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BREXIT

FIVE ISSUES FOR UK INGO TRUSTEES IN THE COMING WEEKS

Thursday's decision by the British people to vote to leave the European Union is likely to have profound consequences for UK based international NGOs in the months and years ahead. There will be plenty of debate in the coming months on the political and policy implications for INGOs. This briefing looks at five of the main practical issues that INGO Boards of Trustees and INGO leaders may need to consider and act on over the next few weeks and months, as a result of this vote.

1. PROGRAMME COSTS

Experienced INGO programme and financial leaders are used to adapting programme budgets to minor changes in exchange rates. However, the Brexit vote has already resulted in a drop in the value Sterling against leading global currencies of 5-10%, the biggest drop since the financial crisis of 2007/08.

For UK based INGOs, this means that the purchasing power of their funds in most developing countries is likely to drop, and that programmes may need to be scaled back in order to stay within budgets designated in Sterling. It may become difficult to fulfill all funding commitments to local partners. In a typical INGO, a fall of 10% in the value of Sterling would mean an average reduction of around 5% in country office local currency budgets, with some country offices being much worse affected.

In past exchange rate crises, INGOs have often chosen to protect existing programme commitments, but this can mean a sudden drying up of funding for new programme commitments over a 1-2 year period, and constrain the development of emerging strategic priorities. INGO trustees and leaders need to know the implications for their programmes, and consider how best to respond.

2. PUBLIC SECTOR INCOME

For many UK INGOs, the EU is an important source of income, generating around £300m of income for UK INGOs each year. While in theory this funding will remain available to UK INGOs until the Brexit process is completed, and it seems likely that most existing contracts will be honoured, it is likely that there will be an immediate suspension of new funding commitments to UK INGOs from the EU, until the processes and timescales for Brexit become clearer.

Currently, the UK provides around £1.1 billion each year towards EU development and humanitarian budgets, which is around 15% of the total (see chart on p2). While these contributions are likely to continue until Brexit takes effect, the loss of this income will mean big cuts in EU and ECHO budgets. This may result in the drying up of new EU funding commitments in the next few years, as priority is given to existing agreements, with major consequences for partners in developing countries who rely on these funds.

ABOUT BAOBAB

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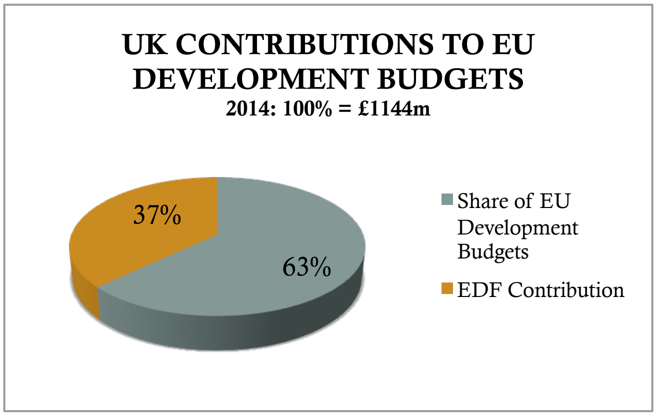
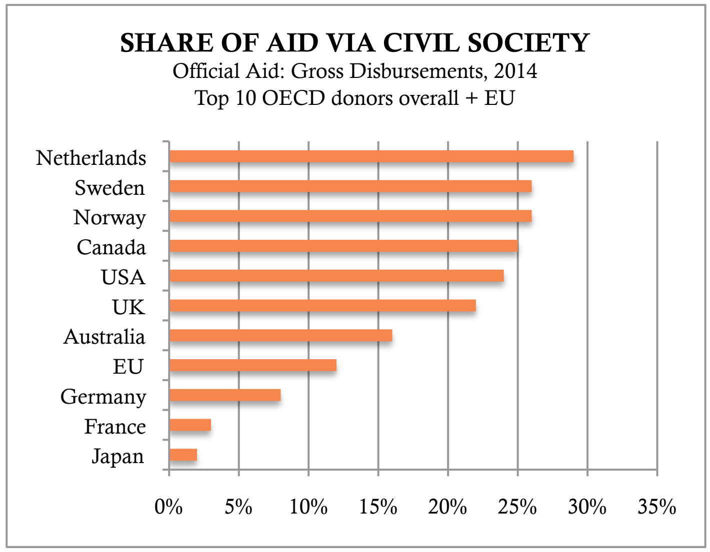


Source: DfID Statistics for International Development 2015

In the medium term (assuming the UK continues to honour its commitment to 0.7%), the UK government will have £1.1 billion of additional funds to spend directly, following Brexit. As the UK spends a higher share of its aid via civil society than the EU (see chart below), UK INGOs may hope to attract a significant share of this additional income, but would need to attract around a quarter of the total to compensate for the loss of EU funding.

