



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON
FINANCE AND ADMINISTRATION**

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REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

**TWENTY-SIXTH SESSION OF THE
COMMITTEE ON FINANCE AND ADMINISTRATION**

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Item 1: Opening of the Session

1. The Chairperson, Dr. Agus Sarsito of Indonesia, welcomed all delegates to the Twenty-sixth Session of the Committee.

Item 2: Adoption of Agenda and Organization of Work

2. The Chairperson suggested that the Committee takes up discussions agenda item by item in the order listed in document CFA(XXVI)/1. The Vice-Chairperson of the Committee, Dr. Atsushi Suginaka of Japan was requested by the Chairperson to lead the discussion of the Committee on a number of the agenda items.

3. The Chairperson drew the attention of the Committee to the work of the Panel on Sub-Account B of the Bali Partnership Fund (BPF) for the allocation of funds under Sub-Account B of the BPF, created under Council Decision 4(XXX). This Panel was chaired by the Chairperson of the Committee and will report directly to the Council. It convened its first meeting on Thursday, 17 November 2011. He informed that the selection of the members of the Panel is to be finalized shortly with a view to commence its work.

Item 3: Admission of Observers

4. The Chairperson advised the Committee that the Council had admitted all applicants as shown on document ITTC(XLVII)/Info.3 which listed states, inter-governmental and non-governmental organizations applying for Observer status. The Committee concurred with the decision of the Council in this matter.

Item 4: Report of the Expert Panel for Technical Appraisal of Project Proposals

5. The Chairperson advised the Committee that the Report of the Thirty-ninth and Fortieth Meetings of the Expert Panel for Technical Appraisal of Project Proposals (Documents ITTC/EP-41 and ITTC/EP-42) were deliberated and concluded in the joint session of the Committees on 14 November 2011. The joint session had not requested the CFA for any follow-up.

Item 5: Draft Administrative Budget for the Year 2012

6. The Secretariat introduced document CFA(XXVI)/2, which had been distributed to Members on 29 July 2011 in accordance with Rule 3 of the ITTO's Financial Rules and Rules Relating to Projects which was amended by the Council at its Thirty-fourth Session in May 2003 [Decision 7(XXXIV)], for the preparation of the draft administrative budget for a biennial period, instead of an annual period, applying the exchange rate of the month when the budget was prepared. At the Twenty-second Session of the Committee in November 2008, and as approved by the Council at its Forty-third Session, it was decided that the proposed budget will not be revised for any further subsequent change in the exchange rate.

7. The proposed Administrative Budget has been prepared for a single year for 2012 on the basis of the operation of the Organization under the ITTA, 1994. Although there has been progress towards ratification of the ITTA, 2006, that may bring the Agreement into force in 2012, as of now, ratifications by countries accounting for an additional 12 votes (as in Annex A of the ITTA 2006) are needed to reach the threshold required in Article 39 paragraph 1 of the ITTA, 2006. Although additional ratifications may be completed in the near future, at the time of preparation of this budget the organization continues to operate under the ITTA, 1994, and the budget has been prepared accordingly.

8. The Secretariat informed the Committee that the proposed Administrative Budget for 2012 was prepared using the exchange rate in July 2011 of JPY.80.84 to USD.1, which resulted in an increase of an amount of \$886,091 more than the approved budget for 2011 of \$7,058,902 (or 12.55%) due mainly to the following reasons:

- (a) An increase of 4.78% due to the change in exchange rate (from JPY.84.69 to USD 1 used in 2011 to JPY.80.84 for the proposed administrative budget for 2012);
- (b) An increase of nearly 5% due to annual salary increment of staff members, provision of full year's salary for AD-FI position (as against six months in 2011), retirement/recruitment of two senior staff members and other changes in entitlements in accordance with the staff regulations and rules; and
- (c) An increase of 2.83% to the total administrative costs due to the inclusion of a new provision of US\$200,000 for holding Council session outside Japan [Decision ITTC(XLVI)6].

9. A number of members were concerned about the large increase in the proposed administrative budget for 2012 and suggested some areas of administrative costs that could be reduced, particularly in the cost of personnel including staff restructuring. Suggestions were made to freeze the two vacant positions of the Statistician and the Research Assistant, as well as of the two additional positions, viz., Assistant Director, Management Services, and Finance/Administrative Officer that would become vacant during the year 2012.

