ASSESSMENT OF FOREIGN CURRENCY RISK AND OTHER FACTORS THAT AFFECT CIVIL SOCIETY ORGANIZATIONS PERFORMANCE IN GEORGIA

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Abstract

Civil society organisations (CSO) play an important role in social value creation. With funds provided by donors, they implement a great variety of projects. The main purpose of the study was to identify the most important factors that directly or indirectly affected organisational performance over the past few years, reducing the spending capabilities of Georgian civil society organisations. A survey involving interviews was conducted with 24 CSOs that were implementing a total of 52 projects with the support of 15 different donors. To assess exchange rate risks that reduce spending capabilities, historic simulation and scenario analysis method was adopted. The results show that exchange rate volatility, inflation, and the COVID-19 pandemic were the most important factors that affected project performance. The effect of inflation was undoubtedly negative, exchange rate fluctuation was mostly negative, while the restrictions associated with the COVID-19 pandemic had some positive implications. Performance and risk factors that influence civil society organisations are poorly studied (in contrast with for-profit companies), and this fact makes the current study especially interesting and significant for CSO management, donor organisations and policymakers.

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1. Introduction

Civil society organisations (CSOs) play an important role in the creation of values for the whole society. The higher their performance, the higher the created value. Stakeholders, like donors, beneficiaries, society, regulators, and partners, want to match performance goals (Edwards and Hulme, 2013). Although the different civil society organisations focus on different issues, each of them has the same mission that involves creating social value (Moura et al., 2022). Because not-for-profit organisations have goals that go beyond financial returns, it is difficult to understand when an organisation is underperforming or overperforming (Epstein and Buhovac, 2009). Donors understand that the impact on society should be assessed in the long run, and financial reports sometimes do not show it (Cordery and Sinclair, 2013).

Several factors may influence the performance of civil society organisations. Examples of these factors are: budgeting - instrument used by donors that creates constraints for an organisation (McMillan, 2010); inflation - when prices are increasing, it is difficult for an organisation not to exceed the budgeted unit rates; employee turnover - in order to achieve success an organisation retain staff members who understand the mission of the organisation and are supportive of it (Carey and West, 2023); location - according to the survey, Georgian civil society organisations have more diversified donors in Tbilisi (capital of Georgia) than in regions (CRRC-Georgia, 2021), and global events like the COVID-19 pandemic which impacted economy and also reduced in-person activities (Carey and West, 2023).

The civil society sector is well-established in Georgia and plays an important role in the sustainable development of the country (USAID, 2023).

Current research strives to identify and study factors that affect CSO project performance in Georgia. The survey helped identify important factors in the Georgian context during recent years. Some of those factors were analysed in depth.

The biggest challenges that have influenced organisational performance since 2019 are increased exchange rate fluctuation,

increased inflation, and the COVID-19 pandemic. Long-term planning for civil society organisations was a challenge because of instability. In 2019, the depreciation of the local currency (Georgian lari, GEL) was high. In the second quarter of 2021, the local currency began to appreciate, and because of unpredictability, the exchange rate risk was considered high. Taking into consideration the high volatility of GEL against foreign currencies (Financial Stability Report, 2021) and the fact that most civil society organisations' financial stability depends on international funds (CRRC-Georgia, 2021), the results regarding the most important factors for the CSOs are not doubtful.

The involvement of foreign currencies in the budgeting/reporting process makes performance sensitive to exchange rate fluctuations. Considering foreign exchange rate volatility, it is very difficult for organisations to keep their expenses under budget. The exchange rate at the moments of project initiation, the closing of the grant agreement, reception of funds, spending, and reporting will almost certainly be different. Since different donors have different financial procedures and policies, the effect on performance may be different - negative, positive or negligible.

There is some lack of studies that focus on the exchange rate effect on civil society organisations or how the procedures of budgeting/spending/reporting of both a donor and a grantee may affect the organisation and project performance. Current research, alongside already mentioned factors, identified numerous common scenarios and analysed them to identify how project performance is affected.

2. Literature review

Organisational performance is the ability to achieve goals by using resources effectively (Daft, 2000). Measuring performance is important for any organisation, but it is very difficult to find one universal measure (Behn, 2003). Purposes for proper performance measurements are a better allocation of resources, improved planning and controlling mechanisms, and promotion of accountability (Kravchuk and Schack, 1996).

