

## IDLO ANNUAL BUDGET FOR 2016

**APPROVED AT THE MEETING OF THE STANDING COMMITTEE  
February 24, 2016**

1. IDLO's fourth and final (proposed) Budget under the 2013 – 2016 Strategic Plan seeks to allocate funds for the implementation of the goals, objectives and activities identified in the 2016 Management Plan. This document:
  - notes the overall healthy financial state of the Organization, reflected in increased unrestricted revenue, the stable level of program revenue growth and includes revenue forecasts for 2016;
  - describes the proposed expenditure to support the implementation of the six Critical Strategic Initiatives described in the Management Plan; and
  - includes limited funding for Self-Funded Programs in 2016. A separate discussion of reserve policy and availability of funding for self-funded programs is attached at **Annex A**.
  
2. Table 1 below gives a consolidated financial picture of the 2016 Budget and the 2015 forecast. Explanatory notes to the Table are provided at the end of the document.

**Table 1. Estimated Operating Statement**

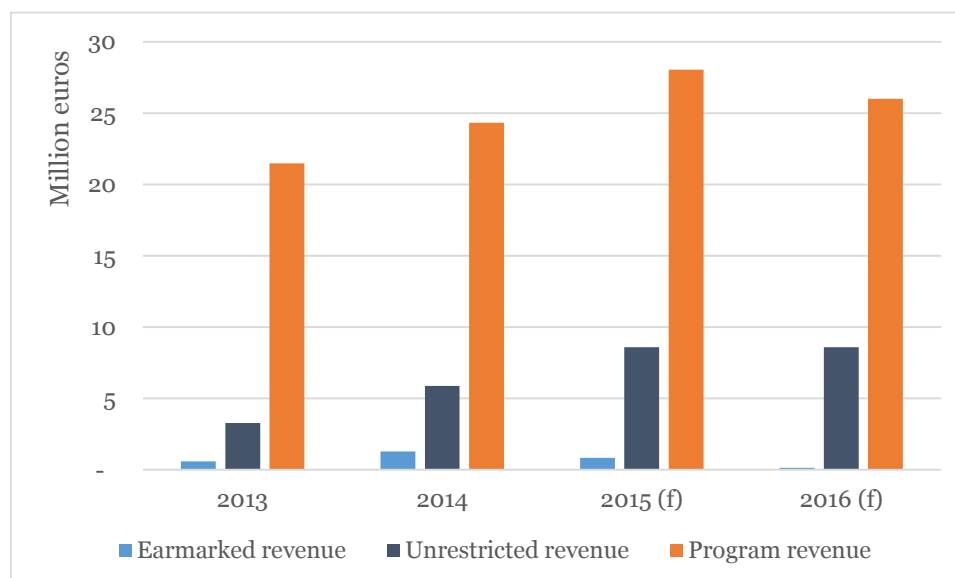
(Euros)	Approved 2015 Budget	2015 Actual	Proposed 2016 Budget	Change from 2015 Budget
<b>REVENUE</b>				
Unrestricted revenue	7,249,000	8,661,279	8,585,329	18%
Earmarked revenue	835,000	653,340	150,000	-82%
Restricted Program Revenue	27,963,618	27,275,146	26,087,802	-7%
<b>Total Revenue</b>	<b>36,047,618</b>	<b>36,589,766</b>	<b>34,823,131</b>	<b>-3%</b>
<b>EXPENSES</b>				
Staff costs	6,662,012	5,915,552	6,985,272	5%
Function-specific costs	2,500,000	2,425,818	2,000,000	-20%
Office costs	2,142,200	1,858,250	2,142,200	0%
Hague Branch set up costs - earmarked	835,000	653,341	-	-100%
Africa Conference	-	-	150,000	N/A
Direct Program Activities	22,609,801	23,419,805	22,559,046	0%
Self-funded programs	798,000	32,445	439,809	-45%
<b>Total Expenses</b>	<b>35,547,013</b>	<b>34,305,210</b>	<b>34,276,327</b>	<b>-4%</b>
<b>Net Result from Operations</b>	<b>500,605</b>	<b>2,284,556</b>	<b>546,804</b>	
Bank interest, exchange rate gain, write off		318,061	-	
<b>Net result</b>		<b>2,602,617</b>	<b>546,804</b>	

\* €1,000,000 of the 2015 result to be earmarked for self-funded-programs

## 1. REVENUE OUTLOOK

- It expects to receive 34.8 million euro in revenue in 2016, of which 8.6 million euro is unrestricted contributions and the balance is program and earmarked revenue. The projected revenue is 10 per cent higher than the 2014 actual revenue and 7 per cent lower than the 2015 approved budget.