10. The delegate from Germany remarked that in the interest of staff welfare and also to reduce the cost for separation payments, unused annual leave should not be paid. The Secretariat advised that such payment was stipulated in the Staff Regulations and Rules. However, in future staff members would be encouraged to use up their accumulated annual leave prior to their separation from service.

11. The Secretariat informed the Committee that the Executive Director during his opening statement to the Council on the first day conveyed of his intention to present a revised organizational structure after a comprehensive review to take account of the changed circumstances occurred in the past several years that had already affected the workload of the Organization and its staff members, as well as to cope with the challenges under the ITTA, 2006, which is expected to enter into force in the near future. The Secretariat further informed that the comments of the Members on the future staff compositions will be taken into account while conducting this review.

12. The Chairperson, after noting the deliberations at the meeting, requested the Secretariat to make revisions in the proposed Administrative Budget for the year 2012 to reduce the budget, taking into consideration the comments made by members at this meeting with two possible scenarios: (a) to achieve zero nominal growth in United States dollar terms from the approved Administrative Budget for 2011; and (b) a revised budget for 2012 with moderate reductions. The revised budget under scenario (a) was to include information about the further reductions along with their possible consequences.

13. The Secretariat presented the revised budgets under the two scenarios and with regard to the personnel cost revisions and explained that reductions were made by costing one D-1 position for six months and temporarily freezing the two currently vacant positions of: (i) Statistician; and (ii) Research Assistant. However, moderate provisions were made to engage contractor(s) to perform part of the regular duties, particularly those of the Statistician. To achieve zero nominal growth in the budget for 2012 against 2011, reductions were made in a number of other administrative costs and the secretariat also provided the Committee with explanations with regard to their possible consequences.

14. The Committee examined the two scenarios of (a) zero nominal growth; and (b) a revised budget with moderate reductions, showing a net increase of \$378,778 (or 5.37%) against the approved budget for 2011. After examination of the two scenarios, the Committee decided to concentrate its discussions on the proposed revisions with moderate reductions. While recognizing that about 90% of the administrative budget are for expenditures related to personnel for which most items are fixed or compulsory and there were not much rooms for reduction, the Committee requested the Secretariat to present a new revised proposal with further reductions, particularly in items like official travel, special activities, data processing and other costs.

15. The Secretariat presented two new revisions to the proposed budget for 2012 at the third meeting of the Committee at this Session: (a) option 1 – showing a net increase of \$293,604 (or 4.16%) against the 2011 budget allocation; and (b) option 2 – with a net increase of \$263,969 (or 3.74%). A number of

delegates agreed with the original revision (with an increase of 5.37%) to ensure that the Secretariat continues its quality services required by the Council. On the other hand, some members expressed difficulties to accept increase in the proposed budget and suggested that the increase should be kept even lower.

16. After additional discussions and further consultations among members, a compromise was reached to adopt the budget with an increase of \$278,828 (or 3.95%) against the approved budget for 2011. The Committee recommended that the Council approve the Administrative Budget for the Financial Year 2012 as presented in document CFA(XXV)/2/Amend.1 in the amount of **US\$7,337,730**. This amount will be further increased by US\$191,837 to take account of the discount to be granted to Members for prompt payment of their contributions in 2011 (in accordance to Rule 4, paragraph 3, of the Financial Rules and Rules relating to Projects). As in previous years, an amount of US\$1,567 in bank interest earned in 2011 would also be used to square out the net amount to be assessed from Members. Accordingly, the net amount to be assessed from Members towards the Administrative Budget for the Financial Year 2012 is therefore **US\$7,528,000**. The assessed contribution from Members to the Administrative Budget for 2012 is shown in document CFA(XXV)/2/Amend.1; and the Secretariat will be sending invoices to Members for payment of their assessed contributions in accordance with the Financial Rules.

