

CASH AND MARKETS WORKING GROUP MEETING

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Use of Foreign Currency for Designing of Assistance Packages

Background

Why not set a transfer rate in USD but then each agency converts this to YER and makes transfers in the local currency?

Coordination Concerns

Protection Concerns

Political Concerns

Why not calculate the transfer rate in USD and then transfer USD to beneficiaries?

Ethical Concerns

Program Concerns

Coordination Concerns

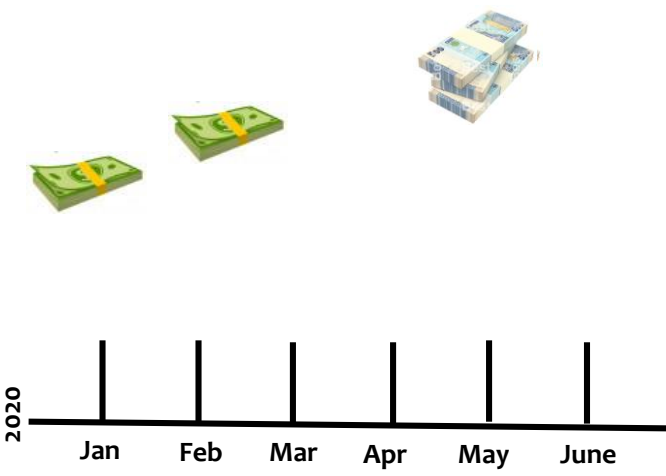
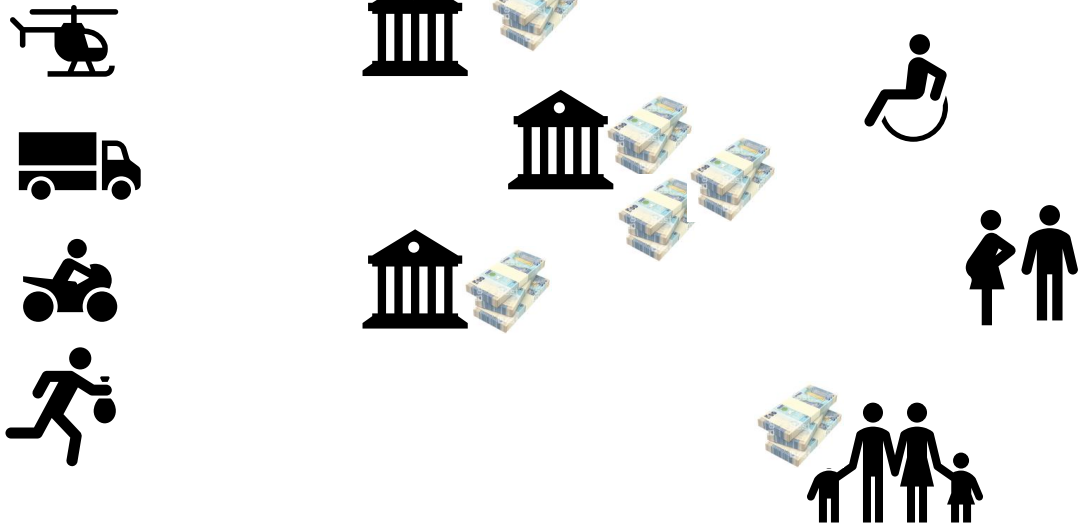
Protection Concerns

Political Concerns

CMWG Yemen: Recommendations

- CMWG member are encouraged to list the transfer values in Yemeni Rial in all technical documents, both in CMWG general, e.g. SMEB & individual internal documents, e.g. SOPs.
- In SOPs it is advised to have a footnote encouraging the currency to be left in Yemeni Rial regardless of exchange rate fluctuations.
- In CMWG docs and proposals, some limited references may be made to the equivalent value in another currency, e.g. USD, with clear reference to the exchange rate used at that point in time.
- It is recommended that all reporting e.g. the 3Ws and discussion within the CMWG be done in Yemeni Rial.
- It is recommended that donor proposals, narrative section lists, the transfer values are in Rial and that they make it clear transfers are provided to beneficiaries in Rial, along with a clear calculation rationale into the donor currency.
- CWG Members may consider Including currency fluctuations in the risk assessment section.
- **Other Recommendations**

Background



Issue...

HCT 2017...

General Recommendation...

- Original agreement against setting transfer rates in USD and against providing USD as per the HCT 2017 decision are still valid at this time.
- As such the CMWG will not be recommending the HCT to change its agreed policy concerning the use of USD for coordination and program purposes.

Why not set a transfer rate in USD but then each agency converts this to YER and makes transfers in the local currency?

