currency markets to achieve optimal rates. Given the nature of Oxfam's work, it was essential that the consistent and effective settlement of funds was not affected.

Systems

This work stream focused on internal information systems and processes. It was identified that improvements could be made to how Oxfam's systems

managed the effect of fluctuating exchange rates. Through altering their process of accounting and reporting they reduced the level of distortion caused by exchange rates within these areas of financial management. For example, exchange rate differences were being created for all restricted funds that were from non-GBP grants. By revaluing these restricted contracts it was possible to manage these differences centrally, thereby insulating the programme against these exchange rate fluctuations.

Risk

The final issue identified related to the management of foreign exchange risk. This posed greater difficulties than the other two issues, in that a robust strategy is needed to deal with fluctuations in exchange rates and the potential hedging of such risks. Progress in this area was also dependent on progress on the *Systems* and *Execution* work streams, in addition to implementing any new developments alongside existing external tools such as forward contracts. It was decided that this area of investigation would be piloted in 2010/11. The finance team have begun this process, hedging their requirement for the Haiti relief programme (operational currency is USD) with 12 monthly contracts.

Results

Oxfam is now trialling the conversion of funds in the UK and is measuring the benefits of doing this. The workload from centralising their currency procurement within the UK and using a number of providers when sourcing prices has increased. However, the benefits from the more efficient conversion of funds will far outweigh these costs. In some cases they have identified a 5% saving per trade through converting currency in the UK as opposed to in-country, and there have been no losses as a result of the change (per trade). Overall the benefit is likely to be between 0.5% and 1.0% of total funds converted, which equates to between £750,000 and £1,500,000 a year.

To assist in the management of using a number of service providers within the UK, Oxfam are currently exploring the option of using a multi-bank trading platform. This would provide a quick and easy way to obtain spreads on currencies being purchased through a number of providers. The change in practice has also brought the major benefit of greater transparency regarding the pricing of currency.

7. THE BRITISH COUNCIL: A Top to Bottom Review

Charity: THE BRITISH COUNCIL (BC). Although registered as a charity it is not an NGO but an NDPB (non-departmental public body). Although the British Council operates at arms-length from the UK Government, the Secretary of State for the BC's sponsoring body, the Foreign and Commonwealth Office, is answerable to Parliament for the policies, operations and performance of the BC.

Activity: The British Council is the UK's international organisation for educational opportunities and cultural relations. It operates in over 100 countries worldwide to build opportunity and trust for the UK through the exchange of knowledge and ideas between people. It works in the Arts, English, Education and Society - including science and sport, and in the process contributes to the security and prosperity of the UK and the countries where it operates.

Annual Income: The British Council's total turnover in 2009-10 was £705 million.

Currencies Traded: 40 to 50

Net Transactional Activity in Foreign Exchange: + £100 million in FX currency deals. More than 60 % of the British Council's business activity is conducted in currencies other than sterling.

Global Reach: The British Council operates in 110 countries around the world, sending funds to all of the country offices from the UK headquarters.

The British Council case study highlights lessons to be learned from implementing a foreign exchange management policy, choosing foreign exchange providers, the benefits of multiple banking partners globally and the importance of understanding overseas foreign exchange regulations. The BC is focused on ensuring its overseas funding for its operations reaches countries with certainty, achieving best value for money in so doing. The flexibility and reliability of its banks and the transparency of pricing for delivering currency remain central to achieving the best results.

Background

The British Council is currently utilising three core banking relationships providing foreign exchange facilities. All three organisations price competitively on the online trading platform for immediate (spot) foreign exchange requirements. Of the 110 countries the British Council have operations in, half are sent local currency and the rest are sent USD, EUR and GBP. Of the countries that receive hard currency to cover operational costs, around 30 per cent are receiving funds in local legal tender, with the remaining 70 per cent converting hard currency to local currency in-country. The biggest volume in foreign exchange forward purchases for the British Council is in USD. Being a heavily traded currency, they have been able to hedge their exposure achieving budget certainty for almost 80 per cent of the total at their planned rate of 1.61 for the 2009-10 financial year. This has been achieved through executing forward contracts with the Bank of England (in accordance with its approved FX Forward Hedging Policy as the designated provider), to secure their position for 12-15 months in advance.

It is important to note that all world currencies are quoted against the USD and with the British Council accounting in GBP, the biggest exposure is relative to the GBP-USD exchange rate fluctuations when calculating the cross rate of exchange from a foreign currency back to GBP. A significant proportion of the British Council's activity is also in Euros, but Euro revenues naturally cover the majority of Euro expenditure, leading to a naturally hedged position.

Review of process

The British Council is in the process of reviewing its foreign exchange policy on a number of levels. The ability to identify foreign exchange exposures has been achieved through the successful rollout and monthly submissions from all 110 countries of their cash flow requirements, looking 12 months forward.

The forecasting for USD requirements across some 15 countries has been reasonably reliable with 80 per cent forward hedges achieved in several months with 100 per cent accuracy. Year to date the USD

purchases have in total accounted for 70 per cent of actual needs. Decisions to hedge are only taken after tabling recommendations based upon consolidated USD and Euro positions, and liquidity considerations being taken into account by an internal Treasury Committee. In 2011 the British Council will begin to propose and execute foreign exchange forward cover for other currencies - the top ten currencies being bought (with regards to volume). They hope to develop a risk management strategy that will see their positions in each of these currencies hedged to deliver additional budget certainty. The British Council will further consider executing non-deliverable forward contracts once the deliverable forward currencies have been locked down.

The organisation is also hoping to reduce the amount of hard currency being sent through increasing local currency purchases directly in the UK. In this regard the analysis being carried out is on a case-by-case basis, and there is a caveat that has to be considered - understanding local foreign exchange restrictions that may impact on an international organisation's capacity to trade in the local currency[1].

Reviewing providers

The British Council's analysis of current processes has focused on price execution and fair value for money, with the key area of consideration being ease of settlement. In their investigation, the British Council is looking to take advantage of the exotic foreign exchange providers that may deliver currency to a larger proportion of their vast geographical focus. This is clearly advantageous in some parts of the world where major banks do not operate or do not have the liquidity to operate, for instance in certain parts of Africa.

To allow the inclusion of smaller, specialist providers the criteria for selecting financial partners are being re-evaluated. The British Council has been undergoing this process over the last six months. The objective has been to:

- identify the risks associated with using specific foreign exchange providers in conjunction with their current banking providers, and
- identify the pricing competitiveness and determining the certainties of currency delivery.

The reasoning behind wanting to include specialist exotic currency providers in their procurement procedures is heavily influenced by the process of settlement. Many of the smaller remittance firms provide a tracking service that allows them to identify where funds may have been misplaced. As a result they are able to identify any problems and potential delays quickly, rectifying the problem without extended interruptions. For an organisation like the British Council it is essential that payment requests from country offices are responded to swiftly for vendor settlements and to minimise the real operational inconveniences of running out of cash.

The benefit of a single treasury dealing platform

Through implementing a single dealing platform system, the British Council has been able to price its foreign exchange purchases more competitively with real time access to the foreign exchange market, as well as determining amongst its banks the best rates that can be achieved for investment purposes in the money market. Moreover, increasing the number of banks and foreign exchange providers and subsequently obtaining rates from them through the same process will not require any additional human resource or training.

An added benefit from the tools included in the platform is that they also provide reports on trades carried out and the pricing requested. Treasury operations have access to a completely transparent audit trail that can be used for accounting purposes which improves back office monitoring and reporting. Essentially the platform has provided the British Council with vital intelligence regarding the level of service being received from each provider. This can be assessed against other important areas of service delivery such as the settlement of funds.

Understanding foreign exchange overseas

The British Council is different to development NGOs in that its operations in-country also generate funds. Through extensive engagement with schools, its teaching centres, as a provider of English language and professional and vocational qualifications and the International English Language Testing System (IELTS), the British Council provides local communities in-country with opportunities to develop internationally recognised qualifications.

[1]Some countries have local foreign exchange restrictions which stipulate how much money can be brought in or out without regulation.

In this regard one of the main areas of focus in 2010 by the British Council has been how to access overseas currency receipts from countries with restrictive foreign exchange regulatory controls, in order to be able to settle related hard currency costs incurred back in the UK.

The British Council has been working on a project that explores the foreign exchange regulations of a number of countries in which they work, to better understand how they can become more effective in converting their local currency income to GBP for repatriation so as to pay for these UK costs to examining boards. Through working closely with local commercial banks and the central banks in a number of countries, they have educated themselves on the specific regulations in a great many countries where it was believed local foreign exchange regulations had previously prevented the organisation from converting local currency holdings. The lesson learnt here is that more often than not it has been the expertise of the world's local banks in, for example, Bogota and Colombo that has enabled a greater understanding for the movement of cash. While the banks' centres of foreign exchange expertise in London and New York have a role to play, they are not always best placed to provide the complete picture.

The journey in understanding foreign exchange regulatory environments continues. It has opened up greater possibilities for the British Council to access and deploy its money more effectively, whilst better protecting its overseas cash from the vagaries of foreign exchange volatility.

8. TRAIDCRAFT EXCHANGE: Learning from Experience

Charity: TRAIDCRAFT

Activity: Traidcraft combines a trading company and a development charity. Traidcraft Exchange is a development charity which works closely with its sister company Traidcraft plc, the UK's leading fair trade company. Traidcraft Exchange is the UK's only development charity specialising in making trade work for the poor.

Traidcraft Exchange works to enable poor producers in Africa and Asia to grow their businesses, find markets, and engage effectively in trade.

Annual Income: £3.6 million (year ending March 2010)

Currencies Traded: Approximately 80% of their project expenditure is in local currency, including Kenyan Shillings (KES), Indian Rupees (INR) and Bangladeshi Takas (BDT) with the remainder being spent in GBP, EUR or USD.

Foreign Exchange Expenditure: £2.4 million

Global Reach: Traidcraft currently have overseas offices in Kenya, India and Bangladesh, collaborating with partners in-country on approximately twenty five projects.

Traidcraft's experience highlights the risks of inflationary changes, the impact it could have on project delivery and the need for donors to have a better understanding of this when agreeing contracts.

Background

Traidcraft obtain 60 per cent of their funding from institutional donors, including the Department for International Development, the Big Lottery Fund, Comic Relief and the European Union. As a result, all of their income is received in EUR, USD or GBP. On average they send funds to partners and field offices quarterly, directly from the UK Head Office. The amount sent varies and is usually based on the pre-calculated budget, less their current holdings at the time of transfer.

Example of combination of hard and local currency

The Kenyan field office currently holds three bank accounts, one EUR, one Kenyan Shilling (KES) and one GBP . The currency sent to Kenya is dependent on its use in-country. Some payments made to service providers in the field are made in hard currency, therefore hard currency would be sent. For partner organisations the funds sent are usually directed by the terms of their contract agreement.

Because of variations in requirements by field offices and contracts with partners, the UK Head Office tends to send a combination of hard and local currency.

Procurement process

Traidcraft have worked with a number of service providers when sending funds overseas. These have included retail banks and currency remittance firms. They have found great differences in the levels of service provided, particularly in relation to the competitiveness of rates and the settlement of funds. Thus far, they have found the remittance firms to be most useful when sending local currency. However they are keen to identify more firms that have the flexibility to service their particular requirements. They would also like to hear from other organisations with a similar geographical focus about providers that have been effective for them.

To assess how Traidcraft can increase value for money with regards to foreign exchange, the finance team have begun a process of mapping their income to their foreign exchange expenditure. They identified that their main issues were focused on identifying where the main exchange rate risk lay, and how to manage this risk. Exchange rate movements and high local inflation

across their country portfolio is beginning to have a big impact on their ability to deliver projects within budget. Because most institutional donors do not usually account for exchange rate fluctuations and increasing inflation when setting the terms of their contracts, managing budgets and executing on objectives has become more difficult.

To help mitigate the risks identified, the team have been exploring the option of buying forward in their two main operational currencies, the Kenyan Shilling (KES) and Indian Rupee (INR). The view is to assess a number of service providers on whether they will execute non deliverable forward contracts on Traidcraft's behalf.

The team are very keen to see institutional donors more willing to consider inflationary changes and their impact on project delivery when agreeing contracts. Traidcraft's experience has found that only the Big Lottery Fund has moved to cover local inflation and foreign exchange risk.

9. PLAN INTERNATIONAL: Centralising Foreign Exchange Management

Charity: PLAN INTERNATIONAL (PI Inc)

Activity: Plan is a Child Centred Community Development organisation. Plan is represented by independent member organisations within 20 of the countries in which it operates. These National Organisations work to raise awareness and funding.

Annual Income: EUR 535 million (2010)

Currencies Traded: Approximately 45% of remittances to Plan International Inc (PI Inc) are in EUR with the remainder being Norwegian Krone (NOK), Canadian Dollar (CAD), Australian Dollar (AUD), US Dollar (USD), GB Pound (GBP), Swedish Krona (SEK), Japanese Yen (JPY), Swiss Franc (CHF) and Danish Krone (DKK).

Foreign Exchange Expenditure: EUR 240 million

Global Reach: Worldwide Plan has more than 8,000 employees and works with 1.2 million children and their families in nearly 38,000 communities in 48 developing countries in Asia, the Americas and Africa.

This case study highlights how Plan has developed a comprehensive policy of foreign exchange procurement. A version of this study first appeared in *Missing Millions*. The policy implemented by Plan offers great opportunities for lesson learning and best practice development, especially for similar-sized organisations. As Plan is a large international NGO, the complete policy will not be appropriate for all charities. However the attention given to foreign currency procurement and the subsequent reduction in rate variations demonstrates the real cost savings available through employing competitive tender in the procurement of local currencies.

As a large NGO, Plan originally decentralised their foreign exchange processes, which saw country offices managing foreign exchange procurement individually. Funds would be sent from the Head Office in the UK in hard currency (USD or EUR), and the country offices would acquire currency locally.

On the surface it was thought that many of the country offices were gaining benefits from this system because there were often no bank charges placed upon them by the institutions they used, and the remittance of funds to the countries was a relatively simple process (being only up to two currencies). However upon reviewing the rates they received in comparison to the rates they could get under competitive tender in the UK, they found that generally they were losing money. This was because the focus on the absence of service charges created an impression that a material saving was being made, whereas once the central point of consideration became the underlying unit cost of converting currency, it was clear that they were receiving uncompetitive rates.

As a result of this, Plan International introduced a new foreign currency procurement procedure during 2008.

Plan International's improved approach to foreign exchange procurement

Where possible and efficient, Plan migrated to a system whereby the Group Treasury now takes responsibility for purchasing currencies centrally from the UK and remitting these to programme countries. Where central currency procurement is not cost effective, EUR or USD are transferred to programme countries (see figure 1).

Plan currently has an Approved Banking Arrangement (ABA) with six financial institutions. The banking arrangements are managed centrally from their international headquarters by the Group Treasury Department. Each banking arrangement is reviewed, ideally, every three to five years. In addition Plan engages the services of a currency remittance provider to supplement the foreign currency provision by the ABA.

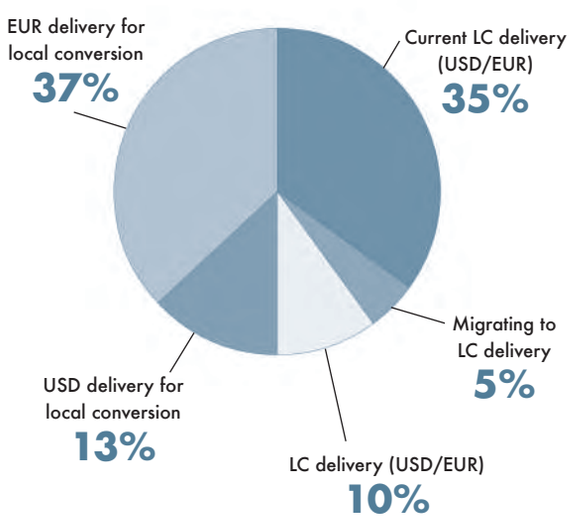
Factors resulting in inefficiencies

- Plan was suffering additional foreign exchange margin cost, when securing USD to remit to countries – only for the majority to be re-converted to local currencies.
- The exchange rates obtained in-country were not necessarily competitive because:

  – Plan was not leveraging on its global transactional volume and values. Potential benefits from bulk trading were not being harnessed, and greater volumes were going through each individual bank centrally which led to finer margins.