The viability of this will depend on the outcome of the current UK aid reviews (whose results may be delayed further due to the Brexit vote), and on how compelling a case UK INGOs can make to the UK government that they can spend the funds more effectively than other alternative channels.

Trustees and leaders of INGOs who raise significant income from the EU will need to consider the implications of a rapid drying up of new EU funds, and the likely delay of a few years before any new funding becomes available through DfID.



Source: Civil Society Aid Trends 2016: Baobab Briefing

3. NON-GOVERNMENT INCOME

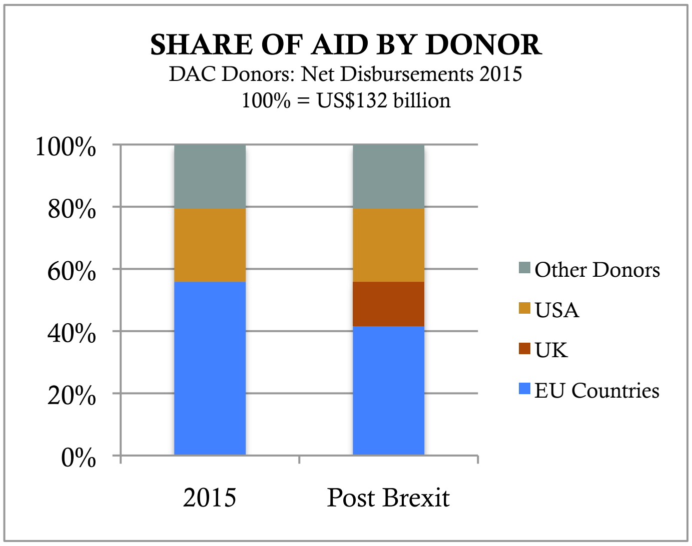
The uncertainty in financial markets resulting from the Brexit decision is likely to have implications also for non-government income. Based on INGOs' experience of the financial crisis in the late 2000s, it is likely that the main short term impact will be in reduced new commitments from foundations (especially those whose income depends on UK stock market values), and from large UK based corporates (who are likely to reduce discretionary expenditure in a period of greater uncertainty). A reduction of 10-30% in income from these sources over the next 1-2 years would not be unexpected, based on the sector's experience of the financial crisis, but it is likely that this will return once market conditions stabilise.

The effects of Brexit on voluntary income from individuals are harder to predict, and are unlikely, on the basis of past experience, to be immediate. In the medium term, they are likely to depend principally on the wider progress of the UK economy.

INGO trustees and leaders may therefore need to develop contingency plans for a significant short term drop in income from foundations and corporates.

4. POLICY PRIORITIES

Many UK INGOs and the UK government have played a leading role in influencing European policy positions on global issues. It is likely that we will see an immediate reduction in the willingness of other EU governments (and possibly other European INGOs) to respond to the views of UK-based actors.



Source: OECD. Post Brexit at 2015 values and exchange rates.

INGOs with an interest in influencing global issues will need to develop other channels of influence, for example through the G20, UN bodies, and the World Bank. Post Brexit, EU countries share of total development cooperation budgets will fall from 55% to 42% (see chart on left). Together with the arrival of new aid donors from the emerging economies, it is possible that Brexit may help to bring about a more multi-polar debate on aid related issues.

Trustees and leaders of INGOs who are currently running campaigns which rely strongly on influencing European policies (directly or via the UK government) may need to change the focus of these campaigns, or consider whether they remain viable in this new context. In the medium term, they will need to rethink their wider approach to influencing global policies and priorities.

5. RESERVES AND PENSIONS POLICIES

The drop in the value of the stock market post the Brexit vote is likely to have significant implications for those INGOs whose reserves are invested in the stock markets. There are also likely to be direct consequences for INGOs who have pension fund commitments relating to current or past final salary pension schemes. The fall in the stock market is likely to result in greater underfunding of these pension commitments, with direct consequences for “free reserves”, and pressure for increased annual top up payments by the INGO to the pension fund.

INGO trustees and leaders may need to consider the balance between cutting expenditure to protect the level of reserves and pension commitments, and reducing reserves in the short term to protect programme commitments and the development of the INGO’s strategic priorities over the next 2-3 years.

WIDER IMPLICATIONS

There are clearly a wide range of other issues that may arise for INGO trustees and leaders as a result of the Brexit vote (for example, a possible second Scottish independence referendum), which will only become apparent over the coming weeks and months.

While the UK is likely to have less influence on international policy debates from outside the EU, it remains to be seen whether the UK can carve out an influential role as an innovator or independent mediator in global debates. UK INGOs have a potentially important role to play in shaping the future international role of the UK. The sector needs to engage in this political debate soon if we are to achieve positive outcomes for the global issues we care about.

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