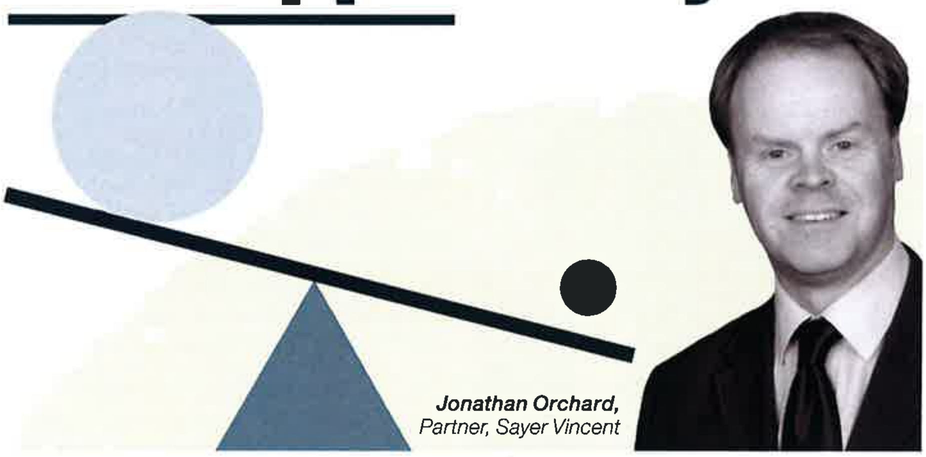
International NGOs – balancing risk with opportunity



Jonathan Orchard,
Partner, Sayer Vincent

As recent political events take their toll on the international NGO sector, Sayer Vincent brought together charities from the sector to discuss the risks and plans to move forward. Jonathon Orchard, Partner, highlights key risks and the many potential opportunities that came from the discussions.

Times are tough for the international NGO sector. Political factors have been weighing heavily. A 15% fall in the value of the pound since the EU referendum result has hit programme budgets hard. Brexit and the Trump presidency has called into question the future scale and availability of EC and USAID funding.

The political fallout from the EU referendum further delayed the long awaited funding review from the Department for International Development (DfID). Certain elements of the national media are campaigning hard for a re-direction of the UK aid budget to domestic needs. Banks, concerned with their own risk management, are creating new obstacles for international fund transfer and as for all charities, the public fundraising market gets even tougher.

One NGO supported by DfID through its (now obsolete) strategic grant-funding programme has announced closure. Many others are undergoing restructuring and/or rationalising their scope of work and geographical reach.

Late last year, we convened a group of international charities to discuss some of these risks, to hear how NGOs are tackling them and to look ahead at what some of the opportunities might be.

Whilst the discussion took place prior to the release of DfID's funding review (the Civil Society Partnership Review) we pre-empted much of its content and when the review was published, there were few surprises. The end to strategic funding of international NGOs had been well flagged previously; however, there were a number of genuine opportunities that emerged including:

- Specific funding for collaborative working
- A promise to reconsider the approach to funding core costs
- A more central role for southern NGOs
- Continued focus on transparency (through IATI) and value for money

The larger tranches of DfID funding are increasingly now structured as commercial contracts rather than grants.

> “
> *The real opportunity for smaller NGOs is to enter into consortia for sub-contract awards.*

This competitive bidding process is open to commercial consultancies as well as NGOs, while some of the larger NGOs have successfully adapted to this new model and are securing some of these contracts.

The real opportunity for smaller NGOs is to enter into consortia for sub-contract awards. There are new risks to be managed here around contract negotiations, pricing and cash flow, however, this is where the future money will be – so for many this will become the new reality. We were surprised that only a few NGOs in our discussion group were actively looking at this as a strategic option.

The weakness of sterling has led many NGOs to take a much more active approach to foreign exchange risk, which has previously been an unexplored area for many in the sector. However, as recent events have shown, not considering the risks is in effect a one-way speculative bet.

It is critical for every NGO to get an understanding of where the organisation is exposed to foreign exchange risk and to take sensible and proportionate measures to reduce these risks. This includes cash flow forecasting by currency, matching inflows and outflows in different currencies and understanding who really bears the risk in funding agreements.

Contracting with a local partner in sterling may seem like a sensible way to manage the risk. However, if a local partner is faced with 20% less GBP than was budgeted, is it still realistic to expect them to deliver what was planned? Organisations may still need to underwrite the difference.

On bank 'de-risking', the discussion group shared stories of bank account closures without any warnings and difficulties of getting funds into countries such as Sudan, Myanmar and Yemen.

Some suggested solutions included building quality relationships with the bank, working through regional networks and having alternative banking channels, including money transfer agencies (a plan B, C & D).

On the future of EU funding, many NGOs are looking at their broader networks within Europe to guarantee access to future grants. Some charities are looking at Ireland and the potential benefits of a sister charity there.

It is too soon to know what the future availability of EU funds will be for UK charities. However, many are already reporting that EU grant assessors are taking a much more sceptical view than before of applications from UK charities.

There is much here to challenge NGO finance teams, but there is reason for optimism too. Tough times can force difficult decisions that can ultimately make an organisation stronger for the future.