For business organisations, the most typical indicator of organisational performance is profitability (Doyle, 1994). It is much more difficult to measure the performance of not-for-profit organisations - by definition, their primary objective is not profit, as they provide value in other ways, so the achievements are not assessed by

economic measures (Ashford and Clarke, 1996). Not-for-profit organisations' activities can result in social or political outcomes and are often intangible, and it is not easy to measure the impact in monetary terms (Epstein and Buhovac, 2009). For some donors, the financial data is less important compared to the information about social aspects (Cordery and Sinclair, 2013).

Organisational performance can be measured in terms of input (efficiency) and output (effectiveness). Efficiency can be measured if a minimum number of inputs is used to take the output, while effectiveness can be measured if outputs contribute to the achievement of goals (Cordero, 1990). One framework used for the measurement of non-profit organisations is called 'value for money' and it is considered appropriate because the framework reflects the cost of providing a service as well as the benefits achieved by providing it (Ashford & Clarke, 1996). Effectiveness is about achieving the desired outcome and shows the relationship between its outputs and outcomes (Popa, 2017).

Economy answers the question if the appropriate quantity and quality of inputs were bought at the lowest cost possible and if the organisation can optimise its use of productive resources (Ashford and Clarke, 1996). For managers, understanding the factors that affect organisational performance has always been crucial (Atkinson, Waterhouse and Wells, 1997). It is challenging to find an appropriate balance between the three components because the value-for-money framework emphasises the importance of measuring all three 'E's rather than focusing on just one component. In order to avoid serious adverse effects on an organisation, it is essential to effectively achieve organisational objectives in an economical and efficient manner (Ashford and Clarke, 1996).

Budgeting is one of the critical instruments that can be used to measure performance (Okumu, 2014; Edwards & Hulme, 2013). The project's success is affected by the planning - the most important decisions regarding the objectives and goals are made at this stage (Takim and Akintoye, 2002). There is a positive relationship between a well-prepared budget and organisational performance (Stühlinger, 2022). For not-for-profit organisations, it is crucial to ensure that there are enough resources to fund planned activities (McMillan, 2010). When employees are involved in the budgeting process, they are motivated and accordingly, it affects their performance (Alam and Mia, 2006). Furthermore, being involved in the planning and decision-

making process helps employees to recognise their contribution, and as a result, they are more committed and loyal to the organisation and work more productively (Kotter and Heskett, 1992). Participating in the budgeting process allows employees to exchange job-relevant information, which in turn helps to coordinate project activities better (Hopwood, 1974).

Inflation is an important factor that can have a negative impact on performance. The reason is that when prices and, accordingly, costs are increasing, it is very difficult for not-for-profit organisations to simply respond as they have to follow a predetermined budget (Carey and West, 2023). Inflation in Georgia was two times higher (7%) in 2017, 2019-2020, and three times higher (10%) than the target level (3%) in 2022 (Financial Stability Report, 2022).

In Georgia, most of the budgets in CSOs are designed in foreign currencies like EUR and USD, according to donor requirements, but transactions within the country are made in GEL. As a result, fluctuation in exchange rates creates exchange rate risk. The highest exchange rate of the GEL/EUR in the last five years was observed during April and May of 2021 with the highest rate of 4.182. The lowest exchange rate was in October and November 2022 (2.676) (Financial Stability Report, 2021).

Hedging is the practice of taking action to reduce or eliminate a risk exposure. An organisation can use some derivative contracts for hedging. Common instruments, like futures and swaps, help to deliver and pay for an asset in the future with a predetermined exchange rate and are readily available since they are traded on exchanges. Another instrument is a forward contract. Because forwards are private agreements, the risk of the counterparty is high (Saunders and Cornett, 2007; Hull, 2017). Georgian lari futures and swaps are not available on exchanges. Commercial banks offer forward contracts at a certain cost.

Performance is highly impacted by the employee's commitment and motivation (Packard, 2010). Obviously, a motivated employee puts more effort into doing a task, and when goals are achieved, it gives one feeling of satisfaction that creates a positive working attitude in the workplace (Manzoor, 2011). Employee motivation, satisfaction, and commitment are strongly related to talent attraction and retention (Kontoghiorghes, 2016).

