

IDLO'S OPERATING BUDGET FOR 2020

1. This document is a summary of the full version “Draft 2020 Management Plan-Annex 1 Proposed Operating Budget for 2020”- AP/2019/3.2- Presented at IDLO’s 2019 Assembly of Parties.
2. This document provides IDLO’s proposed Operating Budget for 2020, the fourth and final year of the 2017-2020 Strategic Plan (*Strategy 2020*).
3. IDLO’s 2019 Operating Budget is prepared based on the 2020 Management Plan and should be considered as an integral part of the same.
4. IDLO is proposing a balanced 2020 Budget. As mentioned in the Management Plan, accumulated surpluses over the years allows for further funding of institutional projects geared at strengthening and improving the organization’s efficiency and effectiveness or for projects and programs using the criteria approved by the Standing Committee for Self-Funded Programs. Such use of surplus funds is supported by IDLO’s Reserves Policy, approved by the Standing Committee in July 2019, which provides for the creation of an “Operational Fund” that can be used to support institutional projects or Self-Funded Programs that are aligned to the Organization’s Strategic Plan but may be unfunded or partly funded.
5. Given the timetable for submission, the budget is based on a series of assumptions and considerations, and actual results will be subject to variation and adjustments linked to the levels and timing of both unrestricted and restricted funds made available to IDLO in 2020.

1. CONSOLIDATED OPERATING BUDGET

6. Table 1 below provides a consolidated financial picture of the 2020 operating budget with variation against the 2019 approved operating budget. Additional explanations are provided in the respective cost sections.

Table 1. Estimated Operating Statement

	Approved 2019 Budget	Proposed 2020 Budget	Variation (against approved 2019 budget)
REVENUE			
Unrestricted revenue	6,135,000	6,702,000	9%
Earmarked revenue	820,755	975,145	19%
Restricted Program Revenue	31,031,343	35,041,252	13%
Total Revenue	37,987,098	42,718,397	12%
EXPENSES			
Direct Program Activities	27,290,800	31,334,265	15%
Institutional projects	-	799,956	100%
Institutional activities	1,830,250	1,280,350	-30%
Employee related costs	7,103,365	7,542,590	6%
Office costs	1,739,287	1,761,235	1%
Total Expenses	37,963,702	42,718,397	13%
Result from Operations	23,396	0	
Amount earmarked from expected 2019 surplus		521,044	
Less : ERP Project partly funded from expected 2019 surplus		221,044	
Less: Estimates for self-funded projects		300,000	
Net Result from Operations		0	

2. REVENUE OUTLOOK

7. IDLO anticipates receiving 42.7 million euro in revenue in 2020, consisting of 6.7 million euro of unrestricted contribution, 975 thousand euro of earmarked revenue and 35 million euro of restricted program revenue. At this stage, the projected revenue is 12 percent higher than the 2019 approved budget.

2.1 Unrestricted revenue

8. Unrestricted revenue in 2020 is forecasted to be around 6.7 million euro. The 9 percent increase against the approved 2019 budget is driven by the renewed and increased multi-year grant agreement with the Swedish International Development Agency (SIDA).

2.2 Earmarked revenue

9. IDLO is currently in discussion with the Government of the Netherlands for a next phase of the current “Strategic Investment to advance SDG 16” for approximately 1.3 million euro over 12 months starting in April 2020. IDLO anticipates sending a proposal in the last quarter of 2019. Given that this project proposal is yet to be submitted and reviewed by the donor, and keeping a conservative approach, it is considered as a moderate success probability and as such only 50 percent of its anticipated revenue is included in the 2020 Budget.
10. In addition, revenue from 2019 will be earmarked and carried forward for the implementation of the “Strategic Investment to advance SDG 16” Agreement signed with the Government of the Netherlands in November 2018.

2.3 Restricted program revenue

11. Restricted program revenue is expected to be around 35 million euro in 2020, showing a 13 percent increase from the 31 million euro approved in 2019.
12. The total estimated pipeline amounts to 2.5 million euro. IDLO has adopted a prudent and conservative approach and expects this figure to change as additional proposals are developed and funding is confirmed. As per usual practice, the pipeline includes some programs that are currently under review by donors and are classified, as per IDLO's standard methodology, with high or moderate success probabilities.
13. IDLO launched the timekeeping system in April 2019 (for Branch Offices and Headquarters while the launch to field offices is expected in the last quarter of 2019). IDLO will utilize data gathered in 2019 and 2020 to create a baseline that will help in allocating program delivery and support costs in a more comprehensive and accurate manner than it has done in the past. The data gathering and analysis will also assist IDLO in its review of its overhead rate in line with the methodology included in its Cost Policy Statement.