  – The in-country conversions were either automatic on arrival of the USD or transacted manually with the local bank.

Figure 1. Chart illustrating the percentage currency delivery to country programmes.



Their approach to procuring foreign currency is to use organisations from the ABA to provide their spot rate for a given country or one organisation from the ABA and the currency remittance provider. Organisations used for each transaction are dependent upon their historical record with Plan. This record assesses the competitiveness of the rate suppliers have provided in relation to the benchmark prices set. This takes place on a country by country basis and ensures the delivery of funds at competitive rates. Their positions are evaluated regularly through obtaining reference quotes from other providers on the ABA on operational currencies, to ensure each institution remains competitive. Essentially no one supplier can assume that they will always be used to buy a given currency. This level of flexibility means that Plan increase their likelihood of receiving the best rate on the day of purchase.

There have been a number of noticeable trends seen by Plan as a result of this system:

- Firstly, **the variation in the rates they receive from organisations on the ABA has reduced considerably.** At the outset of implementing their new procedure this difference was much higher. An example of the disparity between the prices was illustrated when Plan saw variances between providers of up to 10 per cent during the first week of obtaining competitive pricing. As a result they implemented a 'no chance to improve' procedure, which was made clear at the outset of the new tender process. This meant that if a provider were to be outbid by another company there would be no further opportunities to improve on the rate, meaning they lost out on that particular deal. It is clear that once all parties used to purchase currency are aware of this process they endeavour to provide their most competitive rates to obtain the trade.
- Secondly, **even though the margin of variation in the rates has decreased, they have not disappeared.** The Treasury Department found that there are still material differences in the rates they receive and that no one organisation is able to provide the best rates over Plan's complete geographical focus. Their findings suggest that institutions would provide far less competitive rates if they knew their prices were not being compared or worse if they had an exclusivity agreement with them. For spot purchases Plan work with three institutions that have proven to be able to deliver funds that arrive in their field bank accounts on the value date of transaction or on the following day, which is also a very important factor for consideration.

Benefits from the new system

It was estimated after conducting a study of ten country programmes that through obtaining currency from the UK, as opposed to in the field, Plan were making a foreign exchange margin saving of 0.5 per cent of their local currency delivery turnover from centralising procurement. This is in addition to an improvement on average percentage margins on transactions of 1 per cent of the trade as a result of obtaining quotes under competitive tender. While there were start up costs associated with this new policy, it is clear that Plan are making real savings from this internal change, allowing for more of their funding to be focused on actual development work.

Currency risk management

The full range of National Organisations' remittance currencies are sold directly against local currency, thereby reducing the volume of foreign exchange transactions and in some cases the margin also. In addition to USD and EUR, Group Treasury can currently deliver 16 currencies (see table 2).

Table 2: Currencies procured and budgets hedged centrally from the UK.

Region	Currencies Delivered	Hedged (NDF) Country Budgets
Africa	CFA Franc	Ghana
	Egyptian Pound	Egypt
	Ethiopian Birr *	Ethiopia
	Kenyan Shilling	Kenya
	Mozambique Metical	Malawi
	Rwandan Franc	Rwanda
	Tanzanian Shilling	Tanzania
	Ugandan Shilling	Uganda
	Zambian Kwacha	Zambia
Asia	Indian Rupee	China
	Pakistan Rupiah	India
Central South America	Bolivian Boliviano	Brazil
	Dominican Peso	Colombia
	Guatemalan Quetzal*	Dominican Republic
	Haitian Gourde	Peru
	Honduran Lempira	

*Migrating to local currency delivery

Historically Plan budgeted for its programmes in USD. This was generally effective due to the tendency of the USD to appreciate against Plan's expenditure currencies. In more recent years this trend has not been so apparent, resulting in countries having uncertainty over budgets due to exchange rate movements. This led Plan to also introduce local currency budgets for the programme countries in 2008, transferring programme currency risk to Group Treasury where it could be managed.

Group Treasury secures exchange rates currently for 19 countries via non-deliverable forwards. The relatively secure nature of income leads to fairly predictable flows to hedge. (see table 2).

For Plan, NDFs have certain advantages over foreign exchange deliverable forwards:

- They allow hedging of currencies that are affected by exchange controls e.g. Indonesian Rupiah.
- Programme currency accounts are not required to be opened centrally for receipt of funds, which would otherwise lead to increased volumes of bank accounts to manage and associated direct costs
- It avoids the delivery of funds into programme countries as settlement of foreign exchange contracts. Delivery of such funds would occur outside Group Treasury control. This could lead to high balances in-country or funds being remitted to the country at a time of unrest. In this event the worst case scenario with an NDF is an over-hedge and potential foreign exchange loss. A deliverable contract could lead to loss of the nominal value if the funds could not be repatriated.

WHAT CAN WE LEARN FROM THE CASE STUDIES?

The experience and approach to foreign exchange procurement and management varied considerably between the charities studied. What is important to highlight is that applying a proactive and flexible approach to foreign exchange purchasing and management is required.

Centralising control of the movement of capital from UK headquarters to field offices or southern partners continuously emerges as a key factor in ensuring better management of foreign exchange risk. This in turn ensures better control of programme budgets and therefore project delivery. Identifying providers that service a charity's geographical focus is essential.

In addition, the provider must offer services and expertise that allow for efficient procurement and settlement of funds. Recognising service providers that can assist in minimising risks associated with fluctuating exchange rates will be central to achieving best practice across the sector as a whole.

Key messages from case studies

- It is vital to understand cash flows as well as budgeting and funding needs to be able to take a truly effective stance on foreign exchange management.
- A proactive approach to foreign exchange purchasing and management is required.
- Centralising control of movement of funds ensures better management of:
  - o Risk
  - o Programme budgets
  - o Project delivery
- Ensure you choose foreign exchange providers that best fit your needs.
- For charities where getting efficient cash flow to programmes is critical to the success of projects, timely settlement of funds becomes highly important.
- Introduce a process of competitive tender and do not be complacent once you have selected a provider. It is easy to check whether they continue to be the best choice. Be ready to check rates on offer and to negotiate.
- Encourage dialogue across your organisation, particularly with local finance teams.
- Utilise the expertise of the financial services sectors in-country and in the UK.

5 STEPS TO REVIEWING YOUR FX PROCESS

1. Understand why you are currently working in the way you are

For many charities their approach to foreign exchange and fund transfer is historical, in that they have always worked in a particular way and so continue to do so. What many of the charities studied here have demonstrated is the importance of understanding why funds are being sent in that specific manner. Once this had been identified the organisations could then begin assessing whether there were more efficient ways in which to buy and send currency to field operations.

There is a common misconception that the extra work in looking around or in being more proactive is not warranted. The experience of charities that have taken the trouble to manage the process proactively shows that the benefits far outweigh the costs, sometimes considerably.

2. Identify problems within your current process

All of the organisations studied have taken an active approach to identifying problems in the ways in which they are currently working.

Large Charities	Small Charities
Oxfam GB reviewed the entire process of currency procurement and FX management, grouping issues identified into three manageable areas: 1. execution 2. systems 3. risk This has worked very well for Oxfam and may be of use to other large charities.	For the smaller organisations, the process may not be so complicated. **Build Africa** introduced competition. This alone saw rates becoming more competitive by an average of 0.5% per trade.

For **War on Want**, problems with settlement of funds highlighted key areas for improvement. For any charities where efficient cash flow to programmes is critical to the success of projects, timely settlement of funds becomes highly important. While it may not work for all organisations, in War on Want's case identifying specialist foreign exchange firms to work with provided a solution to their problems. They now employ the services of three exotic currency specialists, who between them ensure a competitive range of rates that cover the market for the currencies they require.

Traidcraft Exchange is an interesting case study as they are currently in the process of identifying where they are having difficulty within their foreign exchange processes. Thus far they have identified three main areas of concern:

1. The number of providers used to achieve more competitive rates.
2. Levels of efficiency in the settlement of funds and identifying where their main foreign exchange exposure lies.
3. High local inflationary pressures in the countries in which they operate, which have compounded many of these issues further.

From the rich Plan International case study, two specific pieces of learning are particularly worth highlighting:

1. **Getting wise to the 'no bank charges' routine.** Plan initially believed that the 'no bank charges' set-up was advantageous before coming to realise that it was in fact costing them money. This was because the focus on the absence of service charges created an impression that a material saving was being made, whereas once the central point of consideration became the underlying unit cost of converting currency, it was clear that they were receiving uncompetitive rates.
2. **Introducing a 'no chance to improve procedure.'** The procedure was made clear to prospective service providers at the outset of Plan's new tender process. This meant that if a provider were to be outbid by another company there would be no further opportunities to improve on the rate, meaning they lost out on that particular deal. Once all parties were made aware of this process, experience has shown that Plan has been receiving keener prices.

3. Engage the expertise of the financial services sector

One of the main trends in implementing an efficient foreign exchange management strategy for many of the organisations profiled has been better engagement with experts in the financial sector. As the foreign exchange market has become more aware of the 'money-making' potential associated with civil society, foreign exchange firms and banks are keen to increase their client base within this sector. For charities this is a good thing, and should be taken advantage of.

For many service providers, taking part in a tender process and demonstrating why their organisation would best suit the needs of your charity is standard practice, and comes with no additional cost. It is a useful opportunity to generate ideas and solutions on how to best procure currency and mitigate risk. It is important to include organisations that are well placed to provide knowledge on the currencies and areas of the world in which your charity focuses.

Oxfam	Build Africa	WaterAid
Oxfam utilised the size and volume of their business to attract many organisations to their foreign exchange tender process. Having identified areas for improvement they harnessed the expertise and experience of a number of firms and banks to provide solutions and bespoke services. This has resulted in valuable savings, which otherwise may have been lost through transactional costs. They have estimated savings of between £750,000 and £1,500,000 in the coming year.	For Build Africa their focus on delivering programmes in two countries meant they were able to identify foreign exchange partners best placed to track their currency and provide valuable intelligence on optimal times to buy. Like Oxfam, they encouraged competition not just in the delivery of competitive rates but also with regards to how potential foreign exchange partners structured their service to suit the charity's specific needs. The 'market watching' service given by their current provider may not be available to other charities with a larger geographical focus, however Build Africa's proactive approach to foreign exchange has highlighted that there is opportunity to tailor the service of providers to suit the size and structure of your organisation. Having high expectations from those who came to tender, Build Africa has established a system of foreign exchange management that harnesses the expertise within the UK foreign exchange market. This has resulted in material savings of at least £40,000 which have added real value to their in-country programmes at minimal cost.	WaterAid have not only enlisted the expertise and services of foreign exchange firms within the UK, but are also actively engaged in the local foreign exchange markets of the countries in which they work. When preparing to send funds to programmes, country offices provide rates from local suppliers, to supplement the Head Office obtaining pricing from UK based firms. A decision on whether to send hard or local currency is dependent on the most competitive rates received either in the UK or within the local market. This guarantees that they trade currency at the most competitive rate across the market.

4. Centralising foreign exchange management

For organisations that have country programmes as opposed to partnerships with local NGOs, the process of managing procurement and risk can be more centralised. This allows the flow of capital to be directed through the entire project lifecycle. This has been the case for many of the larger organisations studied.

For charities whose role is to foster the growth of the third sector in the countries in which they work, the level of control they have over how currency is bought and/or sent can vary. Although there are levels of influence over this process as a result of many of these NGOs working as 'donors', local partners also have financial considerations that impact their ability to maintain contractual agreements. In some instances this may mean that even if it is shown to be cheaper to procure local currencies in the UK, contracts with local partners and budgets set may be in hard currency. In addition the local partner may be more inclined towards receiving funding in hard currency accounts. In these instances GBP, USD or EUR are sent.

For charities working in this way it is important to allow for flexibility going forward. Contractual agreements should be evaluated to allow for the establishment of more efficient means of transferring funds to partners.

WaterAid originally only sent hard currency to country programmes. Upon evaluation it became clear that sending hard currency to field offices meant opportunities to obtain more competitive pricing in the UK were lost. In addition, it also meant that country offices were solely responsible for managing fluctuating exchange rates to ensure the delivery of projects. Through centralising the purchase of currency WaterAid have also centralised foreign exchange risk, managing such exposures in the UK. Their approach to foreign exchange is a dynamic one that continuously tracks exchange rates as well as political and economic factors that impact movement in price for operational currencies. Because they operate country programmes they are able to be more proactive in how they buy currency and mitigate foreign exchange risk across their entire country portfolio – something that may be more difficult if working with external partners.

Employing a flexible and proactive approach to foreign exchange management, utilising the expertise of the financial services sectors in-country, and in the UK, can only better ensure the realisation of development objectives.

5. Take an inclusive approach

Foreign exchange management does not only affect financial personnel in a charity. Changes in approach will have a direct impact on programme staff in the UK and in the field, as well as financial staff on the ground. Additionally engaging with more providers to encourage competition may require sign-off from trustees. To help manage concerns regarding potential changes it is important to maintain an inclusive approach.

Both the **Brooke** and the **British Council** have worked to ensure that employees have an understanding of why changes to foreign exchange management have been needed. For the Brooke this was pivotal in allowing savings to be made. With the British Council, efforts taken by a range of employees to decouple policies relating to the 'type' of foreign exchange firm used to procure currency mean they are able employ a more flexible approach when deciding to send either hard or local currency to overseas offices.

For organisations that work with southern partners, encouraging dialogue on how reviewing foreign exchange management may enhance cash flow and project delivery could be a useful step for implementing a more effective policy toward foreign exchange management. Outlining why such an approach may also relieve some of the pressure felt by local partners to manage the impact of fluctuating exchange rates on project delivery could offer further assistance in getting them onside. For organisations operating country programmes, obtaining 'buy-in' from local finance personnel has been instrumental in facilitating changes in approach to foreign exchange management and procurement.

Although organisational structures vary, objectives remain the same. Illustrating how evaluating current processes of buying currency result in better project delivery, alongside an inclusive approach to change, may be what is required to allow for the achievement of better practice across the sector.

Concluding remarks

The purpose of including a number of case studies was to illustrate the variation in approach and understanding of issues relating to foreign exchange in a cross section of the UK charity sector. Each organisation is working towards gaining a better understanding of how foreign exchange affects their business. Our aim here was to demonstrate how some of those steps have been undertaken to share lessons learned.

In some cases, the finance teams have implemented very useful changes that have resulted in quantifiable and material savings. For others, the story is not as clear cut. The one theme that can be taken away from all the studies is that a proactive approach is required. In many instances this has come in the form of centralising the control of currency procurement and risk management. This is not to suggest that all currency must be bought directly in the UK. For better practice to be achieved, charities need to begin an active process of understanding how foreign exchange can increase value for money, once transactional costs are minimised and major exposures mitigated.

In working to achieve better practice, it is essential to engage the financial sector accordingly. Taking advantage of the expertise both locally and in the UK will result in more efficient ways of converting incoming funds to operational currency. To maintain a process of sending funds because it has been the historical way of operating, is to risk perpetuating an inefficient way of working. Instead what is needed is for charities to take control and identify where improvements can be made, employing the financial sector where necessary, in order to actively save essential funds.