**Diagram 1. Trends in revenue 2013 – 2016**



### 1.1 Unrestricted revenue

- Unrestricted revenue in 2016 is expected to be around 8.6 million euro, 18 per cent higher than the 2015 Approved Budget, and at approximately the same level as the 2015 actual revenue. In 2015 IDLO received an additional contribution of 1.3 million euro from the Government of Italy which increased the forecast from 7.24 million euro to 8.6 million euro. The 2016 Budget assumes continuation of unrestricted funding by donors at similar levels to 2015, including this additional contribution from the Government of Italy.
- IDLO signed a multi-year agreement with Sweden in 2015. As a consequence and taking into account the multi-year agreement with Netherlands, 65 per cent of the unrestricted income in 2016 is secured. The multi-year agreements with the Netherlands and Sweden run until 2016 and 2018 respectively. One million euro of the Netherlands contribution was dependent on receiving matching funds from another donor. The agreement with Sweden satisfied this requirement.

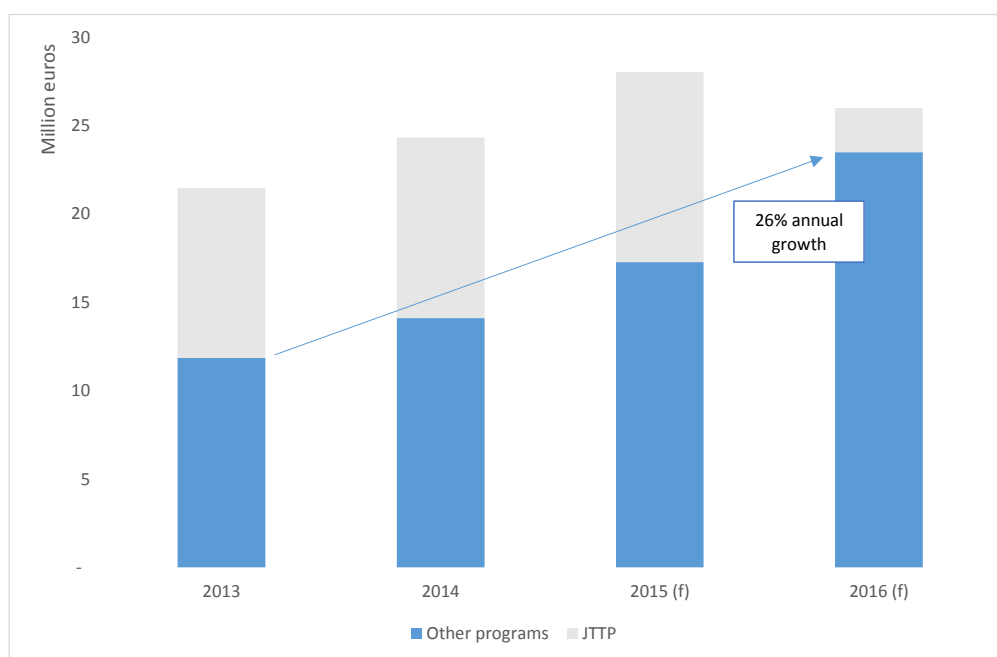
### 1.1 Earmarked revenue

- The earmarked revenue for 2016 refers to a voluntary contribution from the Government of Italy in 2014, formally earmarked for use for a program in Tunisia, which is expected to be implemented in 2016.

