

# Financing Good and Good Financing:

An Overview of  
the Challenges and  
Opportunities in  
the NGO Sector



## Introduction and Overview

By and large, it has been a good year for non-governmental organisations and non-profits. Fundraising has increased and the engagement level of donors, especially through mobile mediums, is steadily growing. However, although the monies raised has increased, the market is being disrupted by technological advances, changes in donor behaviour, and an increasingly hostile US political environment. This means that NGOs must be alert to how they can take advantage of the new environment in which they are operating and adapt their processes to minimise any risk of disruption in their operations.

In this white paper, we take a look at the new developments in the NGO sector and how the market is evolving in relation to new technologies. We focus especially on the financial challenges facing NGOs, and in particular, how to minimise international cash transfer costs. It is not only the fees that NGOs should minimise but they must also manage their risk exposure. We discuss the options available to NGOs who wish to hedge against foreign currency fluctuations. NGOs have two main options in managing their international cash payments and this can be done through either

banks or money exchange experts. We review the strengths and weaknesses of both types of organisations and highlight the opportunities for alternative approaches to managing their international payment risk.

NGOs and non-profits are a force for good and impact all parts of the world and society. This white paper explains how to maximise the efficiency of donation and cash handling and minimise international cash transfer costs. We hope it will be of use to all organisations and result in better financial decisions in this sector.



# The NGO Sector: Recent Trends

## Fundraising: New Business Models

The traditional NGO business model relies on donations from private individuals, state and governmental donations. Donations can be small (but cumulatively large) or come from very large offerings by wealthy philanthropists, like the Bill Gates and the Margaret A. Cargill Philanthropies Foundations. NGOs also generate funds from membership fees and sales of goods and services.

In recent years, crowdfunding campaigns have opened up a new avenue to raise funds. Table 1 lists the top online crowdfunding platforms for NGOs.

Table 1: List of top NGO crowdfunding platforms

Platform	Details
MightyCause (formerly Razoo)	Over \$600 million <b>raised</b>
Causes	One billion actions by 186 million users in 156 countries
Startsomegood	Nearly \$9 million raised for nearly 900 projects
Crowdrise	Raised money for over 1.5 million charities
Causevox	Serves thousands of non-profit organisations every year
Kickstarter	Largest and most well-known crowdfunding platform
Indiegogo	A competitor to Kickstarter and crowdfunding both profit and non-profit campaigns
RocketHub	Raises funds for all types of organisations
Pozible	An Australian crowdfunding platform for NGOs and non-profits.

Crowdfunding leverages the power of social media and the internet to reach donors all over the world and can be very effective in generating large sums of money for high-visibility campaigns.

Many NGOs have also transitioned heavily into monetisation of their services and products and have supplemented their fundraising campaigns with profit-making activities including research, consultancy, and training. Social enterprises, which have a societal objective but are also profit generating at the same time, have become much more common and ubiquitous and their business models can include running cafes, selling tickets for events and hiring out spaces for social-need undertakings like homeless shelters.

### Political Risk

On June 19, 2018, The US government withdrew the country from the United Nations Human Rights Council (UNHRC), accusing the world's largest non-governmental organisations of bias

against the United States. A letter from the US Ambassador to the United Nations, Ms Nikki Haley, addressed to the International Humanist and Ethical Union, stated that the organisations "colluded against the United States" and "undermined" attempts to improve the Human Rights Council. This was refuted in a letter by 20 NGOs, including Amnesty International and Human Rights Watch, which stated that they are "independent organizations that do not work on behalf of any government."

The gradual hardening of attitudes within the US administration towards organisations they perceive not to share its own values has led to regulatory pressure on NGOs, non-profit organisations, charities and the financial institutions who deal with them. NGOs involved in activities in Palestine, Syria and other hotspots have reported payment delays and closed bank accounts. Some NGOs have even seen their funds frozen completely.<sup>i</sup>

With the US government planning to tie foreign

aid to support for US foreign policy,<sup>ii</sup> it is very likely that those NGOs who operate in countries that are opposed to elements of US foreign policy will see support waning. This will exert a worsening impact on these organisation's finances over the coming years.