Employee turnover is another key point that can influence organisational performance. Because of limited budgets, civil society organisations cannot compete with for-profit organisations in recruiting

talented staff (Nodia, 2005). When an employee leaves, there are costs to the organisation which are not monetary - a new staff member needs time to gain specific job-related skills and experience to be as productive as the previous one (Price, 1989).

Many industries were negatively impacted during the COVID-19 pandemic - it reduced the stability and increased risk of most companies and generally negatively affected the performance of the organisations (Almustafa et al., 2023). Discussion about the COVID-19 pandemic effects should consider reduced in-person office activities during restriction periods (Carey and West, 2023).

The “Work from home” model has undoubtedly become one of the most widely used strategies during the COVID-19 pandemic. The effects of working from home on employee productivity and organisational performance depend on various characteristics such as the nature of the work and industry, the position of the employee, the experience, gender, and others. For example, teachers, who need direct communication with people are less productive with the work-from-home model, while researchers are more productive (Anakpo, Nqwayibana and Mishi, 2023). When employees work from home, they have limited opportunity to communicate with coworkers and exchange information or experience; also, it is associated with technological problems, inadequate infrastructure, increased stress, and less effective communication between an employee and a manager performance (Graves and Karabayeva, 2020). On the other hand, working from home is associated with a flexible work schedule and, according to some perspectives, can improve performance and productivity (Aropah, Sarma and Sumertajaya, 2020).

As of June 2023, there are over 1200 active civil society organisations in Georgia (https://csogeorgia.org/en). Georgian CSOs are typically small, employing eight people on average. A fifth of CSOs have either one permanent employee or none (CRRC-Georgia, 2021; Jikia et al., 2023).

Civil society organisations receive funds from national and international donors and government agencies and are allowed to raise money through fundraising (USAID, 2023). However, the majority of civil society organisations are financed and supported only by international donors. According to the survey of 249 active civil society organisations, more than half of the total revenue is received from international donors, and, on average, each CSO has only one donor (CRRC-Georgia, 2021). Since most of the civil society organisations

have no diversity of donors, their operational focus is donor-driven (USAID, 2023). Donors, from time to time, change their priorities according to their views. As a result, CSOs are forced to adjust their operational focus to donors' priorities, which negatively affects the organisational performance. Because of having no variety of donors, Georgian CSOs' financial vulnerability is high (Nodia, 2005).

Some of the largest international donors to the civil sector in Georgia are the European Union (EU), the United States Agency for International Development (USAID), the United Nations Development Programme (UNDP), the Swedish International Development Cooperation Agency (SIDA), Open Society Foundation (OSF), the German Federal Ministry for Economic Cooperation and Development (BMZ) according to Aid Information Management System (https://eaims.ge/project). The projects supported by these donors are mostly focused on democratic governance, human rights, sustainable development, and initiatives to promote environmental protection and support the development of civil society in Georgia (CRRC-Georgia, 2021).

3. Research methodology

A historic or back simulation approach was used to estimate the exchange rate risk exposure caused by budgeted-expensed-reported currency gaps. Exchange rates from 2018 to 2022 years (the last five years) used in the simulation were obtained from the Georgian National Bank (GNB). The data included information about the official exchange rates of the GEL, EUR, and USD (the official rate is based on spot exchange rates form the previous day's trading on the Bloomberg system).

During the data processing, daily, monthly, three-month, six-month, and annual positive and negative changes for each currency were calculated. Effect on currency amounts were assessed based on these changes. For simulation purposes, the 25th percentile of negative and 25th percentile of positive changes in exchange rate were used. Researchers avoided the use of extreme cases, like 99th or 95th percentiles, that are usually used in Value-at-risk calculations since such moves on the market are rare. When they happen and persist, donors are open to budget modification discussions. That is not the case when fluctuation is more or less ordinary. Information regarding processes involving currencies were collected from organisations.