## 1.2 Program revenue

7. Program revenue is expected to be around 26 million euro in 2016, compared to the 2015 forecast of 28 million euro.
8. The slight decrease in program revenue in 2016 is due to the (planned) completion in March 2016 of IDLO's largest program in Afghanistan, Justice Training Transition Program (JTTP) valued at 36 million euro for a period of 3 years. In 2015 IDLO derived 10.7 million euro from JTTP. In 2016 the income from JTTP is forecast to be only 2.5 million euro and complemented by 23.6 million euro revenue from other programs.
9. Thanks to a successful strategy to attract funds and better balance the portfolio geographically and thematically, IDLO's program revenue has grown at an average annual rate of 26 per cent from 2013 to 2016, not counting JTTP, as Diagram 2 shows.

**Diagram 2. Program revenue growth 2013 – 2014**



10. Unlike the period 2013 - 2015, the program portfolio in 2016 is not disproportionately reliant on a single large program but is comprised of a number of medium-sized, geographically dispersed programs. The diversification of the portfolio significantly reduces operational and financial risks and provides greater stability and sustainability, in line with the recommendation of the Audit and Finance Committee.
11. As at August 31 2015, the secured program revenue for 2016 was 19.9 million euro, or 76 per cent of the projected program revenue of 26 million euro. At the same time in point last year 22.6 million euro or 81 per cent of program

revenue was secured for the 2015 budget but much of it was dependent on one large multi-year program. As at 20 January 2016, the secured program revenue for 2016 stands at 22.8 million euro, which is reflected in the revised table below.

**Table 2. Forecast program revenue and recoveries as at January 2016**

Program Revenue & Recoveries* in Euro					
		2016		2015	
Source		Gross Program Revenue	Program Recoveries	Gross Program Revenue	Program Recoveries
<b>On-Going programs</b>	<b>A</b>	<b>22,833,255</b>	<b>3,047,752</b>	<b>27,275,146</b>	<b>3,855,342</b>
Pipeline programs @ January 2016					
High success probability ** (100%)		1,914,774		-	
Medium success probability** (50%)		339,773		-	
*** Future anticipated pipeline to secure funding for in 2016*		1,000,000		-	
<b>Total Pipeline value</b>		<b>3,254,547</b>	<b>481,005</b>	-	
			-	-	
<b>Grand Total</b>	<b>A+B</b>	<b>26,087,802</b>	<b>3,528,756</b>	<b>27,275,146</b>	<b>3,855,342</b>

\*Program Recoveries consist of revenue from charging the time core staff spend on program implementation plus the 12% overhead  
\*\* Success probabilities are assigned as per IDLOs standard methodology  
\*\*\* Future anticipated pipeline includes proposals for programs likely to be implemented in Jordan, Mongolia, Myanmar, Philippines, and Ukraine. These proposals are currently being developed in response to direct requests from various donors. In order to remain consistent with IDLOs success probability classification and definition, these proposals are shown as separate items as they are yet to be submitted to the donors.

12. Table 2 shows a breakdown of program revenue, including 22.8 million euro secured, 2.3 million euro in submitted proposals and 1.0 million euro in additional programs to be developed. The forecasting methodology assumes 100 per cent of secured and high probability proposals and 50 per cent of medium probability proposals. Further details of the forecasting methodology are included at **Annex C**.

13. The final amount of program revenue will depend on the new program revenue secured during the year and the extent to which IDLO is able to complete the planned program of work in the budget period.

## 2. OPERATING EXPENDITURE OUTLOOK

### 2.1 Output-based institutional budget

14. The 2016 budget has been prepared on an output-basis to enable greater clarity and transparency on the use of resources and create a clear link between resource allocations and output-performance targets. Each department is responsible for delivering 1-5 outputs. Table 3 shows the allocation of staff, office and operating (function-specific) funding between departments.

