



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON
FINANCE AND ADMINISTRATION**

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REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

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

REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

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Item 1: Opening of the Session

1. The Chairperson, Dr. Atsushi Suginaka (Japan), welcomed all delegates to the Twenty-seventh Session of the Committee. The Chairperson invited the Executive Director to make a statement to the Committee on his proposal for restructuring of the Secretariat.

2. In his statement, the Executive Director reiterated the importance of the Forty-eighth Session of the Council, since it was the first Session of the Council under the ITTA, 2006 and underlined that the decisions taken at the Session, including at the CFA, would have a long lasting impact on ITTO. He referred to the restructuring of the Secretariat, and the Administrative budget for 2013 and indicated that the Secretariat was already very small and lean out of scope of its objectives and unparalleled to similar organizations dealing with forestry issues. However, the reduced voluntary contributions to the thematic programmes, the biennial programmes and the ordinary project cycle had necessitated the administrative restructuring of the Secretariat.

3. The Executive Director indicated that in the proposed Administrative Structure he had tried to reconcile the quest for efficiency and the necessity to reduce personnel costs and that the work of the Secretariat had been streamlined with the reduction of the number of the Divisions, from four (4) to three (3). He also informed the Committee that the number of project managers had been slightly reduced and noted however, that the strength of the Organization comes from the implementation of projects in member countries on the field, and, therefore, a good management and monitoring system was essential to achieve good results.

4. The Executive Director informed the Committee that in the two technical Divisions that had been proposed; Forest Management and Trade and Industry, there were 134 projects which were on-going. He highlighted the extraordinary high workload of the Secretariat. He indicated that under the proposed new structure the number of General Service staff had been reduced, particularly the number of Secretaries and invited members of the Committee to consider carefully any attempt to further reducing the staffing of the Organization, since that would make it difficult for the Secretariat to produce the quality of work expected and reduce its visibility in the international arena.

5. With regard to the budget, the Executive Director stated that the cost of personnel had been reduced by almost 20%, compared to 2012, although the total Administrative costs had increased by about 5.9% against the 2012 Administrative budget, mainly due to the inclusion of the Core Operational costs. He further indicated that he had proposed to increase the programme support costs from 8% to 12% and from 13% to 15% for ITTO executed projects in order to alleviate the burden on Administrative budget. Another cost saving measure proposed by the Executive Director was the reduction of the number of meetings of the Expert Panel for Project Appraisal from two meetings to one meeting per year.

6. The Executive Director further stated that the Secretariat had presented a very tight budget that would allow the Secretariat to maintain the quality of its services, and at the same time reduce the costs of its operation.

7. The delegate of Germany expressed concern about the ability of ITTO to manage the workload with the reduced staff while the delegate of Switzerland sought clarification on how the decision on the restructuring was taken and how the process has been and will be accompanied. The delegate of Togo wanted to know if the re-structuring was based on a scientific and independent assessment or if it was driven by the Secretariat due to financial constraints. He was of the view that there should be social sustainability. The representative of European Union (EU) raised the issue of the number of staff transferred from the programme support to the administrative budget. The representatives of Congo, Ghana, Guatemala, Papua New Guinea (PNG) and Peru expressed support for the re-structuring proposal.

8. In response to various comments from the Committee, the Executive Director explained that the proposed restructuring would streamline the work of the Secretariat with two Divisions taking care of the technical aspects while the Division of Operations would provide support to the two technical Divisions. He indicated that the Secretariat would still be able to provide the same quality of service as in the past. He informed the Committee that the re-structuring had to be resorted to due to financial constraints. He, however, indicated that in the event of an increase in the workload, he would get back to the Council to seek a revision in the structure.

Item 2: Adoption of Agenda and Organization of Work

9. The Chairperson suggested that the Committee takes up discussions agenda item by item in the order listed in document CFA(XXVII)/1 starting with non-controversial issues.

10. 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 reported directly to the Council. It convened its meeting on Wednesday, 7 November 2012.

Item 3: Admission of Observers

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

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

12. The Chairperson advised the Committee that the Report of the Forty-third and Forty-fourth Meetings of the Expert Panel for Technical Appraisal of Project Proposals (Documents ITTC/EP-43 and ITTC/EP-44) were deliberated and concluded in the Joint session of the Committees convened on 5 November 2012. The Joint session had not requested the CFA for any follow-up.

