The impact of Brexit on EU funding for UK CSOs

The future of EU funding for UK development and humanitarian CSOs
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About Bond

Bond is the civil society network for global change. We bring people together to make the international development sector more effective. bond.org.uk

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### List of acronyms

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<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
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<tbody>
<tr>
<td>A4ID</td>
<td>Advocates for International Development</td>
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<tr>
<td>ACP</td>
<td>African Caribbean Pacific countries</td>
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<tr>
<td>CSO</td>
<td>Civil Society Organisation</td>
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<tr>
<td>CSO-LA</td>
<td>Civil Society Organisations-Local Authorities</td>
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<tr>
<td>DCI</td>
<td>Development Cooperation Instrument</td>
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<tr>
<td>DFID</td>
<td>Department for International Development (UK)</td>
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<tr>
<td>DG DEVCO</td>
<td>Directorate General Development Cooperation</td>
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<td>DOCHAS</td>
<td>The Irish Association of Non-Governmental Development Organisations</td>
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<td>ECHO</td>
<td>European Civil Protection and Humanitarian Aid Operations</td>
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<td>EDF</td>
<td>European Development Fund</td>
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<tr>
<td>EEA</td>
<td>European Economic Area</td>
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<tr>
<td>EFTA</td>
<td>European Free Trade Area</td>
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<tr>
<td>EIDHR</td>
<td>European Instrument for Democracy and Human Rights</td>
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<tr>
<td>ENI</td>
<td>European Neighbourhood Instrument</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FPA</td>
<td>Framework Partnership Agreement</td>
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<td>FTS</td>
<td>Financial Transparency System</td>
</tr>
<tr>
<td>HIPC</td>
<td>Highly Indebted Poor Country</td>
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<tr>
<td>IcSP</td>
<td>Instrument contributing to Security and Peace</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>IPA</td>
<td>Instrument for Pre-Accession</td>
</tr>
<tr>
<td>LDC</td>
<td>Least Developed Country</td>
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<tr>
<td>MFF</td>
<td>Multi-Annual Financial Framework</td>
</tr>
<tr>
<td>MIC</td>
<td>Middle Income Country</td>
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<tr>
<td>NCVO</td>
<td>National Council for Voluntary Organisations</td>
</tr>
<tr>
<td>NIDOS</td>
<td>Network of Development Organisations in Scotland</td>
</tr>
<tr>
<td>ODI</td>
<td>Overseas Development Institute</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PHASE</td>
<td>Providing Humanitarian Assistance to Sahel Emergencies</td>
</tr>
<tr>
<td>PRAG</td>
<td>Procedures and Practical Guide (for EC development funding)</td>
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Executive Summary

On 23 June 2016, as a result of a nationwide referendum, the UK electorate chose to leave the European Union. Following the referendum, different paths to Brexit were envisaged, ranging from a “hard” Brexit, whereby the UK would no longer be a member of the single market or the customs union, to softer versions of Brexit, similar to those governing relationships between the European Union and Norway and the other European Economic Area (EEA) countries, or Switzerland which is part of the European Free Trade Area (EFTA). It is uncertain whether or how this general direction would impact the UK’s involvement in EU aid instruments and policy, but intuitively, a softer Brexit would imply more continued cooperation. This study, commissioned by Bond at the end of 2016, focuses specifically on the impact of the UK’s exit from the EU on UK International Civil Society Organisations (CSOs) access to EU funding.

The UK is the second largest recipient of EU aid to CSOs (both grant and service (commercial) contracts combined), the largest being France. The UK is the largest recipient of EU grant aid to CSOs1. Between 2012-2016, EU development and humanitarian aid to UK CSOs amounted to an average of approximately €300m in fresh commitments each year2. In 2016, the value of new commitments to UK CSOs was €356.9m3.

This study has examined specific vulnerabilities arising from the impact of Brexit on development and humanitarian instruments, with a particular focus on geographies, sectors and CSO size. Depending on possible Brexit scenarios, UK CSOs are likely to face an annual funding shortfall, which could be as high as the full amount they’re currently receiving (€356.9m in 2016).