Section 2: A Practical Guide to Foreign Exchange

This section includes a number of articles written by experts that represent a range of organisations from the financial, academic and charity sectors. Each article provides information and guidance on various subsets of foreign exchange management.
We would, however, reiterate the point made in the introduction: this publication is not intended to be a technical guide on all aspects of foreign exchange procurement. Instead it aims to provide guidance to users. If a more detailed understanding is required, you should seek professional advice.

In this section are articles on:

1. **Choosing a Foreign Exchange Provider** – INTL Global Currencies
2. **Foreign Exchange Risk** – Lloyds TSB Commercial
3. **Hedging** – Lloyds TSB Commercial
4. **Foreign Exchange and Accounting** – Crowe Clark Whitehill
5. **The Impact of Foreign Exchange Volatility on Charities' Purchasing Power** – Royal Bank of Scotland
6. **Key Questions to Consider When Procuring Foreign Exchange** – Plan International
7. **Good Practice Checklist** – Cass Business Schools

1. CHOOSING A FOREIGN EXCHANGE PROVIDER

Gregory Vincent, Head of FX (EMEA), INTL Global Currencies

Having read *Missing Millions* and *Better FX* and decided you need an additional foreign exchange provider, how do you now navigate yourselves through the minefield of the numerous options available to you? At first sight, it can be far from straightforward: foreign exchange can be a very murky world, with limited benchmarks to compare rates to and 'losses' often being hidden or simply not being apparent at all. Unless you have something to compare it to, how do you know whether you got the right price for the currency you just bought? Did you even buy the right currency for the project you are supporting? Did you buy the right amount? Do you need all of it now, or might it have been better to keep some of it back, but you were worried about paying multiple transfer fees?

There are so many issues to consider when looking into foreign exchange procurement and very few independent sources to advise you. This article will try to set out a few guidelines that will hopefully be useful in your decision making process.

1). The number one rule is that, in general, **you should never rely on just one provider.** This theme emerged throughout *Missing Millions* and again in the case studies in section 1. No single provider has the best price every time. Depending on the location you are sending money to, the rates between various providers can differ hugely, often by several percentage points. If you have more than one provider, you always retain the ability to check that the rate you dealt at is the best available to you at that time. Any foreign exchange provider (or even a bank) that requires that you sign an exclusivity agreement with them is not acting in your best interests. The chances are that any gains - in reduced fixed fees, for instance, that you have made by signing an exclusivity agreement will be more than offset by the uncompetitive exchange rates you are likely to receive.

2). **What are your goals?** What is your organisation trying to achieve via its foreign exchange purchases? There has been a lot of talk over the past 18 months about the fall in value of sterling and hence the merits of entering into forward contracts to protect against further falls. If your organisation genuinely has commitments in hard currencies that can be purchased forward, eg USD, EUR, then it makes sense to seek out those providers who have expertise in such products. However, if your commitments are ultimately in an 'exotic' currency, forwards may be irrelevant or not available and the most important factor to consider will be your potential provider's ability to maximise the amount of local currency available for each pound you want to send.

3). If you are sending money to developing countries, **how much does any potential foreign exchange provider know about the local market?** Are they able to give you an insight into the workings of the local market, how transactions settle locally, how long it will take for funds to arrive, what the potential delays are and how problems will be resolved? If you are going to entrust your money to an organisation to deliver on your behalf, it is important to be sure that they have expertise in the markets that you are dealing with them in. Banks with extensive branch networks in your area of operation may be particularly strong in this regard. If you are dealing outside of the banks, you should be sure that any potential provider is bringing you something that your bank is not, and is not simply feeding your transaction back into one of the international banks themselves. Otherwise you are just paying twice for the same payment.

4). **Credit risk.** If you choose to use a foreign exchange provider from outside of the banking system, you need to be sure that they are financially robust enough to protect your interests. Depending on your financial status, you should never have to pay anyone first. The settlement should be simultaneous – the funds should arrive on the local account the same day that you pay over your hard currency in the UK. Otherwise, if you are paying your provider first, then the danger is that they are simply using your money to buy the local currency instead of their own. In those circumstances:

a) They should be giving you a much better price; and

b) they should have the resources to repay you

should any financial intermediary they have used fail to deliver your funds.

The same is true with banks. If you are transacting for a significant sum, you should be doing so on a simultaneous settlement basis with your bank – do not let them debit your account on the transaction date and then send 'your' money to the field. Otherwise, if it does not turn up it remains your problem. If you have transacted with them for simultaneous settlement and the funds do not turn up on value date, then they are contractually obliged to make good with you – this puts you in control, not them.

5). **Fees and charges.** It is important to understand upfront what the costs associated with any transfer will be. Different providers will levy different fees. These must be clear and agreed upfront. It is no use asking your provider to send an exact amount to Uganda to settle a local bill, for example, if funds are going to be deducted along the way. Your provider should be able to tell you the full cost of the transaction (if any) at the moment of transacting and assure you that the full amount of local currency is delivered. If they cannot do this, then you need to think twice about using them. It also becomes very difficult to compare the true value of using them against another provider if you do not know all the numbers involved at the moment of transacting.

6). **Security of delivery and follow up.** This goes back to point 3 about your provider having expertise in the local markets you are sending funds to. One of the biggest issues with delivering funds in developing markets is when funds fail to turn up. It is important that whoever you have used has a comprehensive investigation procedure. Methods that work in mature markets are often no use in developing markets. If your funds have not turned up at some remote branch of a bank in Uganda, simply sending a SWIFT message to chase it down will often not resolve the problem. If your provider can demonstrate that the funds are definitely there, by providing a proof of payment, via the local clearing system for example, this can often help resolve such issues quickly. Alternatively there needs to be an agreed process to resolve such issues. This is where it is very important that you have a contract that shows that the provider has failed to complete their side of the deal (and hence the missing funds are at their risk), rather than it being your money that is lost in transit.

So, to sum up, when deciding who to entrust with your very precious funds, it is important that you ascertain the true value that the chosen provider will bring to your organisation and what risks are involved in dealing with them. There are many organisations active in the foreign exchange market these days and there is no need to be stuck with just one of them. Make sure that they are experts in your market and, if you can, try to avoid paying them first. Try to ensure that any 'missing' funds are at the provider's risk and not yours and, where delivering to a third party, it is not unreasonable to demand a proof of payment.

If you are unsure who the best provider for you is, there is no harm in talking to two or three of them and taking what we like to call the Pepsi challenge – split a transaction and send it via two or three different providers. See who gets the funds there first, what rate they apply and how much actually turns up. This is often the best way of genuinely comparing services – anyone can tell you anything, but it is what they actually do that matters. And, last of all, never sign exclusive deals – no one should be able to restrict your right to transact with whoever is offering you the best conditions. Remember, it is your money, so you need to stay in control of it.

2. FOREIGN EXCHANGE RISK

Mark Dodd, Head of International, Lloyds TSB Commercial

Any organisation engaged in activities in more than one country will need to consider the impact of foreign exchange and the risks associated with it.

These risks arise because the rate used to convert one currency into another changes frequently, can exhibit considerable volatility, and can be affected by events – both expected and unexpected.

Consequently a foreign exchange risk can affect an organisation in a variety of ways at different stages in its lifecycle. Some of these can be managed, whilst others are more difficult to recognise and deal with.

In this article we will look at some of the things you will need to consider in building an understanding of what foreign exchange risks you have, the range of potential impacts on your organisation and how you might go about dealing with the risk effectively.

It will involve building a strategy which will determine what actions you take in managing your foreign exchange exposures. Because at the end of the day foreign exchange risk is like the weather – it's always there, it's always different – some days it's good, on others it's bad. You can shelter from it and you can build defences against the worst of it, but you can't avoid or overcome it completely.

What's in an FX risk?

It is well understood that foreign exchange markets are dynamic. This means that exchange rates can be volatile, moving over a wide range during any given period. The things which contribute to this might include:

- Political and economic events impacting the currency you are looking at – figure 2 shows the movement over a short period of the pound against the dollar in the run up to 2010's general election.
- Supply and demand for the currency – particularly relevant in those currencies where the market may be small with relatively few participants buying and selling the currency.
- Unexpected "events" such as climatic disasters, industrial accidents.

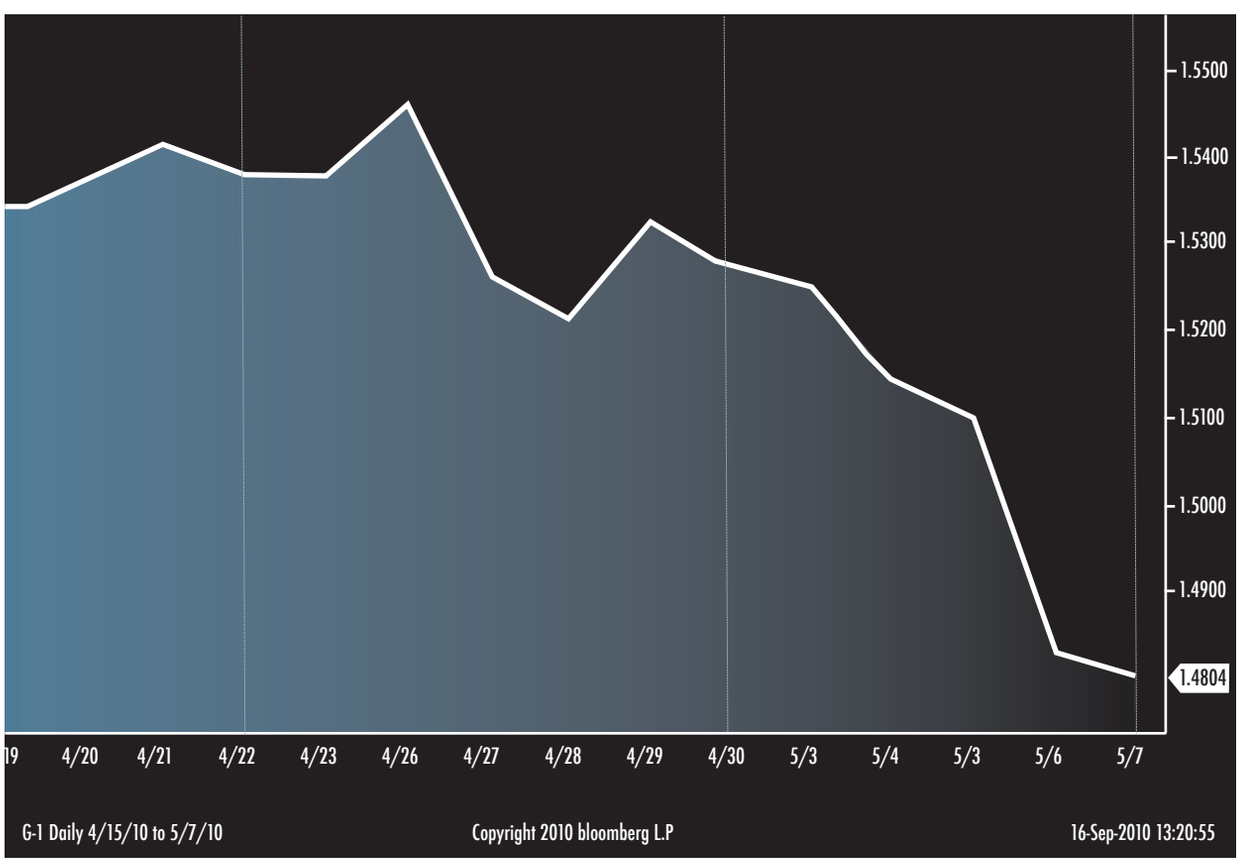


Figure 2: Movement of GBP against USD

The impact of these factors will not be the same for everyone and so there is no "silver bullet" or financial product which will solve the problem of managing foreign exchange risks. It comes down to understanding the risks your organisation runs and developing an approach which lets you deal with them most effectively.

An organisation with a long term involvement in a country, which gives them a long term dollar exposure, will have a very different attitude to foreign exchange risk than someone with a short term need for dollars during the period covered in the graph above. The attitudes and financial tools used for dealing with the impact of foreign exchange rate moves could be very different in both cases.

To help build a picture of what the risk means to your charity, some broad questions need to be asked. These include:

- **What proportion of your donations or grants do you need to exchange into another currency?**
- **Where, when and in what currencies do you raise your donations?**
- **Where, when and in what currencies do you disburse your donations?**
- **For how long do you have an exposure to a foreign exchange risk?**

The length of time you carry a foreign exchange risk will fundamentally affect possible future impacts and the options open to you to manage those impacts.

The answers to these questions will help you form a view on how much risk you have, and what impact rate movements will have on the ability of your organisation to meet its objectives.

How do you feel about the risks you face?

The answer to this will be different for every organisation but considerations include:

- **How big is the risk? Are you able to deliver on your commitments if the exchange rate moves heavily against you, i.e. how much of an adverse rate move can you absorb?**
- **How long do you have it? Is the risk a one-off or an ongoing lengthy commitment?**
- **Is there anything you can do about it? Is your risk visible, i.e. do you know when you will need to convert your currency?**
- **Do you have the expertise to monitor and manage it?**

What can you do about it?

There will be no single answer to this question, but armed with the results of your work on the questions above, the chart below (figure 3) might well help you in developing your answers.

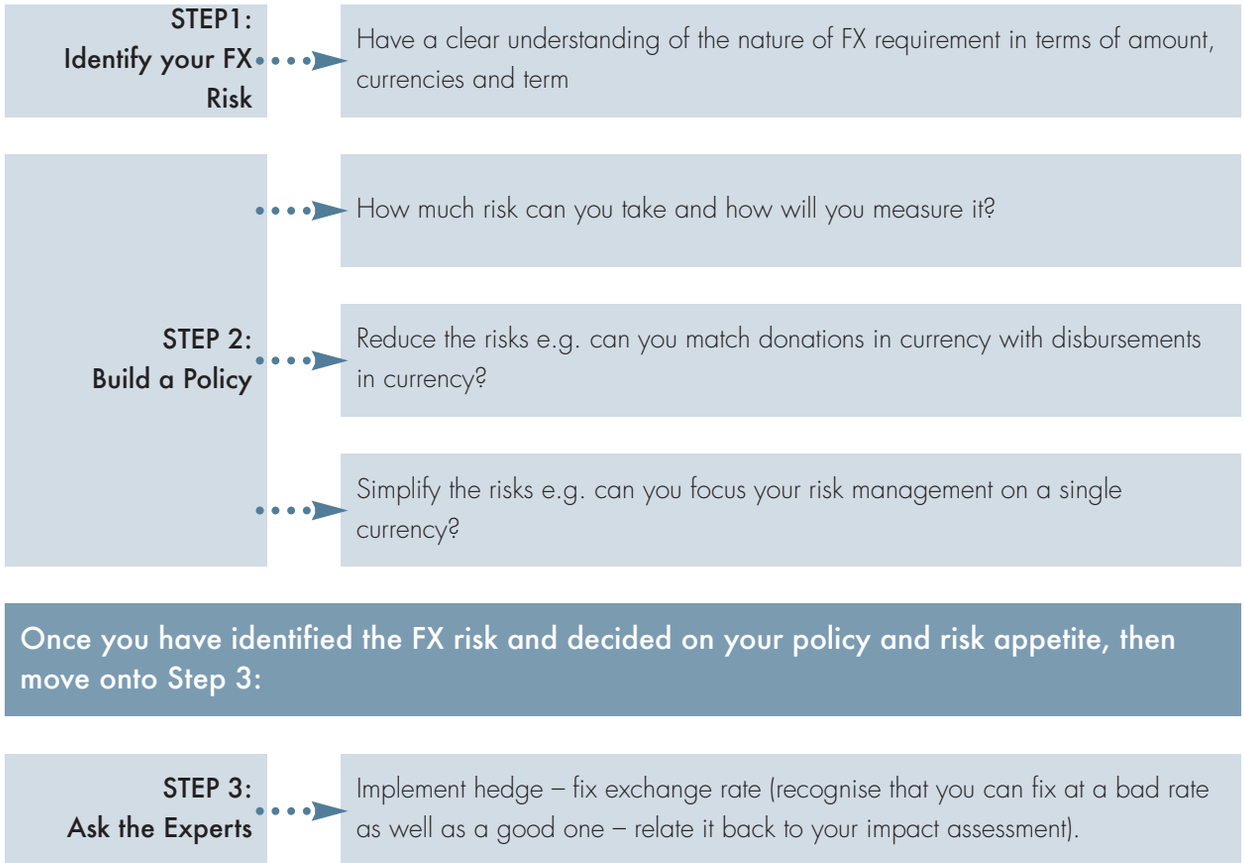


Figure 3: What can you do about your FX risk?

