



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

REFERRAL MEMORANDUM

DATE: September 27, 2023

TO: Sarah Charles
Assistant to the Administrator
USAID Bureau for Humanitarian Assistance (BHA)

FROM:



SUBJECT: UPDATE: Conversion of U.S. Dollars into Local Currencies in Conjunction with Complex Emergencies

USAID/OIG is updating BHA on a previously reported program vulnerability concerning the converting of USAID program funds from U.S. Dollars (USD) into other countries' currencies. These issues relate to the declaration of exchange rates realized during the implementation of Humanitarian Assistance awards in the Middle East and designated as Complex Emergencies.¹

Background

On April 7, 2021, USAID/OIG alerted BHA to vulnerabilities associated with USAID's Standard Provisions for U.S. Non-Governmental Organizations (NGOs) and the procedures for converting U.S. dollars into local currency.² (Exhibit 1) The alert raised the issue of insufficient supporting documentation when NGOs conduct transactions with unlicensed, unregulated, and/or informal money transfer agents (MTA). Since that time, multiple USAID/OIG investigations have highlighted the growing concern of currency arbitrage in programming.³ Without robust transparency and oversight, this kind of fraud exposes USAID programming to increased risks of theft, embezzlement, diversion of funds, and fraudulent invoicing.

¹ A "Complex Emergency" is defined as a long-term man-made disaster that threatens the lives and livelihoods of populations such as civil strife, civil war, acts of terrorism, international wars, and industrial accidents.

https://www.usaid.gov/sites/default/files/documents/1880/Emergencies_Guide.pdf

² See USAID Automated Directive System (ADS) 303 Mandatory Reference for U.S.-based Non-governmental Organizations, M15.

³ Currency arbitrage, as defined by the National Association of Securities Dealers Automated Quotations (NASDAQ), is the taking advantage of divergences in exchange rates in different money markets by buying a currency in one market and selling it in another market. <https://www.nasdaq.com/glossary/c/currency-arbitrage>

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When USAID executes programming in Complex Emergencies⁴ – such as in Syria, Yemen, and Libya – funds are subject to varying currency exchange rates and methodologies for exchange. As previously reported, unofficial or parallel exchange rates, on average, can vary by as much as two to six times more than official central bank exchange rates.⁵ Some countries have even wider unofficial exchange rate variances – for example, in Lebanon, the variance can be up to ten times the official exchange rate.⁶ These large variances can incentivize currency arbitrage. While currency arbitrage is not unlawful in the United States, allowing NGOs to conduct currency arbitrage without any requirements to disclose any financial gains to USAID raises concerns of NGOs surreptitiously obtaining financial benefits from USAID program funds intended for beneficiaries. This in turn creates an opportunity for fraudulent activity by implementers, subawardees, or government entities related to financial gains through currency manipulation and/or non-disclosure.⁷

In the last two years, there have been multiple USAID/OIG investigations or complaints pertaining to currency arbitrage. For example:

- 1) A recent USAID/OIG investigation of an implementer in Yemen revealed \$461,340 in realized gains through currency arbitrage involving USAID and other U.N. & European funds. These were intended as mandatory payments to the Yemeni Social Security (SS) authority for local employees, which mandated payment in Yemeni Rials (YER) and at the official bank rate of approximately 250 YER to 1 USD. While the implementer was, in fact, paying SS at the official YER rate, the program funds (in USD) were converted at a more favorable unofficial rate of approximately 580 YER to 1 USD. The realized gain as a result of the currency arbitrage was retained by the implementer and not declared to USAID.
- 2) USAID/OIG has opened a preliminary inquiry into an implementer in Yemen that is alleged to have also engaged in a similar currency arbitrage scheme related to SS payments. In this matter, the realized gains from the currency arbitrage were allegedly transferred to Ansar Allah, a former named terrorist organization.⁸
- 3) USAID/OIG has an ongoing investigation related to allegations that an employee of a subawardee in Lebanon engaged in currency arbitrage through fraudulent invoicing and

⁴ USAID Complex Emergency Country Fact Sheets, available at <https://usunrome.usmission.gov/mission/mission-usun/usaaid/>.

⁵ Comparison of the historical currency rates in Syria since 2015 from www.xe.com (official) vs. sp-today.com (unofficial).

⁶ Comparison of the historical currency rates in Lebanon since 2015 from www.xe.com (official) vs. <https://lirarate.org/> (unofficial).

