

GUIDANCE NOTE

Issues Around Use of Foreign Currency for Designing of Assistance Packages in Yemen

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**Technical Working Group on Currency Exchange
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Endorsed by:

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Background

The Yemeni Rial (YER) during the course of 2020 has shown high levels of volatility in its value against foreign currencies, in particular the United States Dollar (USD). As program budgets are calculated in USD or EUROS, but cash transfers are made in YER, the reduction in value of the YER against USD has led various repercussions including the underspending in the program budget amounts by humanitarian actors which raises questions like whether the transfers have yielded the desired results.

As a result of this issue, some Humanitarian actors have raised the question of setting transfer values in USD and/or paying beneficiaries in USD. This issue was previously raised in a meeting of the Yemen Humanitarian Country Team (HCT) in June 2017 in which it was agreed that Humanitarian transfers should be made only in Yemeni Rial and that the CMWG approved SMEB should only be calculated in YER. Details of this discussion can be found in the February 2018 Yemen CMWG note Currency of Transfer Guidance Note which can be found at

https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/guidance_note_currency_of_transfer_yemen_cmwg_11022018_o.pdf

However, as the situation in Yemen has continued to develop and evolve, the CMWG revisited this issue in July 2020 to review if the situation had developed. To this end a series of discussions have been held at various levels among different groups with the conclusion that the original agreement against setting transfer rates in USD and against providing USD 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.

The key outcomes of these discussions can be found below.

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

One idea that would make budgeting programming much easier would be to agree a fixed USD amount to be provided as a cash transfer that would then be converted by agencies to YER using the foreign exchange rate they are able to access.

Coordination Concerns

- If the calculation of assistance package/ transfer value is done in dollars for harmonizing the planning of donor grants and HRP; the humanitarian agencies will still be providing the actual assistance to beneficiaries in YER using different conversion rates.
 - o As a result, each agency would be transferring slightly different amount of YER to their targeted beneficiaries. This has the potential to causes security and other issues as multiple agencies will be providing different assistance packages in YER to groups of people within same or adjacent communities.
- Price monitoring is done in YER so developing a consensus on the correlation for price fluctuation and the assistance package would be difficult as the planning would be in dollars while actual assistance delivered being in YER using different conversion rates may lead to difference in opinion among the CVA actors.
- As the YER rate against the USD is changing each month, the transfer value provided each month will have to change, otherwise the same currency gain issue will occur. Providing a stable MPCA transfer amount has been shown to be key in enabling Persons of Concern to plan and have dignity over their lives.

Protection Concerns

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

Political Concerns

- Different agencies will be negotiating different conversion rates with banks e.g. UN or International NGOs might be able to negotiate a better conversion rate as compared to National NGOs, leading to a number of issues for national organizations.
- Similarly, organizations with bigger CVA portfolio will also be able to negotiate better rates for service charges with financial service providers (FSPs) while CMWG is putting in efforts to identify avenues with FSPs advocate on harmonized services charges for CVA actors.

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

If budgeting in USD and then giving YER is so challenging why not just provide USD or other hard currency transfers to beneficiaries?

Ethical Concerns

- Various anecdotal evidence supports the argument that dollar is not the ‘preferred’ currency of local economy and that 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.

Program 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.

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. Between the data collected by the WFP VAM unit and the price data being managed by the WASH Cluster with the support of the CMWG, we are receiving regular updates on the prices of all of the items in the SMEB. 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.

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.

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 and 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.

Recommendations

Following are the recommendations based on the above-mentioned arguments;

- 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,
 - o In SOPs it is advised to have a footnote encouraging the currency to be left in Yemeni Rial regardless of exchange rate fluctuations.
 - o 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.
 - Example: The total MEB for a household of five is estimated to be approx. 52,000 YER (approx. USD 108 at rate of 475 YER as of 5th February 2018).
 - o It is recommended that all reporting e.g. the 3Ws and discussion within the CMWG be done in Yemeni Rial.
 - o 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.
 - o CWG Members may consider Including currency fluctuations in the risk assessment section.
 - Example: “With the expected fluctuation of the transfer value over the duration of the programme any underspend from a gain in currency exchange will result in remaining funds allocated to more beneficiaries.”
- 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.
 - o 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.
 - o 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
- 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.

Reach out to CMWG

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