CASE STUDY: A UK-based charity supporting development projects in Africa

This case study looks at some of these questions in a real context – it shows as well how risk can be managed and what outcomes the risk management decisions have on the organisation.

Identifying the FX Risk:

- The charity receives donations in GBP and distributes USD into Africa on an ongoing basis.
- The charity raised £17m via donations in 2009 and £15m was used for charitable activities.

By receiving donations in sterling and distributing aid, paid for in USD, to Africa, the charity is exposed to fluctuations in the GBP-USD exchange rate. If left unmanaged this could potentially lead to a large fall in the value of the funds that they have available to spend in Africa.

So how do they manage it?

- By booking a forward contract they lock in an agreed rate for a fixed amount at a future date
- Despite moves in the exchange rate the charity are guaranteed the receipt of a fixed USD sum
- This certainty makes it easy to effectively budget their cash flows.
- See how this can impact the cash flows in figure 4:

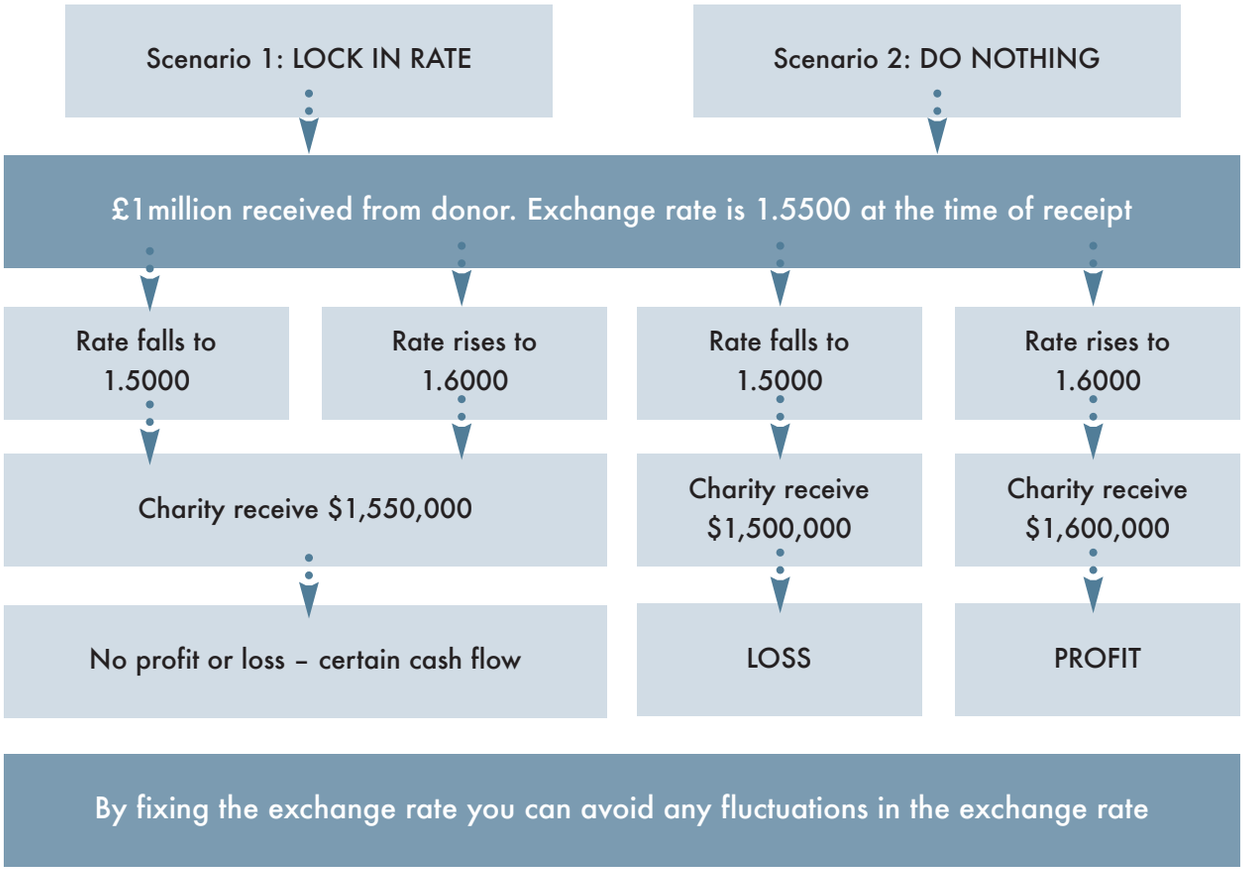


Figure 4: Managing cash flows

CONCLUSION: Managing foreign exchange risk

Managing foreign exchange risk is an activity that needs constant attention and consideration. In doing so, it helps ensure a charity's ability to fund its activities consistently by having a controlled relationship between the currency in which it raises funds and the currency(s) in which it spends. While this article does not intend to provide an exhaustive analysis, the key requirements for successfully dealing with foreign exchange risk can be summarised in the following points:

- Recognise foreign exchange risk is dynamic – do not ignore it.
- Regularly monitor actual outcomes against those you have planned for – do not be afraid to change an approach if it is needed.
- Do not lose sight of the bigger picture – big moves in rates over time will have far greater impacts on outcomes than the rates at which foreign exchange is acquired.
- Consult with your foreign exchange provider early – they have a wealth of experience, knowledge and information on these risks and the markets which surround them.
- Do not speculate!

3: HEDGING

Mark Dodd, Head of International, Lloyds TSB Commercial

Organisations that have dealings in a number of countries will, at some point, be exposed to foreign exchange rates. For most charitable organisations in the UK this will involve changing the pound donations raised from supporters in the UK in to a foreign currency to be spent on achieving their charitable aims abroad.

Foreign exchange rate moves can be both a good and a bad thing. If rates move favourably (i.e. we get more foreign currency for each pound exchanged) then the outcome is good, with more money to spend locally. Unfavourable moves mean that not only is there less money to spend, but there is, also, increased pressure to raise higher values of pound donations to achieve the same outcome.

If we could predict what foreign exchange rates would do in the future then planning would be easy – we could buy more foreign exchange than we needed in the good times to see us through those periods of less attractive rates. Sadly, foreign exchange markets are not that predictable and can experience bouts of volatility, where rates move significantly over short periods of time, as well as move for unexpected or unforeseen reasons.

The combination of uncertainty over the future and the fact that for periods markets will be favourable (offering improving rates and therefore greater benefits) can lead to a dangerous temptation to either wait in the hope things will get better or 'bet' on a change in the markets in your favour at some point in the future. To pursue either course is to speculate on foreign exchange markets – a dangerous pastime.

So, what can be done to deal with the uncertainty and its impact on your activities?

There is no panacea for this issue. There are, however, two important and related actions that, taken together, can remove some of the uncertainty and reduce or mitigate impacts of adverse market movements. These are:

- A set of clear risk management strategies and policies
- An approach to 'hedging' risk which is driven by your risk management approach

Risk management

The starting point in managing foreign exchange exposures is to have a clear approach to:

1. Understanding the nature of the foreign exchange risk you have in terms of its size, the length of time you expect to have to deal with it and the currencies involved.
2. Understanding your sensitivity to movements in foreign exchange rates.
3. Developing an approach to managing the risk. This could include setting expectations on the rates at which foreign exchange will be transacted over a specific period e.g. setting a budget rate. This should include an allowance for adverse rate moves.
4. Regularly reviewing the assumptions behind your approach in light of changes in the markets to which you are exposed. Be prepared to move quickly if necessary.

Foreign exchange hedging

Hedging foreign exchange risks seek to mitigate or reduce the impact of unfavourable exchange rate moves on an organisation over a given period of time. Unless you have income and expenditure that match in the same currency you will not be able to remove the exposure completely.

Organisations will, as a result, look to ways in which they can manage the ebb and flow of foreign exchange markets in line with their risk management policies to minimise the impact on their core activities. In the case of charities, this means having the optimum amount of funding locally to invest in effective charitable work.

But how do you know what hedging activity is 'good' for your circumstances? There is no simple answer to this question, but offered below are a series of steps to consider and an overview of some of the hedging options available.

What to consider when looking at hedging

Firstly, you will want clear views in response to a number of questions. A coherent risk management approach will help with understanding them and suggest what hedging techniques might be most appropriate.

- How much foreign exchange risk do you have or do you need to protect?
- How long do you need/want to protect yourself against unfavourable exchange rate moves? As a rule of thumb the longer the period of your exposure, the greater the uncertainty about future movement in foreign exchange rates, and the more difficult and expensive it will to be hedge the risk.
- At what point, expressed as an exchange rate, does the 'pain' of exchange rate movement become significant? Where are markets today in relation to that rate? This should be a result of your risk assessment and in many organisations is shown as a 'budget' rate against which plans are put together.
- Is the currency you are exposed to freely traded or is it tightly controlled?

Secondly, are there any simple, effective measures you can take to reduce the risk? These might include the capability to raise donations in the same currency as you spend. Offset against the spending this reduces your overall exposure, and is sometimes known as 'natural hedging'.

Thirdly, does the currency you are exposed to have a financial market in which you can hedge the risk? Many currencies are tightly controlled with little in the way of financial markets in which you can 'pass on' the risk to others. Some currencies are linked (or pegged) to another bigger currency, usually the USD or EUR. If hedging risk against the pegged currency is difficult or expensive, would hedging in the major currency (say the pound against the dollar) effectively reduce your risk?

Next, when was the last time you reviewed your exchange risks and any hedging you have in place already? Have you looked at how well or badly your existing policies have served you? Do they need revision?

Finally, what are the criteria from your organisation's constitutional rules or foreign exchange risk policies which might dictate what hedging techniques are acceptable and which are not?

Hedging alternatives

Depending on the foreign currency risk you are looking at there are a wide and expanding range of techniques and products on offer which will aim to remove or reduce risk.

We have mentioned already how matching cash outflows in one currency with inflows in the same currency can create a 'natural' hedge. This is the simplest and most effective method, especially for long term exposures. But it is easier said than done – especially if your donor base is concentrated in one country. Nonetheless, anything that you can do to build a natural hedge will reduce the impact of exchange rate moves and the costs of any other form of hedging which you carry out.

The financial markets offer the main opportunity to hedge foreign exchange risks.

In the simplest terms they bring together those wishing to avoid or mitigate a risk with those who are prepared to accept that risk – perhaps because they have a need for the currency you are looking to deal, or because they have a particular 'view' on the currencies or economies involved.

Broadly speaking using financial markets to hedge, whatever the technique, involves fixing the exchange rate for a defined amount of the currency (whether you are buying or selling that currency) of interest for delivery at a set date or dates in the future. They can be divided into two categories:

- 'Fixed' or forward contracts – included within this are Non Deliverable Forward contracts or NDFs.
- Derivative or 'synthetic' contracts (sometimes known as Contracts for Difference).

What is the difference?

Let's assume an organisation wants to buy, say dollars at today's rate, but does not want to use them for six months. **A fixed or forward contract** operates on the basis that the bank involved will buy the dollars today and will 'hold' them until the organisation wants to take delivery. The bank will 'adjust' today's rate to recognise the cost to it of holding the dollars until they are needed. The buyer of the dollars has secured those dollars at today's rate, and knows what it has cost to do so. In other words, it has certainty, but it does give up the opportunity to benefit from any future improvements in the exchange rate.

Figure 5 shows this relationship between 'unhedged risk' – the diagonal line where losses and gains are potentially unlimited, and 'fixing' the risk – the horizontal line.

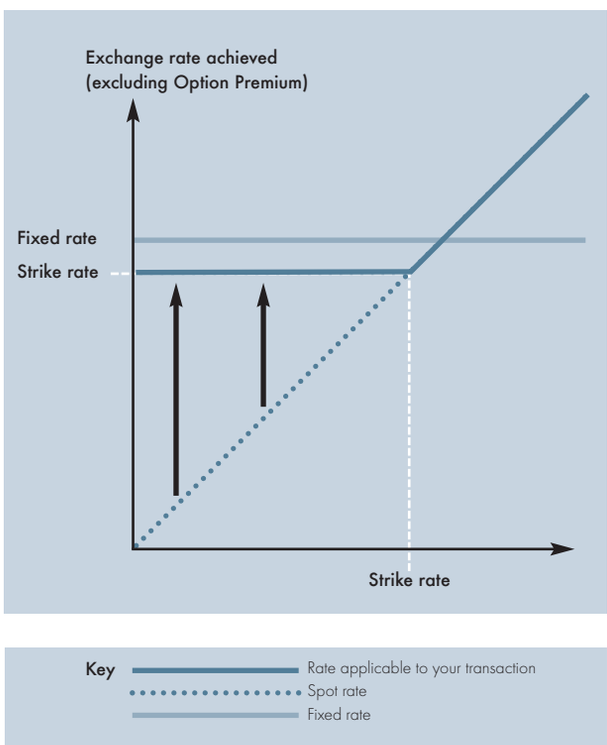


Figure 5: The relationship between unhedged risk and fixing risk

An **Non Deliverable Forward (NDF)** is very similar in concept to a forward contract, in that it protects a pre-agreed currency amount (the reference currency) at a fixed rate for a fixed period. The difference is that at the end of the fixed period there is no delivery of the protected currency. If delivery is needed then this has to be arranged separately and in accordance with any restrictions or regulations that apply to that currency.

It may be that the actual currency is purchased at a different rate to that in the NDF.

The fixed rate agreed is calculated in a similar manner to the normal forward described as before. Prior to the expiry (or settlement) date of the contract, a calculation is made to assess the difference between the fixed rate in the NDF and actual rate on the date the calculation is made. A payment is either made to or taken from the organisation which hedged its exposure using the NDF, in effect insuring the fixed rate agreed at the start.

It provides the similar certainty of the forward contract (i.e. the horizontal line in the chart), and can be helpful in markets where there is no forward market, where foreign exchange is not freely traded, or is restricted. But there are risks associated with NDFs, such as the non delivery of the physical currency, which need to be clearly appreciated before they are taken on by any organisation looking to hedge its exposure in this way.

A derivative based hedge seeks to provide protection against an unfavourable rate move, but also provides an opportunity to benefit should the market (in our example the US dollar versus the pound) move favourably. In their simplest form the seller of the derivative accepts the risk of the currency moving against them in exchange for a cash payment or premium. The purchaser pays the premium knowing they are protected, at a known rate (the strike rate) for a fixed amount over a fixed period, against an adverse move. However should the market in the future offer a better rate than they have protected themselves with, they have no obligation to take the rate in the derivative. This is represented in figure 5 as the 'hockey stick' (the solid darker line).

