

Updated Workplan and Budget 2016 -addendum with No growth scenario

At its 32nd meeting in Lima, the Board agreed to amend the 2016 budget to the 'zero-growth' budget of USD 5.2m (see below). The following budget was thus adopted, including some options for where the cuts will be made. These trimmings to the budget are already happening. The Board – through its Finance Committee - will regularly monitor the budget including upcoming spending commitments. Should the organisation's cash balance fall to near the agreed reserve level (NOK 4.8m), the Board will set out the spending cuts required.

Activities such as training, assessments and validations will only be conducted to the extent that additional external funding has been secured. As per the time of the Board meetings in Lima no funding has been secured for training in 2016. Options for project-specific support have been presented for development partners with a total cost of USD 1.2m. The feedback has been positive but there is as of yet no firm commitments of funding.

The Board in Lima decided to continue with the same model for validations as used for the pilot validations at the end of 2015. The financial consequence of this is that the revenue budget for validations is reduced from USD 2.4m to USD 1.0m. As per Lima, only USD 320k has been committed in funding for validations in 2016 from the World Bank EGPS multi donor trust fund. This is dedicated to consultant costs, and a further USD 650k of funding is required if the Board wishes to proceed with the 32 validations scheduled for 2016.

EITI Reporting - Workplan 2016

All figures in USD thousands

Result Report	2015		Workplan 2016	
	Actual Result	Budget	Zero growth	Change
Core contribution, Government of Norway				
Government of Norway	310	394	325	(69)
Supporting countries, International Development / and NGOs (approximately 50% of remaining requi				
Civil Society	0	10	10	-
Supporting countries and IDA's	1 754	2 404	2 594	190
Private sector (approximately 50% of remaining re				
Investors	9	10	10	-
Oil and Gas	1 110	1 598	1 505	(93)
Mining and Minerals	575	800	751	(49)
Non-extractives	10	5	5	-
Total Core Revenues	3 767	5 220	5 200	(20)
Project-specific funding				
Training, assessments	584	0	1 510	1 510
Validation				
Validation	55	600	969	369
Financial Income				
Net interest income	5	-	-	-
Total Revenues	4 411	5 820	7 679	1 859
Costs by function				
Implementation	1 602	2 088	1 880	(208)
Outreach	263	530	325	(205)
Board meetings	959	680	776	96
Communications	546	899	750	(149)
Chair's support	33	86	150	64
Training	476	102	760	658
Stakeholder rel./Int. advocacy	219	141	145	4
Management & Admin	619	468	473	5
Global conference	124	123	1 450	1 327
Validation	239	702	969	267
Total Costs by function	5 079	5 820	7 679	1 859
Costs by type				
Salary	2 520	2 725	3 188	463
Other staff expenses	63	240	155	(85)
Office expenses	306	365	330	(35)
Travel and accomodation	1 092	900	2 593	1 693
Translation & Interpretation	572	600	693	93
Project consultants	392	900	570	(330)
Other expenses	134	90	150	60
Total Costs by type	5 079	5 820	7 679	1 859
Net result	(669)	-	-	-

32nd EITI BOARD MEETING, LIMA, 23 February 2016

Finance Committee

9 February 2016

Board Paper 32-7-B

Workplan 2016 addendum– No growth scenario

For decision

Summary:

The Finance Committee recommends that approved 2016 core budget of USD 5.46m is cut by 5% to USD 5.2m. This will require a reduction of missions to implementing countries, outreach activities, translation of fewer documents, postponed website development, less training and more cost effective committee and board meetings.

Given the unprecedented gap in the 2015 accounts (ca. 700K USD) and further uncertainty of donor funding, the Finance Committee tasked the Secretariat to revisit the 2016 budget in the three year no growth scenario outlined in the 2016 workplan. Pending the results of the Funding Review, the Finance Committee recommends that this scenario becomes the approved 2016 budget.

It may be necessary for the Board to consider further cost cutting measures. This would require that the Board revisit the 2016 workplan and agree which activities would be cut or reduced. The Finance Committee and the Secretariat are concerned about the existing revenue shortfall and strongly recommend that the ongoing Funding Review concludes with a new and sustainable funding model for the International Secretariat as soon as possible. The implications of further cost cutting are presented in section 3 for discussion.

