



FINANCIAL GUIDELINES

#3 Exchange Rates (May 2021)

1. INTRODUCTION

This guidance covers some of the common issues applicants and grantees face when working with exchange rates. These arise when you are dealing with grant funds – for example preparing your project budget or reporting back to AmplifyChange. Throughout the document, 'you' refers to applicants/grantees, and 'we' refers to AmplifyChange.

Most grantees work in and use local currency, or sometimes another currency such as USD, to pay for project expenses. However, at AmplifyChange we work in British Pounds Sterling (GBP). We use GBP for everything: the amount of your grant in your Grant Agreement, your payments (unless you chose to receive payments in your local currency), reviewing how you spent your funds. Therefore, no matter what you use locally, **you must convert all project finances into GBP** when interacting with us.

To do this you will need to select an appropriate currency exchange rate. This document outlines our requirements in this area and factors in choosing the best exchange rate at each stage.

2. WHEN TO CHOOSE YOUR EXCHANGE RATE METHOD

There are two points when you will need to consider which exchange rate method to use:

- Budgeting – When planning spending. This is when you are drafting your original budget, making revisions during pre-contracting discussions, and forecasting or revising your budget during the life of your project.
- Reporting – After spending. This is when you report project expenditure to AmplifyChange.

You can choose the same method for both if you wish, except for the Lump Sum Transfer method (because it relies on the actual exchange rate when you receive funds).

3. SELECTING APPROPRIATE EXCHANGE RATES

We do not specify which method you must use, but there are some we will accept and some we will not. These are described below.

If you wish to use a method which is not on the approved list **you must discuss and agree this with AmplifyChange in advance.**

Whichever method you choose, we must be able to verify the source of the rates you use. We recommend these official sources:

- www.oanda.com
- www.xe.com
- www.ft.com

Approved exchange rate methods

- Lump Sum Transfer - This is the simplest method. This is the exchange rate your bank applied when AmplifyChange grant funds came into your account and were converted to your local currency.¹ It can be easily calculated and clearly evidenced by a copy of your bank statement. We recommend this method for Opportunity and Strengthening grants.
- Over the duration of your grant, you will receive multiple grant payments and have more than one 'lump sum transfer' rate, and you might have funds leftover

¹ Please be aware that you will probably be charged a fee by your bank to convert incoming GBP into your local currency. You should record this fee as a separate cost for bank charges in your AmplifyChange financial report. It should not be deducted from the funds received to calculate the exchange rate.

at the end of one reporting period which needs to be spent in the next period. In this case you must decide what rate to use in the second period. The most accurate way is to continue using the first rate until all the funds received at that rate are spent, then use the bank's applied exchange rate for the second transfer for the rest of the funds. Another way is to use a weighted average rate for all transactions in the second reporting period, weighted by the amount of funding received at each rate.

- Daily Market Rate - You may prefer to update your exchange rates more frequently. In this case you would convert and record each project transaction using the prevailing exchange rate on that day. (Please keep in mind we must be able to verify the source of the rates you use.)
- Average Market Rate - This method uses an average of daily market rates over a specific period – whether weekly, monthly, or a project reporting period. If you choose this method, please do not calculate the average yourself but use a reputable source of such averages. (Please keep in mind we must be able to verify the source of the rates you use.)
- Daily Rate on a Selected Day - This method also uses a Daily Market Rate but on a selected recurring day – such as the first of the month – and then applies that across the period, in this example that entire month. (Please keep in mind we must be able to verify the source of the rates you use.)

Exchange rate methods not acceptable to AmplifyChange

- Estimating a rate based on the prevailing rate for the period, as this cannot be reproduced or validated and is subject to fraud.
- Using cumulative average rates across the year or any method where you would have to revise information in later reporting periods, as AmplifyChange does not allow that.
- Using the exchange rate in the original budget for reporting purposes. Even if this came from an approved method, it is likely to be out of date when you come to reporting.

Good Practice

- Use the same method throughout the life of the grant. If you want to change it, you need to provide clear reasons and obtain the approval of AmplifyChange.
- Document the method you have chosen and only use exchange rates in line with that method. The sources of these rates must be supported by external evidence such as rates from the websites listed above or bank statements showing the actual rate received.
- Record your choice of method in your internal policies, such as your Finance Manual.
- If you have a policy on the rounding of exchange rate numbers (for example to two decimal points), this should be documented and used every time.