3. OPERATING EXPENDITURE OUTLOOK

3.1 Output-based budget

14. 2020 costs were allocated against the Action Goals and Major Initiatives of IDLO's *Strategy 2020*, as illustrated in Diagram 1. Through a consultative and collaborative exercise estimates were provided by each Department. Diagram 2 provides an overall breakdown of IDLO's resources against Action Goals and Major Initiatives.
15. Action Goals set out the substantive focus of IDLO's programming in support of the Impact Goals, as set in its *Strategy 2020*. Major Initiatives constitute a set of organizational priorities which seek to strengthen IDLO's effectiveness and efficiency. A more detailed description of the activities is provided in the 2020 Management Plan.

Diagram 1. Breakdown of operating expenditure by Action Goals and Major Initiatives

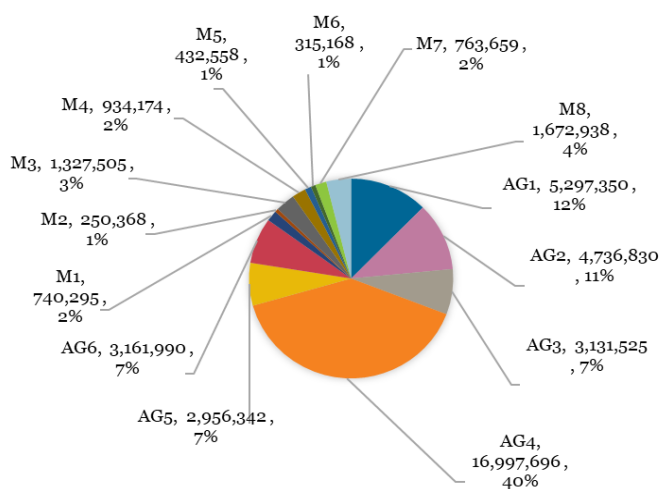
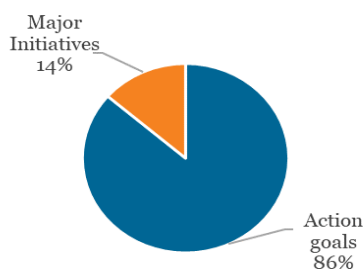


Diagram 2. Action Goals versus Major Initiatives



16. It must be emphasized that allocation of expenses against Action Goals and Major Initiatives is based on best estimates of percentage allocations provided by Departments. As mentioned previously, data gathered from the timekeeping system will assist in monitoring the actual results against these allocations and with verifying the accuracy of these estimates to help improve forecasts in future years.

3.2 Direct program costs

17. The direct program costs are estimated at 31.3 million euro, which represents a 15 percent increase against the 2019 approved figure of 27.3 million euro. As explained in the program revenue section, the 2020 estimates are subject to change during the year according to the level of additional secured and pipeline programs.

3.3 Institutional Projects

18. IDLO is presenting its institutional costs in two distinct categories as described in the Cost Policy Statement, Institutional projects and Institutional activities. Institutional projects are time bound and have specific objectives. Institutional projects are implemented from unrestricted, earmarked funding and/or surplus sources, to support and enhance the organization.
19. Institutional projects seek to advance one or more of the eight Major Initiatives of Strategy 2020 (IDLO's Strategic Plan 2017-2020), described in greater detail in the Management Plan.
20. IDLO wishes to earmark funding from the 2019 expected surplus to partially fund the multi-year ERP project. The continued funding will allow IDLO to complete the implementation of the ERP systems that are crucial to support both organizational and programmatic growth. The table above provides the full costs for the institutional projects. The operating statement (Table 1) splits the costs funded by the expected revenue in 2020 and the funding earmarked from the 2019 anticipated surplus.

3.4 Institutional Activities

21. Institutional activities are necessary for the functioning of the organization. They are of an on-going nature and are not time bound projects.
22. While these activities are undertaken by IDLO's headquarters, branch and representative/liaison offices, the benefits and impact are generally organization wide. In addition, institutional activities include efforts to ensure that sustainable technical and administrative capacities are made available for IDLO to carry out its mandate. Institutional activities costs include (non-project specific) IDLO representation, management, program development, resource mobilization, (non-project) advocacy work, research & learning, communications, external relations, human resources management, administrative services, financial management, procurement, ICT, and legal stewardship.
23. It should be noted that the costs under the Office of the Director-General cover expenditure for the following units: Executive Office, Strategic Partnerships, Governance & Government Relations, UN Representation Offices, as well as Internal Audit & Compliance. In addition, the amount includes 100 thousand euro for institutional contingencies and 150 thousand euro for program development activities.

