››› What does Brexit mean for developing countries?

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On 23 June, the majority of Britons voted for the withdrawal of Britain from the EU. Much has been written about the political and economic consequences for Britain and the EU. What follows is an analysis of the degree to which the decision could also have effects on international development cooperation and developing countries through the following impact channels:

- Real value of British ODA
- Development policy of the EU
- Economic effects

Declining real equivalent value of British ODA in partner countries

In the United Kingdom, reaching the 0.7% target, i.e. the percentage of official development assistance (ODA) measured according to gross national income (GNI), is laid down by law. Following the Brexit decision, the International Monetary Fund (IMF) revised the projected growth rate for UK GDP in 2017 downwards by 0.9 percentage points. Given the various direct and indirect burdens that Brexit will bring for the British government budget, lower growth in British ODA can also be expected. Above all, the real value of British assistance in partner countries will decline significantly due to the strong devaluation of the British pound. This effect will be noticeable with private remittances, too.

European development cooperation must refocus

The impact of Brexit on European development policy will at least be as important as these direct impacts on bilateral British development cooperation. For European development cooperation, Brexit initially means that British funds will not be available in the future.

USD 2.1 billion of the USD 18.6 billion in total British ODA flowed through EU institutions in 2015. The United Kingdom also holds 16% of the shares in the European Investment Bank (EIB), and is one of the largest stockholders along with Germany, Italy and France. If the British withdraw from the EIB, only the UK's own Development Finance Institution CDC will remain. However, CDC's mandate is limited to the promotion of the private sector in developing countries. It therefore remains to be seen of whether the UK will then establish her own bilateral development bank, or rely more heavily on existing multilateral or bilateral development banks.

The United Kingdom is currently the largest European donor (and the second largest worldwide after the USA) and has also significantly helped to shape development cooperation in Europe. The exit of the British also means that the European community will lose a strong advocate for development strategy shaped by the private sector and the market. In many cases, the British argued against closer cooperation of member states in development cooperation, and sought out exchanges in so-called “like-minded” groups. It is not yet clear whether the exit will smooth the path towards further cooperation within European development cooperation, or whether Brexit will lead to a stronger re-nationalisation of policies as a counter-reaction. In any case, the balance of power will shift, and France and Germany will be called upon even more in the EU.

Short-term economic consequences of Brexit are manageable for developing countries

Brexit represents a significant additional uncertainty for the world economy. For developing countries, a distinction has to be made between real economic impacts and the reactions on the financial and capital markets. From an economic perspective, the main focus will be on the potential decline of demand for exports from developing countries due to the expected economic slowdown in the United Kingdom. However, developing countries' exports to the UK only account for 0.5% of their GDP. In addition, the economic downturn in the United Kingdom will also affect the rest of Europe, which might also be felt in developing countries. However, a decline in developing countries' exports is likely to remain manageable and will only gradually become significant as demand in Europe will change slowly.

The financial and capital markets are also another important impact channel, but primarily for emerging markets and less so for the poorer countries. From their perspective, a flight into “safe havens”, currency devaluations and higher risk premiums were observed shortly after the referendum. These phenomena already decreased, but the “all-clear” signal still cannot be given. Emerging markets with high external financing needs and high foreign debt in foreign currencies are vulnerable to such capital market reactions. They have a great interest in seeing a quick clarification of the Brexit details to reduce the uncertainty on the financial and capital markets.

Conclusion

Overall, Brexit will have limited economic consequences for developing countries but will have noticeably negative effects on the beneficiaries of British development cooperation. At this point, however, it is hard to predict how long these effects will last and how Brexit will impact the amount and direction of European development cooperation. ■