There are many variations on this simple derivative. As a rule of thumb all of these variations are an agreed compromise between buyers and sellers of these instruments covering:

- The degree of unfavourable exchange rate moves taken by each party
- The sharing of any favourable rate moves over the period of the hedge
- The exchange rate protected
- The cash costs or premiums involved

The pricing of derivatives is based on a complex calculation which takes into account the length of the hedge, the volatility of the underlying currencies involved and the exchange rate being protected. It can be a complex and difficult area to grasp, and needs a thorough understanding of the exchange risk being protected and the risks inherent in the derivative being acquired.

The fact that acquiring derivatives involves payment of premium and can carry with them a range of financial side effects, means that many organisations will, or should, have clear policies around using them. Equally, their sale is heavily regulated. Those looking at what benefits they may offer must ensure that they have taken great care in understanding what they are entering into and what they are trying to achieve.

Summary

Foreign exchange risk management, as with managing any risk, has no simple answers. The fact that a rate can move both with you and against you, means that doing nothing can be just as speculative as actively taking a view on where markets will go next.

The certainties are that the risk will not go away, and the markets will not always act favourably towards you.

To manage your foreign exchange risks requires a clear understanding of their nature and their impact on the activities of the charity. To hedge the risk there has to be in place:

- Clear risk management assessments and policies
- Clear expectations within budgets on what rates are expected and the impact of negative moves
- Good understanding of how much exposure is to be hedged over what period
- An appreciation of what hedging techniques are appropriate
- Regular reviews of the performance of any hedging against expectations

Above all there has to be an absolute commitment not to speculate, intentionally or unintentionally, that rates will get better tomorrow. They may, but if they do not it may be a long wait until they do.

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4: FOREIGN EXCHANGE AND ACCOUNTING

Naziar Hashemi, Partner in the Not for Profit Unit, Crowe Clark Whitehill LLP

Increasingly UK charities find themselves involved with foreign exchange as some of their income or expenditure will be in a currency other than GBP. The consequence of this is that the transactions will often be expressed in foreign currencies and will need to be translated into GBP for financial reporting purposes.

There are two ways in which charities can carry out their work outside of the UK:

1. They can operate through overseas subsidiaries, branches or associates; or
2. They can simply transact in a foreign currency by buying goods and services from overseas suppliers and/or by receiving funds in a foreign currency.

Accounting standards SSAP 20, 'Foreign Currency Translation' and UITF Abstract 9, 'Accounting for Operations in Hyper-inflationary Economies', set out the translation process whereby financial data denominated in one currency is expressed in terms of another currency.

Under the UK Generally Accepted Accounting Principles (UK GAAP), SSAP 20 and UITF 9 are the applicable accounting standards for the vast majority of charities and therefore this article focuses on their application. For charities adopting fair value accounting, FRS 23 would apply.

Application of SSAP 20

There are two aspects of SSAP 20 which need to be considered; namely

1. The translation of foreign currency financial statements for consolidation purposes.
2. The translation of foreign currency transactions by individual companies.

1. The translation of foreign currency financial statements for consolidation purposes

There are two methods for translating foreign currency financial statements:

Method A: Closing rate/net investment method which is used for those foreign enterprises operating separately or quasi independently, and generally those who conduct their day to day affairs in the local currency.

Under this method the amounts on the balance sheet of a foreign enterprise should be translated into the reporting currency of the investing company, using the rate of exchange ruling, at the balance sheet date. The profit and loss account of a foreign enterprise may be translated either at the closing rate or at an average rate for the period.

SSAP 20 explains that *"If exchange differences arising on the retranslation of a company's net investment in its foreign enterprise were introduced into the profit and loss account, the results from trading operations, as shown in the local currency financial statements, would be distorted. Such differences may result from many factors unrelated to the trading performance or financial operations of the foreign enterprise; in particular, they do not represent or measure changes in actual or prospective cash flows. It is therefore inappropriate to regard them as profits or losses and they should be dealt with as adjustments to reserves."*

Therefore, on consolidation, the exchange differences that arise when the parent retranslates its opening net investments in the foreign subsidiary to the closing rate should be treated as a movement on consolidated reserves. This should be shown under 'other recognised gains and losses' which appears at the bottom of the Statement of Financial Activities.

Method B: Temporal method which should be used for those operations which are direct extensions of the investing entity's activities where the foreign operations are so closely interlinked with the investing company, that it is not appropriate to regard the foreign currency as being that on which the foreign enterprise is dependent.

Under this method, all the foreign enterprises' transactions are treated as if they had been entered into by the investing company. The method of the translation is similar to that under the translation of foreign currency transactions by individual companies (see below).

The SSAP 20 requires that all available evidence should be considered in determining the dominant currency and lists factors which should be taken into account, as well as providing examples of situations where the temporal method may be appropriate.

Specific guidance with regard to the treatment of foreign branches is provided. This states that they should be accounted for in accordance with the nature of the business operations concerned. A branch operating as a separate business with local finance should be accounted for using the closing rate/net investment method. For those operating as an extension of the company's trade and where the branch's cash flows have a direct impact upon those of the company, the temporal method should be used.

Most overseas branches of international NGOs are treated as part of the charity itself and therefore, in all but exceptional cases, the temporal method is used as discussed below.

2. The translation of foreign currency transactions by individual companies

This is the other aspect of SSAP 20 which needs to be considered. The rules at their most basic level for translating foreign currency transactions are simple:

- Each asset, liability, revenue or cost should be translated at the exchange rate in operation on the date on which the transaction occurred. If there are no significant fluctuations in the exchange rates then an average rate for the period may be used.
- Monetary assets and liabilities (cash and bank balances, loans, debtors and creditors) outstanding at the end of the year should be translated using the closing rate.
- Where a non-monetary item (properties, equipment, stocks and equity investments) has been translated at the rate ruling when it was originally recorded, no subsequent translation of the asset is normally required which means that such assets are recorded at historical cost.

However, issues may arise when applying the rules in practice, in determining an average rate or selecting an appropriate rate for translation when there is more than one rate in operation, for example. Where the transaction is to be settled at a contracted rate, that rate should be used and where a trading transaction is covered by a related or matching forward contract, the rate of exchange specified in the contract may be used.

SSAP 20: Treatment of exchange gains and losses

Exchange gains and losses will arise if:

- The transaction in currency is settled during an accounting period at a rate which is different to that in which it was initially recorded, or that used at the last balance sheet date.
- On an unsettled transaction, the rate used at the balance sheet date differs to that previously used.

SSAP 20 states that where a liability is to be settled at a contracted rate, the contracted rate should be used at the balance sheet date. This has an interesting interaction with the use of contracted rates on grants and contracts such as European Commission contracts which use their own published rates as the contracted rate. Application of SSAP 20 means any debtor from a grant at a specified rate should be recognised at that rate. An extension of this principle would mean that where settlement of the debtor has occurred post year end, the actual rate of translation should be used on the year end debtor.

The SORP requires that *'gains should be recorded as other income in the Statement of Financial Activities (SOFA) and losses as a support cost of the relevant activity category. Where the standard permits gains and losses to be taken to reserves, these should be shown as a separate row in the Statement of Financial Activities after 'net incoming/outgoing resources.'*

Issues with the practical application of the standard risk for charities

Charities operating overseas are facing issues such as local inflation and more complicated local laws and regulations that require the setting up of legal entities. There are also more demanding funder requirements, and as the operating environment for charities

operating overseas has become more complicated, so have the issues arising from the translation of foreign currency transactions.

1. Increasingly funders such as the EC set out clauses regarding translation rates in their funding agreements and use 'published rates' which are the rates as set by the funder.

The following is an example of a typical EC clause in an EC funding agreement:

"The contracting authority shall make payment in the currency of the country to which it belongs or in euro....in the latter case any conversion into euro of the real costs borne in other currencies shall be done at the rate published....In the event of an exceptional exchange rate fluctuation, the parties shall consult each other with a view to restructuring the action in order to lessen the impact of such a fluctuation."

An issue may then arise when the published rate is different to the date ruling at the time of the actual spend, giving rise to exchange gains or losses.

For financial statement purposes, if a gain arises then that will be recorded as income in the SOFA and any loss as expenditure. However a further point to be considered is whether the gain, if any, is restricted or unrestricted. This will of course depend on the donor's terms but in respect of EC grants, the widely held view is that any gain or loss is borne by unrestricted funds.

The weakening and fluctuating GBP since 2008 has meant that some charities have been exposed to foreign currency differences often not in their favour. There is now a trend towards holding foreign currency bank accounts to create a natural hedge against fluctuations. Some charities are also moving away from sending funds to their overseas branches or partners annually or six-monthly to monthly transfers based on actual expected expenditure. This thereby reduces foreign exchange differences that might arise.

2. Another issue commonly arising is due to the timing of submission of the final donor reports. Typically donors such as the EU pay in instalments, with a proportion of the total funding only being paid on submission and acceptance of the final reports.

The charity will therefore carry in its books an amount which is 'true debt' and an amount which is work in progress, which is in effect the amount waiting to be invoiced or report submitted to the donor. An issue can then arise when the charity is so late in submitting the report that by the time they receive the EUR, the value can be worth significantly more or less than that which was recorded by the charity. The question which then arises is how the gain or loss should be recorded in the financial statements.

With regard to the financial statements, this gain or loss should be treated in the same way as the other gains or losses arising from the settlement of monetary assets. The impact of settling the amount owed from the donor at a rate well below that which is carried in the accounts is more fundamental, as the charity will now need to fund the 'loss' through its unrestricted funds. In our experience, quite often the impact of such items is not carefully considered or monitored through the monthly reporting systems. In a smaller charity with less readily available unrestricted funds the news of a loss of this nature can be quite a shock.

3. Some charities use a standard budgeted exchange rate rather than actual exchange rates at the date of transaction.

The impact of this can be to overstate or understate the GBP based expenditure which is nearly impossible to unpick at the year end. Furthermore, there can be overstatement or understatement of the amounts charged to restricted funds if the expenditure is of a restricted nature. There are also wider issues with monthly management reporting such as the accuracy of those accounts, and with donor reporting.

UITF abstract 9: Hyper-inflationary currencies

Specific accounting requirements for countries with hyper-inflation are covered by the UITF Abstract 9 'Accounting for Operations in hyper-Inflationary Economies'. The UITF recognises that the closing rate/net investment method is not appropriate in a country with a very high inflation rate as the assets acquired with the foreign currency will be worth very little when converted into GBP. What is considered 'hyper-inflationary' is subjective, however FRS 24 'Financial Reporting in Hyper-inflationary Economies' does set out some characteristics that indicate a hyper-inflationary environment.

UITF9 gives two methods for dealing with hyper-inflationary currencies:

1) Adjust the local currency financial statement to reflect

current price levels and take any gain or loss through the SOFA.

2) Use a stable currency as the functional currency for the relevant foreign operation.

In practice, a number of charities operating in hyper inflationary economies transact in so far as possible in a more stable currency such as GBP or EUR.

Hedging transactions

It is becoming increasingly common for charities to enter into hedging transactions primarily to reduce risks associated with exchange rate movements. A diverse range of financial instruments often referred to as 'derivative products' are available. The most common of which are forward exchange contracts and currency options. There is no mandatory UK guidance in this area for those charities not applying the fair value accounting rules FRS 25 and FRS 26.

For forward exchange contracts, there are two approaches on accounting:

- The 'one transaction' view, where the forward contract rate used to record the transaction as the commitment to buy or sell currency is viewed as part of the purchase or sale transaction.
- The 'two transaction' view, where the transaction to settle a foreign currency payable or receivable is treated separately from the forward contract. Under this view, the premium or discount on the forward contract is accounted for separately and spread over the life of the contract. The carrying value of the forward contract is recalculated at the balance sheet date using the spot rate effective on that date.

SSAP 20 allows the first method which is simpler in its application but does not rule out the second method. Both methods can be used for hedging an existing asset or liability with forward exchange contract, or hedging a foreign currency commitment.

Disclosure requirements

The standard requires disclosure of the methods used in the translation of the financial statements of foreign enterprises, and the treatment accorded to exchange differences in the financial statements. The following information should also be disclosed in the financial statements:

(a) The net amount of exchange gains and losses on foreign currency borrowings less deposits, identifying separately; (i) the amount offset in reserves; and (ii) the net amount charged/credited to the profit and loss account;

(b) the net movement on reserves arising from exchange differences.

The following are extracts from Sightsavers published 2009 financial statements:

Foreign exchange

Assets and liabilities denominated in foreign currencies have been translated at the rate of exchange ruling at the balance sheet date. Income and expenditure transactions incurred in a foreign currency have been translated during the course of the year at the rate of exchange ruling at the date of the transaction and are disclosed in the SOFA.

Forward exchange contracts

Sightsavers has entered into forward exchange contracts during the year to hedge forward currency exposure on future programme expenditure. Forward currency exchanges made under these contracts are recorded at the specified rate at the time of the transaction.

Sightsavers has entered into three forward exchange contracts during the year to hedge forward currency exposure on future programme expenditure. These contracts to purchase US Dollars (USD) using Sterling (GBP) are each for up to twelve months in duration, at USD/GBP rates between 1.6200 and 1.6575. At the balance sheet date a combined purchase value of USD 9.5 million remained on these three contracts representing around 50% of forecast USD correlated overseas charitable expenditure for 2010.

Security is required by the UK clearing bank counterparty for these contracts. A charge of £1.25 million was written over our Grosvenor Hall property in favour of our counterparty during 2009. This arrangement allows Sightsavers to hedge an element of its currency exposure through the use of forward exchange contracts, whilst not drawing on cash holdings to support collateral requirements.

CONCLUSION: Foreign exchange and accounting

Accounting for foreign exchange is not an exciting topic and is often glossed over when preparing accounts. As this article shows, there are specific rules that need to be followed but there is also a degree of flexibility. It is therefore important to consider carefully the options and the basis for selecting and presenting the treatment. If for example, the accounting treatment shows a potential loss or gain, which is a "book" loss/gain arising from year end translation, it is often useful to explain this.

As charities proactively manage their foreign exchange transactions new disclosures are usually required and it is important to check that these have been made.

5: THE IMPACT OF FOREIGN EXCHANGE RATE VOLATILITY ON CHARITIES' PURCHASING POWER

Neil Parker, Market Strategist, Royal Bank of Scotland

Volatility in currency markets poses a significant potential threat to the value of a charity's funds, since it is unlikely that the money raised from donations is in the denomination in which it will ultimately be spent. Therefore, fluctuations in currency rates can prompt a shortfall, or indeed surplus, in available funds. Irrespective of economic factors, ensuring that sensible budget rates are set and adhered to should be a minimum in terms of treasury policy.

This article sets out how volatile the markets can be, and what factors can impact on foreign exchange rates.

Volatility in recent years

For the financial markets, the period since the credit/sub-prime crisis has seen unprecedented levels of volatility across asset classes, particularly in areas where the markets had previously been relatively predictable. Indeed, for businesses and organisations across the spectrum of markets, this period can be categorised as one of enormous uncertainty, putting balance sheets under strain, and making financial planning all the more difficult.

Looking back to the beginnings of the credit/sub-prime crisis, it was unclear how the financial markets would react, since the economy that usually benefited from a period of economic uncertainty was the one suffering the brunt of the crisis. However, as the crisis developed, investors and speculators still found comfort in the scale and diversity of the US markets. The collapse in risk appetite played into the hands of the USD, which appreciated over 35 per cent against the GBP and around 25 per cent against the EUR.

Currency markets are never predictable

In the period following the crisis, there has been ongoing uncertainty in the global economy, risks of sovereign debt crises, and liquidity gaps in major financial markets. Despite this, over time there has been a return to the orderly trends in foreign exchange markets, which may have led some to believe that the currency markets are once again 'predictable'. However, it would be easy to view this as a fallacy, since currency markets have never been predictable, and currently economic conditions are subject to change even more quickly than usual. To borrow a phrase from Fed Chairman Ben Bernanke, the economic outlook is 'unusually uncertain'.