Initially, in-depth interviews were conducted with representatives of three civil society organisations. These interviews helped to design the questionnaire, which included 23 open-ended questions regarding ongoing projects concerning project funding, donor requirements and currency procedures, factors that affected project implementation and actions that helped the organisation to maintain the desired level of performance. The 24 civil society organisations based in Georgia were surveyed. The survey was conducted between April 2023 and June 2023. The selection was non-random to make sure that projects funded by a variety of international donors with different reporting requirements, different budgeting currencies, and different conditions for tranches transferring were included in the sample. All surveyed organisations have many years of experience in managing projects funded by international donors and have experience with more than one funded project. The goals of the study and the purpose of the requested information were explained in detail to the representatives of all organisations. During the survey, there was active communication with organisations. After the collection of responses, clarifying follow-up communication was handled with several representatives.

The information from the survey was used to identify the factors that affected funds, activities, budget, and organisational performance as a whole and what influence may the different policies of reporting, budgeting, and installment transferring, and conversion have. Researchers identified several common scenarios or schemes of currency handling.

The response rate was 75%. To ensure high quality of collected data, unsatisfactory responses were excluded from processing. One organisation refused to name a donor, and two respondents did not provide reliable information.

Each participant was aware of the research objectives. The anonymity and confidentiality of participants were assured. Thus, organisations are not listed in the paper.

4. Results and analysis

During the survey, 52 filled questionnaires for different projects funded by 15 different donors were received from 24 civil society organisations. The study identified that the three biggest challenges that influenced the accuracy of the budget and the project performance

were the COVID-19 pandemic, inflation, and high exchange rate volatility.

Most of the respondents who participated in the survey started the budgeting process for the ongoing projects by the end of 2020 when the local currency was depreciated, and the average exchange rate of the GEL/EUR and GEL/USD was high compared to the rate at the moment of the survey. Because some projects involved in the study have a duration of three-four years, and because they were not able to modify already approved budgets, the fluctuation in exchange rate affected the performance of organisations. For illustration – according to one of the respondents, the EUR/GEL exchange rate when the first grant tranche was received was 4.166, and the most current rate was 2.737. Because the total amount of money received in local currency was far less than budgeted, they were forced to reduce costs. The effects of exchange rate fluctuation on available amounts and spending capabilities are analysed below in this paper in more detail.

The majority of the respondents stated that junior experts were hired instead of senior experts for saving purposes. The average difference between daily fees was 35%. Other solutions were reduction of the number of participants for each activity, hiring experts for less time, replacing lunch and dinner with coffee breaks, reducing printing costs and (in the case of one interviewee) reducing the component of sub-grants.

The number of participants was reduced by the vast majority of the respondents (85%). 75% have organised coffee breaks during the trainings and meetings instead of lunch. Most of the interviewees noted that in order to reduce costs, the publications are no longer printed, and only electronic versions were available, limiting access for beneficiaries in regions with limited internet. Considering cost reduction measures, it is highly likely that the performance of the projects was decreased.

Face-to-face meetings may involve catering, conference room rental, accommodation, and transportation costs; thus, for saving, the majority of meetings were conducted online. According to the questionnaire, more than 95% of the respondents say that online meetings negatively affected their performance because during in-person meetings participants are more productive, can communicate more effectively with each other, and are able to develop business relationships easier. On the other side, online meetings enable an

unlimited number of participants to attend. Meetings can be recorded without additional technical complications for later use.

Another saving source was conducting conferences or training in social spaces or on premises with poorer quality than planned. That also affected the performance, as the number of participants was less than planned. As the majority of respondents noted, the number of participants is always higher when a meeting is held in a comfortable environment.

The survey indicated that during 2021-2023 the motivation of employees decreased. Almost all salaries are contracted in foreign currencies, but the payments are made in GEL according to the official exchange rate of the National Bank of Georgia or according to the conversion rate of the commercial bank. In the second quarter of 2021, the local currency began to appreciate, and as a result, the amount of salary received in GEL decreased. The change in the net salary can be significant – e.g., in January 2021, the official exchange rate of GEL/EUR was 4.02, while the salary in May 2023 was based on a 2.74 rate (32% reduction). According to the responses, none of the donors considered and gave additional funds due to the change in exchange rates. Evidently, currency fluctuations affected employees' motivation, and, as might be expected, employee turnover increased.