UK NGOs are also facing an uncertain future with the advent of Brexit. In the event of a hard Brexit and no trading deal between the European Union and United Kingdom, charities and NGOs with EU funding may see this withdrawn. With the UK aid sector receiving nearly €300 million a year from the EU, this will have a substantial impact on the viability of UK NGOs.<sup>iii</sup>

### Banking Services

NGOs and charities have reported difficulties in maintaining adequate banking services in the face of continued regulatory pressure on banks to control international money laundering and counter-terrorism legislation both in the US and EU. The UK-based Charity Finance Group (CFG) reported<sup>iv</sup> that 79 per cent of international charities they surveyed had experienced issues with banking services in the past year and 15 per cent had their accounts closed.

With political pressures emanating from the US, many NGOs that operate in high-risk environments, such as Syria and Palestine have been affected. According to The Independent,<sup>v</sup>

Muslim charities have also reported difficulties with delayed and declined payments occurring on an almost daily basis.

In February, 2018, the UK's charity regulators<sup>vi</sup> issued an alert reminding all NGOs that the regulated financial sector should be used. In particular, NGOs should have a bank account in their registered name, and only use regulated financial institutions to transfer funds to international destinations.

### Money Exchange Experts

Non-bank foreign exchange specialists, like moneycorp and its recent acquisition CommonwealthFX, have an important role to play in this difficult regulatory environment. Regulated by the Financial Conduct Authority (FCA) for the provision of payment services, moneycorp is an expert in foreign exchange. With its own network in remote locations and exotic currencies, transaction costs will likely be lower and payments less prone to delay.

Foreign exchange specialists, such as moneycorp, have three areas where they are likely to provide benefits over standard banks: International Payment processes, Risk Management Solutions, and Client Services. Figure 1 presents the key competitive advantages of money exchange specialists over general banks.



Figure 1: Competitive Advantages of Money Exchange Specialists over Banks

## International Payments

NGOs face a number of challenges when transferring cash overseas and receiving funds from donors.

Before an international payment is made, all NGOs should follow good practice and ensure they have undertaken a rigorous due diligence on the recipient of the funds. There is a responsibility on the NGO to avoid any transactions that may be diverted to other purposes by the recipient.

Although money laundering and terrorism has received a lot of attention, domestic tax authorities are increasingly focussing on NGOs to ensure that the uses of the funds are in accordance with the purpose of the organisation and not linked to

any revenue generating activities that attract a tax liability.

All payment transfers should take place only after a partnership agreement between the two parties has been signed, and a robust monitoring and reporting process has been implemented. NGOs must be able to demonstrate to regulatory authorities at any time that steps, which are 'reasonable in circumstances', have been implemented to ensure payments are appropriate.

With respect to the international payment process itself, NGOs face a number of issues to ensure frictions are minimised. Table 2 presents the main challenges and possible solutions.

Challenge	Solution
<b>Transaction Data Entry Errors</b>	Utilise automated or electronic payment processes. Many banks and money exchange experts, like moneycorp, have facilities allowing straight through processing of payments. If this is possible, the NGO can upload a file with payment details and this automatically leads to cash transfer in the local currency.
<b>Local Currency Payments</b>	It is not a certainty that every bank will deal in the full range of foreign currencies, and this will be an issue for many NGOs who have operations in the world's poorest countries. To transfer cash from an established currency overseas, which is then converted to the local currency will incur transaction costs that eat into the gross funds raised. A better solution is to find a bank or money exchange expert that can transfer local currency at source, thereby reducing transaction costs.
<b>Payment delays</b>	There have been increasing reports from NGOs of payment delays to exotic currencies and countries deemed unfriendly to the US and Europe. The banking sector has been de-risking its international payment operations and pulling back from dealing in these types of transactions. If this is a problem for NGOs, they should consider using money exchange experts who are more accustomed to exotic currency transfers.
<b>Money Transfer Fees</b>	NGOs should survey a range of banks and money exchange experts to ensure fees are minimised. Many firms, like moneycorp, have zero transfer fees and this will maximise the funds transferred overseas.
<b>Overseas Bank Accounts</b>	When NGOs transfer money overseas through their bank, the money will need to have a destination bank account. Many NGOs operate in developing countries and access to banking facilities can be poor. While keeping the funds in the regulated banking system will lessen the likelihood of regulatory intervention, the nature of NGO operation may make this an impossible or costly requirement. An alternative is to use money exchange specialists where an overseas account is not needed.

