Our study on currency risks in the civil-society sector was designed to bring together an inventory of best practices in the civil-society sector for dealing with risk associated with currency volatility. To achieve this, we surveyed a group of 103 NGOs. The results of the study show the growing importance of hedging currency risk in order to maximise the impact of donations.

The transfer of donations received mostly from the Global-North to the most remote regions of the world and in different currencies is of existential importance for international NGOs. In an ever-changing global environment, the payment of funds in the local currencies of programme countries around the globe has become a complex and extremely costly affair for NGOs in recent years. Very few organisations have found a solution to the problem through the use of modern currency services such as currency hedging. Fewer have mastered this skill to reduce the cost of money transfers significantly.

In times of declining non-designated resources, and growing demand for accountability and transparency from donors and the general public, the topic of currency fluctuations and proper FX-management has become more and more important.

This impact report provides you with the results of our conversations with International NGOs on their practices.
Do we have a Problem?

Last summer a well-known international NGO brand came into the spotlight of international media for exchange rate losses of 3.8 million EUR. Since then the sensitivity towards the issue has risen sharply across the civil society sector.

Interestingly enough, the rise and fall of the core currencies like the Euro or Dollar had already been identified by many international NGOs as a developing problem for years. Why? Just one example, which is based on actual data: Imagine, you are budgeting for your well planned participatory community project in Dar es Salaam (Tanzania) consequently, in the local Tanzanian currency Shilling with a budget of 200,000 EUR. One month later, when you want to pay the funds, the fluctuation between the euro and the target local currency lead to actual costs of more than € 226,000. Of course, this risk does not only apply for just one project in Tanzania, but for your entire programme portfolio. This risk has risen sharply since the global economic and the euro crises.

Without proper strategy the causes described above either lead to funding shortages, or encourage INGO staff to establish a “buffer-culture”, which contradicts the planning efforts of results based programme planning. Often, this culture results in an extremely low “utilisation rate”, a disaster, especially for designated funded programmes which many INGO would like to avoid.

In the business sector, many global operating companies secure exchange rates with so-called “hedging transactions” and, by doing this, “freeze” the currency course. This not only protects against the losses, it also takes on the other benefits associated with it, including the opportunity to make currency gains (but that’s for international NGOs by nature a minor issue).

In the past, however, it was only possible to hedge core currencies such as Euros, Dollars or Pounds, but not currencies of programme countries like Bangladeshi Taka or Tanzanian Shilling. The financial markets in recent years have changed dramatically, widening the portfolio of currencies that could be hedged.

Self-Evaluation: 3.3 / 10

We asked the International NGOs in an online survey, to self assess their current skills for managing volatility risk. The average score of the participating organisations was 3.3 out of 10.

During the interviews many interviewed partners confirmed the overall result of their own assessment.

In this report, we have discussed about risks, challenges and proposed solutions for managing currency volatility.
Summary of Interviews

Importance of exchange rate fluctuations for the risk management of global NGOs is increasing dramatically

Our research team was tasked to find answers to the following questions:

- Are INGOs prepared for the increasing volatility risk?
- What is today’s "good practice" for organisations in the non-for-profit sector?
- How can INGOs further develop tools and processes in their organisation?

For this purpose, an online survey was developed. In addition, our research team conducted interviews to obtain qualitative assessments. Interview responses are kept anonymous and are summarised in this report.

The outcome of the conversations shows that despite different business models, the INGOs are fighting the same challenges. We have summarised the key issues below for you, in order of the nominations:

High Costs for Transactions

Most interviewed NGOs complained of increased costs for transactions, particularly over the last five years. Only a small percentage of the organisations actually managed to reduce the cost of money transfer. Every third INGO could not provide any precise information on the transfer costs, as these costs were not explicitly and systematically monitored.

The survey showed that INGOs which do monitor the transfer costs on a regular basis, report an average price of EUR 40 per transaction. With a total project volume of EUR 1.5 billion across all organisations surveyed, this means total cost for participating in the study international INGOs amounting to 12 million euros per year. The majority of NGOs that have managed to reduce costs drastically use financial service providers, which are not bank institutions in the traditional sense.

These providers have specialised in the transfer of funds in the currencies of programme countries. The flip side of the cost reduction due to new suppliers is often a complicated operational process on the receiving side, and longer processing times, especially in the start-up phase.

Theory and Practise

All participating INGOs showed basic knowledge of FX services, such as, spot rate, forward contracts and money market hedge. Genius is in the idea. Impact, however, comes from action. In implementing the knowledge into practice, many INGOs are very conservative: only 66% said that they regularly use spot rates. Every fourth NGO claimed that they have not implemented to date any measures or actions regarding FX management, but that they take this into consideration.

Institutional funding an obstacle to effective FX Management

INGOs who receive a high percentage of their funds from designated or institutional donors, such as, the European Union (EU), the German Society for International Cooperation (GIZ), The Department of International Development (DfID), USAID or Australian government overseas aid programme (AusAid), often do not have sufficient capital for hedging currency services. The design of the cooperation agreements with institutional donors often do not allow them to receive funds early in the process to address the FX risk adequately.