Another reason for decreased motivation is caused by the COVID-19 pandemic and the "work from home" model. Based on the responses, employees could not communicate with co-workers as effectively as before. Also, if tasks were not well delegated originally, teleworking worsens the collaboration. Working from home was stressful as it was difficult to differentiate between personal and work life. Most respondents consider teleworking tiresome. Consequently, some organisations have decided to adopt a hybrid work schedule.

Inflation was named as another source of the problem. More than half of the respondents noted that inflation had a negative impact on the quality of the project assets – because of high prices, organisations were not able to acquire equipment of planned quality. Lower quality increased the risk for the project - equipment could fail before the project's completion. Two respondents noted that despite having a long-term contract for office rent, because of the price increase, they were forced to move to an inferior location.

By contrast, the COVID-19 pandemic had a varied effect on the budget and performance. The pandemic-related restrictions saved the project money in several ways. Administrative costs for office supplies,

utilities, stationery, transportation, fuel, etc. were greatly reduced. In the case of activities, there were no travel, printing, catering, and conference room rental costs. All these expenses were replaced by the cost of software (e.g., Zoom, Teams). The opportunity to engage foreign experts in the activities was named as an important advantage of organising meetings online.

Studying currency handling patterns and scenarios helps to assess risks and shortcomings related to the exchange rates. As the survey showed, about 30% of expenses were always estimated in GEL. However, the budget was required to present foreign currency. For foreign currency equivalent approximations, some CSOs used the exchange rates of commercial banks, some used the official rates of NBG, and others the average rate of the month plus 5-7%. Some donors transfer tranches once or twice a year, and since expenses were calculated in local currency and an exchange rate fluctuation was high, the budgeted amount was different from the received amount after conversion and, in some cases was not enough to cover all planned expenses.

Donors have various policies regarding reporting. Some donors use the first-in-first-out method and ask grantees to prepare the financial reports in a way where expenses in GEL are expressed in foreign currency according to the commercial bank's conversion rate. Some donors calculate tranches according to the United Nations Operational exchange rate and require grantees to report all expenses at the same rate. In both cases, there is no difference between the transferred amount and expenses expressed in foreign currency, but GEL amounts differ.

For most donors, the exchange rate losses are non-eligible costs and are not compensated. Because grantees fully carry the exchange rate risk, most fixed expenses, such as salaries, office rent, and honoraria for experts, are contracted in foreign currency. According to their procedures or common practices, some grantees use the official exchange rate, and some use the commercial bank's conversion rate for GEL equivalent calculation on the payment day. Some donors have requirements regarding the conversion process. As an illustration, some donors require grantees not to convert money more than three times a month, while others require conversion of the whole amount as soon as they receive the tranche.

The survey showed that donors have different currency-related requirements regarding budgeting, reporting, and operations:

- budgeting and reporting may be in foreign currency or in local currency;
- tranches are received in Georgian lari or foreign currency;
- the amount in each tranche is designated for periods of different lengths;
- exchange rate used for diverse reporting.

Based on these differences, five scenarios were identified. Each scenario involves numerous donors with similar conditions and requirements.

