Foreign Currency Guidance for Applicants and Grantees

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# Introduction

Elrha’s operating currency is Pounds Sterling (“GBP”) and our grant monies are all paid out in this currency. In an ideal world, everyone we give money to would also only use GBP, and we’d never have any foreign exchange problems. However, foreign currencies are unavoidable both at the point of spending (especially when partner payments are involved) and the point of reporting.

Elrha does not cover any foreign exchange losses incurred by our grantees. We expect this risk to be managed prudently, and our financial reporting requirements reflect this.

This guidance is intended for grantees to understand how Elrha expects them to record foreign currency transactions for accounting purposes, and how to report their non-GBP results to us as part of their regular financial reporting.

# In a Nutshell

* Initial project budgets, and subsequent re-budgets, should be translated to GBP using a suitable forward rate (see Step 2 for more info). Elrha may give guidance on this rate for major currencies.
* Regular reporting should be translated to GBP using the rate used in the initial budget.
* Foreign currency transactions should be recorded in base currency at the amount physically spent, or a suitable daily rate where this can’t be definitively verified.

# In More Detail – What To Do and How To Do It

## Step 1: Identify Your Different Types of Currency

The currencies you use will fall into three different types:

1. Your base currency – this is your main currency; the one your organisation “thinks” in. It’ll be the one where most of your income is received or expenditure is incurred, or will be the currency of your main bank account. It is probably the one you use for statutory reporting purposes
2. Transactional currency – this is any currency in which you get income or incur expenditure. It’ll be the currency on invoices from suppliers, for example. This will vary depending on the transaction.
3. Reporting currency – this will be any currency in which you need to produce financial reports. For reporting to Elrha, the reporting currency is always GBP.

## Step 2: Setting Up Your Initial Budget

In the first instance, you should create your budget in your base currency, as this will give you more day-to-day control over your expenditure.

Where you know in advance that you will incur expenditure in a different currency, translate these into your base currency using an estimated rate. If the currency is not likely to be volatile in the near future, convert using the current daily rate (we recommend [www.oanda.com](file:///C%3A%5CUsers%5CAnneHarmer%5CAppData%5CLocal%5CMicrosoft%5CWindows%5CINetCache%5CContent.Outlook%5C9MV9DQ33%5Cwww.oanda.com)). If it is likely that the currency will be more volatile, you can get forward rates for the likely date of expenditure at [www.xe.com](file:///C%3A%5CUsers%5CAnneHarmer%5CAppData%5CLocal%5CMicrosoft%5CWindows%5CINetCache%5CContent.Outlook%5C9MV9DQ33%5Cwww.xe.com). We’d suggest adding 5% leeway for highly volatile currencies (we can provide guidance on whether we think your currency is volatile or not).

Once you have everything in your base currency, convert totals to GBP in a similar way to above. Similarly, if your currency is likely to move a lot in comparison to GBP, then use a forward rate for the mid-point of your project, and add 5% leeway.

When we review the budget, we may request the use of different exchange rates if we think the approach above may be over-prudent and could lead to an underspend on the project. Similarly, we may request a change if the approach is not prudent enough and exposes you to a high risk of loss. In either case, we’ll agree a suitable rate with you. We may advise in advance on suitable rates for major currencies.

Make a note of the final rate you use to put the budget together, as you’ll need this for later reporting.

## Step 3: Dealing With Day-to-day Transactions

When a transaction is in a different currency to your base currency, you need to book this at the rate at which the expenditure was actually incurred. For example, if your base currency is USD, but you incurred a cost in KES, you need to see how much USD you actually spent.

In most cases, this is straightforward – if the invoice payment was made from your USD bank account, then the amount of the transfer will be the USD amount you actually spent (give or take some bank fees).

However, if you paid from a different currency account, or the invoice has been received but not yet paid at the time of reporting, then you should convert to USD at a current daily rate. We recommend www.oanda.com for this purpose.

The aim is to have all transactions converted to your base currency.

## Step 4: Reporting to Elrha

You should initially prepare your financial report in your base currency, using any converted amounts above.

Once this is prepared, convert all totals to GBP using the rate you used for the initial budget for your project. This includes both budget and actual amounts. Reporting at this rate will ensure that we are comparing like with like.

If there is a difference between the total amount of GBP reported as actuals, and the amount of GBP we’ve sent as cash to you (less what you have remaining), then the difference should be included as a single “foreign exchange gain/loss” line.

# Other Points

Because we ask you to report at the budget rate, we don’t take into account movements in rates to GBP that you might have experienced between your proposal being accepted and our grant payments arriving in your bank account. **Managing this foreign currency exposure is the responsibility of the grantee** and should be part of a wider cashflow management policy.

If any of the guidance above contradicts your local accounting standards or Generally Accepted Accounting Practice (“GAAP”), then those standards and GAAP should take precedence. Please inform us if this is the case.

# Queries

If you have any queries on any aspects of this guidance, you can contact us at [info@elrha.org](file:///C%3A%5CUsers%5CAnneHarmer%5CAppData%5CLocal%5CMicrosoft%5CWindows%5CINetCache%5CContent.Outlook%5C9MV9DQ33%5Cinfo%40elrha.org).