Item 6: Review of Contributions to the Administrative Budgets

17. The Secretariat introduced document CFA(XXVI)/3/Rev.1, dated 14 November 2011. This document detailed the history of Members' contributions to the Administrative Budgets for the financial years from 1986 to 2011, including assessments, receipts, interest charges, and arrearages in contributions. The Secretariat informed the Committee that, as shown in the document, in 2011, \$2,578,509.00 had been received from Producing Members out of the total net assessment of \$3,561,358.00; and \$3,184,975.60 had been received from Consuming Members out of the net assessed amount of \$3,496,870.00. The Secretariat informed the Committee that payments were received from Members on 14 November 2011, from Members namely: (a) amount of \$300,682.77 from Myanmar in payment for its contribution for 2011 in full and for part of its arrearage in contribution for 2010; (b) amount of \$349,904.00 from Suriname in payment for the remaining balance of its contribution for 2011, and all of its arrearages in contributions to previous years, leaving a credit balance in the amount of \$171,319.36 as Suriname's advance payments for future budgets. These contributions had been reflected in the above document. The Secretariat also informed the Committee that a cheque in the amount of \$30,500 was received from Panama in payment for part of its contribution for 2011 although this amount was not reflected in the report.

18. As shown in the document, arrearages in contributions to previous years' budgets from Producing Members amount to \$4,555,751.81; and arrearages from Consuming Members amount to \$142,795.00. Furthermore, the outstanding payment of interest charges levied on late contributions under the ITTA, 1983, amount to \$117,475.94. The document also includes information on the status of arrearages in contribution of six members which affects the eligibility to submit project proposals; as well as the arrearage of a former member (Russian Federation) of \$24,720.00 and interest charge of \$116.72.

19. Contributions received in advance from three members in the total amount of \$401,490.55 was also recorded in the document.

20. In response to the inquiry from the delegate of Malaysia, the Secretariat clarified that discount to the assessed contribution is given against the following year on condition that the contribution to the current year is paid in full before the due date, i.e., 30 April of each calendar year.

21. The delegate of Guyana welcomed the fact that the total amount of contributions received for the current year to-date has improved, compared to the previous years. The Secretariat added that the contributions received to-date for this year amount to approximately 80% of the total assessed contributions, while the average for the past few years had been around 70% at this point of time.

22. While Japan noted the improvement in the amount of contributions received for the current year, it expressed its concern on the considerable amount of arrears and urged members with outstanding balances to settle their contributions as soon as possible. The delegate of Liberia took the floor to inform the Committee that they have taken action to pay their contribution for the current year by the end of the week. The delegate of the European Union also informed the Committee that three members in the EU with outstanding balances, namely, Greece, Portugal and Spain, will be urged to pay their contributions soon.

23. The Committee took note of the report.

Item 7: Current Status of the Administrative Account

24. The Secretariat introduced document CFA(XXVI)/4/Rev.1, dated 14 November 2011, together with estimated expenditures for the current year. The Secretariat advised the Committee that in spite of the weaker strength of the U.S. dollar which would have increased the expenditures in 2011, the estimated expenditures for the current year would amount to \$6,737,838 (i.e. \$321,064 less than the total amount approved in the budget for 2011 of \$7,058,902).

25. The Secretariat further informed the Committee that the total contributions received to-date is \$5,763,484.60, and together with contributions expected to be paid by members before the end of 2011 (of \$624,488.40), it is anticipated that a deficit in the amount of \$349,191 would be incurred in 2011. The Committee noted that a Council Decision is already taken to authorize the Executive Director to utilize funds in the Working Capital Account to cover such shortfall up to the limit of \$500,000. The delegate of Canada sought clarification from the Secretariat on the procedures for utilizing funds from the Working Capital Account, should the actual deficit exceed the aforementioned limit. Accordingly, the Secretariat confirmed that in such case the Council's approval will be required.

26. In light of the comparatively high amount of contributions received this year, the delegation of Indonesia inquired whether the amount of contributions expected to be received before the end of the year was estimated at a higher level than the past few years, and further requested the Secretariat to clarify on what basis this amount was calculated. The representative of the United States of America requested the Secretariat to clarify the composition of members that have been taken into account for this calculation, however, the Secretariat explained that the calculation is based on experience and track records and does not intend to list the names of members which are considered to be likely or unlikely to pay their contributions before the end of the year.

27. The delegate from Germany suggested that the surplus added to or deficit to be covered by the Working Capital Account be reflected in Section D of the summary to show the correct end balance of the Working Capital Account. The Secretariat took note of the suggestion.

28. The Secretariat also informed the Committee that the resources of the Working Capital Account had been slightly increased from the balance of US\$2,640,781.00 at the beginning of 2011 to \$3,149,029.79 as at 14 November 2011.

