

Agenda Item: Going Concern Note

Summary

This paper summarises management and boards assessment of current events and conditions, as per information currently available about the future, in determining whether IPPF is a going concern.

Action Required:

The Board of Trustees to review and approve the going concern note for the audited financial statement for the year ending 31st Dec 2020.

1 Executive summary

This paper summarises management's assessment of current events and conditions, as well as all information currently available about the future, in determining whether IPPF is a going concern.

After due consideration, the members of the Finance, Audit and Risk Committee (C-FAR), the Board and Trustees and the management believe that there are no material uncertainties that may cast significant doubt about IPPF's ability to continue as a going concern until at least 31st May 2022.

The key reasons for this conclusion are:

- IPPF has multi-year agreements with key donors for both restricted and unrestricted funds.
- Core funding for the year 2021 is already 97% committed, with two contracts in the signing stage with the donors.
- IPPF's projected cash flow position across all funding sources demonstrates a positive balance throughout this period.
- IPPF has earmarked designated funds to cover costs relating to its business plans that support the delivery of its overall strategies in order to accelerate delivery in specific areas.

2 De-risking the impact of the COVID-19 pandemic

Whilst many of IPPF's frontline services across its Member Associations ("MA's") were (and continue to be) impacted by the ongoing Covid 19 pandemic, IPPF responded quickly in 2020 with a set of mitigating actions which de-risked the impact on IPPF and positioned it to successfully weather the storm. As a result, IPPF has not needed to make use of any business support measures that were made available by the UK government and has secured a level of funding in 2021 that matches 2020.

Some highlights of the COVID-19 response are as follows:

- IPPF immediately set up a task force to respond to the unfolding situation in 2020 and it continues to work on building a resilient SRHR ecosystem for the Member Associations around the following four pillars:
 - Pillar 1: Ensure continued provision of Essential SRH services
 - Pillar 2: Protect, promote and advance SRHR as responsible advocates.
 - Pillar 3: Build resilience among IPPF MAs to manage disruptions.
 - Pillar 4: Promote evidence generation and cross learning.
- The task force collected data from MAs throughout the pandemic across three surveys conducted in March 2020, May/June 2020 and November 2020. The focus of Round 1 was to assess the impact of C-19 on MAs' operations and specifically on service provision and response. By Round 2 the task force set longer term goals to frame the data collection: ensuring continuity of SRH programmes, protect, promote and advance SRHR agenda, and build resilience among MAs to weather current and future disruptions. Round 3 focused on innovations and adaptations made by MAs and the potential to adopt them long term.
- IPPF raised additional funding of U\$3.3m in support of its COVID-19 response from Danida, Canada and Levi Strauss Foundation. This has enabled the release of over US\$3 million in emergency funding to 70 MAs for their Covid-19 response. In addition, in

2021/22 IPPF is likely to receive AUD21 million over two years to provide SRHR services to the vulnerable and marginalized groups that are affected by the Covid-19 pandemic in SAR and ESEOAR (see paragraph 7.1 below).

- In IPPF's initial response with support of funding made available by the Director General's emergency fund, 30 MA's were supported by supply of N95 masks, 3-ply type-2 masks and thermometers. IPPF managed to reach MA's in hard-to-reach destinations such as Yemen, Syria, Somaliland, Sierra Leone and many others. New and innovative logistic partnerships were established to realise this, amongst others with the Nobel Peace Prize winning organisation, World Food Programme.
- In three different rounds of product donations, IPPF has been supporting 45 MA's with supply of PPE and FP/RH commodities. Over 300,000 masks and 1,600 digital thermometers have been delivered to MA's most in need of PPE, with another round of commodities in the process of being delivered now.
- With support from CFPA, IPPF's member in China, another 4 MA's were provided with N95 masks, 3-ply type-2 masks, surgical gowns and thermometers in the early days of the pandemic. These donations were delivered by making use of diplomatic distribution routes through embassies to severely challenging destinations such as Iran and North-Korea.
- Upon completion of the second survey, additional funding was made available by Global Affairs Canada (GAC) for supply of both PPE and FP/RH commodities. A total of 18 MA's are currently being supplied with a range of products in Q1 2021. Out of those 18 MA's, 6 MA's have been supplied from suppliers in their own markets to increase the efficiency of timely supply.
- Additionally, the Director General launched an appeal to all IPPF staff in April 2020 for donations that would be used to create a restricted Solidarity Fund to support staff on the frontlines by issuing small grants to individuals who have been directly impacted by the pandemic. To date, more than 50 requests across three regions have been processed to support the front-line workers.

In 2020, in order to assist the MA's with their COVID responses, IPPF released circa US\$ 6.5 million of the second instalment of the core grant to Member Associations in advance which, in some cases, was 50% and, in others, 100% of the second instalment, based on a quick needs assessment.