Item 5: Draft Administrative Budget for the Year 2013

13. The Secretariat introduced document CFA(XXVII)/2, which had been distributed to Members on 9 August 2012, in accordance with Rule 3 of the ITTO's Financial Rules and Rules Relating to Projects, 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 would be based on the exchange rate for the month when it was prepared (July 2012) and would not be revised any further to take into consideration any subsequent change in the exchange rate.

14. Prior to considering the Administrative Budget for 2013, the Committee on Finance and Administration reviewed the structure and staff establishment of the Organization as proposed by the Executive Director.

15. The major changes proposed by the Executive Director in the new Organizational structure included:

- (a) Creation of three Divisions in place of the existing four: (i) Division of Forest Management; (ii) Division of Trade and Industry; and (iii) Division of Operations;
- (b) Reduction in the total number of staff establishment from 44 to 29, including abolishing of two D-1 positions;
- (c) Reducing the number of staff members funded through the Programme Support Fund from fifteen to four and thereby strengthening the resources of the Programme Support Fund by reducing the expenditures from US\$2.6million per annum to US\$1.1 million

Other changes proposed by the Executive Director included:

- i. Reducing the number of meetings of Expert Panel for appraisal of project proposals from two to one each year;
- ii. Raising the Programme Support charge from 8% (or 13% for ITTO executed projects) to 12% (or 15% for ITTO executed projects) to increase the Programme Support revenue from about US\$800,000 to US\$1.1million a year.

16. The Secretariat informed the Committee that the proposed Administrative budget had been prepared for a single year, 2013 as a transitional period of the operation of the Organization under the ITTA, 2006. The ITTA, 2006 entered into force definitively on 7 December 2011 in accordance with the provisions of paragraph (1) of Article 39 of the ITTA, 2006. In accordance with the provisions of the Chairperson's Consensus Paper adopted by the Council during its Forty-seventh Session in La Antigua Guatemala, the Administrative budget for 2012, as approved by the Council [document CFA(XXVI)/7] shall, in accordance with Article 46(2) of the ITTA, 2006 remain in effect unless modified by the Council when it meets under the ITTA, 2006.

17. The Secretariat informed the Committee that the proposed Administrative Budget for 2013 was prepared using the exchange rate in the month of July 2012 of JPY 79.31 to USD.1. The Secretariat stated that the proposed changes to the Organizational structure would reduce the overall budget by US\$ 1 million but would also result in a one-off payment for separation costs of about US\$420,000 to be charged to the Working Capital Account. The Secretariat informed the Committee that the proposed Administrative budget for 2013 was in the amount of US\$7,773,194.00, composed of (US\$7,003,105 for the basic administrative costs and US\$770,089.00 for core operational costs, in accordance with Article 19 of the ITTA, 2006.

18. The Secretariat stated that the Personnel and other costs in the Basic Administrative component of the Administrative budget had been reduced by 5.9% compared to the Administrative budget for 2012. However, the inclusion of Core Operational costs as provided for in the ITTA, 2006 had resulted in an overall increase of 5.9% in the Administrative Budget for 2013 as compared to the Administrative budget for 2012.

19. The Secretariat further informed the Committee that the Personnel and other costs from the Programme Support Fund had been reduced by 56.6% as a result of the Organizational restructuring of the Secretariat. Consequently, the overall cost savings in both the Administrative Budget and the Programme Support for 2013 would be 10.3% as compared to 2012.

20. The representative of the European Union sought clarification on the difference between separation benefits in the Administrative budget and the Separation cost to be charged to the Working Capital Account. The Secretariat explained that the Separation cost in the Administrative Budget had been budgeted to cover the payment of separation benefits including repatriation grant of one senior staff member in the Professional and higher category who would be retiring in 2013 and also in the event that one more senior staff member should separate from service in 2013. However, the Separation cost to be charged to the Working Capital account would be used to cover the separation benefits of staff to be affected by the proposed restructuring of the Secretariat.

21. The delegate of Japan proposed that the Secretariat staff members should make presentation of the reports prepared by the consultants since this would contribute to cost savings. The delegate also requested the Secretariat to provide the list of consultants employed by ITTO since the beginning of the year. The request was supported by the delegate of Germany and the Secretariat complied with the request.