For those on the outside looking in, this will seem perturbing at best. Events such as the potential for more quantitative easing from the US Federal Reserve, the Bank of England and the Bank of Japan muddy the waters even further. But, once risks like these can be identified, they can at least be managed, if not entirely mitigated.

Economic risks are harder to manage, since many of them are shocks or surprises to the status quo (e.g. the recent credit crisis, conflicts, natural disasters). This is why setting sensible budgets and sticking to them, is so important.

Figure 6 shows the fluctuations in GBP/USD from 1970 onwards, with many of the events that characterised the last four decades appending the chart. It is not a definitive list, but more a representative sample. The chart demonstrates the volatility in just that one (GBP/USD) currency pair, and is a sobering reflection for the charity sector in terms of the challenges facing them when budgeting on a year by year basis. It argues strongly for strategic planning to take place regularly in terms of currency management.

Currency forecasts

Many financial organisations can offer forecasts for GBP/USD and other currencies. However we have to recognise the limitations of those forecasts, which are based on a series of assumptions regarding growth, inflation, trade, and risk appetite. Looking at recent Reuters Polls of forecasters for GBP/USD, there is over a 50 cent difference between the high and low forecasts from economists – all of whom are looking at the same released data. The difference in those forecasts therefore lies in future economic projections for the UK and US economies, as well as some assumptions regarding central bank activity and potential government interventions.

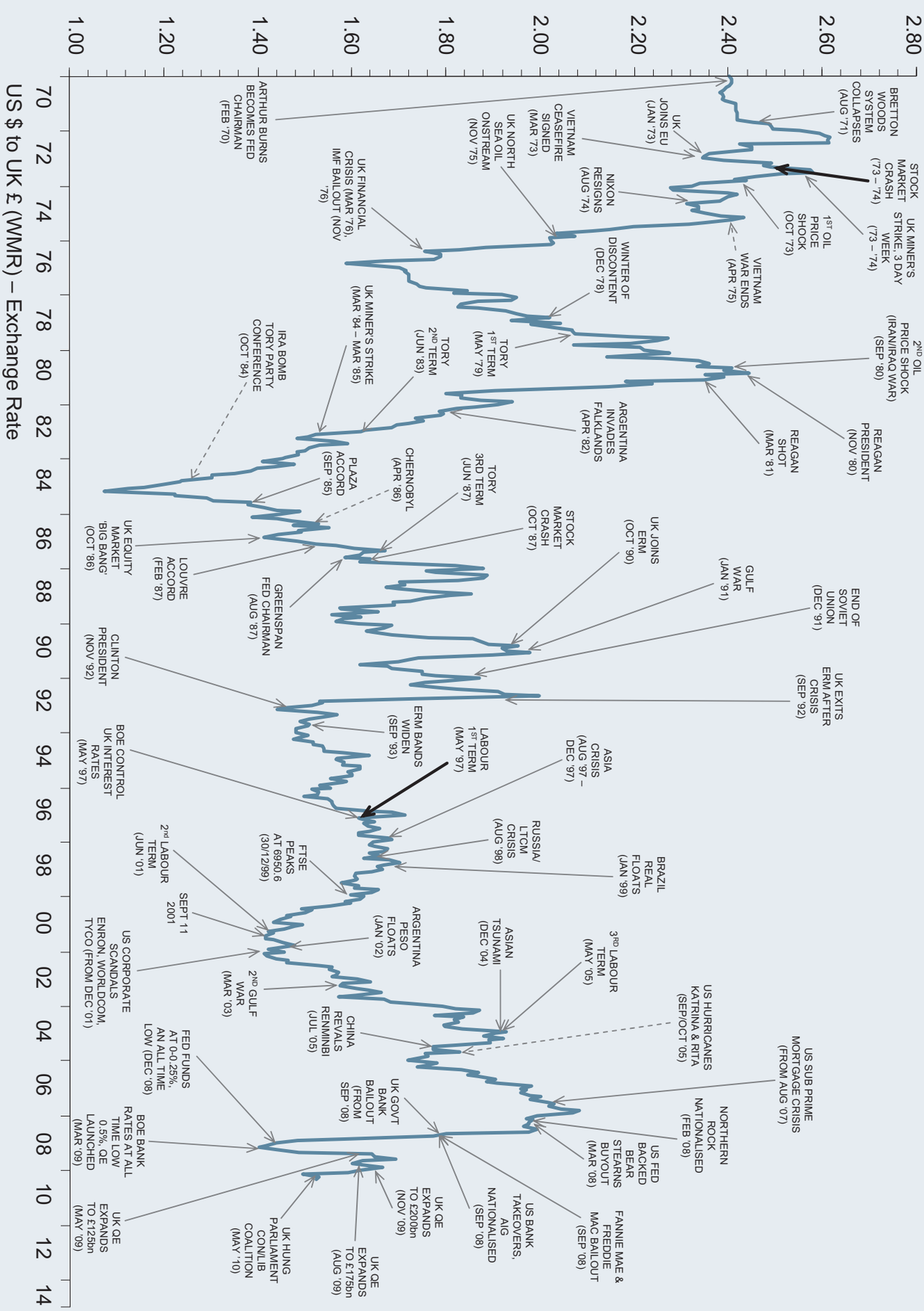

Figure 6: Fluctuations in GBP/USD from 1970 onwards

The outlook for 2011-12

It could be argued that the recent concerns over competitive devaluations with regard to the major economies are overplayed. The recent weakness of the USD has probably been driven more by uncertainty of the size of the US Federal Reserve's new quantitative easing programme, which was instigated in November 2010. For the GBP, there are also concerns about more quantitative easing, and concerns around the size and scale of cuts to public finances. Both of which are unhelpful regarding the GBP. Finally, the EUR is dogged by the risks of sovereign debt default in some of its peripheral economies. There is the risk of overspill onto the core economies if current guarantees need honouring.

There is likely to be plenty of volatility, since we will not know for many months whether the actions of the authorities have been helpful, or a hindrance, to the global economic recovery. However, for the time being, we think that the next 12-15 months will see something of a revival in the US dollar against the UK pound and the Euro, with the Euro also suffering against the pound as well. Our expectations are for GBP/USD to trade in a relatively tight $1.50-$1.64 range, whilst EUR/USD should head down towards the $1.20 region, from currently (at time of writing) above $1.40, as problems continue to manifest themselves in the UK and Euroland.

These are risks that could undermine the purchasing power of charities if they are spending in USD. The potential for those purchases to rise by 5-14 per cent in the donated denomination could place further stress on some programmes. This will prompt the need for proportionately increased donations. We would hope during this period of recovery in the UK and global economies that the level of charitable donations also benefits from a similar rebound.

In summary, the charity sector will face many challenges over the coming 12-15 months, but with a fair wind of recovery behind it, a steady increase in charitable donations is likely to be seen. However, any improvements in donation levels could be at risk from adverse currency moves, alongside any renewed downturn in economic activity. It would therefore still prove sensible to set and actively manage budget rates, in conjunction with your currency provider.

6: KEY QUESTIONS TO CONSIDER WHEN PROCURING FOREIGN EXCHANGE

Annemarie Moore, Group Treasurer, Plan International

Plan International has developed an extensive and proactive approach to foreign exchange procurement and risk management. Drawing on their review of foreign exchange procurement practices, outlined in Case Study 9 and in *Missing Millions*, Annemarie Moore, Plan International's Group Treasurer, has compiled a number of key issues to consider. While these relate to their experiences, the lessons learned and questions asked can be applied to many charities wanting to improve their practices.

1. Can the currency be purchased offshore?

Countries may have controls that do not allow the currency to be purchased out of country. When identifying a country that Plan would like to migrate to local currency transfer we first run a check via both the country office itself and our banks to establish whether there are any such restrictions.

2. What is the currency of spend within the countyry? Does it make sense to send local currency?

Plan has found it necessary to drill down to the exact currency of expenditure in-country and not to assume that countries will be making their payments in local currency. Plan's operations in a few countries (Pakistan, Mozambique and more recently Haiti, which is relatively dollarised since the earthquake) not only spend their local currency but also pay bills in USD. In these cases Plan remits both local currency and USD so as to avoid the instance of purchasing local currency for a country only for them to convert to USD to settle a local transaction.

What internal training and education is involved?

With 48 programme countries, and the majority accustomed to receiving USD for many years, the change in mindset to undertake transfers in local currency required some education. Plan is US incorporated and prior to the creation of the EUR, the USD was our single dominant currency. The cash forecast and the budgets were in USD, so to 'think' in USD has been ingrained throughout the organisation for in excess of twenty years. Within Treasury we have used every opportunity to explain that Plan is a natural holder of EUR and not USD. This may have been via presentations, one to one meetings or seminars. Migrating to local currency delivery is an on-going process. We are still educating countries on the margin loss that is incurred in purchasing USD.

3. Can the currency be centrally sourced by group treasury – are there counterparties dealing in the currency?

Having identified that a currency is tradable outside the country of spend, Plan sources counterparties to ensure that a selection of suppliers are available that will be able to quote and deliver on the currency. Plan currently has seven foreign exchange counterparties, two of which do not trade the exotic currencies that are required. Of the remainder, four trade some but not all of our required currencies, and one trades all.

4. Is it cheaper to purchase centrally?

Our Group Treasury, with the assistance of in-country finance managers, generally conduct tests over six days to assess whether it is cheaper to purchase a given currency centrally in the UK or in-country. The six days are not necessarily sequential. Group Treasury will seek prices simultaneously to the Country Finance Manager requesting a price from their bank. In some instances the Group Treasury price is widely beneficial. In others it is relatively slim and in further cases, the in-country price is better.

However, whenever a country is purchasing local currency it will need to do so with USD or EUR, whereas Group Treasury can purchase expenditure currencies from any of Plan's natural currency inflows. Therefore, even in the event of slim pricing differential, Plan will usually purchase and remit local currencies to programme countries, as long as the currency can be routed to the country efficiently (see point 5). A proviso is that in some Asian countries local currency can be competitively purchased onshore via the USD. Plan then need to weigh up the benefit of purchasing local currency direct from Australian Dollar (AUD) or Norwegian Krone (NOK), for instance, by Group Treasury, against purchasing from USD in- country.

Does the country welcome hard currency?

Although transferring in local currency may be economical for the NGO or charity, it may not be so for the countries in which we operate. The dilemma is that some countries are in need of hard currency and NGO remittances are a major contributor. By remitting in local currency it is important to consider how much impact we are having on hard currency flows into the countries in which we are working.

5. Can local currency arrive in the in-country bank account efficiently?

The focus here is fast delivery and lack of intervention. Due to the nature of work and urgency with which funds are needed in-country, it is important to Plan that foreign exchange providers have fast transmission routes with minimal chance of funds becoming 'lost in transit'. While corporates may fund delivery delays resolved by the practice of a bank backdating a transfer or applying 'good value', with little effect on its business, an NGO is likely to have to rely on the actual cash arriving on time. Often the areas where an NGO works are cash based and this is particularly pertinent where a disaster has recently occurred in the location. Plan determines 'efficient' as not in excess of three days (day zero being dealing date).

FACTORS THAT MAY CONTRIBUTE TO SLOWER TRANSMISSION OF FUNDS

Central Bank/local clearing house processes

In some countries either the central bank or clearing process may slow down the delivery of funds in local currency. For example, in one country, Plan experienced delays in local currency receipt due to the necessity that the paying bank (our counterparties' settlement bank in the respective country) was required to prove that it had informed the central bank of the transaction. Plan's bank in-country could not credit our account without the written evidence. To speed up the process our Finance Manager in-country resorted to collecting the confirmation that the central bank had been informed from the paying bank and walking the confirmation to our bank each week. In his words, this took two hours of walking backwards and forwards – time which could be much better spent.

The central bank later modified the process. The result was that our bank would be required to receive confirmation that it could credit the account directly from the central bank. Although this eliminated the 'walking' process it did not speed up credits.

As a result we resorted to remitting EUR to the particular country. However, we have recently re-introduced local currency delivery with mixed results. The arrival time of the funds to the country account is not predictable, sometimes on value date (generally two working days after the transaction) and on others up to value date plus an additional four days. However, it remains the preference of Group Treasury and the Finance Manager in-country that we stick with local currency delivery.

Delays in crediting of local currency to the bank account

On migration to local currency delivery we can initially experience an increase in funds' transit days. When this occurs we utilise an alternate foreign exchange counterparty for the next transfer to country, provided the price is competitive. It can take several attempts to narrow down the foreign exchange counterparty that can both price competitively and route the funds efficiently.

In some cases funds will be credited late, yet all SWIFT evidence shows that the funds arrived at our bank in a timely manner. In this instance we forward the SWIFT advice to our team in the country in question as soon as the payment has been made. They can then liaise with the in-country bank and ask that the receipt is monitored and the account credited promptly. The delay is usually due to the receiving bank expecting to receive USD based on our previous approach.

GOOD PRACTICE CHECKLIST

Not all of the issues or practices covered in this publication will apply to all charities. However this "baker's dozen" checklist on good practice is a good place to start for any charities wanting to improve their foreign exchange procurement processes.

1. If you have any need for foreign exchange then always go out to tender – you don't have to be big and have hundreds of thousands of pounds.
2. Look beyond your regular bank. Look at what others and specialist firms can offer.
3. Consider foreign exchange brokerage firms, but do your homework when it comes to risk and reputation – small firms offering great rates may not be able to deliver.
4. Remember one size does not fit all – what is a good idea for one charity may not be for you.
5. Think about pooling or collaborative working, particularly if you are small/medium sized, to get sufficient purchasing power economies.
6. Buying forward does not have to be rocket science – a broker watching the rates and contacting you can be just as effective.
7. Always have at least two or three firms to seek comparisons.
8. Always keep under review where the best place to buy is – it is generally the UK but consider buying locally if rates are better.
9. Never enter into an exclusivity agreement.
10. Remember the size and expertise of your team – the costs in staff time to manage multiple bank relationships may be greater than the savings. Do a thorough cost benefit analysis.
11. Remember controls and governance – trustees should approve any system and have it quality assured.
12. If you have a foreign exchange problem consider approaching banks or brokers to ask what solutions they have to your issues.
13. Do not assume small and local is best – consider a centralised currency process for pooling or dealing and again, remember to do your cost benefit homework.

Professor Paul Palmer, Head Of Voluntary Sector Finance and Assistant Dean of Cass Business School

APPENDIX 1: Service Provider Chart

This table outlines a number of banks' and remittance firms' capability with regards to delivering currency to the regions in which many NGOs work. The information here is intended as a guide to understanding the scope of the 'exotic' currency market in the UK. By detailing the specialisations of different providers, the table is intended to reduce the time spent by finance and treasury teams identifying service providers to work with.

All contributing organisations were asked to provide detail on whether they are able to deliver the following for each currency listed:

(S) A Spot rate

(NDF) non-deliverable forward contract and/or;

(F) A deliverable forward contract.

In addition we have asked for detail on the SWIFT charges associated with this process. Service providers were asked to list either, 1, 2 or 3 next to what they can deliver for each currency. This number corresponds to one of the following charging structures:

1. **BEN:** Charges are borne by the beneficiary. The beneficiary bears all charges of the banks engaged in the transfer of the payment. The client only pays the remittance amount. All charges (UK bank as well as those of the intermediary bank, beneficiary bank, etc.) will be deducted from the remittance amount and the beneficiary will receive the remaining balance.
2. **SHA:** Charges are shared. UK client pays the UK banks charges and the remittance amount. The beneficiary bears the charges of all the other banks (the intermediary bank, beneficiary bank, etc.). The beneficiary will receive the remaining balance. This is the most common type of charge, where each party bears their respective charges.
3. **OUR:** Charges are borne by the remitter. UK client bears all charges of the payment, which includes the remittance amount, UK bank's charges, as well as all the other banks' fees (intermediary bank, beneficiary bank, etc.), so the beneficiary receives the complete payment. The UK bank will debit the UK client's account for payment of the charges after the exact amount has been identified.