Vulnerabilities

- Once the UK leaves the EU, UK CSOs may still have restricted access to some EU funding by virtue of the UK’s membership of the Organisation for Economic Cooperation and Development (OECD). However, even on this basis, UK CSOs will no longer be able to access EU funding for programmes in some key countries that are neither Least Developed Countries (LDCs) nor Highly Indebted Poor Countries (HIPCs), such as Sri Lanka.
- In terms of sectors, humanitarian funding is the most significant amount at risk, with around €211m under threat4. It is unclear whether UK CSOs relying on humanitarian funding from ECHO will still be eligible after Brexit based on current rules and technicalities, or how much leverage the UK sector might have in negotiating favourable access to the new ECHO framework partnership agreements for 2019-2021. The risk is significant as there is no automatic eligibility.
- The work CSOs undertake on civil society strengthening, human development, health, and agriculture is also at significant risk of seeing big shortfalls. As more organisations access these funding lines than humanitarian assistance, and the eligibility for this development cooperation is even less likely to be favourable to UK CSOs, the capacity of CSOs to undertake development programmes in the future will be affected.

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1 Financial Transparency System 2016
2 New multi-annual commitments made each year on average between 2012 and 2015. This is drawn from the data that appears on the EC’s financial transparency system, and represents the aid going to UK CSOs.
3 Based on EC Financial Transparency System search of new grant contracts in 2015
4 ECHO commitments to UK CSOs in 2016
Using survey and interview data, the study found that small to medium sized CSOs are particularly vulnerable to potential changes, due to a higher dependence than their larger peers on EU funding and due to their reliance on development, rather than humanitarian, budget lines.

Overall, it is likely that most UK CSOs that currently access EU funds will thus face a significant funding shortfall once the UK leaves the EU and this is likely to have a strong impact on their programming in developing countries, at least in the short to medium term.

The fear is that the unique and distinctive contribution of UK CSOs to humanitarian and development cooperation will be impacted via their reduced access to EU funding and subsequent limited influence on EU policy and partnerships. UK CSOs demonstrate their remarkable competitive value by winning substantial numbers of EU grants; for example, in 2016 almost 25% of ECHO funding commitments were made to UK CSOs. Their track record, reach and expertise is high, and there is potential for this to be under-utilised or even lost if the Brexit deal negotiated by the UK government results in their ineligibility for EU funding.

The research shows there is a divergence between what might be technically and legally possible, and what might be politically possible in the UK and the EU. There is still much uncertainty about the future of the UK’s relationship with the EU, and therefore UK CSOs’ access to the EU development and humanitarian aid budget. This research will need to be updated once further clarity on the Brexit implications is available.

**Next steps**

In light of the findings of this research, UK CSOs should take the following recommendations into consideration:

**Take on a monitoring role**

1. Closely monitor new calls for proposals to assess whether there is any change in current EU eligibility rules or a negative bias towards UK CSOs.
2. Monitor any significant drop in EU funding to UK CSOs even before the UK’s withdrawal from the EU.
3. Monitor and map the number and typologies of UK CSOs establishing a base in EU member states.
4. Monitor the status of existing grants after Brexit.

**Continue to influence EU policy and practice on international development**

5. While the UK is still a member of the EU, UK CSOs should continue to actively engage in key current policy processes setting the direction for future EU development cooperation and humanitarian policies. These include informing the new European Consensus on Development, influencing the future partnership between the EU and African, Caribbean and Pacific states, and contributing to the debate on the EU’s next Multi-Annual Financial Framework, which sets out instruments and contributions for international development and humanitarian policies.
6. Support DFID’s active engagement in EU joint programming initiatives in partner countries to pave the way for continued collaboration with UK CSOs post-Brexit.

**Bond to secure a UK CSO voice in Brexit negotiations**

7. Bond should work with European civil society organisations to convey the voice of UK CSOs (especially small and medium entities with no base in the EU) and highlight the value of
partnering with civil society in the dialogue on Brexit with the UK government and the EU institutions.

8. Within Bond, the EC Working Group should take on a lead role to allow for continued engagement and monitoring of the funding and operational implications of Brexit on Bond members.

9. Bond should continue representing the sector in discussions with DFID, the Treasury and other key stakeholders.

Possible further research exploring opportunities for continued EU funding to UK CSOs

10. Further explore legal ramifications of ECHO eligibility based on current rules (for example, the precedent of using Convention 124, which allows Swiss CSOs to access funding.)

11. Further clarify the legality and consequences of using the reciprocity clause to allow continued eligibility of UK CSOs for funding instruments under the EU Budget and the European Development Fund.

12. Further investigate the loss of funding around particular thematic issues and geographical areas, and investigate alternative funding sources.

Introduction and methodology

On 23 June 2016, as a result of a nationwide referendum, the UK electorate chose to leave the European Union. Following the referendum, different paths to Brexit were envisaged, ranging from a “hard” Brexit, whereby the UK would make a clean break from the single market, to softer versions of Brexit, similar to those governing relationships between the European Union and Norway and the other EEA countries, or Switzerland which is part of EFTA. It is uncertain whether or how this general direction would impact the UK’s involvement in EU aid instruments and policy, except where EEA eligibility is at stake, but intuitively, a softer Brexit would imply more continued cooperation.