22. The representative of the European Union indicated that the Market Information Service was a core task of the Organization and therefore, should be made part of the staff establishment instead of using consultants. In response the Secretariat indicated that the Market Information Service used to be funded as a project. However, funding through voluntary contributions was no more forthcoming. Experience had also shown that it was cheaper producing the reports with a consultant than a full-time staff in the Secretariat since we do not have to pay the staff benefits and allowances to the consultant. On the issue of the Secretariat presenting the report of consultants, the Secretariat indicated that consultants are only employed in special cases and it would be difficult for the Secretariat to answer all questions relating to any specialized studies conducted by a consultant. However, in certain cases the Secretariat had been able to present the reports of consultants.

23. The Representative of the European Union expressed concern about the high cost for the production and dissemination of the TFU and proposed the use of electronic format and e-mails to reduce the cost. The Secretariat replied that internet based distribution was utilized and hard copy distribution was resorted to only for countries where the internet service is not well developed.

24. In response to a proposal by the delegate of Guatemala for staff to be transferred to the Regional Offices in order to reduce cost, the Secretariat explained that ITTO has regional officers and no regional offices and further indicated that the establishment of regional offices would require additional funding which had not been budgeted for. The Secretariat further explained the functions of the Regional Officers in monitoring of ITTO projects, in addition to providing visibility to the Organization in the Regions. The Secretariat informed the Committee that the travel cost for project monitoring are charged to the Special Account and not to the Administrative account.

25. With regard to the creation of a new post of Special Assistant to the Executive Director under the proposed new Organizational Structure, the delegation of Indonesia, Peru and Guatemala supported the initiative of the Executive Director. The representative of the European Union, however, requested the Secretariat to provide further details in terms of the job description for the post of the Special Assistant. The representative of the European Union further indicated that the responsibilities of the Special Assistant appear to overlap with the mandate of the Executive Director. The delegate of Cameroon suggested that ITTO could follow the model of the International Network for Bamboo and Rattan (INBAR) where the Special Assistant has close links with the host country, China and therefore, is able secure funds from the Government to support INBAR's activities. The Spokesperson of the Consumers Group also stated that fund raising activities required a skill set of its own. In his response to the various comments on the creation of the post of Special Assistant, the Executive Director explained his intention for the creation of this new post and indicated that there was no overlap in the duties of the Special Assistant since the Officer, in addition to coordination of the other Divisions would also be required to assist with fund raising and coordination with the host government and the City of Yokohama as well as with donors and the private sector. The Secretariat provided the Job description for the post of the Special Assistant.

26. The delegation of Japan sought clarification from the Secretariat on the procedure to be adopted in recruiting staff and proposed that recruitment to the posts of the Divisional Heads should be done from outside the Secretariat. She referred to Staff Regulation 3.4 which states inter-alia that "Selection of staff members shall be made without distinction as to race, sex or religion. So far as is practicable, selection shall be made on a competitive basis." She also raised the issue of having three D-1 positions in the revised structure and requested the Secretariat to provide the job description of the D-1 position for Operations. The delegate of Japan also proposed that the staff regulations and rules should be amended, particularly the Rule relating to Staff travel. She proposed abolishing the provision of first class travel by staff members and replacing it with Business class for the professional staff and economy class for the General Service staff. The Secretariat clarified that Staff members do not travel by first class and that although the Staff Regulations make provision for the Executive Director to travel by First class, the Executive Director has never traveled by First Class and only travels on Business class for flights beyond nine hours. All other Staff members also travel under the same condition as the Executive Director. On the procedure for recruiting new staff, the Secretariat explained that under Article 14 paragraph 4 of the ITTA, 2006, the Executive Director appoints staff in accordance with regulations established by the Council and further referred to Staff Regulation 3.2 which states inter alia that "without prejudice to the recruitment of fresh talent at all levels, the fullest regard shall be given, in filling vacancies, to the requisite qualifications and experience of persons already in the service of the Organization".

