

Mercy Hands

Exchange Rate Policy

Preamble

Iraq operates within a complex economic landscape, where currency exchange is subject to both official channels and informal markets. The presence of a black market for currency exchange underscores the importance of implementing a clear and robust exchange rate policy to guide the financial operations of our nonprofit organization. This policy explicitly addresses exchange rate management within the framework of the official federal bank exchange rate, recognizing the need for transparency, accountability, and adherence to regulatory requirements. While acknowledging the existence of informal currency markets, this policy focuses solely on transactions conducted through official channels to ensure compliance with legal and regulatory standards governing foreign exchange in Iraq.

Objective

Our exchange rate policy is designed to achieve the following objectives:

- 1- Maintain stability and predictability in the value of our currency to donors' confidence.
- 2- Ensure competitiveness with other NGOs by managing exchange rate fluctuations effectively.
- 3- Mitigate risks associated with currency volatility and external economic shocks.
- 4- Facilitate efficient financial management and decision-making processes within the organization.

Responsibility

Under the supervision of the Executive Director, the Director of Finance and Accounting (DFA) is responsible for implementing the Exchange Rate Policy, designing and implementing exchange rate procedures and risk management strategies, and documenting and archiving all exchange rate changes.

Exchange Rate Determination and Response

- 1- Mercy Hands will primarily rely on the exchange rate set by the Central Bank of Iraq at the beginning or any time during the fiscal year as the reference rate. This rate will serve as the benchmark for all currency transactions.
- 2- The DFA will track the Federal Bank's announcements regarding the exchange rate as well as any changes imposed by the individual banks where Mercy Hands has accounts.
- 3- For any change in exchange rate imposed by the Federal Bank and/or individual banks, the DFA shall obtain proof of the imposed change, such as an official letter issued by the bank.
- 4- The DFA shall submit a request to the Executive Director, supported by the proof of the new exchange rate, to apply the new rate to all Mercy Hands' transactions.
- 5- Applying the new exchange rate shall be effective once the request is approved by the Executive Director.
- 6- The DFA shall inform all senior staff of the newly applied exchange rate and encourage Program Managers to inform their projects' donors of the change.
- 7- If the change in exchange rate is not pre-announced and/or imposed the same day a transaction needs to be executed, the transaction is allowed but documentation of the new exchange rate must be obtained. The DFA shall inform the Executive Director of the incident on the same day. Step 6 shall still be applied.
- 8- The DFA shall archive all documents pertaining to the exchange rate and have them ready for submission to auditors upon request.

Mitigation of Exchange Rate Fluctuations

- 1- To address any disparities between the previous year's exchange rate and the current year's rate, Mercy Hands will utilize currency differentials within the current accounts. These differentials will be monitored and reconciled regularly to account for any fluctuations in exchange rates.
- 2- Any differences in exchange rates will be managed through the surplus account, which will serve as a buffer to absorb the impact of currency fluctuations on the organization's financial position.
- 3- This strategy must be employed to mitigate specific risks associated with currency exposure, subject to approval by senior management and compliance with regulatory requirements.



Monitoring and Review

- 1- The exchange rate policy will be subject to regular monitoring and review to assess its effectiveness in achieving the organization's objectives.
- 2- The Board's Finance Committee will be responsible for overseeing the implementation of the exchange rate policy and conducting periodic reviews to ensure alignment with market conditions and regulatory changes.
- 3- The Finance Committee will establish Key performance indicators (KPIs) related to exchange rate management to track the performance of the policy and identify areas for improvement.

Communication and Training

- 1- This exchange rate policy will be communicated transparently to all relevant stakeholders, including employees, donors, customers.
- 2- Training will be provided to employees involved in currency transactions to enhance their understanding of the policy and ensure compliance with established procedures.
- 3- Regular updates and communication channels will be established to keep stakeholders informed of any changes or updates to the exchange rate policy, promoting transparency and accountability.

Reviewed and approved by:

Khaldoon Al-Moosawi

Executive Director

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