**Table 3. 2016 Institutional budget by department**

€	Function-Specific Budget	Staff Costs	Office costs allocation	Total cost
Organizational Services	593,000	1,763,169	604,653	2,960,822
Program Management	245,000	1,311,206	621,929	2,178,135
External Relations	388,600	953,914	259,137	1,601,651
Global Initiatives	89,000	1,066,784	259,137	1,414,921
Director General's Office	457,400	566,044	86,379	1,109,823
Research and Learning	100,000	657,182	190,034	947,216
Office of General Counsel	105,000	354,549	69,103	528,652
Resource Mobilization	22,000	164,495	51,827	238,322
Central staff costs	N/A	147,926	N/A	147,926
<b>Total department budgets</b>	<b>2,000,000</b>	<b>6,985,270</b>	<b>2,142,200</b>	<b>11,127,470</b>
Strategic Initiative: Africa Conference	150,000	N/A	N/A	150,000
<b>Total institutional budgets</b>	<b>2,150,000</b>	<b>6,985,270</b>	<b>2,142,200</b>	<b>11,277,470</b>

15. Each Departmental budget is further broken down into the outputs which it is accountable for delivering. An example of a detailed departmental output budget is included at **Annex B**.

## **2.1 Breakdown of expenditure**

### **Staff costs**

16. Staff costs of 7 million euro shows a 6 per cent increase from the 2015 approved staff budget of 6.6 million euro. The increase can be justified in terms of the greater volume of activities that IDLO will undertake in 2016 to develop, manage and oversee a more diverse and dynamic program of work.
17. The breakdown of staff posts by Department is provided in Table 4 below. It comprises 87 staff posts (not including the Director General), up from 81 in the 2015 Budget. Seven posts have been disestablished, 13 new posts have been created and 9 posts have been upgraded.
18. The increase in the staff budget since 2015 is primarily driven by the net increase of six posts and the net upgrade of eight posts. The additional cost has been partially offset by a change in assumptions regarding the average level of vacancies throughout the year from 9 per cent to 12 per cent to better reflect recent experience.
19. New posts have been created to strengthen field operations, program development, implementation and monitoring, government relations and partnership building. In addition, several positions have either been disestablished and new higher level posts created, or the original positions upgraded to ensure more experienced staff in legal expertise, human resources, budget, program development, government relations and communications.

**Table 4. Staff post table for 2016**

Department	Support	Professional staff	Senior Management	Total
Office of the Director-Organizational Services	-	4	1	5
External Relations	9	16	1	26
Program Management	1	10	1	12
Office of General Counsel	2	14	1	17
Resource Mobilization	1	2	1	4
Global Initiatives	-	2	-	2
Research and learning	1	11	1	13
Total	-	7	1	8
	14	66	7	87

20. The filling of vacancies as well as the upgrading of the posts will be managed carefully throughout the year in line with the availability of resources and operational needs.

### Function-Specific Budget

Function Specific Costs, allocated to departments and outputs, are set at 2 million euro, down from 2.5 million euro in 2015. The 20 per cent reduction is based on a realistic assessment of the capacity to deliver. The sum of 2 million euro is allocated to 27 outputs. The major outputs for 2016 are outlined below:

**Table 5. Function-specific budgets for major outputs in 2016**

Output	Major Activities for 2016	Budget
IT Projects	<ul style="list-style-type: none"> <li>Upgrade the Navision ERP System</li> <li>Implement improvements to IDLO Global IT Platform stability and functionality</li> </ul>	€322,000
Program Development	Funding for program development activities, including scoping missions, consultants or outside experts to assist with proposals, etc. Includes funding allocated by the Opportunity Review Committee.	€200,000
Communications	Publishing and distribution of IDLO information and branding products	€129,100
DG Office	Organizational leadership and representation. Development of the 2017-2020 Strategic Plan.	€125,000
Governance	Coordination and logistics for a board of advisers meetings, four standing committee meetings and the Assembly of Parties meeting	€120,000

A summary of Function-Specific Budgets by output is included at **Annex B**.

## Office

21. Office Costs remain at the same level as in 2015, but will cover more. In 2016 in addition to Headquarters and the UN Liaison Offices, it will cover all costs of the Branch Office The Hague and (partial) costs of the Amman Office. Table 6 shows the office budgets by location.