27. The representative of the European Union sought clarification on unused annual leave and if staff were encouraged to take annual leave, as requested by the Committee at its Twenty-sixth Session. The Secretariat informed that the Executive Director had issued an Inter-Office memorandum directing that staff could accumulate annual leave up to a maximum of 30 days, instead of 60 days as specified in the Staff Regulations and Rules and that all staff members with accumulated annual leave should utilize such accumulated leave by 31 December 2012. The delegate of the European Union further sought clarification on who would be responsible for the Thematic Programmes in the new Organizational structure. The Secretariat explained that the Thematic Programmes would be handled by the Planning, Monitoring and Evaluation Officer in the Division of Operations.

28. Regarding the proposal by the Executive Director to increase the programme support cost from 8%-12% (13%-15% for ITTO executed projects) in order to increase the revenue from \$800,000 to \$1.1 million to cover the personnel cost of the four positions, the representative of the European Union stated that the

increase in program support cost might become counter-productive in the long run. He added that the increase could affect the competitiveness of ITTO and consequently, donors contributions. He stated that the programme support cost should be equal or similar to other agencies and proposed fund raising as a better option. The Executive Director responded that although he shared the opinion expressed by the EU delegate considering the current financial situation of the Organization and in the light of the proposed new Organizational Structure, there was no scope for further staff reduction and the only remaining option would be to increase in the program support cost to cover those expenditures.

29. The Spokesperson for the Consumers Group expressed the need for having legal expertise within the Secretariat to advice on the proceedings of the Council. She was supported by EU, Guatemala, Switzerland and Germany. The delegate of Papua New Guinea was, however, not in favour of having a legal Counsel considering that during the previous two agreements, members were not guided by Legal Counsel. The Secretariat responded that the ITTO has been relying on the UNCTAD Legal Advisor on a gratis basis. However, in the past the Secretariat had covered the travel and DSA expenses of the Legal Advisor whenever he attended meetings of the Council held outside Geneva. The delegate of USA stated that ITTO could consider taking Pro-bono legal services to assist the members of the ITTC in their deliberations.

30. On the proposal by the Executive Director to reduce the number of meetings of the Expert Panel on Technical Appraisal of Project Proposals from two to one, Cameroon, Togo and Guyana, Guatemala, Peru, Japan and Switzerland expressed their support for two meetings in a year instead of the one meeting. The delegates of Indonesia, Peru, U.S.A and Switzerland requested the Secretariat to provide more details of the various costs elements for holding the Expert Panel meetings. The delegate of Japan gave the example of the project evaluations carried out by the Thematic Programme Advisory Committee (TPAC) via email and proposed the replication of that system for the second meeting of the Expert Panel. Further discussions on the issue was referred to a small Working Group composed of equal number of Producers and Consumers. The Secretariat explained that in the case of Thematic Programmes, the Secretariat has been carrying pre-evaluation of the proposals before they are sent to the members of the TPAC which makes it easy for TPAC members to exchange ideas via e-mail. However, with regard to the regular project cycle, the Secretariat only reviews the proposals to ensure their conformity with the ITTO Manual for Project Formulation before forwarding them to members of the Expert Panel.

31. The Chairperson, after noting the deliberations at the meeting, requested the Secretariat to amend the proposed Administrative budget for 2013, taking into consideration the comments by member countries.

32. Consequently, the Secretariat prepared document CFA(XXVII)/2/Amend 1 containing the revised Administrative budget. The Committee noted that the changes to the Organizational structure had reduced the overall budget by US\$ 1 million and expressed satisfaction with the amended Administrative budget for 2013. Accordingly, the Committee approved Administrative Budget for 2013 in the amount US\$7,689,505.00 (US\$7,003,105 for the basic administrative costs and US\$686,400 for core operational costs, representing an increase of US\$351,775.00 (4.6%) compared to the approved budget for 2012 due mainly to the inclusion of "core operational costs as a new component in the budget in accordance with Article 19 of the ITTA, 2006.

33. The Committee noted that Personnel and other costs in the Basic Administrative component of the Administrative budget had been reduced by 5.9% compared to the Administrative budget for 2012. However, the inclusion of Core Operational costs as provided for in the ITTA, 2006 had resulted in an overall increase of 4.6% in the Administrative Budget for 2013 as compared to the Administrative budget for 2012.

34. The Committee further noted that the Personnel and other costs from the Programme Support Fund had been reduced by 56.6% as a result of the Organizational restructuring of the Secretariat. Consequently, the overall cost savings in both the Administrative Budget and the Programme Support for 2013 is 10.3% as compared to 2012.