To help manage its cashflow, IPPF reached out to its donors and four (Germany, Switzerland, Norway and Denmark) paid their core grant payments ahead of schedule to help buffer IPPF's cash position:

		Received:	Budgeted:	
Germany	€9m	6.5.20	July 2020	
Switzerland	USD1.1m	19.5.20	July 2020	
Norway	NOK35m	22.5.20	July 2020	
Denmark	DK50m	24.6.20	June 2020	Paid in one tranche in June instead of June and November 2020

IPPF successfully negotiated with DFID (now FCDO) a six-month waiver for its delivery commitments on its largest payment by results project, WISH Lot 1 and Lot 2. This ensured that FCDO continued to provide funding against the project's projected results, irrespective of the actual numbers. In addition, FCDO continued to pay for reimbursables as normal on actuals.

Throughout the pandemic, IPPF's secretariat offices successfully transitioned to a working from home model that had little impact on the running of the business. IPPF secretariat office

teams worked proactively to keep staff safe by ensuring they were equipped to work effectively from home, establishing standard operating procedures for creating safe working environments in the offices as they reopened, ensuring safety protocols were followed. Some offices (eg London and Nairobi) are still working remotely, following government advice. IPPF is pleased to report that to date no deaths or serious C19 related illness have occurred across the Secretariat staff.

Through ongoing, close engagement with its donors, IPPF secured core funding for 2021 that is in line with 2020 and this puts IPPF in a strong position to continue delivering on its mission.

3 2021 budget

The unified Secretariat budget for 2021 is balanced and conservative. Significant budget cuts were made to reduce Secretariat costs to 30% of total core and overhead income, thus allowing more funding to be available for Member Associations. This was achieved after a restructuring exercise at the end of 2020. This resulted in 21 people leaving the London office at a cost of US\$1.1 million, with expected of future savings of US\$1.6 million per annum. All other areas of the budget were compiled bottom up with very little discretionary spend available after committed costs (such as rent, insurance premiums, software licences etc).

The 2021 budgeted core income from donors and foundations was set at a conservative level of US\$56,942k based on the confirmed agreements in place with donors at the time of budgeting.

Since the budget was prepared, an additional net US\$3.9 million has been committed by donors as follows:

				USD	
Australia	AUD	1,000,000	0.6925	692,500	
Germany	€	3,000,000	1.139	3,416,000	
Japan	USD	-700,000	1.000	-700,000	
Netherlands	€	360,000	1.139	409,889	
Canada	CAD	-1,360,000	0.734	-997,811	
Norway	NOK	10,000,000	0.106	1,058,800	NB Contract is expected to be signed w/c 5.4.21
				<u>3,879,378</u>	

This means that unrestricted income from donors and foundations in 2021 will be (56,942 + 3,879=) US\$60,821k. This is a 1.5% decrease on the 2020 actual amount, which demonstrates the achievement of the “most likely scenario” which was put forward in June 2020.

In addition, the 2021 budget includes an extra US\$ 4.6 million of unrestricted core income which comprises overhead recovery (US\$3.9 million), donations, commodities sales and investment income.

Of the budgeted income in 2021, all donor contracts have been awarded apart from the one with the Finnish government (€1.5 million). The Finnish Government funding proposal has been submitted and the likelihood of IPPF being awarded the grant is high and the outcome will be known in August 2021. All contracts for awards granted have been signed, except for those with the Norwegian and Netherlands governments which are in the final stage of contract signing.

4 Cashflow forecast

The cashflow forecast to May 2022 is shown in **Appendix A**.

The consolidated cash balance remains positive every month until May 2022 and the average cash balance during this period is US\$49,022k. As is expected, the unrestricted cash balance will dip in May and September when the second and third core grant instalments are paid to the Member Associations. However, experience has shown that the calls for these payments are usually spread over several months rather than in a single month, which will relieve the pressure on the cashflow.

Not included in the cashflow forecast is a US\$3 million short term interest free loan from the Children's Investment Fund Foundation (CIFF) for the WISH programme. This loan will be drawn down in April 2021 and is repayable on 31st October 2021. The loan is intended to help IPPF with working capital needs for the WISH programme, as it is paid in arrears by FCDO.

5 Core funding projections

IPPF has reviewed its core funding projections for the period 2021-2023 and has determined three potential scenarios compared to the budgeted 2021 core income as follows:

Scenario	2021	2022	2023
Worst case	10% drop (very unlikely at this point)	15-20% drop	25-27% drop
Most likely	Remain as forecast	6-10% drop (approx 65% of contracts are confirmed)	10% drop from 2021 figures Many contracts will be reviewed in 2023 so there is higher uncertainty.
Best case	Remain as forecast (97% by value already committed by donors)	5% increase	10% increase

It should be noted that 90% of IPPF's unrestricted funding is received by IPPF in the local currency of the donors and so the exchange rates used will have an impact on the forecast USD income.

Many of IPPF's contracts are running until 2022 in alignment with the current Strategy Framework and as 65% by value of the funding agreements have been signed, there is a reasonably high level of certainty for 2022. There is a lot more uncertainty for 2023 as this will be a major contract renewal year.

The assumptions used in the table above exclude income from individual giving (see 7.2 below) and so there is potentially some upside to these figures.

IPPF will continue to monitor its funding scenarios and prepare quarterly reforecasts in 2021, based on the data available.

