

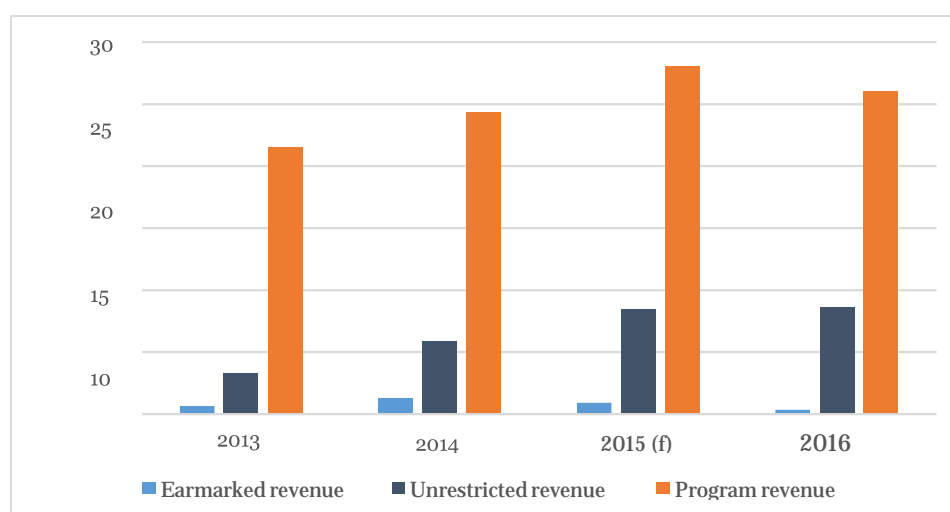
2016 PROPOSED BUDGET

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 sustained trajectory of program revenue growth and the significant augmentation of reserves, and proposes the revenue targets for 2016;
 - describes the proposed expenditure to support the implementation of the six Critical Strategic Initiatives described in the draft Management Plan, namely: delivery of a balanced program portfolio; investment in program quality and reporting; enhanced policy advocacy and strategic planning; strengthening of political and financial support; efficient and effective support services; and investment in human resources; and
 - includes funding for Self-Funded Programs in 2016 for programs commenced in 2015.

1. REVENUE OUTLOOK

2. IDLO is in a healthy financial state. It expects to receive 34.7 million euro in revenue in 2016, of which 8.6 million is unrestricted contributions and the balance is program and earmarked revenue. The projected revenue is 10% higher than the 2014 actual revenue and 4% lower than the 2015 forecast revenue.

Diagram 1: Trends in revenue 2013 – 2016



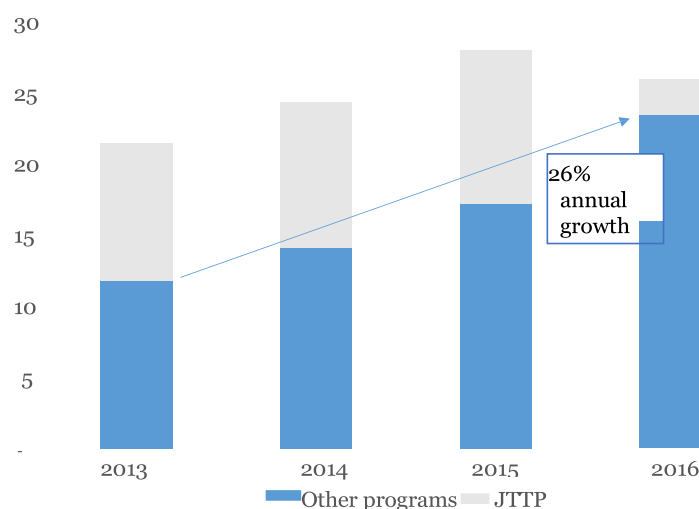
1.1 Unrestricted revenue

- Unrestricted revenue in 2016 is expected to be around 8.6 million euro, 18 % higher than the 2015 Approved Budget, and at the same level as the 2015 forecast. (In 2015 IDLO received a generous 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).
- IDLO signed a multi-year agreement with Sweden in 2015. As a consequence and taking into account the multi-year agreement with Netherlands, 65% of the unrestricted income in 2016 is guaranteed. The multi-year agreements with the Netherlands and Sweden run until 2016 and 2018 respectively.