35. The Committee decided to recommend to the Council to approve the Administrative Budget for 2013 in the amount of US\$ US\$7,689,505.00. However, taking into account discount granted for timely payment of contributions in 2012 the Net assessed contributions to Members for 2013 would be in the amount of US\$7,688,761.00.

36. The Committee also decided to recommend to the Council to approve the new Organizational Structure as contained in Annex II.

37. Following extensive discussions the Committee further decided to recommend to the Council to approve an increase in the Programme support cost from 8% to 12% and for ITTO executed projects from 13% to 15%.

38. The representative of the European Union stated that although the European Union could accept the increase in the Programme support cost as a necessary measure to balance the accounts in 2013, in future an increase in the Programme support cost, should be based on long term planning and on multi-annual assessments.

Item 6: Review of Contributions to the Administrative Budgets

39. The Secretariat introduced document CFA(XXVII)/3, dated 6 November 2012. This document detailed the history of Members' contributions to the Administrative Budgets for the financial years from 1986 to 2012, including assessments, receipts, interest charges, and arrearages in contributions. The Secretariat informed the Committee that, as shown in the document, in 2012, \$2,392,991.00 had been received from Producer Members out of the total net assessment of \$2,559,520.00; and \$3,597,854.00 had been received from Consuming Members out of the net assessed amount of \$3,651,080.00. The Secretariat informed the Committee that payments were received from the Republic of Congo of the amount of US\$189,501.72 representing payment for its contribution to the Administrative Budget as follows:

- (a) An amount of US\$105,392.00 for full payment of its contribution for the financial year 2012;
- (b) An amount of US\$81,931.31 for full payment of its arrears in contribution for the financial year 2011; and
- (c) An amount of US\$2,178.41 for part payment of its arrears in contribution for the financial year 2010 which was assessed for US\$82,030.00 and therefore, leaving a balance of US\$79,851.59 for 2010.

40. As shown in the document, arrearages in contributions to previous years' budgets from Producing Members amount to \$3,357,358.13 and arrearages from Consuming Members amount to US\$115,603.40. The document also includes information on the status of arrearages in contribution of two members which affects their eligibility to submit project proposals; as well as the arrearages of former members under the ITTA, 1983 and ITTA, 1994 in the amount of US\$2,414,919.28.

41. The issue of membership of the Council and assessed contributions was raised by many delegations since countries that had signed the ITTA, 2006 but had not completed their ratification process had been erroneously classified as members with assessed contributions. There was also the case of countries that had not taken any action towards the ratification of the ITTA, 2006 but had paid their contributions in 2012 and therefore legally not considered as members. The ITTO Secretariat amended the document to reflect these changes (Document CFA(XXVII)/3/Amend 2).

42. On the issue of arrearages, many delegations expressed concern about the huge amount of arrearages owed to the Organization by Producer countries and urged countries in arrears to take the necessary actions to settle these arrears. The Committee further requested the Secretariat to contact these countries and to inform the Committee at its next Session in 2013.

Item 7: Current Status of the Administrative Account

43. The Secretariat introduced document CFA(XXVII)/4, dated 6 November 2012, 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 2012, the estimated expenditures for the current year would amount to \$6,749,853.00 (i.e. \$ 587,877.00 less than the total amount approved in the budget for 2012 of \$7,337,730.00).

44. The Secretariat further informed the Committee that the total contributions received to-date is \$5,990,845.00 and together with contributions expected to be paid by members before the end of 2012 (of \$310,218.00), it is anticipated that a deficit in the amount of \$447,223.00 would be incurred in 2012. The Committee noted that the Council had already taken a Decision to authorize the Executive Director to utilize funds in the Working Capital Account to cover such shortfall up to the limit of \$500,000.

45. The Secretariat also informed the Committee that the resources of the Working Capital Account had been slightly increased from the balance of US\$2,796,103.00 at the beginning of 2011 to \$3,285,361.25 as at 1 November 2012. However, taking into account the estimated deficit of US\$447,223 to be drawn from the Working Capital Account, the expected balance of the Working Capital Account by 31 December 2012 would be US\$2,838,138.25

46. The Committee took note of the report as amended (Document CFA(XXVII)/4/Amend.1).

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

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

48. 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 is also included in the document as well as 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\$3,392,502.09 and regular ex-post evaluations of projects as approved through the respective Technical Committees, were carried out. Accordingly, the current available balance in this account amounts to US\$ 646,466.72.