**Table 6. Office budgets by location**

Office	Key functions	Budget
Rome	Global Headquarters	1,200,920
Hague	Research & Learning, Program Development, Management of global programs, Legal Specialists & External Relations.	428,400
New York	External Relations UN advocacy and liaison	88,900
Geneva	External Relations UN advocacy and liaison	52,280
Amman	Program Management	71,700
Depreciation	N/A	300,000
Total Office Budget		2,142,200

## Africa Conference

22. The Africa Conference is a key strategic initiative for IDLO to be held in mid-2016, with an allocation of 150,000 euro from unrestricted funding. This is an organization-wide strategic output and is not allocated to an individual department.

### 2.2 Output-based program budget

23. Table 7 shows the budgeted expenditure in 2016 for secured donor-funded programs and self-funded programs by region and strategic pillar (including indirect costs). Note that this table is based on secured programs only and does not include additional programs which are expected to be secured during the year. For further details on program revenue forecasts, refer to section 1.2 – Program revenue.

**Table 7. Budgeted expenditure against secured 2016 programs by region**

	Institutional & Legal Reforms	Access to Justice	Legal Solutions for Sustainable Development & Economic Opportunity	Total Programs
Afghanistan	3,900,000	4,300,000	-	8,200,000
Africa	4,422,519	2,085,679	-	6,508,198
Central Asia	1,608,758	315,000	508,096	2,431,854
Latin America and Caribbean	-	1,000,000	-	1,000,000
Middle East, North Africa and Asia	-	3,378,588	344,298	3,722,886
Global Initiatives	103,982	208,913	657,423	970,318
<b>Total</b>	<b>10,035,259</b>	<b>11,288,179</b>	<b>1,509,817</b>	<b>22,833,255</b>

24. An example of regional program output budget is included at **Annex D**.

### **Self-funded programs**

25. The 2014 Assembly endorsed IDLO's proposal to use unrestricted revenue to design and implement multi-year programs. In 2015 the Standing Committee approved guidelines for selecting such programs. Called Self-Funded Programs, they are highlighted as a major initiative in the 2016 Management Plan.

26. Two Self-Funded Programs commenced in 2015, including 439,809 euro in 2016. Only these Self-Funded Programs committed in 2015 are included in this budget. Options for further investment in Self-Funded Programs will be considered by the Standing Committee early in 2016. See **Annex A** on reserves policy and reference to self-funded programs.

### **2.3 Analysis of Operating Budget by Program and Institutional activities**

27. In 2016, the total contribution of program revenue to indirect costs is expected to be 3.7 million euro, around 14 per cent of total program revenue (see table 8 below).

28. Total indirect program costs are estimated to be around 5.8 million euro, indicating that 2.1 million euro of unrestricted funding will need to be used to cover program delivery and support costs not covered by program revenue.

29. For further information on program recovery, see **Annex E**.



**Table 8. Analysis of program and institutional activities**

<b>Program Activities</b>	
Total Program revenue	26,087,802
Earmarked program revenue	150,000
Less direct program costs	(22,559,046)
Program revenue contribution to indirect costs	3,678,756
Less estimated program delivery costs	1,759,345
less estimated program support costs	4,007,611
Total estimated indirect program costs	5,766,956
<b>Underrecovery from program revenues</b>	<b>(2,088,200)</b>
<b>Institutional Activities</b>	
Unrestricted revenue	8,585,329
Less unrestricted directed to self-funded programs	(439,809)
Institutional costs	(5,510,516)
<b>Net contribution from unrestricted revenue</b>	<b>2,635,004</b>
<b>Net result from operations</b>	<b>546,804</b>

#### 4. CAPITAL BUDGET

30. IDLO is proposing a capital budget for 2016 at the same level as 2015.

**Table 9. Proposed 2016 IDLO Capital Budget**

(Euros)	Approved 2015 Budget	Actual 2015	Proposed 2016 Budget	Change from 2015 Budget
Information & Communications Technology	300,000	235,418	200,000	-33%
Furniture & Fittings	50,000	57,857	65,000	30%
Leasehold Improvements	50,000	30,450	20,000	-60%
Capital contingency	-	-	115,000	N/A
<b>Total capital expenditure</b>	<b>400,000</b>	<b>323,725</b>	<b>400,000</b>	<b>0%</b>

