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CESD Currency Policy Guidelines

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This Policy was approved by the CESD Board on November 12, 2021 and approved by Dr. Vugar Bayramov, the Chairman of the center.

Purpose

The purpose of these guidelines is to clarify CESD's point regarding the handling of currency exchange policy to provide guidance to CESD's Cooperation Partners in this regard. The guidelines covers project and program support.

All currency exchange transfers must be deemed necessary for the implementation of the project/program.

Currency exchange gains and losses should be clearly stated in the financial reporting. In case of losses, following the consensus of the partner, CESD takes the full responsibility.

Currency exchange gains must be included in the budget of CESD. In cases where cooperation partner agrees that the CESD may use this amount for additional purposes, a decision must be made accordingly and must be include in the CESD budget.

Currency exchange gains and losses within the same project or program, can be netted against each other within the same accounting period. Netting is also allowed within the agreement period (which can be more than one year). In such cases, CESD shall decide on the annual currency exchange rate balance

The financial reporting to CESD must display how CESD's Cooperation Partner has handled (booked) and reported on currency exchange rate differences, accounting principles and any changes in principles that may have taken place between the accounting periods.

CESD is responsible for the handling of an eventual balance regarding currency exchange gains or losses that may occur as a result of forwarding of funds to third parties. The Cooperation Partner's agreement with third parties must therefore ensure that any such balance is handled so that they can fulfill all their commitments towards CESD. In the case of forwarding of funds, it is also permitted to net exchange rate gains and losses between different legal entities within the same project or programme unless other mandatory rules and regulations prevents it.

Scope

CESD shall support activities that contribute to the objectives of international development cooperation and implementation of the undertaken project as well as obligations and commitments arisen from the latter. CESD's overall objective is to promote Social and Economic Development in the country. Funds decided for this purpose are usually stated in the budget. Projects and programmes are however often executed in other currencies and then grants in foreign currencies must be converted into a currency that best suits the development activity in the country at hand.

CESD does not advocate any particular method for how currency conversion should be made or how such transactions should best be dealt with in the accounts. CESD and Cooperation Partner can freely choose the method they consider best suited and in accordance with mandatory rules and regulations. However, CESD has certain minimum requirements that the CESD and Cooperation Partner must adhere to in order to efficiently use funds. In essence, these requirements stipulate that problems from currency exchange losses pertain to CESD and it does stipulate neither for funding agency nor for the cooperation partner to cover the losses.

The exchange rates are measures of the relative value of two currencies i.e. the current market price to buy (or sell) one currency in exchange for another currency. Values of different currencies depend on a wide range of underlying economic and political determinants, as these change, the relative value of currencies will fluctuate. For necessary conversion during the implementation of the project in different phases, CESD refers to the exchange rate set out by the bank on the day of conversion. Upon the transfer of the amount from the funding agency, the exchange rate in the first conversion is referred as the base rate in the next conversion operations until the next transfer from the funding agency. Difference arisen from floating exchange rate system will be solely compensated by CESD.

Furthermore, it is also indicated that Funding Agency/Cooperation Partner must be informed if any major changes have occurred that may affect the implementation of the project or program. This condition is very important as it ensures the situation of both CESD and the partner can be put in place quickly and efficiently if something unforeseen occurs that risks threatening the project or program results.

As regards currency issues, this means that if the currency exchange rate changes to such an extent that there is a risk that agreed activities may not be implemented as intended, the partner should be informed as soon as possible so that counter-measures can be identified, for example that funding agency provides additional funds or that the project activities are changed and/or allow reallocations between budget lines.

High risks are often linked to currency exchange rate management and may even involve serious forms of behavior. It is therefore very important that all transactions can be linked to the implementation of the project or program and thus be deemed necessary. It is also important that CESD and CESD's Cooperation Partners are able to make adequate risk and reasonable assessments both in connection with the budget and during the follow-up of operation, so as to curb the risk of irregularities. For example, it is important to assess the reasonableness of the used reference rate.