Coordination Concerns

- Designing the TV in USD and transferring YER will cause inconsistency at field level.
- Price monitoring done in YER.
- FX fluctuation can cause issues.
- Stable MPCA set in YER can support better planning and coordination.

Protection Concerns

- Different organizations providing different assistance packages may also cause the disruption in community level social coherence.
- May lead to community conflicts.
- Sometimes may cause increase in gender-based violence cases.

Political Concerns

- Different agencies will be negotiating different conversion rates with banks
- Similarly, organizations with bigger CVA portfolio will also be able to negotiate better rates for service charges with financial service providers (FSPs)

Why not calculate the transfer rate in USD and then transfer USD to beneficiaries?

Ethical Concerns

- Various anecdotal evidence supports the argument that dollar is not the 'preferred' currency of local economy.
- Currently all business to consumer transitions (B2C) in Yemen are done with YER as the currency of purchase and sale.
- If the humanitarian community moves to direct transfer of USD it will be strong signal that we have lost trust in the currency that could further compound the loss of value of the currency.
- An influx of dollars in the market trigger a market imbalance and has the potential to cause harm.

Programme Concerns

- There is currently a critical shortage of USD Liquidity inside Yemen with banks limiting the amount of USD that can be withdrawn.
- In agency discussions with the major banks and currency traders, they confirmed that their ability to make largescale transfers in USD would be limited and could not be guaranteed.

Protection Concerns

- By providing transfers in highly valuable USD will be shifting the burden of converting the currency to the person of concern, putting them at increased risk of fraud or direct security concerns.

Why not calculate the transfer rate in USD and then transfer USD to beneficiaries?

Coordination Concerns

- There are systems in place to regularly monitor the prices and allow regular corrections to the recommend transfer value in YER to be made.
- WFP VAM unit and the price data being managed by the WASH Cluster with the support of the CMWG.
- As a result, it is possible for us to keep track of the ability of the SMEB to cover the basic needs of a household and for the working group to make changes to the amounts as is required.
- It is worth noting that the SMEB includes as 20% additional amount as a contingency for price inflation. As a result, there is no need to use the exchange rate as an imprecise measure when we can directly track the prices of essential goods in the market on a monthly basis. Additionally, while Yemen is suffering from inflation, it is not yet close to the rapid hyperinflation levels which would force a widespread movement from the local currency to the USD was required.
- It was agreed at HCT level in the past that humanitarian organizations will NOT provide assistance in dollars due to various reasons including the restriction from the central bank

Political Concerns

- The Government of Yemen has not approved us to do so. The Central Bank of Yemen in July 2016 approved Humanitarian actors to make payments to suppliers in USD due to the issues in the banking system (B2B). However, they requested that these payments be limited as much as possible
- CBY and GOY did not give approval for payments of USD to beneficiaries to be made so as to limit the impact of dollar payments on the wider economy.
- Globally the advice concerning making payments in currency other than that of the host country is that it should only be done as a last resort when all other measures have been exhausted.
- As humanitarian transfers only reach a small percentage of the population of any community, any action that has a risk to damage the local market or confidence in the local currency should be avoided unless absolutely essential.
- Currently in Yemen we have not reached that situation and have strong tools in place to ensure that a correct transfer value in Yemeni Rial to meet the required needs can be calculated as required.

Other Recommendations

- During the update of the SMEB (Survival Minimum Expenditure Basket), the two components that are currently combined, (the basket of items, and the recommended transfer value) are separated and treated as two separate processes.
 - One being the basket items of items to be included in the SMEB, their quantity and specification, and how their prices will be tracked in the market. The update of the SMEB means to consolidate and agree on the list of items that a household requires to fulfil basic immediate needs.
 - The other being the process mythology and guidance to produce an agreed MPCA common transfer value, (based on the SMEB). This will include inflation contingency planning and also the process for updating the MPCA transfer value as required

Other Recommendations

- The Cash and Markets Working Group (CMWG) under the holistic guidance of ICCM is the technical body which has a mandate to facilitate, guide and advise on overall guidance regarding all CVA related issues across all sectors. It provides an overarching guidance and harmonization guidelines on cash and voucher programming across all actors and clusters.
 - The discussions on sectoral/ multi-sectoral/ multi-purpose cash has been taken up CMWG and there is a SMEB Technical Working Group working to develop a Survival Minimum Expenditure Basket which will inform the transfer value for SMEB. This will resultantly inform the MPCA programmes of cash actors.
 - Selection of cash vs In-kind is more programmatic decision, which is dependent of various factors including programme objectives, organizational mandate, feasibility of cash programmes etc. which cannot be decided by CMWG.

Thank you...