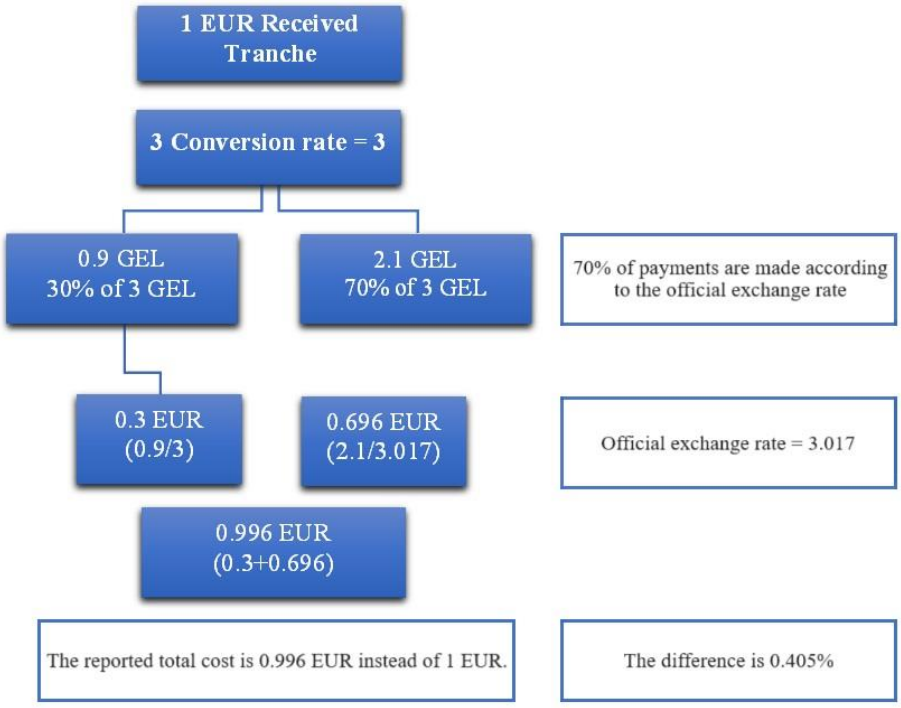
In the first scenario, beneficiaries make budget estimations in foreign currency, which means that most expenses are contracted in foreign currency. In the implementation stage, the organisation requests funds quarterly and receives the tranches in EUR. After receiving the amount, it is converted to GEL with the commercial bank's exchange rate and expended in GEL. The financial report for the donor is prepared in foreign currency, and the commercial bank's (actual) exchange rate is used - one that was used for conversion. As a result, there is no difference between the received amount and the total expenditure in foreign currency. The difference appears in expenses contracted in EUR and are paid according to the official exchange rate of NBG instead of the commercial bank's conversion rate. For example, at some moments, the exchange rate in commercial banks is 2.74 GEL/EUR, while when exchanging EUR for GEL, the official rate for that day is 2.799. According to the contract, the organisation has to pay for the lease, which is the equivalent of 1,000 EUR in GEL, using the official exchange rate. If a currency is converted with the commercial bank's conversion rate, the organisation will receive 2,740 GEL, but the beneficiary should transfer 2,799 GEL. In the financial report, where the actual rate is used, 2,799 GEL is accounted as 1,021.5 EUR (2,799/2.74), so the difference between the amounts received after conversion and reported is 21.5 EUR (1,021.5-1,000). Since the commercial rate is almost always lower than the official rate, the organisation will permanently overspend its budget. Donors in this setup allow beneficiaries to convert money whenever they need it, and the majority of the organisations prefer to convert money on the payment day in order not to have a significant difference between commercial and official exchange rates.

Process flow and numbers for this scenario are shown in Figure 1. If a grantee receives 1 EUR and converts it into the local currency with the commercial bank's exchange rate (3.00), the total amount in

local currency is 3 GEL. On average, 70% (2.1 GEL) of the payments are made based on the official exchange rate of NBG, and the commercial rate is used for the rest. Exact exchange rates in day-to-day operations used by the organisations are unrealistic to obtain. Therefore, to calculate the daily percentage difference, an assumption was made that the difference between the exchange rate of the commercial bank and the NBG is the same as the change between the daily exchange rates of the NBG, based on the fact that the official rate is "yesterday's" one.

Figure 1

Process flow and gain/loss estimation when commercial (conversion) and official (reporting) exchange rates are used (Scenario 1)



Source: Authors

According to the official exchange rate data, a negative 25th percentile change in daily rates equals -0.608%, and the positive equals 0.582%. Because the official exchange rate of the lari against

any foreign currency is always higher than the commercial bank's conversion rate, the following example is calculated only with the positive percentage change of exchange rates. Accordingly, in the case of a 0.582% daily change in rates, the exchange rate of NBG is 3.017 and 2.1 GEL equals 0.696 EUR. The reported cost is 0.696 + 0.3=0.996 EUR while all received (1 EUR) is spent. The difference for one EUR is 0.004 EUR or 0.405 % of the received amount.

The total grant amount under this scenario in studied organisations is 6.6 million EUR. Multiplying this amount by 0.405% means that the total difference may be as high as 26,762 EUR. If the period between conversion and payment is longer, the difference may increase. As the majority of the respondents noted, this difference is covered by the grantee from the overhead budget or from savings.