Brexit will inevitably have an impact on UK civil society. This study, commissioned by Bond at the end of 2016, focuses specifically on the impact of Brexit on access to EU funding by UK CSOs.

The study draws on a number of research sources:

- Data on existing EU grants was analysed from the EU’s Financial Transparency System (FTS) (using the 2012-2016 figures), and from ECHO’s lists of grants made;
- A survey of Bond members was conducted during January 2017, with around 60 responses (see list of respondents at Annex 1);
- Semi-structured interviews/focus groups were conducted with Bond’s EC Funding Working Group (ECFG) members; with a number of other CSOs; with donor institutions (DFID, DG DevCo, and ECHO); and with key stakeholders including ODI, NCVO, CADA, NIDOS, DOCHAS, and A4ID (Please see list of interviewees at Annex 2).
Current funding situation

We used 2016 as our base year, therefore the following figures are based on new, multi-year, funding commitments agreed during 2016. As seen in Figure 1, 2015 saw a reduction in the total value of funding disbursed through DG DEVCO across all countries (including the UK). This is because this was the first year of the new budget for 2014-2020, and decision-making (and therefore spending) was low. Commitments in 2016 are more similar to previous levels.

**Figure 1: Value of new grants to UK CSOs from DG Devco (Eur M)**

EU funds to the UK CSOs in 2016

We brought together the data from the FTS with the lists of ECHO grants made to generate an overall picture of the flow of development and humanitarian funds to UK CSOs. The overall figure of new commitments to UK CSOs from EU development and humanitarian funding sources in 2016 is €356.9m. This is broken down in Figure 2.
Analysis by CSO size

The survey of CSOs for this study received responses from 60 CSOs, and therefore is not necessarily reflective of all UK CSOs receiving funding from the EC. However, the survey is useful as an indicator of the types of organisations likely to be particularly affected by the impact of Brexit on their funding and programmes.

Analysis by CSO size (based on turnover) reveals that the majority of recipients of funding from the development funding instruments are medium to larger CSOs. Figure 3, which is based on FTS data, shows the number of organisations in each category of size (on the basis of annual turnover) that received new funding commitments in 2016, shown by instrument. This reveals that the smallest organisations (less than £1m turnover), access funding from DCI and EIDHR, but do not access funding from ECHO or the EDF.

For humanitarian funding, the data for ECHO reflect that it is the larger CSOs that have Framework Partnership Agreements (FPAs) with ECHO, with the exception of one organisation which falls into the £1m to £10m category.

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5 A Framework Partnership Agreement sets the principles of partnership between ECHO and CSOs, defining roles, rights and obligations. Once CSOs have agreed an FPA with ECHO, they are then eligible to receive funding via individual grants that they apply for.
Using the survey responses, we analysed the level to which organisations are reliant on EU funding. Figure 4 suggests that the smaller the size of the CSO, the greater the percentage of that CSO’s income comes from EU funding. 12 small to medium sized CSOs (less than £10m) reported that EU funding makes up more than 20% of their overall income. This suggests that, of those receiving EU funding, smaller CSOs tend to be more dependent on EU funding within their overall income.

**Analysis by geography**

Figure 5.1 shows the breakdown of new grants in 2016 in terms of geography for the DCI, EIDHR and EDF instruments. This data shows a considerable concentration of funding in terms of number of grants in East Africa, and West Africa. Figure 5.2 shows the same data for ECHO humanitarian grants in 2016 – this shows again a concentration in East and West Africa, however the greatest number of new ECHO grants are for the Middle East and North Africa.
The survey responses also supported this pattern: of the 59 Bond members who responded to the survey, 27 have EU-funded programmes in East Africa, followed by 21 in West Africa, and 17 in the Middle East.

**Analysis by sectoral breakdown**

By sectoral breakdown, **Emergency Response is the most funded category** with 151 new grants to 24 UK CSOs that hold Framework Partnership Agreements.

Using the FTS data, Figure 6 reflects the sectoral breakdown of the DCI and EDF instruments in 2016, which shows that after ECHO, the most funded sectors are democracy and human rights, migration and food security. This is a change from 2015, when democracy and human rights, civil society strengthening and human development were the top three categories.