49. The Secretariat informed the Committee that Statement on the Thematic Programme Sub-Account has been included in this document on pages 78 to 88, 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 108 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.

50. 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\$20,604,402.00 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 6 November 2012, was zero.

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

52. The Committee took note of the document.

Item 9: Auditor's Report for the Financial Year 2011

53. The Secretariat introduced document CFA(XXVII)/6 which was the report of the Independent Auditors, Ernst & Young Shin Nihon LLC, Tokyo for the calendar year 2011, 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.

54. Members' attention were 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 \$26.8 million for 2011, \$19.9 was voluntary contributions that were slightly higher than the amount of \$18.9 million in 2010. Out of the total expenditures of \$20.0 million, \$12.9 million was for the ongoing project works of the Organization. The current average funds managed by the Organization amounts to around \$50 million.

55. The audit works were carried out earlier this year during the months of March to May. The Auditors confirmed their satisfactory opinion on the financial statements of the Organization.

56. The Committee took note of the Auditor's report 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 third year for auditing the Accounts of the Organization for the financial year 2012.

Item 10: Biennial Work Programme of the Committee for the Years 2013-2014

57. The Chairperson referred to the report by the Secretariat on the progress in implementation of the Biennial Work Programme for 2012-2013 presented at this Session of Council and the Biennial Work Programme for the Years 2013-2014 of the Committee on Finance and Administration [Documents ITTC(XLVIII)/7 and ITTC(XLVIII)/8 Rev.1, 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, 2006, 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.

58. The Chairperson informed the Committee that the Government of Japan had introduced a new activity in Biennial Work Programme to promote resource mobilization. The delegate of Japan stated that Japan would support ITTO in developing a broader partnership with the private sector and others and indicated that non-traditional donors should be tapped in order to broaden the financial resource base of the Organization. The delegate indicated that ITTO should leverage its strength as the center of excellence. He was supported by the European Union and the United States of America.

59. 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 2013-2014.

60. The Committee took note of the Biennial Work Programme for the Years 2013-2014, and with special attention to the sections related to the Administrative and Finance Activities as shown in the Annex I.

Item 11: Election of Chairperson and Vice-Chairperson for 2013

61. The Vice-Chairperson of the Committee for 2012, Mr. Mario Rafael Rodriguez Palma (Guatemala) was elected Chairperson of the Committee for 2013 and Ms. Ellen Shaw (United States of America) was elected Vice-Chairperson.

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

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

Item 13: Other Business

63. Under other business, the Committee discussed the Functions of the Committee under ITTA, 2006 and decided to recommend to the Council to approve the functions of the Committee as contained in Annex III.

64. The delegate of Japan expressed concern about the huge financial burden on Producer member countries in 2013, as a result of the reduced membership of Producer countries under the ITTA, 2006. Many delegations expressed similar concerns. The Committee subsequently decided to propose the following measures for the consideration of the Council:

- a) The assessed initial contributions of countries joining ITTA, 2006 after the Forty-eighth Session of the Council or in 2013 (hereafter "late joining members") shall be deposited in the Working Capital Account (WCA) and applied to the 2014 budget as described below:
- b) The basic Administrative costs of the budget should be reduced for the budget year 2014 as follows:
 - The amount of the initial contributions of late joining producer members shall be disbursed from the WCA and applied to reduce the share of the basic administrative costs to be paid by producer countries that are members at the time of the 48th Council Session; and
 - The amount of the initial contributions of late joining Consumer members shall be disbursed from the WCA and applied to reduce the share of the basic administrative costs to be paid by Consumer countries that are members at the time of the 48th Council Session.