Table 2: Challenges and Solutions for NGO International Payments



## Risk Management

A full analysis of NGO risk management is beyond the scope of this white paper. However, when considering their international operations, NGOs should have a formalised risk management framework that centres around the three-stage identify – measure – manage process. Identify the risk, measure it, and manage the risk to mitigate downside outcomes.

NGOs are similar to all other organisations in that they face the risks identified in Table 3.

Risk Type	Examples
<b>Financial Risk</b>	Foreign exchange volatility; cash flow constraints
<b>Funding Risk</b>	Overreliance on a single donor; unsuccessful financing campaigns
<b>Operational Risk</b>	Cybersecurity; staff skills
<b>Legal Risk</b>	Health & Safety, activities not supported by local government
<b>Reputational Risk</b>	Scandals, social media management
<b>Ethical Risk</b>	Collaborating with unethical local partners
<b>Governance Risk</b>	Lack of skills and experience on board of trustees.

Table 3: Types of Risks Faced by NGOs

This white paper will only concentrate on the first risk in Table 3: Financial Risk. This does not mean that the other risks are of less importance, only that the scope of this paper primarily relates to international payments.

## Client Services

No less important than minimising costs and managing risk, NGOs should appoint a payment partner (bank or money exchange expert) who provides specialised services for the unique activities NGOs often undertake.

Although each NGO is different, thought should be given as to whether there is a need for an account manager. An account manager is a dedicated individual who provides advice on the services available to the NGO and proactively identifies opportunities to minimise costs and manage risks. NGOs should seek out a bank or money exchange expert that has expertise in foreign currencies, and especially those with which the NGO is dealing.



## Financial Risk Management

Since the beginning of 2018, exchange rate volatility in developing markets has increased substantially, especially with respect to the US dollar, which has become more volatile against all currencies. Concerns over tariffs and a looming trade war is injecting levels of uncertainty in the financial markets unseen since the Euro sovereign debt crisis.

In economic environments like the present one, NGOs face additional pressure in ensuring their international payments are made at an appropriate exchange rate. Volatility in foreign exchange can have a significant impact on payment values and NGOs should engage with banks and money exchange experts to ensure they have hedged their currency risk as much as possible.

Because currency forecasting is not a core skill of any NGO, the management of these organisations should focus on minimising or hedging financial risk rather than predicting and speculating on

future currency movements. They should seek to engage with currency experts to ensure their funds are managed appropriately.

NGOs have a number of options to manage their international payments risk. These include:

1. Do nothing and be fully exposed to future currency devaluations and appreciations;
2. Enter into a forward contract through a bank or money exchange specialist and set the foreign exchange rate at which they convert future international payments and receipts;
3. Enter into a limit order in the target currency and decide how much of their home currency to convert at certain exchange rates. Limit orders are also known as standing orders;
4. Open a foreign exchange holding account and only convert their payments and receipts at the appropriate time.