Workplan 2016 addendum – No growth scenario

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1 Introduction

On 3 February 2016 the Finance Committee reviewed the full year 2015 accounts and concluded that the International Secretariat faces financial challenges due to an unexpected decline in revenues. The 2015 budget anticipated revenues of USD 5.82m. Actual revenues were USD 4.41m. To compensate, the Secretariat reduced expenditure. The 2015 budget anticipated expenditure of USD 5.82m. Actual expenditure was USD 5.08m. The result was a net loss of USD 0.67m. The Secretariat’s equity has thus declined from USD1.07million to USD 0.29m.

The 2016 budget, approved by a way of a “no-objections” circular in late December following the Board meeting in Kiev, anticipated revenues of USD 9.46m and an equivalent level of expenditure. This circular anticipated a 2015 deficit of USD 81k, materially less than the final result for the year, a deficit of USD 669k. The increase in expenditure in 2016 is mainly due to the global conference and the cost of validations. Excluding these two items, the Board approved a “core budget” of USD 5.46m as necessary to deliver the 2016 Workplan.

The Finance Committee and the Secretariat are concerned about the existing revenue shortfall and strongly recommend that the ongoing Funding Review concludes with a new and sustainable funding model for the International Secretariat as soon as possible. The revenue shortfall in 2015 underlines the broad view that the current funding arrangements and formula are not sustainable. It is critical that the incoming Board concludes the future funding arrangements in order to ensure that the EITI has sound funding arrangements for the future.

The Finance Committee has also asked the Secretariat to take another look at how costs can be lowered. A copy of the no growth alternative as presented in the workplan and budget is found below in table 1 with slight updates to reflect the 2015 outturn and expected removal of the funding formula. This 2016 no growth scenario represents a doubling in revenue vis-à-vis income in 2015 when including Global Conference and Validations. In light of the uncertainties around some revenue streams, the Finance Committee has therefore asked the Secretariat to present a paper at the Lima board meeting setting out options if the anticipated revenue streams are not forthcoming in 2016.

This paper and addendum to the workplan and budget contains further details on the implications of executing the workplan and budget with no growth.

Table 1 – No growth scenario

EITI Reporting - Workplan 2016

All figures in USD thousands

Result Report	2015		Workplan 2016		
	Actual Result	Budget	Low growth	Zero growth	Change
Core contribution, Government of Norway					
Government of Norway	310	394	325	325	-
Supporting countries, International Developer and NGOs (approximately 50% of remaining req					
Civil Society	0	10	10	10	-
Supporting countries and IDA's	1 754	2 404	2 705	2 594	(111)
Private sector (approximately 50% of remaining					
Investors	9	10	10	10	-
Oil and Gas	1 110	1 598	1 600	1 505	(95)
Mining and Minerals	575	800	800	751	(49)
Non-extractives	10	5	5	5	-
Total Core Revenues	3 767	5 220	5 455	5 200	(255)
Project-specific funding					
Training, assessments	584	0	1 610	1 510	(100)
Validation					
Validation	55	600	2 400	2 400	-
Financial Income					
Net interest income	5	-	-	-	-
Total Revenues	4 411	5 820	9 464	9 109	(355)
Costs by function					
Implementation	1 602	2 088	1 825	1 780	(45)
Outreach	263	530	405	325	(80)
Board meetings	959	680	840	776	(64)
Communications	546	899	800	750	(50)
Chair's support	33	86	150	150	-
Training	476	102	860	760	(100)
Stakeholder rel./Int. advocacy	219	141	150	145	(5)
Management & Admin	619	468	484	473	(11)
Global conference	124	123	1 450	1 450	-
Validation	239	702	2 500	2 500	-
Total Costs by function	5 079	5 820	9 464	9 109	(355)
Costs by type					
Salary	2 520	2 725	2 778	2 713	(65)
Other staff expenses	63	240	155	155	-
Office expenses	306	365	380	330	(50)
Travel and accomodation	1 092	900	2 526	2 418	(108)
Translation & Interpretation	572	600	725	693	(32)
Project consultants	392	900	2 750	2 650	(100)
Other expenses	134	90	150	150	-
Total Costs by type	5 079	5 820	9 464	9 109	(355)
Net result	(669)	-	-	-	-

2 Cost reduction to core budget – No growth scenario

The three year no growth scenario seeks to show the impact of lower than expected revenue on the delivery of the workplan. With staff costs representing almost 57% of the costs and difficult to reduce given the increasing number of countries implementing the EITI (20 staff covering over 50 countries plus Board support, outreach, communications, etc.), the consequences of cuts would be serious on a few specific outcomes. The plans for implementation, outreach, communication, and training activities would be hit hardest. Table 2 below sets out in more detail the options, cost savings and implications. If the revenue shortfall continues, the Board will have to make tough decisions that will severely affect the core activities of the Secretariat.