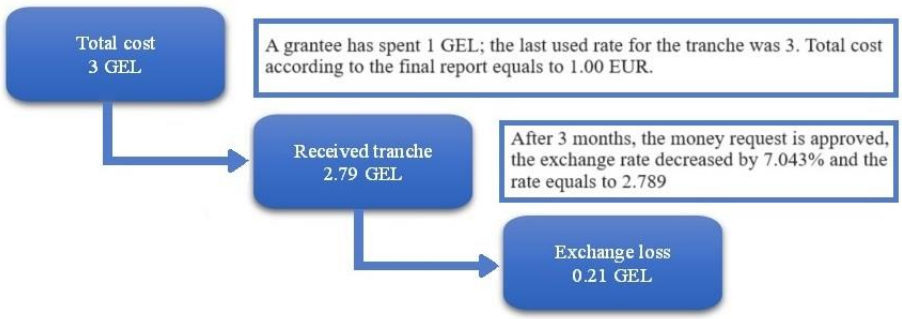
In the second scenario, the grantee plans expenses in foreign currency and receives the project tranches in foreign currency. Donor requests the grantee to convert the total amount of money as soon as they receive it. The financial report is prepared in local currency using actual commercial exchange rates. The grantee has no exchange losses because they make payments and report using the same conversion rate. The figures in the financial report are in foreign and local currencies which are correspondingly equal to the installment received from the donor and the total amount after conversion. In this scenario, changes in exchange rates still affect the performance of the project. When the GEL/EUR exchange rate decreases, the project pays lower salaries, reduces the number of participants, hires experts with less experience and for fewer hours, and conducts meetings online - all these "solutions" affect the quality of planned activities, motivation of employees, efficiency, and effectiveness of the project.

In the third scenario, tranches are distributed annually in GEL. The last payment is received by a grantee after completion of the project activities and submission of the final report. After a grantee completely spends the received amount, it continues to pay amounts from other sources until the project activities are complete. The final financial report is presented in foreign currency using the donor's last fixed exchange rate. The donor transfers the final installment (usually 5%-10% of the total project budget) using the updated rate (not the rate used for the previous tranche and reporting). In this case, a grantee fully carries the exchange rate risk. As mentioned by respondents, the time between sending the final report and receiving the last installment can take as much as three months. Figure 2 depicts this scenario. For

example, if a grantee has spent 3.00 GEL and the last rate used for expenditures is 3.00, the amount of money requested must be equal to 1.00 EUR. According to the simulation, the negative 25th percentile of the three-month change in the exchange rate of GEL/EUR equals -7.043%. After 3 months, when the donor makes a transfer, the exchange rate may be decreased by 7.043% to the rate of 2.789. In this case, the grantee receives 2.789X1.00=2.79 GEL. The grantee experiences an exchange loss of 0.21 GEL.

Figure 2

Process flow and gain/loss estimation when tranches are received months after spending occurred (Scenario 3-1)



Source: Authors

Using the same logic, the positive 25th percentile of a three-month change in the exchange rate of GEL against EUR equals 7.00%. When the exchange rate increases by 7% to 3.21, the beneficiary has the exchange gain because the donor transfers 3.21X1.00=3.21 GEL. According to the survey, the total project amount under this scenario is 726,747 EUR. Assuming 10% of the final tranche, grantees can have an exchange gain of 5,087 GEL or an exchange loss of 5,118 GEL.

In the fourth scenario, beneficiaries estimate all expenses in GEL, but budgets are in USD. Money requests are also submitted in USD. According to the survey, CSOs use the most recent exchange rate for foreign currency equivalent calculation. The donor transfers installments in GEL using the UN Operational Rate of Exchange. The rates are updated twice a month, and a difference between budgeted and received amounts in GEL is inevitable. For financial reports, the donor requires a beneficiary to use the same rate that was used for transfer. The official rates of the National Bank of Georgia represent the actual ongoing exchange rates, and the United Nations (UN)

(treasury.un.org) are close to each other on the first and 15th day of the month when UN rates are updated. However, because of the high exchange rate volatility, the difference can grow high. For example, the GEL/USD on the first of June 2023, according to the NBG, was 2.597; on the next day, the rate was 2.639, while the UN operational exchange rate on the same date for GEL was 2.588 and was not changed for the next two weeks. According to the survey, in this scenario, money requests are sent six months in advance. In this scenario, there is no difference between budgeted and reported figures in foreign currencies, but because of the high exchange rate volatility, there is always a difference between the budgeted and received amounts in GEL.