⁷ Adesnik, D. (2023). A Strategy to End the Systematic Theft of Humanitarian Aid in Syria. Foundation for Defense of Democracies – Research Memo, available at <https://www.fdd.org/wp-content/uploads/2023/03/fdd-memo-a-strategy-to-end-the-systematic-theft-of-humanitarian-aid-in-syria.pdf>.

⁸ Ansar Allah, sometimes referred to as the Houthis, were a previously named US Foreign Terrorist Organization (FTO) and Specially Designated Global Terrorist (SDGT) organization, <https://www.state.gov/revocation-of-the-terrorist-designations-of-ansarallah/>. However, Ansar Allah is still included on the United Nations Security Council Consolidated List <https://www.un.org/securitycouncil/content/un-sc-consolidated-list>, and European Union Council Regulation (EU) No 1352/2014; Restrictive Measures on Yemen Amendment, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0419>.

payment manipulation. This investigation has revealed that the subawardee had created supplier invoices that were originally expressed in Lebanese Pounds (LBP), which, at the unofficial rate at the time, was approximately 12,500 LBP to 1 USD. However, the employee altered the invoices to reflect an inflated USD conversion – applying the official rate of 1,500 LBP to 1 USD for the conversion. The USD was then exchanged back to LBP at the unofficial rate creating more than \$33K in fraudulent gains, which were retained by the employee.

- 4) USAID/OIG received another recent complaint alleging a similar scheme in Lebanon in which the subject converted the LBP invoiced rates into USD using the official rate, then exchanged the USD with the unofficial rate and retained the gains realized in the currency arbitrage.

Current Provisions and Policies May Incentivize NGO’s to Engage in Currency Arbitrage

According to the USAID ADS, a U.S. NGO recipient’s Chief of Party (COP) “**must** consult with the Mission Director who must provide, in writing, the procedure the recipient and its employees must follow in the conversion of United States dollars to local currency (emphasis added).”⁹ This places the initial burden on the COP to engage with the Mission Director, as opposed to proactively receiving clear direction from the Mission at the onset of an award. A USAID/OIG review of multiple USAID Missions in the Middle East revealed that some have no record of being previously contacted by any implementer regarding this requirement. Some have also not expressly prohibited the use of unofficial or black-market exchange (BME) rates by implementers or have provided broad and unspecified country guidance that is more than 35 years old.¹⁰ Further, the ADS requirements do not provide an alternate point of contact for countries designated as Complex Emergencies, which may lack a formal, designated Mission Director,¹¹ and therefore may not trigger this provision.¹²

In addition, as identified in the USAID/OIG Fraud Alert issued on April 7, 2021, the Standard Provision under ADS 303, M15: 1) only applies to U.S. NGOs despite non-U.S.-based NGOs needing to make similar local currency exchanges; 2) does not address any exchanges occurring beyond the initial conversion; and 3) provides no measure of enforcement.

Finally, recent complaints have been brought to light that the Standard Provision does not compel implementers to disclose the currency exchange rate they utilized when presenting an invoice for payment to USAID, which further incentivizes NGOs to engage in currency arbitrage, and creates an opportunity for fraudulent activity.

⁹ USAID ADS section 303 Mandatory Reference for U.S. Non-Governmental Organizations, M15.

¹⁰ State Department Cable 1860822; USAID Exchange Rate Policy Guidance, dated June 17, 1987.

¹¹ Syria, Yemen, and Libya do not have formally designated USAID Mission Directors.

¹² Currently, USAID has designated the following as Complex Emergencies: Afghanistan, Central African Republic, Democratic Republic of Congo, Ethiopia, Horn of Africa, Iraq, Lake Chad Basin, Libya, Mali, Pakistan, Philippines, South Sudan, Sudan, Syria, Ukraine, and Yemen.

Conclusion

The allowance of currency arbitrage without transparency and oversight exposes USAID to increased risks of financial fraud – such as theft, embezzlement, diversion of funds, and fraudulent invoicing. USAID/OIG is available to address any questions you may have regarding the vulnerabilities noted in this memorandum. This matter is being referred to your office for review and any action deemed necessary or appropriate. Please advise USAID/OIG of any action planned or taken by your office in response to this referral within 30 days. If you have any questions or need further assistance, please contact [REDACTED]

CC:

[REDACTED]

Exhibit:

1. USAID/OIG Fraud Alert Pertaining to Conversion of U.S. Dollars to Local Currencies in Conjunction with Complex Emergencies, dated April 7, 2021.