Table 2 – No growth scenario options for cost savings

Budget item	Current budget	Reduction to achieve no-growth scenario	Secretariat's comments on implication
Implementation costs – the day- to- day support provided by the Secretariat to the 49 implementing countries.	USD 1.83 million (74% of this is staff costs)	Reduce by USD 45k	An estimated 10 missions to implementing countries would have to be cut. Countries like DR Congo, Guinea, Myanmar, and the Philippines , who had missions in 2015 and are at critical phases in their implementation, would be unlikely to receive direct in-country support in 2016 .
Outreach costs – the requested support provided by the Secretariat to a number of candidate countries.	USD 405k (77% of this is staff costs)	Reduce by USD 80k	Most of the missions to outreach countries would not proceed . Visits to countries like Mexico to support their candidature application and process would have to be dropped.
Board meeting costs – the cost related to holding 2-3 board meeting per year including venue, travel, communication and translation costs.	USD 840k (24% of this is staff costs)	Reduce by USD 64k	<p>a. Translation and interpretation: The Board will have to consider its translation policy. Significant reduction in translation costs will only be possible if there is a significant reduction in the volume of papers being translated and meetings interpreted. The Secretariat assumes that the quality of translation and interpretation is not to be lowered. This might require prioritising Board papers to be translated; translating summaries instead of full papers for large Board papers – e.g. validation reports.</p> <p>b. Board meeting location and schedule: In planning the suggested Board meetings schedule for 2016 and 2017, the Secretariat will propose that the next Board meeting be held in Oslo in</p>

			<p>May/June 2016. In evaluating alternative Board meeting venues cost will be a key factor. Side-visits or side events associated with Board meetings will not be planned. The Board may wish to consider charging or further limiting the number of observers.</p> <p>c. In-person committee and working group meetings: Avoid in-person meetings and strictly use teleconferencing facilities. There would also have to be a significant cut in the number of working groups as these costs heavily in staff time.</p>
<p>Communication costs – the requested support provided by the Secretariat to a number of candidate countries.</p>	<p>USD 800k (51% of this is staff costs)</p>	<p>Reduce by USD 50k</p>	<p>Leaner solutions would have to be considered as well as the postponement of website development efforts including key guidance material for implementing countries and improvements in the usability of data from EITI reports.</p>
<p>Training costs – the requested training provided by the Secretariat to a number of implementing countries.</p>	<p>USD 860k (16% of this is staff costs)</p>	<p>Reduce by USD 100k</p>	<p>One drastic solution here would be to have no training unless it has full project specific funding. It should be noted that this is often where the EITI international management can have biggest impact.</p>

Furthermore, the Secretariat will seek to postpone the move to new permanent offices until January 2017. The extended agreement for a short term lease in the existing premises has not yet been finalised but is expected to be confirmed shortly. The expected savings compared to the 2016 workplan and budget is approximately USD 50k which results in a new budget for office expenses of at least USD 330k but hopefully less. However, this means that the team of over 20 will remain in cramped offices designed for seven people.

3 Continued revenue shortfall – Workplan consequences (for discussion)

The Finance Committee and the Secretariat are concerned about the existing revenue shortfall and strongly recommend that the ongoing Funding Review concludes with a new and sustainable funding model for the International Secretariat as soon as possible.

In a scenario where there is a significant shortfall of core revenues in 2016 (as seen in 2015), the effects on the activities of the Secretariat will be dramatic. With staff costs currently representing 57% of expenditure, a significantly reduced budget would require a reduction in staff of approximately 30%-40% (12-14 staff compared to 20 staff today). This would require a complete restructuring of the Secretariat, a substantial reduction in the support

offered to implementing countries and reduced support to the Board. The mandate, workplan and activities of the Secretariat would need to be completely reconsidered.