To give an example, let us assume that a grantee made a budget and the total income needed to cover the expenses was 3 GEL. The organisation calculated the USD equivalent using rate 3 and requested a 1.00 USD transfer. By simulation, the negative 25th percentile of a six-month change in the GEL/USD exchange rate equals -7.287%; thus, after 6 months, the new rate may be 2.781 and transferred 1.00 USD equals 2.781X1.00=2.781 GEL. The beneficiary has a deficit of 0.22 GEL - the received amount is not enough for planned activities.

Equally likely, the positive 25th percentile of the six-month change in the exchange rates equals 9.047%. When the exchange rate increases by 9.047%, the conversion rate on the payment day is 3.271, and the beneficiary receives 3.27 GEL. In this case, the grantee would have a surplus of 0.27 GEL. Based on the questionnaires, the total amount of money under this scenario is 1.3 million USD; thus, surveyed organisations may lose 95,965 GEL or gain 119,149 GEL.

According to the fifth scenario, budgeted expenses are divided into two parts. 70% is estimated in foreign currency, and 30 % is estimated in GEL. The request to the donor is submitted in USD, and the tranche is received either in GEL or USD. The report is submitted in USD, for which the rate at which the conversion was done (by the donor or grantee) is used, and therefore, there is no difference between the amounts received and the amounts reported. However, some gains and losses may still be associated with this scenario since there is, on average, a three-month gap between the request and receipt of the tranche.

Assume that the grantee needs 0.9 GEL and 0.7 USD to cover the planned expenses. The GEL/USD exchange rate is 3.00 and the

total requested amount is 0.7+0.9/3=1.00 USD. According to the simulation, the three-month change in the exchange rate equals -5.49%; thus, after three months, the exchange rate may become 2.835. The grantee receives 1 USD, which is now 2.835 GEL. The grantee spends the budgeted 0.7 USD or 1.99 GEL (0.7X2.835) and needs to be budgeted 0.9 GEL, but the available amount is only 0.85.

The positive three-month change in the exchange rate is 6.752%. Thus, the new exchange rate is 3.203, and the grantee receives the total amount of 3.203 GEL. Budgeted 0.70 USD equals 2.24 GEL (3.203 * 0.7), and the remaining amount is 0.96 GEL, which is higher than the needed 0.9 GEL. Calculating change for the total amount of the grants given in the survey (20.4 million USD) gives that the exchange gain maybe 0.41 million GEL (6.752% change for 30% of 20.4 million USD), and an exchange loss can total 0.34 million GEL (5.49% change for 30% of 20.4 million USD).

5. Conclusions

Inflation and exchange rate volatility negatively affect organisational performance. As for Covid-19, it allowed organisations to find cost-effective ways of implementing activities and offset the shortage of money that was caused by economic factors. On the other hand, because of the pandemic restrictions, organisations were forced to change the format of meetings and work schedules, which reduced face-to-face communication and interaction, caused a loss of opportunity to get immediate feedback from instructors and colleagues, and negatively affected the employee job satisfaction, motivation, and overall performance of the project.

Budget-saving solutions employed by organisations decreased the efficiency and effectiveness of projects. Hiring senior experts for shorter periods, substituting them with junior experts, or reducing the overall beneficiaries are good examples of such actions.

Uncertainty in the economy and exchange rate volatility remain major risks. Projects that budget, receive tranches, make expenses, and report in the same currency (local or foreign) bear less foreign exchange risk, while organisations that have plans, operations and reports in different currencies are more exposed to exchange rate volatility. In some cases, exposure can be substantial.

At first sight, exchange rate gains should allow organisations to increase performance, but considering that these scenarios are

accompanied by decreased payments (in the local currency) for personnel, the effect of the increase is diminished by employee demotivation.

Donors do not allow grantees to purchase exchange rate risk hedge instruments. The solution is to diversify the project portfolio and have as many different donors providing funds in different currencies as possible. Grantees that have one or a few projects bear all the risks associated with exchange rates. It may be assumed that if donors takes off this risk from CSO by funding many projects in different countries with different local currencies, risks will be reduced because of natural hedging - unequal and not semi-directional moves of exchange rates (gains and losses) will net each other over a more or less long period.

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