1.2 Program revenue

- Program revenue is expected to be around 26 million euro in 2016, compared to the 2015 forecast of 28 million euro.
- 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 10.8 million euro from JTTP. In 2016 the income from JTTP will be only 2.5 million euro and will be offset by 23.5 million euro revenue from other programs.
- Thanks to a successful strategy to attract funds and better balance the portfolio geographically and thematically, IDLO's program revenue has grown 26% from 2013 to 2016, not counting JTTP, as Diagram 2 shows.

Diagram 2: Program revenue growth 2013 – 2014



8. 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.
9. As at August 31 2015, the secured program revenue for 2016 was 19.9 million, or 76% of the projected program revenue of 26 million. At the same time in point last year 22.6 million euro or 81% of program revenue was secured for the 2015 budget but much of it was dependent on one large multi-year program.

Table 1. Forecast program revenue and recoveries as at 31 July 2015

Program Revenue & Recoveries (1) in Euro					
		2016		2015	
Source		Gross Program Revenue	Program Recoveries	Gross Program Revenue	Program Recoveries (3)
On-Going programs	A	19,878,964	2,584,265	22,598,195	3,389,729
Pipeline programs @ September					
High probability (2)		3,954,000		4,541,700	
Medium probability		2,233,502		1,647,444	
Future anticipated pipeline to secure funding for in 2016		1,050,285		-	
Total Pipeline value		7,237,787		6,189,144	
Assuming only high probability, future estimated pipeline +50% medium probability will convert into contracts	B	6,121,036	795,735	5,365,422	672,679
Grand Total	A+B	26,000,000	3,380,000	27,963,617	4,062,408

(1) Program Recoveries consist of revenue from charging the time core staff spend on program implementation plus the 12% overhead

(2) The high probability pipeline includes proposals that have been requested to IDLO by Donors and which IDLO is confident to start implementation in 2016

(3) The program recovery shown in this table is different from the original 2015 approved budget due to an error in calculation of the recovery of the JTTP program.

10. Table 1 shows the pipeline and anticipated program revenue of 6.1 million euro. It is comprised of high and medium probability projects, including a number of projects IDLO is currently developing at the request of donors – with a high probability of materializing before the end of 2015 - and which will be implemented in 2016 with a forecasted revenue of 1.8 million euro.
11. The pipeline figure of 6.1 million euro also includes 1 million euro of program revenue that is being anticipated during 2016. This estimate is conservative, bearing in mind that the equivalent figures for 2014 and 2015 were respectively 3.8 million euro and 1.8 million euro (implemented during the year from the contracts secured that same year) and taking into consideration the fact that IDLO now has far more resources for program development, higher brand recognition and a wider geographic presence with more prospects for scaling

up than in previous years.

2. OPERATING EXPENDITURE OUTLOOK

2.1 Breakdown of expenditure

12. The proposed 2016 IDLO budget includes just under 35 million euro of expenditure, as shown by an estimated breakdown of activity and expense in Table 2 below.

Table 2: Proposed Operating Budget

IDLO 2016 Operating Budget Proposal			
By Activity		By Expense Type	
Euro		Euro	
Institutional Activities	5,414,030		
		Staff Costs	7,038,786
		Function Specific Costs	2,000,000
		Office & Other Support Expenses	2,142,200
		Total Costs	11,180,986
Program Support	4,007,611	Direct Program Costs	22,654,283
Program Delivery	1,759,345	Africa Rule of Law Initiative	150,000
Direct Program Costs	23,804,283	Self-Funded Direct Program Costs	1,000,000
Total Program Activities	29,571,239	Direct Program Costs	23,804,283
Total Budget	34,985,269	Total Budget	34,985,269

13. Direct program costs include programs funded by donors, Self-funded Programs financed from unrestricted revenue and the Africa Rule of Law Initiative project, also funded from unrestricted revenue.
14. Function Specific Costs, which have been fully allocated to Institutional Activities in Table 2 in line with previous practice, are set at 2 million euro, down from 2.5 million in 2015. The 20% reduction is based on a realistic assessment of the capacity to deliver. The sum of 2 million euro includes some 650,000 euro of one-time expenses related to major organizational and human resources reforms, as well as non-staff costs of Departments, such as workshops, events, research, governance costs, travel and publications. It also includes contingency and program development.
15. 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.
16. Table 3 below shows an estimated breakdown of the entire operational expenditure of 35 million euro according to the six Critical Strategic Initiatives, or key outputs described in greater depth in the 2016 Management Plan, and which IDLO has been

pursuing since 2013 to achieve the goals of the current Strategic Plan.