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**Fig 5.2: Geography of new grants (ECHO) 2016 by number**

**Fig 6: Sector breakdown of new EU grants in 2016 by number of grants (excluding ECHO)**

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*ECHO are not shown in Figure 6 as the number of new grants is so much larger than the other instruments (151)*
Eligibility by Funding Stream

Current eligibility rules, which determine what type of organisation is eligible to access EU funding via a range of existing EU funding instruments, allow us to highlight which possible routes to funding might still be open to UK CSOs even after the UK leaves the EU. They also provide an indication of where the major vulnerabilities for UK CSOs may be.

While for each funding instrument specific rules of nationality and origin may apply, the overall rule for EU-budget funded programmes is broadly that the following organisations are eligible to receive funding: organisations in EU, EEA, Pre-Accession or OECD-DAC ODA recipient countries, or OECD members working in LDCs and HIPCs.

Figure 7 gives an overview of the eligibility rules relevant to UK CSOs by Instrument.

<table>
<thead>
<tr>
<th>Budget Line</th>
<th>Rule</th>
</tr>
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</table>
| DCI         | • EU’  
             | • EEA  
             | • Non-EU OECD for LDCs and Highly Indebted Poor Countries (HIPC’s) only |
| ENI         | • EU  
             | • EEA  
             | (No LDCs/ HIPCs in ENI region) |
| EIDHR       | No restrictions of nationality |
| IcSP        | No restrictions of nationality |
| EDF         | • EU  
             | • EEA  
             | • Non-EU OECD for LDCs and Highly Indebted Poor Countries (HIPC’s) only |
| ECHO        | • EU  
             | • EEA  
             | • Recognised in an EU Member State through Council of Europe Convention Article No. 124  
             | • Main HQ in EU MS or third country in receipt of EU Aid |

The following discussion focuses on some specific instruments where there might be technical loopholes and areas that will require further clarification. These may, in theory, offer UK CSOs possible avenues for continued access to EU funds post-Brexit depending on the nature and degree of partnership between the UK and the EU.

Development Cooperation Instrument (DCI)

The DCI covers all countries on the ODA list of the OECD DAC except those covered by other EU geographical instruments (e.g. ENI, EDF and IPA). DCI geographic calls are thus currently only for Asia,

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7 Eligibility for all funding instruments is wider than shown in the table. Only eligibility categories relevant to UK CSOs are included.

8 HIPCs that are not also LDCs are: Bolivia, Cameroon, Republic of CoCSO, Ghana, Honduras, Ivory Coast and Nicaragua.
Central Asia, Latin America, Middle East (east of Jordan) and South Africa. The eligibility rules for this budget line, laid out in the Common Implementing Regulation, include EU countries, EEA countries, and non-EU OECD countries (but only for work to be implemented in LDCs and HIPCs – outlined in Annex 5).

This is a significant budget line for UK CSOs, accounting for 55% of new grants in 2016 (excluding ECHO). Following Brexit, UK CSOs will be eligible for funding as non-EU OECD members only for programmes in LDCs and HIPCs.

- An area of clarification affecting DCI is around the rules of reciprocity. There is a provision for eligibility to include countries for which reciprocal access to external assistance is established. The EU could, in theory, grant continued access to EU funding post-Brexit for UK CSOs if all similar UK Aid instruments and programmes were equally accessible to entities from the EU.

**European Development Fund (EDF)**

The EDF is the largest instrument for funding EU development cooperation and was a source of almost €34m Euros of aid to UK CSOs in 2016. It is governed by the Cotonou Agreement, and its primary objective is poverty reduction in the African, Caribbean and Pacific Group of States (ACP), of which over half are members of the Commonwealth.

Unlike the EU’s other funding instruments, the EDF is not part of its general budget and the European Parliament has no official scrutiny over the EDF’s budget or priorities. Eligibility for the EDF is similar to that for DCI, including EU and EEA states, as well as OECD countries for projects to be implemented in LDCs and HIPCs.

The 11th EDF, created by an intergovernmental agreement signed in June 2013 and entered into force on the 1 March 2015, covers the period 2014-2020. The UK has already made financial commitments to this fund. However, no funds pledged to the 11th EDF have been called for from member states yet. The first such call for contributions is expected in the middle of 2017 with other calls continuing until well after the deadline for commitments in December 2020.

Maintenance of the UK’s commitment to the EDF will be the subject of early stage negotiations with the EU 27, which are expected to focus on a financial settlement with the UK.

- If the UK does contribute funds, this may result in UK CSOs remaining eligible for funding for the full period of the 11th EDF. Furthermore, as the EDF is currently not part of the general EU budget, there may be a case for the UK to continue to pay into the Fund even after it leaves the EU if the EDF remains “out-of-budget”.