Item 14: Recommendations to the International Tropical Timber Council

65. The Committee decided to make the following recommendations to the Council to:
- (1) Approve the Organizational Structure and Staff establishment as shown in Annex II;
 - (2) Approve the Administrative Budget for the Financial Year 2013 as presented in document CFA(XXVII)/2/Amend.1, of the amount of US\$7,689,505.00. The assessed contributions from Members for 2013 will be US\$7,688,761.00 to take account of the discount to be given to Members for timely payment of their contributions in 2012 and utilization of part of the bank interest earned in the same year;
 - (3) Approve an increase in the Programme Support charge from 8% (or 13% for ITTO executed projects) to 12% (or 15% for ITTO executed projects);
 - (4) To adopt the Report of the Independent Public Accountants on the Accounts of the Organization for the Financial Year 2011 as contained in document CFA(XXVII)/6;
 - (5) Authorize the Executive Director to utilize funds not exceeding US\$500,000. from the Working Capital Account to cover separation costs of staff as a result of the restructuring and to report to the Committee at its next Session in 2013;
 - (6) Consider an activity in the Biennial Work Programme for the development of strategies for the mobilization of new and additional financial resources; and
 - (7) Urge members in arrears to make timely payments and to consider the issue during the next Council Session in 2013.

Item 15: Report of the Session

66. The Committee adopted this report as amended.

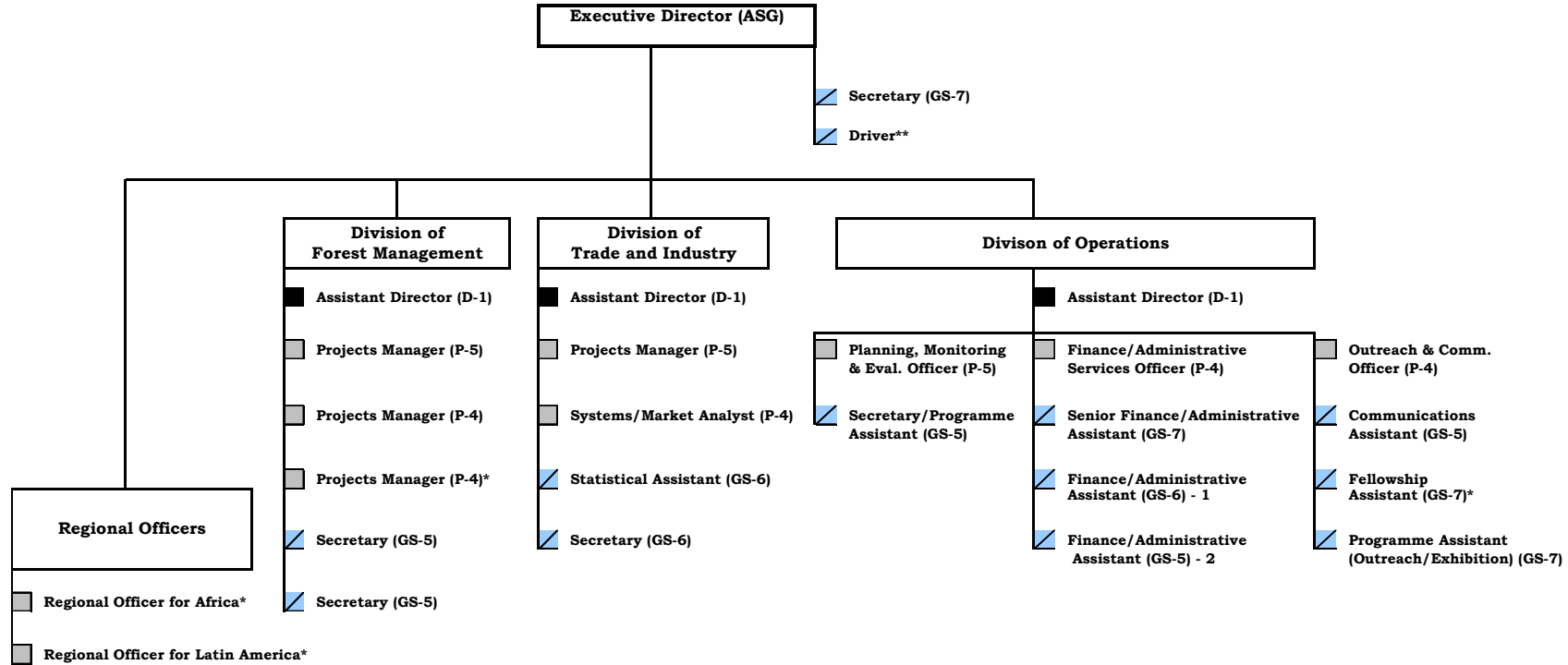
Annex I

BIENNIAL WORK PROGRAMME FOR THE YEARS 2013 - 2014
COMMITTEE ON FINANCE AND ADMINISTRATION

| Activity | Implementation Approach and Cost | Activity Targets | Responsible Body |
|---|----------------------------------|---|------------------|
| 1. Review the independent audited statements for the 2012 and 2013 financial years, and make recommendation to the Council for their approval. <i>[ITTA, 2006, Article 26(3)]</i> | Routine. Regular Sessions' work. | <ul style="list-style-type: none"> • Reports of independent auditors published in ITTO Annual Reports in 2012 and 2013 | CFA |
| 2. 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. | <ul style="list-style-type: none"> • Twenty-eighth CFA Report presented at the Forty-ninth Session of the Council in 2013 | CFA |
| 3. Examine and make recommendations to Council, regarding the approval of the Organization's administrative budget proposals for the financial years 2014 and 2015. <i>[ITTA, 2006, Article 26(3)]</i> | Routine. Regular Sessions' work. | <ul style="list-style-type: none"> • Twenty-eighth CFA Report presented at the Forty-ninth Session of the Council in 2013 | CFA |
| 4. 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. | <ul style="list-style-type: none"> • Report of the independent auditors for the financial years 2012 and 2013 presented at the Forty-ninth Session and Fiftieth Sessions of the Council in 2013 and 2014 | CFA |
| 5. 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. | <ul style="list-style-type: none"> • Decision on the ITTO Biennial Work Programme 2013-2014 presented at the Forty-eighth Session of the Council in 2012 | CFA |