6 Consideration of external factors

The following external factors have been considered in determining whether IPPF is a going concern:

6.1 FCDO's negotiation of No-Cost Extension (WISH Programme)

At the spending review in November 2020, the Chancellor of the Exchequer announced that the UK would temporarily reduce its aid budget from 0.7% to 0.5% of national income. The implications of this funding cut have not been rolled out yet by the FCDO but IPPF has now prepared for a scenario where its FCDO funded projects are only granted a no cost extension. In line with this, adequate forward thinking has already been put in place which includes commencement of closure of some country level programmes and continued implementation of some others, using re-deployment of savings under the programmes from the previous years. All this is being put in place with the hope that by the time all the programmes are drawn to closure by the end of December 2021, FCDO will have access to additional funding under the aid budget.

The 2021 budget has been prepared on a conservative basis with WISH 1 and WISH 2 ending in July and September 2021 respectively. In the medium term, the potential impact on IPPF of these projects not being extended is the loss of overhead recovery and redundancy costs in the case where staff cannot be deployed on other projects. The cost of redundancies has already been built in within the fee component of the project budgets.

6.2 Shrinking economies

As global economies shrink in the aftermath of the COVID-19 pandemic, there is a possibility that overseas aid budgets will proportionately reduce or, in the worst case, be cut as in the case of the UK.

It is too early to determine what the impact may be on IPPF in the medium term, but as 97% of IPPF's core unrestricted income is already committed for 2021, there is no impact in the short term. Various potential outcomes have been considered in the scenarios in section 5 above. The knock-on effect of any reduction in core funding will be a reduction in grants paid to Member Associations, hence there is no significant impact on IPPF's ability to continue as a going concern.

6.3 Impact of frauds on donor confidence

Since IPPF rolled out its confidential external incident reporting service (SafeReport), several complaints have been raised relating to suspected frauds which have led to investigations and significant findings. Whilst IPPF considers this to be a good thing as it enables it to get to grips with these issues and implement appropriate counter-fraud strategies, there is a risk that donors may be deterred.

IPPF has been engaging with donors proactively to inform them of the actions it is taking to address these risks and to strengthen financial oversight of the Member Associations. At this stage, feedback from many donors is supportive and encouraging. However, this situation needs to be managed and the Directors Leadership Team is prioritising this as a focus area. There is no evidence at this stage that the incidents of fraud reported at IPPF are out of alignment with other INGO's operating under the same conditions and in the same jurisdictions.

7 Future opportunities

IPPF is actively pursuing funding opportunities to mitigate any potential impact of the external factors considered above.

7.1 Pipeline

IPPF is actively engaging with new and existing donors for new funding opportunities.

Some governments have been unable to utilize their full ODA budget due to the COVID crisis and are seeking respected implementation partners so that they can spend it within their budget year. For example, Australia's Department for Foreign Affairs and Trade ("DFAT") is most likely going to allocate its underspent 2021 budget to IPPF for its Covid-19 response. In this scenario, IPPF is likely to be awarded a grant of approximately AUD 21 million for 2 years to provide SRHR services to the vulnerable and marginalized groups that are affected by the Covid-19 pandemic in SAR and ESEOAR.

7.2 Fundraising opportunities in the US

On 28th January 2021, the US President rescinded the Global Gag Rule which prohibits any foreign NGO in receipt of US global health assistance from using funds from any source to provide abortion services or advocate for abortion law reform.

This paves the way for IPPF to become eligible in the US for funding opportunities and a new post has been created in Washington to reengage with USAID.

In addition, IPPF has plans to engage a consultant in the US to develop an individual giving programme to capitalise on fundraising opportunities, recognising that the knowledge base for this has previously resided within the Western Hemisphere Regional Office. Individual giving activities will extend beyond the US as it is a potential fundraising opportunity that is currently untapped by IPPF.

7.3 IPPF Americas and Caribbean Region

With the departure of the Western Hemisphere Regional Office at the end of August 2020, IPPF has seized the opportunity to build a new regional presence in the Americas and Caribbean so that it retains its global footprint which is valued by donors. New regional offices are being established in Colombia and Trinidad to support the existing Member Associations that chose to remain with IPPF, as well to engage with potential new members.

8 Worst case scenario

In the worst case scenario, if donors were to default on their funding commitments, IPPF would first reduce its core funding disbursements to Member Associations which account for 70% of core costs. This flow through business model protects IPPF from any significant reduction in core income. In the case of significant financial difficulties, IPPF could sell or mortgage its investment in the following land and buildings which it owns:

- two properties (one in London and the other in Kuala Lumpur) and an investment property in London.
- land in Nairobi held by its Africa Regional Office (ARO).
- one property in Brussels held by its European Network Office (EN).

IPPF has US\$26.5 million of general unrestricted reserves at 28th February 2021 which is a healthy level to cover any risk related eventualities should they arise during this period.

9 Conclusion

In considering all the factors above, the C-FAR, the Board of Trustees and management believe that IPPF is a going concern until at least 31st May 2022.