Table 3: Allocation of Operating Budget by Critical Strategic Initiatives

IDLO 2016 Operating Budget Proposal Allocation by CSIs		
CSI	Euro	%
CSI 1 : Build a balanced program portfolio	26,930,732	76.98
CSI 2 : Enhance program quality and impact	2,952,707	8.44
CSI 3: Influence the rule of law agenda	885,388	2.53
CSI 4: Grow our political and financial support	682,985	1.95
CSI 5: Effectiveness, efficiency and accountability	2,816,696	8.05
CSI 6: Invest in people	716,761	2.05
Total	34,985,269	100.00

2.2 Staff costs

17. Staff costs of 7 million euro shows a 6 % increase from the 2015 approved staff budget of 6.6 m 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.
18. 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.
19. New posts have been created to strengthen ICT/infrastructure, budget analysis, program monitoring, research (“lessons learned”), and partnership building in Washington D.C. and The Hague. The upgrades are intended to ensure more experienced staff in human resources, budget, program development and legal expertise. Three of the new posts are related to specific program/research needs in 2016 which are not expected to continue beyond the end of the year.

Table 4. Staff post table for 2016

Department	Support staff	Professional staff	Senior Management	Total
Office of the Director-General	-	3		3
Organizational Services	9	17	1	27
External Relations	1	11	2	14
Program Management	2	13	1	16
Office of General Counsel	1	2	1	4
Resource Mobilization	-	2	-	2
Global Initiatives	1	12	1	14
Research and learning	-	6	1	7
Total	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.
21. Table 5 below shows that all operational expenses (excluding Self-Funded Programs) are costed well within the projected revenue.

Table 5: Revenue & Expenditure (excluding Self-Funded Programs)

(Euros)	Proposed 2016 Budget
<u>Revenue from Operations</u>	
Unrestricted revenue	8,585,329
Earmarked revenue	150,000
Restricted Program Revenue	26,000,000
A. Total Revenue from Operations	34,735,329
<u>Expenses from Operations (excluding Self-Funded Programs)</u>	
Staff Costs	7,038,786
Function Specific Costs	2,000,000
Office Costs	2,142,200
Africa Conference	150,000
Direct Program Activities	22,654,283
B. Total Expenses from above Operations	33,985,269
Balance (A – B)	750,060

3. SELF-FUNDED PROGRAMS

22. 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.
23. Two Self-Funded Programs commenced in 2015, with a forecast expenditure of around 120,000 euro in 2015 and around 350,000 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.

4. CONSOLIDATED OPERATING BUDGET

24. Table 6 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 6: Estimated Operating Statement

(Euros)	Approved 2015 Budget	2015 Forecast	Proposed 2016 Budget	Change from 2015 Budget
REVENUE				
Unrestricted revenue (1)	7,249,000	8,585,329	8,585,329	18%
Earmarked revenue (2) (3)	835,000	835,000	150,000	-82%
Restricted Program Revenue (4)	27,963,618	28,036,382	26,000,000	-7%
Total Revenue	36,047,618	37,456,711	34,735,329	-4%
EXPENSES				
Staff costs (5)	6,662,012	5,976,982	7,038,786	6%
Program implementaiton / development (6)	-	256,000	-	N/A
Function-specific costs (7)	2,500,000	2,500,000	2,000,000	-20%
Office costs (8)	2,142,200	2,142,200	2,142,200	0%
Hague Branch set up costs - earmarked (9)	835,000	835,000	-	-100%
Africa Conference (10)	-	-	150,000	N/A
Direct Program Activities (11)	22,609,801	23,830,925	22,654,283	0%
Self-funded programs (12)	798,000	120,855	350,450	-56%
Total Expenses	35,547,013	35,661,962	34,335,719	-3%
Net Result from Operations	500,605	1,794,749	399,610	

25. IDLO is proposing a capital budget for 2016 at the same level as 2015. Some changes to the ICT budget may be required later in the year after IDLO completes an assessment of its technology platform, core systems and IT support as part of the efforts to improve efficiency and better support field offices.