31. The 2016 capital budget is 400,000 euro, the same level as that approved in 2015. It includes 285,000 euro allocated to seven projects and a 115,000 euro provision for unanticipated capital costs that may arise through the year. The major capital projects are outlined in table 10 below:

Project	Description	Budget
Technology Transformation Program	Capitalized system development and IT professional services costs associated with upgrade of IDLO's IT platform and security.	120,000
IT equipment replacement	Rolling replacement program of central IT equipment at computers for non field-based IDLO employees	50,000
Security upgrades	Physical security upgrades for Rome and Hague Offices.	50,000

## **5. FACTORS THAT MAY IMPACT BUDGET ESTIMATES**

32. A key principle of good practice budgeting is to articulate the assumptions and methodologies used to estimate revenue and expenditure and to identify the factors that may impact these estimates, positively or negatively.

### **5.1 Program revenue**

33. IDLO's operations are predominantly in countries with fragile security which have the potential to disrupt program delivery. Risk associated with operations in fragile security situations have been reduced since IDLO has diversified into programming in a greater number of locations during 2015. In 2014 80 per cent of IDLO's revenue was derived from fragile states, by the end of 2015 that figure had dropped to 74 per cent.
34. There is also a risk to operations in countries where IDLO does not have full legal registration as an IGO and consequently has no/limited recognition of its privileges and immunities, creating banking and financial risks, among others. IDLO is seeking to mitigate this risk through a concerted effort to negotiate host country agreements.

### **5.2 Unrestricted revenue**

35. The majority of IDLO's unrestricted revenue is provided by a small number of long-standing donors. There is a risk of a sudden fall in income if one donor reduces or cuts its support to IDLO. However, it is worth noting that the multi-year agreement with Sweden in 2015 and the earlier agreement with the Netherlands means that 65 per cent of the unrestricted revenue in 2016 is guaranteed. IDLO will invest additional resources in 2016 to expand its donor base.

### **5.3 Fixed costs**

36. The majority of IDLO's costs are variable, reflecting the volatility of its revenue sources and the nature of its work which in any given year can see the complete closure of operations in some countries and a parallel commencement and scaling-up of operations in other countries in response to changing needs and demands. This agility is key to IDLO's ability to deliver and to mitigate its financial risks. However, some of IDLO's costs are fixed, or only variable in the medium term. These include its staff costs and office costs funded primarily from unrestricted sources.

### **5.4 Contingency provisions**

37. Given the potential volatility of revenue and the existence of fixed costs, IDLO typically includes a level of contingency provisions in its budget to mitigate the impact of risk which may be realized during the budget year. In 2015, IDLO has set aside a project contingency of 95,000 euro and an institutional contingency

of 134,000 euro within the Functional Specific Budget for this purpose. Further details on potential contingency requirements is included at **Annex F**.

## **5.5 Closure of JTTP**

38. Further information on the closure of IDLO's largest program, the JTTP program in Afghanistan, will be provided in Annex F, to be provided to the Audit and Finance Committee meeting on Thursday February 4.

## ANNEX A

# RESERVES POLICY AND ALLOCATION FOR SELF-FUNDED PROGRAMS

### Introduction

There are no rules with mandatory levels of reserves (also referred to as “capital” or “funds”) stipulated for not for profit entities such as IGOs or NGOs. Rather the amount to be set aside and shown in the balance sheet as reserves should reflect the risk composition of the organization as well as the preference of the management with the approval of the organization’s governance bodies and in cooperation with its funders.

### Risk assessment

There are two major types of risk:

- Capital risk = the failure to maintain the level of unrestricted funding for an organization, and
- Liquidity risk = failure to receive payments from donors on time, or other cash flow related issues

Capital risk covers the ability to make necessary purchases of fixed assets, the ability to absorb bad debts or foreign exchange losses and the impact of unforeseen problems and emergencies.

Liquidity risk includes delays in receiving core funding, by comparison with prior agreement, and the need to pre-finance program work where donors pay after some or even all the work on the program has been completed. Losses of funds when working in conflict zones could also result in liquidity difficulties.