4. EXCHANGE RATE FLUCTUATIONS

Changes in the exchange rate between GBP and your local payment currency can cause unforeseen budget variances, which are described below.

Once your AmplifyChange grant is agreed it remains a fixed amount of GBP and cannot go up or down. Therefore, **grantees must bear the impact of any exchange rate fluctuations.**

You will need to be aware of the risks of exchange rate variability and plan accordingly when budgeting and when selecting the best exchange rate method for each situation.

Budgeted rates and reported rates

At the pre-contracting stage of your grant, we will agree your final budget in GBP.

Whilst the budget is now fixed, the exchange rates you use to report on local spending will vary, as the rates change over time. This may lead to apparent overspends or underspends against budget, even if you spent exactly what you had planned in your local currency:

- If the currency you use locally depreciates against GBP, it means the amount of local currency you get when your GBP grant payment is converted will be more than you expected. The movement is in your favour. *For example, if 1 GBP buys*

80 Indian Rupees on the day you draft your budget, but 85 on the day you receive your grant payment, you will receive 5 more Indian Rupees per GBP than you had planned.

- If GBP depreciates against your local currency, it means the amount of local currency you get when your GBP grant payment is converted will be less than you expected. The movement is not in your favour. *In this case, if 1 GBP buys 80 Indian Rupees on the day you draft your budget, but only 75 on the day you receive your grant payment, you will receive fewer Indian Rupees than you had planned.*

Here is a worked example:

The currency you use locally for project expenses is USD.
You are drafting your AmplifyChange budget using the current market rate of 1 USD = 0.85 GBP.
You are costing out a training event and based on experience you estimate it will cost USD 7,500 for venue hire, refreshments, accommodation, and travel reimbursements.
Using the exchange rate of 1 USD = 0.85 GBP you put GBP 6,375 in your budget for this activity.
When you later receive your grant payment from AmplifyChange the exchange rate has changed. It is now 1 USD = 0.90 GBP.
Your event takes place, and as budgeted, you spend USD7,500 locally on it.
You are using the Lump Sum Transfer Rate method of exchange rate calculation to report on your project. Therefore, when you report on this event you will need to report the expenditure of USD 7,500 as GBP 6,750.
This shows an 'overspend' of GBP 375 against budget, even though you spent exactly what you had budgeted.
This is because when converting expenditure, you used the rate of exchange you got on the day you received the funds, which was less favourable than the rate on the day you planned the event.

Actual rates and reported rates

As outlined above, there are several ways you can convert local project expenditure into GBP for reporting to AmplifyChange.

Sometimes, exchange rate movements can make it look like you have not spent all your grant funds, and you will be required to return any 'unspent funds' at the end of your grant period, even if you have nothing left, so it is important to choose your exchange rate method carefully.

The example below shows how this can happen:

You are starting a one-year project in Uganda. The total budget is GBP 100,000, and it will be paid in two six-monthly instalments.
AmplifyChange sends you GBP 65,000 for the first six months.
The actual rate the bank uses to convert this into UGX in your bank account is 1 GBP = 4,250 UGX. Therefore, your first grant payment gives you UGX 276,250,000.
When you come to report to AmplifyChange at the end of the first six months you decide to use the six-monthly average exchange rate from www.ft.com .
This gives the average rate as 1 GBP = 4,400 UGX. In the first six months you spent UGX 215,000,000, so you apply this exchange rate and report to AmplifyChange that you have spent GBP 48,863.64.
AmplifyChange now sends you the second grant payment for the remaining GBP 35,000.
The actual rate the bank uses to convert this into UGX in your bank account is 1 GBP = 4,450 UGX, so for your second payment you receive UGX 155,750,000.
You spend all remaining funds, UGX 217,000,000, in the second period.
The six-monthly average exchange rate for the second period is 1 GBP = 4,500 UGX. Applying this rate, you report having spent GBP 48,222.22.
For the full year of the project, you have reported spending GBP 48,863.64 + GBP 48,222.22, a total of GBP 97,085.86, from your grant of GBP 100,000
This shows you have underspent by GBP 2,914.14 compared to what was disbursed to you in GBP, even though you have spent all the UGX currency you have received.
This surplus amount of funding will have to be repaid to AmplifyChange, even though you have no grant funds left in your account.