Where no number has been listed, it is usually because the client can choose which charging structure they would like to have applied.

Knowledge of the charging structures outlined, can provide additional control over how funds are delivered to each country programme or southern partner. In some cases these structures are fixed, in others the NGO themselves can provide payment instructions to their bank, outlining which of these structures they would like to see employed. This does not tell you where the charges are borne. This is because charges are continuously changing and dependent on issues such as the intermediary banks used to facilitate the payment, as well as where the currency is actually being delivered to. It is important to stay engaged with the specific provider to ensure as much transparency here as possible.

The highlighted currencies have been listed as the top 20 recipients of bilateral aid from the Department for International Development. Although their data does not provide a comprehensive reflection of where individual NGOs send their funds, it provides some indication of the currencies that are likely to be in high demand by UK NGOs.

Please check the notes following the chart - some services providers have provided additional information regarding their capabilities.

Service Provider Chart	Currency Code	Pegged to and/or trading restrictions	AFEX	Barclays Capital	BNP Paribas	Baydonhill	Caxton FX Limited	Cooperative Bank
AFRICA (North of Sahara)								
Algeria	DZD		S		S, NDF	S 3		
Egypt	EGP		S, NDF	S, NDF	S,NDF			
Libya	LYD				S			
Morocco	MAD	MANAGED FLOAT	S, NDF	S, NDF	S, F	S, F 3		
Tunisia	TND	MANAGED FLOAT	S, NDF	S, F	S, F	S 3		
AFRICA (South of Sahara)								
Angola	AOA	DOLLARISED ECONOMY	S		S	S 3		S, F (USD)
Benin	XOF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Botswana	BWP		S	S, F	S, F	S 3		
Burkina Faso	XOF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Burundi	BIF		S			S 3		
Cameroon	XAF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Cape Verde	CVE	FIXED EURO	S, F		S	S 3		S, F (EUR)
Central African Republic	XAF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Chad	XAF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Comoros	KMF	FIXED EURO	F		S			S, F (EUR)
Congo	XAF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Congo (Democratic Republic of)	CDF	DOLLARISED ECONOMY	S		S	S 3		S, F (EUR)
Côte d'Ivoire	XAF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Djibouti	DJF		S		S	S 3		
Equitorial Guinea	XAF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Eritrea	ERN	MANAGED FLOAT USD	S		S	S 3		
Ethiopia	ETB	EXCHANGE CONTROLS	S		S	S 3		
Gabon	XAF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Gambia	GMD		S		S	S 3		
Ghana	GHC	MANAGED FLOAT.	S	S, F	S, F	S 3		
Guinea	GNF	FIXED EURO	S		S	S 3		
Guinea-Bissau	XOF		S, F	S, F	S	S 3		S,F (EUR)
Kenya	KES	FIXED ZAR	S	S	S, F	S 3	S, 1	
Lesotho	LSL		S, F		S	S 3		
Liberia	LRD		S		S	S 3		
Madagasgar	MGA	MANAGED FLOAT.	S	S	S	S 3		
Malawi	MWK	FIXED EURO	S	S	S	S 3		
Mali	XAF	FIXED USD	S, F		S	S 3		S, F (EUR)
Mauritania	MRO		S, F		S	S 3		S, F (USD)
Mayotte	EUR	MANAGED FLOAT.	S, F			S , F 3	S, F 1	
Mozambique	MZN	FIXED ZAR. EXCHANGE CONTROLS	S		S	S 3		
Namibia	NAD	FIXED EURO	S	ALL	S	S 3		
Niger	XOF	MANAGED FLOAT	S, F		S	S 3		S, F (EUR)
Nigeria	NGN	MANAGED FLOAT	S	S	S, NDF	S 3		S, F (EUR)
Rwanda	RWF		S		S			
Sao Tome and Principe	STD		S		S	S 3		

Currencies Direct	Ethical Currency	HSBC	INTL Global Currencies	Lloyds TSB Commercial	RBS	Standard Bank	Standard Chartered	Travelex Global Business Payments Limited	World First	Lloyds TSB Commercial Payments Capability
		S	S, 3					S, 1	3 (USD)	USD GOUR
S 1	S, NDF	S, NDF	S, 3			S		S, 2	S, F, 2	USD GOUR
			S, 3			S			3 (USD)	USD GOUR
S 1	S,F	S, F	ALL, 3	ALL	S, F	S	S, F	S, 2	S, F, 2	USD GOUR
S, F 1	S,F	S, F	ALL, 3	ALL	S, F	S	S	S, 2	S, F, 3	USD GOUR
			S, 3			S		S, 1	S, 3 (USD)	USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
S 1	S, F	S, F	S, 3			S	S, F	S	S, F, 3	USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
			S, 3			S		S, 1	S, 3 (USD)	USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
			S, 3					S, 1	S, F, 2	USD GOUR/EUR SHA
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
			ALL, 3					S, 1	S, F, 2	USD GOUR/EUR SHA
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
			S, 3			S				USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
			S, 3					S, 1		USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
			S, 3			S		S, 1		USD GOUR
		S	S, 3			S	S	S, 1		USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
			S, 3			S	S	S, 1		USD GOUR
S 1		S,F	ALL, 3			S	S, F		S	USD GOUR
			S, 3							USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
S 1	S, F	S, F	ALL, 3			S	S, F	S, F, 2, 3	S	USD GOUR
S 1		S	ALL, 3			S	S	S, 2, 3	S, F, 2	USD GOUR
			S, 3			S				USD GOUR
		S	S, 3			S	S	S, 2		USD GOUR
S 1		S, F	S, F, 3			S	S, F	S, 2		USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
			S, 3			S		S, 1	S, F, 2	USD
						S	S, F	S, F, 2	S	USD GOUR/EUR SHA
		S	S, 3			S	S	S, 2		USD GOUR
		S	ALL, 3			S	S	S, 2, 3	S, F, 2	USD GOUR
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
S 1		S, F	S, F, 3			S	ALL	S, 1		USD GOUR
			S, 3			S		S, 1		USD GOUR
			S, 3							USD GOUR

Service Provider Chart	Currency Code	Pegged to and/or trading restrictions	AFEX	Barclays Capital	BNP Paribas	Baydonhill	Caxton FX Limited	Cooperative Bank
Senegal	XOF	FIXED EURO	S, F		S	S 3		S, F (USD)
Seychelles	SCR	MANAGED FLOAT	S		S			
Sierra Leone	SLL	MANAGED FLOAT	S		S	S 3		
Somalia	SOS							
South Africa	ZAR		S, F	ALL	S, F	S, F 3	S,F 1	
St Helena	SHP	FIXED GBP	S(GBP), F					
Sudan	SDG	MANAGED FLOAT						
Swaziland	SZL	FIXED ZAR	S, F	S	S	S 3		
Tanzania	TZS	MANAGED FLOAT. EXCHANGE	S	ALL	S, F	S 3		
Togo	XOF	FIXED EURO	S, F		S	S 3		S, F (USD)
Uganda	UGX		S	ALL	S, F	S 3		
Western Sahara	MAD, MRO		S			S 3		
Zambia	ZMK		S	ALL	S	S 3		
Zimbabwe	USD		S	ALL		S, F 3	S, F 1	
AMERICAS								
Canada	CAD		ALL	ALL	S, F	S, F 3	S, F 1	
Costa Rica	CRC		S		S	S 3		
Cuba	CUP	FIXED USD						S, F (USD)
El Salvador	SVC	FIXED USD	ALL					S, F (USD)
Guatemala	GTQ		S		S	S 3		
Haiti	HTG		S		S	S 3		
Honduras	HNL	FIXED USD	ALL		S	S 3		S, F (USD)
Mexico	MXN		ALL	S, F	S, F	S, F 3		
Nicaragua	NIO	MANAGED FLOAT	S		S	S 3		
Panama	PAB, USD	FIXED USD	ALL		S			S, F (USD)
United States of America	USD		ALL	ALL	S, F	S, F 3	S, F 1	
Anguilla	XCD	FIXED USD	S, F		S	S 3		S, F (USD)
Antigua and Barbuda	XCD	FIXED USD	S, F		S	S 3		S, F (USD)
Barbados	BBD	FIXED USD	S, F	S	S	S 3		S, F(USD)
Belize	BZD	FIXED USD	S, F	S	S	S 3		S, F (USD)
Dominica	XCD	FIXED USD	S, F		S	S 3		S, F (USD)
Dominican Republic	DOP		S		S	S 3		
Grenada	XCD	FIXED USD	S, F		S	S 3		S, F (USD)
Guyana	GYD		S		S	S 3		
Jamaica	JMD		S	S	S	S 3		
Montserrat	XCD	FIXED USD	S, F		S	S 3		S, F (USD)
Saint Kitts and Nevis	XCD	FIXED USD	S, F		S	S 3		S, F (USD)
St Lucia	XCD	FIXED USD	S, F		S	S 3		S, F (USD))
Saint Vincent and the Grenadines	XCD	FIXED USD	S, F		S	S 3		S, F (USD)
Suriname	SRG	FIXED USD	S, F			S 3		S, F (USD)
Trinidad and Tobago	TTD	FIXED USD	S, F	S	S	S 3		S, F (USD)
Turks and Caicos Isands	USD		ALL	ALL		S, F 3	S, F 1	
Guadeloupe	EUR		ALL	ALL		S, F 3	S, F 1	

Currencies Direct	Ethical Currency	HSBC	INTL Global Currencies	Lloyds TSB Commercial	RBS	Standard Bank	Standard Chartered	Travelex Global Business Payments Limited	World First	Lloyds TSB Commercial Payments Capability
		S	ALL, 3			S	S	S, 1	S, F, 2	USD GOUR/EUR SHA
		S						S, 2		USD GOUR
			S, 3			S	S	S, 1		USD GOUR
						S				USD GOUR
S, F 1	S, F	S, F	ALL, 3		S, F	S	S, F	S, F, 3	S	USD GOUR/ZAR
			ALL, 3							USD GOUR/GBP
			S, 3			S				USD GOUR
S 1		S	ALL, 3			S	S	S, 2		USD GOUR
S 1			ALL, 3	S		S	S, F	S, 2	S	USD GOUR
		S	ALL, 3			S	S	S, 1		USD GOUR/EUR SHA
S 1		S, F	ALL, 3			S	S, F	S, 2	S	USD GOUR
			ALL, 3 (MAD)	ALL (MAD)		S	S, F (MAD)			USD GOUR
S 1		S, F	ALL, 3			S	S, F	S, 2		USD GOUR
			S, 3	ALL (USD)		S	S	S, F, 2		USD GOUR
S 1	S, F	S, F	ALL, 3			S	S, F	S, F, 3	S	CAD
		NDF	S, 3					S, 1		USD GOUR
										USD GOUR
			S, 3							USD GOUR
		S	S, 3					S, 1		USD GOUR
			S, 3					S, 1		USD GOUR
			S, 3					S, 1		USD GOUR
S, F 1	S, F	S, F	ALL, 3	ALL	S, F	S	S, F	S, F, 3	S	USD GOUR
			S, 3					S, 1		USD GOUR
			S, 3	ALL (USD)			S (USD)	S, F		USD GOUR
	S, F	S, F	ALL, 3			S	S (USD)	S, F, 2, 3		USD GOUR
S 1			S, 3				S	S, 1		USD GOUR
S 1		S	S, 3				S	S, 1		USD GOUR
S 1		S	S, 3	S			S	S, 1		USD GOUR
S 1		S	S, 3					S, 1		USD GOUR
S 1			S, 3				S	S, 1		USD GOUR
			S, 3			S		S, 1		USD GOUR
S 1		S	S, 3				S	S, 1		USD GOUR
			S, 3					S, 1		USD GOUR
S 1		S	S, 3	S			S	S, 1		USD GOUR
S 1			S, 3				S	S, 1		USD GOUR
S 1		S	S, 3				S	S, 1		USD GOUR
S 1		S	S, 3				S	S, 1		USD GOUR
S 1		S	S, 3				S	S, 1		USD GOUR
			S, 3							USD GOUR
S 1		S	S, 3	S				S, 1		USD GOUR
			ALL, 3	ALL			S (USD)	S, F, 2, 3		USD GOUR
			ALL, 3	ALL		S	S, F	S, F, 2, 3		USD GOUR/EUR SHA

Service Provider Chart	Currency Code	Pegged to and/or trading restrictions	AFEX	Barclays Capital	BNP Paribas	Baydonhill	Caxton FX Limited	Cooperative Bank
Argentina	ARS			NDF	S, NDF			
Bolivia	BOB		S		S, NDF	S 3		
Brazil	BRL		S	NDF	S, NDF	S		
Chile	CLP		S	NDF	S, NDF	S 3		
Colombia	COP		S	NDF	S, NDF	S 3		
Ecuador	USD	FIXED USD	ALL	ALL		S 3		S, F (USD)
Paraguay	PYG		S		S	S 3		
Peru	PEI, PEN		S	NDF	S, NDF	S 3		
Uruguay	UYU		S		S	S 3		
Venezuela	VEF				S	S 3		
ASIA								
Islamic Republic of Iran	IRR	MANAGED FLOAT						
Iraq	IQD	FIXED USD*	S			S 3		
Jordan	JOD	FIXED USD	S, F	S	S, F	S 3		S, F (USD)
Lebanon	LBP	FIXED USD	S, F		S, F	S 3		S, F (USD)
Oman	OMR	FIXED USD**	S, F	S, F	S, F	S 3	S, 1	
Saudi Arabia	SAR	FIXED USD	S, F	S, F	S, F	S, F 3		S, F (USD)
Syrian Arab Republic	SYP	FIXED USD	S, F		S, F			S, F (USD)
West Bank and Gaza	ILS		S, NDF	S, F		S 3	S, F 1	
Yemen	YER	MANAGED FLOAT			S			
Afghanistan	AFN				S			
Bangladesh	BDT		S		S	S 3		
Bhutan	BTN	FIXED USD	ALL					S, F (USD)
Myanmar	MMK							
India	INR	MANAGED FLOAT	S, NDF	S, NDF	S, NDF	S 3	S, 1	S
Maldives	MVR	FIXED USD	S, F		S			S, F (USD)
Nepal	NPR	FIXED INR MANAGED FLOAT***	S, NDF		S	S 3		S, F (USD)
Pakistan	PKR	FIXED INR MANAGED FLOAT***	S	S	S	S 3		
Sri Lanka	LKR	MANAGED FLOAT		S	S	S 3		
Cambodia	KHR		S		S	S 3		
China	CNY		S, NDF	NDF	S, NDF	S 3		
East Timor	USD		ALL	NDF		S, F 3	S, F 1	
Indonesia	IDR		S, NDF	NDF	S, NDF	S 3		
North Korea	KPW							
Peoples Democratic Republic Laos	LAK				S			
Malaysia	MYR	MANAGED FLOAT	S, NDF	NDF	S, NDF	S 3		
Mongolia	MNT	MANAGED FLOAT	S		S	S 3		
Phillipines	PHP		S, NDF	S, NDF	S, NDF	S 3		
Taiwan	TWD		S, NDF	NDF	S, NDF	S 3		
Thailand	THB	MANAGED FLOAT	S, NDF	S, F	S	S, F 3	S, F 1	
Vietnam	VND	MANAGED FLOAT	S	NDF	S, NDF	S 3		
Kazakstan	KZT		S		S, NDF	S 3		
Kyrgyzstan	KGS			S, F				