3.5 Employee related costs

24. The 2020 estimated employee related costs amount to 7.5 million euro, which represents a 6 percent increase from the 2019 approved employee related costs

budget. Though the total estimated employee related costs show an increase it should be noted that the proportion against the total operating expenditure is slightly lower than the 2019 approved budget.

25. IDLO has factored a 5 percent vacancy factor to take account of the expected vacant posts to be recruited in 2020 and the natural turnover of employees due to resignations, end of contracts, retirement, and workforce realignment.

3.6 Office costs

26. Office costs have been estimated at 1.8 million euro showing an increase of 1 percent against the 2019 approved budget. Table 7 below, provides the office budgets by location.

Table 7. 2020 office budgets by location

Office	Key functions	Approved 2019 Budget	Proposed 2020 Budget	Variation
Rome	Global Headquarters	1,075,113	1,087,215	1%
The Hague	Research & Learning, Program Development, and Strategic Initiatives	173,124	170,755	-1%
Geneva	External Relations, UN advocacy and liaison	49,217	50,110	2%
New York	External Relations, UN advocacy and liaison	81,833	83,156	2%
Depreciation	N/A	360,000	370,000	3%
Total		1,739,287	1,761,235	1%

27. The office costs include the following factors:
- The Hague Branch Office: Like 2019, it is expected that a portion of the costs of IDLO's Branch Office in The Hague will be covered from earmarked project funding provided by the Government of the Netherlands;
 - Geneva and New York offices show a slight increase driven by yearly increase in rental costs;
 - Depreciation shows an increase driven by the anticipated increase in capital expenditure as described in the next section.

4. CAPITAL BUDGET

28. IDLO is proposing a capital budget for 2020 which is 128 percent higher than 2019. Breakdown of the capital budget is provided in Table 8 below.
29. The large increase in the capital budget is driven by IDLO's potential liability arising from the terms of the lease of the headquarters in Rome regarding

refurbishment of a portion of the basement and is estimated at 500 thousand euro. The cost of this improvement will be depreciated over the lifetime of the lease agreement with the landlord. The current lease agreement is valid until December 31, 2025, with an option to extend until December 31, 2031, which would result in a lower annual depreciation cost over a longer period of time.

30. The rest of the costs included in the capital budget are based on the need for IDLO to purchase ICT equipment and software in light of introducing new and/or enhanced systems, security upgrades on the premises, and replacement of old furniture.

Table 8. Proposed capital budget 2020

	Approved 2019 budget	Proposed 2020 budget	Variation
Information and Communications Technology	170,000	67,000	-61%
Furniture and Fittings	40,000	40,000	0%
Leasehold Improvements	60,000	571,000	852%
Capital contingency	50,000	50,000	0%
Total capital expenditure	320,000	728,000	128%

5. RESERVES

31. Table 9 below provides an update on the level of the reserves shown in IDLO's financial statements for the past seven years compared to the target set and approved by the Standing Committee. As shown, the reserves in excess total 2.4 million euro as at December 31, 2018.

Table 9. Reserves compared to target

	2013 actual	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual	2019* provisional
IDLO retained earnings at end of year (Reserves)	6,555,400	7,865,333	10,382,082	8,530,516	8,526,205	9,736,859	10,329,825
Reserve target							
50% of operating expenses	3,435,151	4,379,940	5,467,071	4,826,020	4,268,868	4,112,236	5,336,451
12.5% of program expenses	2,241,576	2,620,832	2,922,094	2,839,489	2,724,159	3,131,519	3,990,864
Reserve target	5,676,726	7,000,771	8,389,164	7,665,509	6,993,027	7,243,754	9,327,315
Reserves in excess target	878,674	864,562	1,992,918	865,007	1,533,179	2,493,105	1,002,510

* forecast prepared using the methodology previous to the approved reserve policy

32. On July 23, 2019, the Standing Committee approved the IDLO Reserves Policy that introduces some changes to the criteria used since 2014 to determine the reserves target. The policy also includes the creation of an "operational fund" that allows surplus income beyond the amount, if any, needed to meet the target

level of unrestricted reserves. The Operational Fund can be utilized with the delegated approval from the AOP to the Standing Committee for institutional projects that enhance effectiveness and for Self-Funded projects.