- The rules of reciprocity outlined above also apply to the EDF. Another possible avenue for securing longer-term eligibility for UK CSOs to funds under the EDF might be to grant access to both EU and ACP entities to UK development or humanitarian financing as part of a reciprocal access agreement along the lines of what has been discussed for the DCI.

**European Civil Protection and Humanitarian Aid Operations (ECHO)**

Eligibility for ECHO FPAs is restricted to CSOs registered in an EU member or EEA state, or recognised in an EU Member State through the Council of Europe Convention No. 124 of 24 April 1986. In practice, CSOs from only two countries have been recognised through Convention 124 - Switzerland and FYR Macedonia - and so this route is not well tested and likely to be subject to political negotiation. There is a further requirement that an FPA holder must have its main headquarters in an EU Member State or

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9 Eligibility is provided for in Article 20 of Annex IV of the Cotonou Agreement, as amended by Decision 1/2014 of the ACP-EU Council of Ministers (Doc 2014/428/EU).
a third country that is a recipient of EU Aid for more than three years before they are eligible.

The current ECHO FPAs run to 2018. There are inevitably concerns about what will happen with the negotiation of new FPAs. These discussions are starting now and UK CSOs, which are some of the largest recipients of ECHO funding, find themselves in an unclear position resulting from the uncertainties of Brexit. There are possibilities for UK CSOs to receive continued funding from ECHO:

• The untying of ECHO funding to allow for non-EU donors to “pitch in” is one possibility to ensure continued eligibility of UK CSOs.

• A further area of enquiry in relation to ECHO relates to Assigned Revenues. Over the period 2015-2017 DFID has committed funding of up to £139m for the Providing Humanitarian Assistance to Sahel Emergencies (PHASE) programme\(^{11}\). The majority of this funding is being deployed through a Contribution Agreement with ECHO, with implementation having commenced in January 2015. The UK’s assigned contributions to the PHASE programme could provide a model for future, post-Brexit, areas of cooperation.

• The potential to test the Convention 124 route may also be an option, depending on political negotiations. One point to consider is that if the UK were to eventually opt out of the European Convention on Human Rights and leave the Council of Europe, the Convention 124 avenue for eligibility would also be inexorably closed.

**Trust Funds**

The channelling of EU development aid through Trust Funds is an increasing trend. During 2014-15 three Trust Funds were launched\(^{12}\). They now account for a total €2.3 billion from the EDF and EU budgets, in addition to EU member-state contributions.

Eligibility for these Trust Funds is variable, and in general terms much wider than for other instruments. For example, eligibility for the Bekou Fund is open without restriction\(^{12}\). Trust Funds have the potential to be a significant source of funding post-Brexit.

However, Trust Funds have come under heavy criticism\(^{13}\) for lack of transparency and openness; direct implementation by EU directorates which by-passes local government and civil society; and diverting long-term development funds to humanitarian emergencies.

Nonetheless, Trust Funds do represent a more flexible model, allowing countries to choose to pool funds to address a particular crisis or situation. Some of the larger, or humanitarian focussed, CSOs interviewed explained that they have been an important source of funding. These funds have so far mostly benefited the largest CSOs. In summary:

• Trust Funds could offer a valuable avenue for the UK to contribute to shared global and European challenges and crises once it leaves the EU. Pushing for further untying of EU aid and reaching out to non-EU donors (e.g. Norway and Switzerland) are actions currently being prioritised by the Commission’s Director General for Development Cooperation. Bringing more donors to the table would open it up to being broader than solely EU donors investing in EU trust funds.

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\(^{10}\) https://devtracker.dfid.gov.uk/projects/GB-1-204439/documents

\(^{11}\) The Emergency Trust Fund for Africa (EU Africa Trust Fund); the EU Bekou Trust Fund for the Central African Republic (EU CAR or Bekou Trust Fund – 2014); and the EU Regional Trust Fund for Syria (Madad Fund – 2014).

\(^{12}\) Bekou was the first multi-donor EU Trust Fund, established on 15 July 2014 by the EU and three Member States (France, Germany and the Netherlands). It aims to promote the stabilisation and reconstruction of the Central African Republic. It has been established for a maximum duration of 60 months in order to provide a medium-term response. https://ec.europa.eu/europeaid/bekou-trust-fund-introduction_en

\(^{13}\) For example, see Concord’s 2016 AidWatch report: https://concordeurope.org/wp-content/uploads/2016/10/CONCORD_AidWatch_Report_2016_web.pdf?de2aba