Table 7. Proposed 2016 IDLO Capital Budget

(Euros)	Approved 2015 Budget	Proposed 2016 Budget	Change from 2015 Budget
Information & Communications Technology	300, 000	300,000	0%
Furniture & Fittings	50,000	50,000	0%
Leasehold Improvements	50,000	50,000	0%
Total capital expenditure	400,000	400,000	0%

5. FACTORS THAT MAY IMPACT BUDGET ESTIMATES

26. 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

27. 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 % of IDLO's revenue was derived from fragile states, by mid-2015 that figure had dropped to 69 per cent.
28. 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

29. 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% of the unrestricted revenue in 2016 is guaranteed. IDLO will invest additional resources in 2016 to expand its donor base.

5.3 Fixed costs

30. 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

31. 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 created a contingency of 100,000 euro within the Functional Specific Budget. IDLO will review the level of contingency required in 2016 as part of the allocation of this budget.

5.5 Closure of JTTP

32. Although JTTP's is IDLO's largest operation ever (over 46 million US dollars over 3 years), its completion and closure in March 2016 is budget neutral in relation to IDLO's overall 2016 Budget. No specific savings are expected as a result of the closure of JTTP because the management and support to JTTP at Headquarter was ring-fenced and 100% project funded.
33. The loss in program revenue from JTTP, as already explained, will largely be compensated through the diversification and growth strategy IDLO pursued in the last few years. The end of JTTP will not affect program recovery, which is forecast at 3.4million euro, in line with the program recovery during the period 2013 – 2015 when JTTP was under implementation.
34. IDLO's operations in Afghanistan prior to JTTP were 100 % project funded. This will also be the case after the end of JTTP. The IDLO set up in Afghanistan, in terms of staffing, office costs and equipment after the closure of JTTP, will be organized in such a manner as to be covered fully from the available project funding.

6. EXPLANATORY NOTES

35. Notes to Table 6
 - (1) The unrestricted revenue forecast for 2016 is based on multi-year donor agreements and the expectation that regular donors will continue their contributions at similar levels in 2016.
 - (2) The earmarked revenue for the 2015 Budget relates to the Hague set-up grant provided by the Government of the Netherlands. This was not shown in the 2015 Management Plan and Budget, but is included in this consolidated operating budget as part of reforms to ensure all revenue and expenditure is captured in the annual budget. This figure is an

estimate only and will be finalized later in 2015 in discussions with the Government of the Netherlands.

- (3) The earmarked revenue for 2016 refers to a voluntary contribution from the Government of the Italy in 2014, formally earmarked for use for specific programs, which are expected to be implemented in 2016.
- (4) Restricted program revenue refers to program revenue expected to be earned in that year.
- (5) Staff costs refers to the estimated cost associated with approved staff posts. The increase 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 to better reflect recent experience.
- (6) Program implementation / development refers to funding reallocated during 2015 from underspends against the staff budget to partly fund a number of positions to enable increased field-based program development activity and to strengthen program implementation.
- (7) Function-specific costs are provided to each department in IDLO for non-staff costs, such as travel, workshops, events, research, consultant fees, governance costs, publications and other goods and services purchased to deliver the department's outputs for the year. It also includes amounts for contingency and for program development.
- (8) Office costs are the costs of day-to-day operation of the offices in Rome, Geneva, The Hague, New York and (partially) Amman, such as rent, utilities, maintenance and core IT systems. This item also includes estimated depreciation of assets.
- (9) Hague Branch set up costs - earmarked refers to expenditure on the set-up of The Hague Branch Office. This is fully funded by an earmarked grant provided by the Government of the Netherlands, which expires at the end of 2015 (refer note 2).
- (10) Africa Initiative refers to expenditure on a partnership building Initiative planned in Africa in 2016.
- (11) Direct program activities refer to costs directly charged to program donors and earmarked donors and excludes program recovery through IDLO's standard 12% overhead and the allocation of core staff time to programs.
- (12) Self-funded Direct Program activities refers to the use of unrestricted funds to deliver programs.

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