29. The Committee took note of the report.

Item 8: Resources of the Special Account and the Bali Partnership Fund

30. The Chairperson introduced the document CFA(XXVI)/5, stating that it contained historical financing information on projects, pre-projects and activities of the Organization, and requested the Secretariat to explain further.

31. The Secretariat informed the Committee that the document showed a comprehensive listing of expenditures on, and contributions to, the two sub-accounts of the Special Account, namely Pre-Project and Project Sub-Accounts, and the Bali Partnership Fund (BPF). A list of completed Pre-Projects, Activities and Projects was also included in the document and reported the pro-rated refunds to relevant donors including the funds remaining under "monitoring and evaluation". In accordance with Council Decision 3(XXVIII) of May 2000, agreement of the donors was requested at regular intervals for the transfer of their share of the remaining "monitoring and evaluation" funds, to the "Pooled Sub-Accounts" for ex-post evaluations. The funds transferred to this pooled account to date, amount to US\$3,015,573.41 and regular ex-post evaluations of projects including a meta evaluation in 2011, as approved through the respective Technical Committees, were carried out. Accordingly, the current available balance in this account amounts to US\$611,101.28.

32. The Secretariat informed the Committee that Statement on the Thematic Programme Sub-Account has been included in this document on pages 76 to 87, and that the report on the activities in the various

Thematic Programmes will be directly reported at the Council. The five ITTO thematic programmes that were approved in November 2008, with a total budget of US\$58m had received pledges in the amount of US\$18m or 31%. The Secretariat also highlighted the schedule on the "summary of resources available in the Special Account" on page 104 and added that donor members are expected to utilize their available funds during this Council Session to finance thematic programmes, projects, pre-projects and activities pending financing.

33. With regard to the resources of the Bali Partnership Fund, the Secretariat informed the Committee that as of the end of the last session, forty-five Activities (including Activities for biennial work programmes), five Pre-Projects and five Projects with a total amount of US\$19.33m had been funded from the resources of Sub-Account B of the Bali Partnership Fund. However, the available funds in the Sub-Account B of the Bali Partnership Fund as of 31 December 2011, was estimated to be negligible at US\$72.38. The Panel on Sub-Account B of the Bali Partnership Fund will meet separately and will report directly to the Council.

34. The Secretariat advised that since this document serves as an information and reference document, Members are invited to contact the Secretariat for further information or clarifications on the details either during the course of this Session or by correspondence at a later date.

35. The Committee took note of the document.

Item 9: Auditor's Report for the Financial Year 2010

36. The Secretariat introduced document CFA(XXVI)/6 which was the report of the recently appointed auditor, Ernst & Young Shin Nihon LLC, Tokyo for the calendar year 2010, with the financial statements of the four accounts of the Organization – (a) the Administrative Account, (b) the Special Account, (c) the Bali Partnership Fund Account, and (d) the Executing Agencies Account.

37. Members' attention was drawn to pages 7 and 8 of this document, which provided consolidated financial information on all of the four Accounts of the Organization, showing a comprehensive picture of the overall financial status of the Organization. Of the total revenues of \$26.30 million for 2010 (total revenues for 2009 \$14.94m), \$18.94 million was voluntary contributions that were considerably higher than the amount of \$8.20 million shown in 2009, due to the US\$7.92m contributions received for the various ITTO thematic programmes. The total expenditures were \$21.42 million (2009: \$20.89m), and it included an amount of \$14.4 million (2009: \$14.0m) which was for the ongoing project work of the Organization. Since inception, the fund allocations for project works amount to over \$360 million financing nearly 1,000 activities, projects, pre-projects and the ITTO thematic programmes. The current fund balances managed amount to around US\$43m.

38. The audit works were carried out earlier this year during the months of February to April. The Auditor had confirmed their satisfactory opinion on the financial statements.

39. In response to the clarifications sought by the delegates of Germany and Guyana, the Secretariat confirmed that Ernst & Young Shin Nihon LLC, which is one of the large international audit firms, did conduct the audit in a satisfactory manner, within the given timeframe and fees quoted.

40. The Committee took note of the Auditor's reports and decided to recommend their approval to the Council. The Committee also recommended to the Executive Director for the re-engagement of the same Auditor for the second year for auditing the Accounts of the Organization for the financial year 2011.