Even if you use the Lump Sum method of exchange rate calculation, there may still be a difference, though smaller.

Here is the example above using the lump sum method:

You are starting a one-year project in Uganda.
AmplifyChange sends you GBP 65,000 for the first six months.
The actual rate the bank uses to convert this into UGX in your bank account is 1 GBP = 4,250 UGX. Therefore, your first grant payment gives you UGX 276,250,000.
In the first six months you spend UGX 215,000,000.
At the end of the first six months you report using the Lump Sum transfer method. You received the funds at 1 GBP = 4,250 UGX, so you report having spent GBP 50,588.24 in the first period.
AmplifyChange now sends you the second grant payment for the remaining GBP 35,000.
The actual rate the bank uses to convert this into UGX in your bank account is 1 GBP = 4,450 UGX, so for your second payment you receive UGX 155,750,000.
You spend all remaining funds, UGX 217,000,000, in the second period.
You decide to use a weighted average lump sum method to report the second payment.
UGX 61,250,000 (28%) of the total funds spent in the second period were received at the first rate of 1 GBP = UGX 4,250, and UGX 155,750,000 (72%) were received at the second rate of 1 GBP = 4,450 UGX.
The weighted average of these two lump sum rates is 1 GBP = 4,394 UGX.
Therefore, in the second period you report spending UGX 217,000 = GBP 49,385.53.
In total, you have reported spending GBP 50,588.24 + GBP 49,385.53, a total of GBP 99,973.77.
This shows that you have apparent underspend of GBP 26.23.
This surplus amount of funding will have to be repaid to AmplifyChange, even though you have no grant funds left in your account.

5. UNDERSPENDS / OVERSPENDS

We understand that predicting and managing exchange rate fluctuations is difficult. However, our budget approval process is based on fixed GBP amounts, and we cannot change grant amounts. Regardless of the cause of under- or overspend, this section explains how they should be handled.

Overspends

When reporting to AmplifyChange, only report your spending up to the total GBP amount of your grant. We cannot give you any more funds than this, so you will need to cover any shortfall yourself.

Underspends

When exchange rates work in your favour and you receive more local currency than you expected, you may end up with an underspend. If you do, there are two options:

- Leave the funds unspent – You will be required to return any unspent funds to AmplifyChange at the end of the grant. Be aware that you also bear the risk of exchange rate fluctuations in the return transaction.
- Carry out additional activities and/or request a no cost extension – We would prefer you to use these funds to support your project or strengthen your organisation rather than return them to us. If you forecast an underspend during the life of your grant you may ask to use it to carry out additional activities or continue existing activities for longer with a no cost extension. We cannot provide any more money, only additional time. Contact your AmplifyChange Grants Manager as early as possible, and in your proposal, describe the added value of the extra activities and confirm your ability to deliver them. A new budget, workplan and addendum to your Grant Agreement may be required.

6. MANAGING EXCHANGE RATE RISK

You should consider the risk of exchange rate fluctuation and variance when designing your projects and budgets, and draft internal procedures to minimise your exposure to them.

We do not have rules for this, but some good practices to consider include:

- Minimising conversions – Convert your grant funds as few times as possible. Sometimes grantees expose themselves to unnecessary risk because, for example, they receive their GBP grant into a USD account and then convert it into local currency, instead of converting the GBP directly into local currency.
- Holding your funds in a GBP account – If you can open a GBP account it may be better to hold your grant funds in GBP and convert them into your local payment currency only as and when you need to make payments. This is useful especially if exchange rates are volatile and your local currency is likely to depreciate against GBP.
- Choosing the right financial institution – Sometimes you can receive poor exchange rates by using local banks rather than international institutions. We recommend that you investigate the best options that are available to you based on your location, size and circumstances.

Due to the specialist nature of financial speculation, we do not advise that grantees engage in the practice of 'hedging' against currency movements. AmplifyChange funds cannot be invested in this way.