Strategy	Positives	Positives
<b>Do Nothing</b>	<ol style="list-style-type: none"> <li>1. The target currency may move in favour of the NGO and increase the total funds available in-country.</li> </ol>	<ol style="list-style-type: none"> <li>1. The target currency may appreciate in relation to the NGO's home currency and total available target-country funds will be lower.</li> </ol>
<b>Enter into a Forward Contract</b>	<ol style="list-style-type: none"> <li>1. NGOs remove the uncertainty associated with currency volatility.</li> <li>2. They can hedge exotic currencies, where there is most risk up to period of 6 months in the future or even longer.</li> </ol>	<ol style="list-style-type: none"> <li>1. Binding agreement. Once the NGO has entered the contract, they must honour it.</li> <li>2. Exchange rates move up and down and so the forward exchange rate may not be as good as the actual exchange rate at delivery date.</li> </ol>
<b>Use a Limit or Standing Order</b>	<ol style="list-style-type: none"> <li>1. The NGO enters into an agreement with its bank or money exchange specialist to convert a set amount of currency when the foreign exchange rate hits a pre-determined target rate.</li> <li>2. The NGO only converts currency at the rate acceptable to it.</li> </ol>	<ol style="list-style-type: none"> <li>1. The NGO may not convert the currency at all and make the payment if the target exchange rate is not reached.</li> <li>2. Limit orders are no good for impatient transactions that require immediate execution.</li> </ol>
<b>Open a Foreign Exchange Holding Account</b>	<ol style="list-style-type: none"> <li>1. The NGO holds its foreign funds in an account and only converts them into the target currency when it wishes.</li> <li>2. The account provides a lot of flexibility in payment period.</li> </ol>	<ol style="list-style-type: none"> <li>1. Only a subset of currencies will be available.</li> <li>2. There is normally a fee required to maintain the foreign exchange account.</li> </ol>

Table 4: NGO Foreign Currency Risk Management Options

# Conclusions

The environment for running NGOs has never been in the spotlight as it has in recent months. Oxfam's scandal in Haiti and the resulting global pressure on NGO accountability and transparency has led to calls for much better governance in international non-governmental organisations, non-profits and charities.

Donor countries are becoming more vociferous and proactive in ensuring NGOs are adhering to their published ethical codes and agreed procedures. The US Government, the world's largest donor to international NGOs, has threatened to cut funding to NGOs operating in countries deemed incoherent with the current administration's foreign policy. The banking sector is reported to have started de-risking their international operations to minimise the risk of money laundering and unethical uses being made of foreign funds.

The enhanced external pressure on NGOs means it is more important than ever they maximise the resources available to them, minimise costs and effectively manage their organisational risk.

This white paper has considered the challenges and solutions facing international NGOs with respect to financing and international payments. A range of new financing models were reviewed and, in particular, the area of crowdfunding is a new source of money every NGO should consider in their fundraising campaigns.

With respect to international payments, three areas of concern were noted: International payment costs and transaction fees, financial risk management, and foreign exchange business advisory provided by the foreign exchange specialist.

To succeed and prosper in this uncertain environment, NGOs must jointly increase their capacity in fundraising and maximise the efficiency of their international payments.

There are more opportunities for NGOs to manage their international currency payments and receipts beyond just the banking sector. Money exchange specialists, like moneycorp, provide a number of services in exotic currencies that may not be available through the standard banking relationship.

If NGOs wish to strengthen their financing of good causes, it is their responsibility to seek out good financing opportunities and ensure as much of the monies raised from campaigns is routed to those areas most in need.

They can only do this if they ensure their international payments and receipts are not eroded by transaction costs, fees, and foreign exchange volatility.

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<sup>i</sup> "US suspends funding for political NGOs ahead of polls", Chronicle, 2 July 2018.

<sup>ii</sup> "Fears grow that Trump's threat to US foreign aid is putting lives at risk", The Guardian, 11 February 2018.

<sup>iii</sup> "Bond warns of consequences for NGOs of no-deal Brexit", Third Sector, 2 July 2018.

<sup>iv</sup> "Charities still being 'de-risked' by mainstream banks, says CFG report", Third Sector, 29 March 2018.

<sup>v</sup> "Hundreds of UK Charities Hit by Global Crackdown on Illegal Funds", The Independent, 27 July 2017.

<sup>vi</sup> "Alert for charities - use the regulated financial sector", The Charities Commission, 28 February 2018.

## About the author

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