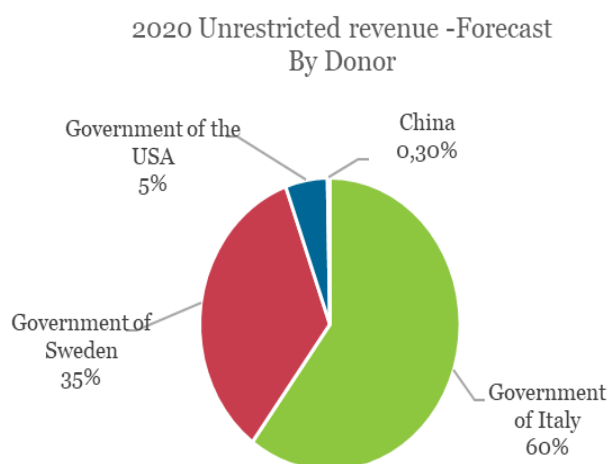
33. There are no targets set for the operational fund; it will be replenished each year with amounts in excess of the unrestricted reserves target with the approval of the Assembly of Parties.
34. The updated criterion to determine the level of unrestricted reserves is six months of the operational expenditure budget, which includes both the institutional expenditure budget and any amounts committed to the pre-financing of projects for the following six months. The level will be reviewed annually.

5. FACTORS THAT MAY IMPACT BUDGET ESTIMATES

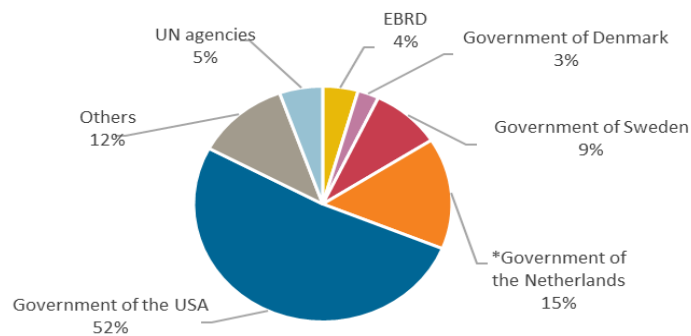
5.1 Revenue

35. IDLO has a narrow donor base. A majority of program funding comes from few donor sources and a substantial proportion of unrestricted revenue is provided by a small number of donors. Diagram 3 provides the breakdown by donor for 2020 proposed revenue of 42.7 million euro. There is a risk of a sudden fall in income if one donor reduces or cuts their support to IDLO. IDLO has reinforced its resource mobilization capacity and is actively engaged in discussions with new potential donors for unrestricted, loosely earmarked and program funds.

Diagram 3. 2020 Budgeted Restricted and Unrestricted Revenue by donors



2020 Restricted and earmark revenue- Forecast
By Donor



* Donor providing both earmarked and restricted program funding

5.2 Operations

36. IDLO's operations are predominantly in fragile environments and sudden changes have the potential to disrupt program delivery. The Organization has continued to mitigate the risks associated with operations in fragile situations by diversifying its programs to a greater number of countries since 2017. Based on current estimates for 2020, it is anticipated that 28 percent of program revenue will be derived from Asia, 37 percent from Africa, and 15 percent from Latin America as compared to 36 percent, 29 percent and 11 percent respectively estimated in 2019.
37. There is also a risk to operations in countries where IDLO has not yet secured or formalized its legal status through the conclusion of a host country agreement, registration with the government, or an alternative process. As a result, IDLO may have no/limited recognition of its privileges and immunities, creating banking and financial risks, among others. IDLO is actively mitigating this risk through a concerted effort to negotiate host country agreements or comparable arrangements with all of the countries where it operates.

5.3 Fixed costs

38. A large portion 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 completion and closure of operations in some countries and a parallel commencement and scaling-up of operations in other countries. 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 staff and office costs that are funded primarily from unrestricted sources as well as a limited number of staff and office costs in field office locations that are primarily funded by program revenue.

5.4 Contingency provisions

39. 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 2020, IDLO has set aside 25 thousand euro for project (non-employee) related contingency and an institutional contingency of 100 thousand euro within the Institutional Activity budget and, as explained in Section 3.5, 150 thousand euro for program employee contingency for this purpose. The grand total of the contingency, amounting to 275 thousand euro, represents 0.60 percent of IDLO's total 2020 proposed operating budget.