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|--|---|---|------------|
| <p>6. Promote Resource Mobilization and Partnership of ITTO <i>[ITTA, 2006, Article 1(g), (j)]</i></p> | <p>This 24-month activity will be divided into a first year of preparing and launching a funds mobilization and partnership strategy and a second year of active implementation. Specific activities will be refined in the first quarter of year one, but are expected to include, in the first year:</p> <ul style="list-style-type: none"> • Formation of an informal, open-ended ad hoc advisory group including producer and consumer members and stakeholders to advise the Executive Director in developing and launching the strategy • Drafting of a proposal of fund mobilization and partnership strategy/action plan by the Secretariat • Convening of one or more meetings of members, partners and resource persons • Further consultation and refinement of the strategy • Submit a draft strategy and progress report to the Forty-ninth Session of the Council <p>Year Two activities will be defined in detail during Year One, and will be provided in a report to the Council at its Forty-ninth Session.</p> <p>Expected funding sources: Voluntary Contributions Year 2013—US\$50,000 Year 2014—US\$50,000</p> | <ul style="list-style-type: none"> • Report of work in 2013 and plan for 2014 presented to the Forty-ninth Session of the Council in 2013. | <p>CFA</p> |
|--|---|---|------------|

ANNEX II APPROVED ORGANIZATIONAL STRUCTURE



| | | |
|-------------------------------------|-----------------------------|-----------|
| <input type="checkbox"/> | Assistant Secretary General | 1 |
| <input checked="" type="checkbox"/> | Assistant Director | 3 |
| <input type="checkbox"/> | Professional | 10 |
| <input checked="" type="checkbox"/> | General Service | 15 |
| TOTAL: | | 29 |

Staff seconded to the Organization from the City of Yokohama
(available to assist the two Divisions)

Secretary**
 Secretary**

* Financed from Programme Support Fund
 ** Financed by City of Yokohama

ANNEX III

FUNCTIONS OF THE COMMITTEE ON FINANCE AND ADMINISTRATION

1. Examine and make recommendations to the Council regarding approval of the Organization's administrative budget and the management operations of the Organization.
2. Review the assets of the Organization to ensure prudent asset management and to ensure that the Organization has sufficient reserves to carry out its work.
3. Examine and make recommendations to the Council on the budgetary implications of the Organization's biennial work programme and on actions that might be taken to secure the resources needed to implement the objectives of the ITTA.
4. Recommend to the Council the choice of independent auditors and review the independent audited statements.
5. Recommend to the Council any modifications the Committee may judge necessary to the Organization's Rules of Procedure or the Financial Rules.
6. Review the Organization's revenues and the extent to which they constrain the work of the Secretariat.