IDLO’s risk profile has improved in recent years:

- Programs are now spread over more donors and are of smaller size than the previous few large assignments.
- The proportion of work being conducted in fragile states has reduced from 80 per cent in 2014 to an estimated 60 per cent in 2016.
- With major donors committed to multi-year funding agreements and substantial funds coming from Italy as IDLO’s main base, the danger of significant loss of unrestricted funds is low.

In general IDLO is only marginally at risk for program work, as funds are only expended once the funding is approved. A risk remains if substantial proposal time is expended and the project fails to attract funding or if work is interrupted leading to funding losses.

A general conclusion is that risks for IDLO are low. Even in extreme circumstances of a program failure leading to losses or the closure of a branch, reserves required are

unlikely to exceed a small proportion of operating expenses (= total expenses less the cost of running programs) and an even smaller proportion of total expenses.

There remains the issue of risk tolerance. Another way of expressing this is to ask the level of prudence considered appropriate by management and the governing bodies.

### **Criteria for establishing reserves**

Efforts to establish criteria for an adequate level of reserves have been undertaken by the No-profit Operating Reserves Initiative (NORI) in 2008 which examined mainly the financial situation of NGOs and their generally underfunded position. NORI set a standard for “adequate” operating reserves at between 25 and 50 per cent of operating expenses, depending on risk profile.

A further study was undertaken for UNOPS by KPMG in 2013 which could be regarded as more relevant to IDLO. Their conclusion was that reserves at a level of four months average expenses of previous years’ operating budget would qualify as adequate. In arriving at this level of reserves they noted that “risk associated with the execution of projects is not dependent on the level of project expenses. Since almost all projects are pre-funded, there are practically no risks immediately associated with the execution of projects that could influence the operating reserves level.”

Although the above recommendations are clear, there remain differences of opinion in practice whether the above percentages or ratio of expenses should be calculated on operating expenses alone, or on total expenses, or with different percentages on operating and program expenses. The view is held by all however that the risks relating to program expenses are lower than for operating expenses which may be more difficult to cut in an emergency. This has therefore led to the use of larger percentages relating to operating expenses than for program expenses, if levels of reserves are calculated at all on the latter category.

### **Current reserves policy**

IDLO defines reserves as the total retained earnings reported in the annual statement of financial position (balance sheet) less fixed assets.

As agreed by the Standing Committee on April 14, 2014, the current target is for IDLO to hold a minimum reserve of 50 per cent of operating costs plus 12.5 per cent of direct program costs, with a goal of eventually reaching 25 per cent. Table 1 shows the level of the reserves shown in IDLO’s financial statements for the past four years compared to the agreed 2014 percentages.

**Table 1. Reserves compared to target**

Euros	2013 actual	2014 actual	2015 provisional
IDLO retained earnings at end of year (Reserves)	6,555,400	7,865,333	10,467,950
50% of operating expenses	3,435,151	4,379,940	5,428,261
12.5% of program expenses	2,241,576	2,620,832	2,927,476
Reserves target	5,676,726	7,000,771	8,355,737
<b>Reserves in excess of target</b>	<b>878,674</b>	<b>864,562</b>	<b>2,112,213</b>

The value of IDLO's reserves has been increasing over recent years and based on the provisional financial statements, is expected to reach 10.6 million euro. This is 2.1 million euro higher the initial reserves target of 50 per cent of operating expenses and 12.5 per cent of program expenses.

Now that IDLO is in a strong position in relation to reserves, IDLO recommends that the reserves be divided between general operating reserves, adequate to deal with both capital and liquidity risks, and reserves to be used on self-funded programs and for program research and development. This would provide space for IDLO to create a skill base and anticipate programs needed for future success in pursuing the organization's mission.

### **Recommendation**

IDLO recommends:

- that the existing reserves target of 50 per cent of operating expenditure and 12.5 per cent of direct program expenditure be maintained to ensure adequate reserves to deal with capital and liquidity risks; and
- that 1 million euro of the reserves be allocated to a separate 'investing' reserve available to IDLO for flexible use in self-funded programs and for program research and development in 2016 or 2017.

/ ENDS