*NOT TRADED OUTSIDE IRAQ

**ONSHORE BANKS NOT PERMITTED TO LEND OMAN RIYAL DEPOSITS TO OFFSHORE BANKS.

***LIMITED EXCHANGE CONTROLS

Currencies Direct	Ethical Currency	HSBC	INTL Global Currencies	Lloyds TSB Commercial	RBS	Standard Bank	Standard Chartered	Travelex Global Business Payments Limited	World First	Lloyds TSB Commercial Payments Capability
NDF 1	NDF	NDF		NDF	NDF	S	NDF	S, 3		USD GOUR
	NDF		S, 3					S, 1		USD GOUR
NDF 1	NDF	NDF	S, NDF, 3	NDF	NDF	S	NDF			USD GOUR
NDF 1	NDF	S, NDF	ALL, 3	S, NDF	NDF		NDF	S, 3		USD GOUR
NDF 1	NDF	NDF	ALL, 3		NDF	S	NDF	S, 3		USD GOUR
		S, F	ALL, 3	ALL			S (USD)	S, F, 2		USD GOUR
	S		S, 3					S, 1		USD GOUR
NDF 1	S, NDF	S, F	ALL, 3			S	NDF			USD GOUR
	S, F	S, NDF	S, 3					S, 1		USD GOUR
NDF 1	NDF		S, 3		NDF					USD GOUR
										USD GOUR
										USD GOUR
			S, 3			S	S			USD GOUR
S 1		S, F	S, 3	ALL			S, F	S, 2		USD GOUR
			S, 3					S, 1		USD GOUR
S 1	S, F	S, F	S, 3	ALL	S, F		S, F	S, 2		USD GOUR
S, F 1	S, F	S, F	S, 3	ALL	S, F	S	S, F	S, 2		USD GOUR
			S, 3							USD GOUR
S, F 1			ALL, 3	ALL		S	S, F	S, 2	S	USD GOUR
								S, 1		USD GOUR
			S, 3							USD GOUR
		S	S, 3			S	S	S, 1	S	USD GOUR
			S, 3					S, 1		USD GOUR
										USD GOUR
S, NDF 1	NDF	S, NDF	ALL, 3		NDF	S	S NDF	S, 3	S	USD GOUR
								S, 1		USD GOUR
			S, 3				S	S, 3	(INR/USD)	USD GOUR
S 1	NDF	S	S, 3		NDF	S	S	S, 2	S	USD GOUR
S 1		S, F	S, 3	S		S	S	S, 1	S	USD GOUR
			S, 3					S, 1		USD GOUR
NDF 1	NDF	NDF	ALL, 3	NDF	NDF	S	NDF	S, 3	NDF (USD)	USD GOUR
			ALL, 3	ALL		S	S (USD)	S, F, 2		USD GOUR
NDF 1	NDF	NDF	ALL, 3	S, NDF	NDF	S	NDF	S, 3		USD GOUR
										USD GOUR
			S, 3					S, 1		USD GOUR
NDF 1	NDF	NDF	S, 3	S, NDF	NDF	S	NDF	S, 3	S	USD GOUR
			S, 3			S				USD GOUR
S, NDF 1	NDF	S, NDF	ALL, 3	S, NDF	NDF	S	NDF	S, 3	S	USD GOUR
NDF 1	NDF	NDF	ALL, 3	S, NDF	NDF	S	NDF	S, 1		USD GOUR
S, F 1	S, F	S, F	ALL, 3	ALL	NDF	S	S, F	S, F, 3	S, F	USD GOUR
	NDF	NDF	S, 3		NDF			S, 1		USD GOUR
		S, NDF	S, 3		S, NDF	S				USD GOUR
			S, 3							USD GOUR

Service Provider Chart	Currency Code	Pegged to and/or trading restrictions	AFEX	Barclays Capital	BNP Paribas	Baydonhill	Caxton FX Limited	Cooperative Bank
Tajikistan	TJS							
Turkmenistan	TMM	MANAGED FLOAT. USD						
Uzbekistan	UZS	MANAGED FLOAT						
EUROPE								
Albania	ALL		S		S	S 3		
Armenia	AMD		S		S	S 3		
Azerbaijan	AZN				S, NDF			
Belarus	BYR		S		S	S 3		
Bosnia and Herzegowina	BAM	FIXED EURO	S		S	S 3		S, F (EUR)
Hungary	HUF	MANAED FLOAT. EURO	S	S, F	S, F	S, F 3		
Croatia	HRK	MANAED FLOAT	S	S, F	S, F	S, F 3		
Kosovo	EUR		ALL	ALL		S, F 3	S, F 1	
Georgia	GEL	MANAGED FLOAT	S		S			
Macedonia	MKD	MANAGED FLOAT	S		S	S 3		
Republic of Moldova	MDL				S			
Montengero	EUR		S	ALL	S	S, F 3	S, F 1	
Serbia	RSD	MANAGED FLOAT	S		S	S 3		
Turkey	TRY		S	S, F	S,F	S, F 3		
Ukraine	UAH	MANAGED FLOAT		NDF	S, NDF			
PACIFIC								
Cook Islands	NZD		ALL	ALL		S, F, 3	S, F 1	S, F
Fiji Islands	FJD	MANAGED FLOAT	ALL	S	S	S 3		
Kiribati	AUD		ALL	ALL		S, F 3	S, F 1	S, F
Marshall Islands	USD		ALL	ALL		S, F 3	S, F 1	S, F
Federated states of Micronesia	USD		ALL	ALL		S, F 3	S, F 1	S, F
Nauru	AUD		ALL	ALL		S, F 3	S, F 1	S, F
Niue	NZD		ALL	ALL		S, F 3	S, F 1	S, F
Palau	USD		ALL	ALL		S, F 3	S, F 1	S, F
Papua New Guinea	PGK		S		S	S 3		
Samoa	WST	MANAGED FLOAT	S		S	S 3		
Solomon Islands	SBD	MANAGED FLOAT	S			S 3		
Tokelau	NZD		ALL	ALL		S 3	S, F 1	S, F
Tonga	TOP	MANAGED FLOAT	S, NDF		S	S 3		
Tuvalu	AUD		ALL	ALL		S 3	S, F 1	S, F
Vanautu	VUV	MANAGED FLOAT	S, NDF		S	S 3		
Wallis and Futuna Islands	XPF	FIXED EURO	S, F		S	S 3		S, F (EUR)
Australia	AUD		ALL	ALL	S,F	S, F 3	S, F 1	S, F
Christmas Island	AUD		ALL	ALL		S, F 3	S, F 1	S, F
Cocos Islands	AUD		ALL	ALL		S, F	S, F 1	S, F
Heard and McDonald Islands	AUD		ALL	ALL		S, F 3	S, F 1	S, F
Norfolk Island	AUD		ALL	ALL		S, F 3	S, F 1	S, F
New Zealand	NZD		ALL	ALL	S,F	S, F 3	S, F 1	S, F

Currencies Direct	Ethical Currency	HSBC	INTL Global Currencies	Lloyds TSB Commercial	RBS	Standard Bank	Standard Chartered	Travelex Global Business Payments Limited	World First	Lloyds TSB Commercial Payments Capability
										USD GOUR
										USD GOUR
	NDF				NDF			S, 1		USD GOUR
		S	S, 3					S, 1		USD GOUR
		S	S, 3					S, 3		USD GOUR
	NDF		S, 3					S, 1		USD GOUR
			S, 3			S				USD GOUR
		S	S, 3					S, 1		USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL	S, F	S	S, F	S, 2	S, F	USD GOUR
S,F 1	S, F	S, F			S, F	S		S, 1	S, F	USD GOUR
			ALL, 3	ALL		S	S, F		S, F	USD GOUR/EUR SHA
			S, 3							USD GOUR
								S, 1		USD GOUR
										USD GOUR
		S, F	ALL, 3	ALL		S	S, F	S, F, 2	S, F	USD GOUR
	S, F	S, F	S, 3		S, F	S		S, 1		USD GOUR
S,F 1	S, F	S, F	ALL, 3		S, F	S	S, F	S, 2	S, F	USD GOUR
	NDF	NDF			NDF	S		S, 1		USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 3	S, F	USD GOUR
S		S	S, 3				S	S, 3		USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2	S, F	USD GOUR
	S, F	S, F	ALL, 3	ALL		S	S (USD)	S, F, 2	S, F	USD GOUR
	S, F	S, F	ALL, 3	ALL		S	S (USD)	S, F, 2	S, F	USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2	S, F	USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 3	S, F	USD GOUR
	S, F	S, F	ALL, 3	ALL		S	S	S, F, 2	S, F	USD GOUR
		S	S, 3					S, 1		USD GOUR
			S, 3					S, 1		USD GOUR
			S, 3					S, 1		USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 3	S, F	USD GOUR
			S, 3					S, 1		USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2	S, F	USD GOUR
S			S, 3					S, 1		USD GOUR
	S, F (EUR)		S, 3				S	S, 2		USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2, 3	S, F	AUD
	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2	S, F	USD GOUR
	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2	S, F	USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2	S, F	USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2	S, F	USD GOUR
S,F 1	S, F	S, F	ALL, 3	ALL		S	S, F	S, F, 2, 3	S, F	NZD

NOTES

AFEX

AFEX generally does not charge a fee for transactions with a value above $25,000. Transactions below this level generally attract a fee of £10, but the company generally negotiates depending on the number, size and type of transactions (e.g. charities sending payments to repeat beneficiaries are likely to attract a lower fee than those who always send to new beneficiaries). This fee structure assumes that payments are sent with charges OUR (i.e. the beneficiary always receives the full amount ordered).

Baydonhill

COP and BRL - Pre-trade set up, transfers not guaranteed.

Caxton FX Limited

There are no fees on the transactions carried out for clients unless the amount is below £5000, or equivalent, in which case there is a £15 fee. This charge can be eliminated by using Caxton's online platform.

Any charges taken by banks involved in the transfer are borne by the beneficiary, who receives the full balance less any fee related deductions.

Cooperative Bank

For all currencies, funds can be sent as long as the country in question has the facility to receive payment and either convert to local currency upon arrival, or can hold funds in-country in a hard currency account.

HSBC

Where the minor currency has been pegged to a major, proxy forward contracts can be used.'

Lloyds TSB Commercial: Payment options

1. There are a variety of ways in which payments can be made between countries, sometimes involving a number of intermediary banks. These banks can take charges at each stage of the payment's transmission.
2. In the case of Lloyds TSB Commercial the choice of charging options from those available (Our, Shared or Beneficiary) is made by the remitter of the payment not the bank.
3. Where possible the remitter of the payment will want to fix or have advance notice of additional costs associated with the payment.
4. Where a currency is pegged to, or managed against a major currency, our payment suggestion is linked to the major currency being paid with the FX conversion taking place in local currency in-country.

On this basis we have grouped payments options as follows:

- USD GOUR – Remitter elects OUR as the charging option for a payment to be sent in dollars. We are able to guarantee the level of agents charges will not exceed a pre-agreed level for the payment (our fee would be levied separately). This agent's charge would be no more than $15 per payment.
- USD GOUR/EUR SHA – Payments made in
  - o USD to benefit from fixed agents charges as above or
  - o EUR, where agents' charges might be minimised if the payment instruction has relevant BIC/IBAN included and intermediary banks are not involved in the payment process.
- EUR SHA – principally for payments within Europe where the use of the SEPA credit Transfer & the presence of full BIC and IBAN should mean that no charges other than those levied by Lloyds TSB Commercial for the payment are taken.
- GOUR/CCY (e.g. CAD) – Payments can be made in
  - o USD to benefit from fixed agents charges or
  - o Local currency. In this case it is possible that if payments are made on an OUR basis we can agree agents charges in advance.
- CCY (e.g. HKD) – in this case the charges options are the choice of the remitter. However if OUR is selected we can agree agents charges in advance.

The objectives of these groupings are to:

- Simplify the complexities inherent in payments charging
- Offer the potential to fix agents charges in advance
- Simplify the FX requirements focusing on major currencies where the options for FX management are optimised

Standard Chartered Bank

The information provided in the chart relates to a European counterparty dealing with SCB London. Capabilities alter depending on the counterparty's domicile e.g. a Pakistan-based NGO would be able to deal PKR deliverable forwards (subject to credit/regulations) whereas an NGO based in London would not.

IQD: It is possible to deal Iraqi dinar outside of Iraq, SCB quote spot. However the counterparty must have an account with the Bank of Baghdad (Iraq) for settlement purposes. NGN and INR – LHS (left hand side) deliverable forwards only.

Travelex Global Business Payments Ltd

In addition to Spot and Forward transactions, Travelex issue and negotiate drafts (foreign currency cheques).

APPENDIX 2: Useful Links

Below are a number of website links. These include contributors to the publication as well as other websites which may be of use.

Charities

The British Council	www.britishcouncil.org
The Brooke Hospital for Animals	www.thebrooke.org
Build Africa	www.build-africa.org
Merlin	www.merlin.org.uk
Oxfam	www.oxfam.org.uk
Plan International	www.plan-international.org
Traidcraft Exchange	www.traidcraft.co.uk
War on Want	www.waronwant.org
WaterAid	www.wateraid.org

Service Providers

AFEX	www.afex.com
Baydonhill	www.baydonhillfx.com
Barclays Corporate	www.business.barclays.co.uk
BNP Paribas	www.bnpparibas.co.uk
Caxton FX Limited	www.caxtonfx.com
Cooperative Bank	www.co-operativebank.co.uk
Currencies Direct	www.currenciesdirect.com
Ethical Currency	ww.ethicalcurrency.com
HSBC	www.hsbcnet.com/treasury/foreign-exchange
INTL Global Currencies	www.intlglobalcurrencies.com
Lloyds TSB Commercial	www.lloydstsb.com/business/internationalservices
Royal Bank of Scotland	www.rbs.co.uk
Standard Bank	www.standardbank.com
Standard Chartered	www.standardchartered.com
Travelex	www.travelex.co.uk

Other

Charity Commission	www.charity-commission.gov.uk
Charity Finance Directors' Group	www.cfdg.org.uk
Crowe Clark Whitehill	www.croweclarkwhitehill.co.uk
Missing Millions report	www.stampoutpoverty.org/?lid=11155
NGO Treasury Services	www.ngotreasuryservices.org
Stamp Out Poverty	www.stampoutpoverty.org

Charity Finance Directors' Group

The Charity Finance Directors' Group (CFDG) is the charity that champions best practice in finance management in the charity and voluntary sector.

Our vision is a transparent and efficiently managed charity sector that engenders public confidence and trust. With this aim in sight, CFDG delivers services to its charity members and the sector at large which enable those with financial responsibility in the charity sector to develop and adopt best practice.

With more than 1700 members, managing over £21.75 billion, (which represents around half of the sector's income) we are uniquely placed to challenge regulation which threatens the effective use of charity funds, drive efficiency and help charities to make the most out of their money.

For more information, please see www.cfdg.org.uk

Stamp Out Poverty

Stamp Out Poverty is a network of more than 40 organisations comprised of some of the UK's leading charities including Oxfam, Christian Aid, Save the Children and War on Want, working on ways to bridge the funding gap required to meet the Millennium Development Goals. It is one of the founder members of the popular Robin Hood Tax campaign.

Stamp Out Poverty is acknowledged for helping to open up political space around innovative sources of financing which has lead to initiatives such as UNITAID that has to date generated more than $1 billion for HIV/AIDS, TB and malaria treatments. Momentum is now building through the support of a number of countries for the introduction of Currency Transaction Levies on the vast wholesale market in Foreign Exchange. With a staggering $1,000 trillion traded every year, a levy as low as 0.005% has the potential to raise many billions of dollars a year without adversely affecting the market but capable of benefitting some of the world's most disadvantaged people.

For more information, please see www.stampoutpoverty.org