Many INGOs maintained that exchange rate fluctuations is not a high priority in today’s design and planning of programmes and therefore mitigation processes are difficult to implement.
Internal Obstacles: Slow and Complex Decision Processes

A number of national NGOs which are legally independent, but organisationally operate defacto integrated within an International Federation, complained about lengthy and bureaucratic internal decision-making processes in the changing of administrative standards due to the required level of coordination with other national members and the International Secretariat.

It became clear that many International Federations have reached a level of complexity in their decision making processes, that it becomes more and more difficult to adapt processes and standards. A dangerous trend, especially for organisations which need to stay agile, if they want to succeed in a rapidly changing and disruptive environment.

The consequences of this increasing bureaucracy is evident and results in a hesitation among finance managers of national and international NGOs to initiate process changes, even if they are not satisfied with the status quo (or if they see the risk of increased volatility). Some interviewed partners stated they had tried to use the media crisis of last summer for sensitising the governance. Nevertheless, no interviewed partner had a success story about fast and sustainable change in the adjustment of process to currency management. The topic of a slow adaptation of INGOs to a disruptive environment will continue to be a topic of discussion in 2016 for direct impact group, but also for the International Civil Society Centres who are working together with international NGOs for possible solutions to address this problem.

Necessary Change of Course from Monoculture to Portfolio

To our surprise, we found that only 30% of surveyed organisations work in their daily business with more than one FX service provider and compare conditions on a regular basis.

Our survey shows that a change from a mono-culture towards a portfolio of service providers is an important factor for success and key to a sustainable reduction in costs. INGOs with developed procurement processes for procuring financial services which also place high emphasis on an organisational culture that promotes and demands continuous improvement of systems, processes and results through the strategic use of innovation can easily achieve cost savings of up to 30%.

Depending on the extent of the volume of programme spending saving of five to six digit amounts can be easily achievable. Saved money that can be used for implementing the organisations mandate and can contribute to the efficiency of their programme work.

INGOs noted that this aspect is currently not required or analysed by quality frameworks, such as national quality seal, the German DZI Spendensiegel, nor by international standards, such as HAP Accountability, IATI or the INGO Accountability Charter.

The interesting feedback from the INGOs that have successfully converted to a portfolio approach is that: the main problem was not the technical implementation, but the development of a culture that creates a working environment in which the comparison of vendors is part of the daily business. This aspect is particularly important for a successful implementation. External Moderation and process support can be helpful here.

System for Comparison of Offers

Nowadays, procurement policies are a vital part of organisational “Best Practice”. They are a standard in the civil society sector. All interviewed NGOs have clear guidelines for the procurement of goods and services above a certain value, after which several offers must be obtained and compared systematically to ensure the best possible use of donations. Interesting enough we found out that more than 80% of NGOs seek no comparative offers from different FX providers.
Only one in five organisations stated that they compare conditions at least once a year and consider a change of providers into consideration. The reasons for this behaviour is apparent from our interviews: lack of monitoring of transaction costs leads to low visualisation and awareness of potential savings. Simultaneously, the savings from each individual transaction is fairly low. The reason for the high total efficiency is the high number of transactions. Many participants expressed their concern that a systematic comparison of each transaction could lead to a high administrative burden. Best-practice examples clearly demonstrate that this fear is unsubstantiated. There are NGOs that compare during the processing of transactions by requesting offers from two or three service providers in real time without any big effort and execute the transaction with the best FX provider.

**Accountability and Risk-Management**

Less than 20% of all NGOs stated that they have introduced a regular and systematic assessment of risks at governance level and that the risk of currency volatility is adequately addressed in their risk management. This situation seems to be changing, however slowly after the events of last year. A number of NGOs stated that they are in the process of revising their risk management, and that they intend to put a higher emphasis on FX risks.

**A new role for networks and NGO-Platforms**

Some interviewed partners expressed an interest in a stronger exchange on topics such as FX management in national, and international NGO networks, as well as an interest in assistance through international accountability standards. Some financial managers of International NGOs expressed that risk management is dealt with rather superficially in these forums and that they offer very little practical value for the application in daily operations.

**What we take from this survey and what we offer**

direct impact group exists to support civil society organisations in the development of civil society effectiveness, accountability and efficiency. The exchange on the topic of FX risks has shown us how important it is to work on this topic with NGOs, foundations and other not-for-profit organisations. Your mandate work benefits directly from the cost savings which you can achieve through efficient FX Management. Consequently, we have strengthened our team in this area and provide implementation support for all the recommendations of this survey, along with our offer of interim management and resource optimisation.

Within this context we will offer together with our cooperation partners in 2016 webinars and advice on this important subject, true to our motto: “Genius is in the Idea. Impact, however, comes from action”

**Conclusions:**

1. FX volatility is an increasing problem for the NGOs with programme work abroad
2. There are no universal solutions, but very successful examples of the use of innovative solutions in the FX range
3. Complex decision-making and governance structures complicate the development and implementation of flexible and innovative solutions
4. Institutional financing is in itself an obstacle to effective FX management. Solvent approaches need take this aspect into consideration
5. NGO networks and platforms should consider offering support on the topics of currency exchange and FX risks
6. Proposed Solution: install visualisation of potential savings
7. Proposed Solution: change from mono-culture to portfolio culture
8. Proposed Solution: establish systematic comparison of offers
9. Proposed Solution: install a practical and simple risk register

**Impressum**

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