Item 10: Biennial Work Programme of the Committee for the Years 2012-2013

41. The Chairperson referred to the report by the Secretariat on the implementation of the Biennial Work Programme for 2010-2011 presented at this Session of Council and the Biennial Work Programme for the Years 2012-2013 of the Committee of Finance and Administration [documents ITTC(XLVII)/7 and ITTC(XLVII)/8, respectively]. He informed that during this Session, the documents were introduced in Council and the Council had instructed for its deliberation in the respective Committees. The Chairperson reminded the Committee of its mandate under the ITTA, 1994, and noted that the technical committees will be responsible for setting priorities in their respective areas, while the CFA would be responsible for

examining the work programme for its implications on the capacity and workload of the Secretariat and to highlight issues that should be raised to Council.

42. The Chairperson informed the Committee that the Contact Group under the Chairperson of the Council and subsequently, the Chairperson's Open-Ended Drafting Group would finalize the proposed Biennial Work Programme for 2012-2013.

43. The Committee took note of the Biennial Work Programme for the Years 2012-2013, including administrative activities, strategic policy activities, and with special attention to the sections related to the Secretariat, and the Administrative and Finance Activities as shown in the Annex to this Report.

Item 11: Election of Chairperson and Vice-Chairperson for 2012

44. The Vice-Chairperson of the Committee for 2011, Dr. Atsushi Suginaka of Japan, was elected Chairperson of the Committee for 2012. Mr. Pearl Jules of Suriname was elected Vice-Chairperson of the Committee for 2012.

Item 12: Dates and Venue of the Twenty- seventh and Twenty-eighth Sessions

45. The Committee agreed that the Twenty-seventh and Twenty-eighth Sessions would be held on the same dates and at the same venues as the Forty-eighth and Forty-ninth Sessions of the Council.

Item 13: Other Business

46. There was no other business discussed by the Committee.

Item 14: Recommendations to the International Tropical Timber Council

47. The Committee decided to make the following recommendations to the Council:

- (1) To approve the Administrative Budget for the Financial Year 2012 as presented in document CFA(XXVI)/2/Amend.1, of the amount of US\$7,337,730. The assessed contributions from Members for 2012 will be US\$7,528,000 to take account of the discount to be given to Members for timely payment of their contributions in 2011 and utilization of part of the bank interest earned in the same year; and
- (2) To adopt the Report of the Independent Public Accountants on the Accounts of the Organization for the Financial Year 2010 as contained in document CFA(XXVI)/6.

Item 15: Report of the Session

48. The Committee adopted this report as amended.

Annex I

**BIENNIAL WORK PROGRAMME FOR THE YEARS 2012 - 2013
COMMITTEE ON FINANCE AND ADMINISTRATION**

ACTIVITY	IMPLEMENTATION APPROACH AND COST IMPLICATIONS
(i) Review the independent audited statements for the 2011 and 2012 financial years, and make recommendation to the Council for their approval. <i>[ITTA, 2006, Article 26(3)]</i>	Routine. Regular Sessions' work.
(ii) Make recommendations to Council on the appointment of auditor for a three-year term for the purpose of auditing the accounts of the Organization for the 2013, 2014 and 2015 financial years. <i>[ITTA, 2006, Article 26(3)]</i>	Routine. Regular Sessions' work.
(iii) Examine and make recommendations to Council, regarding the approval of the Organization's biennial administrative budget proposals for the financial years 2014-2015. <i>[ITTA, 1994, Article 27(6)] [ITTA, 2006, Article 26(3)]</i>	Routine. Regular Sessions' work.
(iv) Review and make recommendations to Council, as necessary, regarding the Organization's administrative budget for the year 2013. <i>[ITTA, 2006, Article 26(3)]</i>	Routine. Regular Sessions' work.
(v) Review the assets of the Organization to ensure prudent asset management and that the Organization has sufficient reserves to carry out its work. <i>[ITTA, 2006, Article 26(3)]</i>	Routine. Regular Sessions' work.
(vi) Examine and make recommendations to Council, on the budgetary implications of the Organization's work programme, and the actions that might be taken to secure the resources needed to implement it. <i>[ITTA, 2006, Article 26(3)]</i>	Routine. Regular Sessions' work.