



**INTERNATIONAL TROPICAL  
TIMBER COUNCIL**

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ITTC(LII)/2  
6 November 2016

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FIFTY-SECOND SESSION  
7-12 November 2016  
Yokohama, Japan

**REPORT OF THE INFORMAL ADVISORY GROUP (IAG)**

**AT ITS THIRTIETH MEETING**

**6 November 2016  
Yokohama, Japan**



**Thirtieth Meeting of the Informal Advisory Group (IAG)  
Yokohama, Japan, 6 November 2016**

**Report of the Chairperson**

1. The Thirtieth Meeting of the IAG was convened on Sunday, 6 November 2016, chaired by Ms. Jennifer Conje (U.S.A.), Chairperson of the Council. The meeting was attended by Mr. Tabi Agyarko (Ghana), Vice-chairperson of the Council, Ms. Alicia Grimes (U.S.A.), Chairperson of the Committee on Economics, Statistics and Markets (CEM), Ms. Akiko Nakano (Japan), Chairperson of the Committee on Forest Industry (CFI), Mr. Rob Busink (Netherlands), Chairperson of the Committee on Finance and Administration (CFA), Dr. Mohammed Nurudeen Iddrisu (Ghana), Chairperson of the Committee on Reforestation and Forest Management (CRF), Ms. Anna Tyler (New Zealand), Consumer Spokesperson, Mr. Hiroyuki Nishiura (Japan), Representative of the Host Government of the Headquarters, and Dr. Steven E. Johnson, the Officer-in-Charge (OIC), together with other senior members of the Secretariat. The OIC reported that the Producer Spokesperson indicated that he was not able to attend the Council Session and the IAG urged the Producer Caucus to nominate an alternate spokesperson for this Session as soon as possible.
  2. The IAG considered and adopted the following agenda for discussion:
    - A. Brief background of the IAG:
      - Decision 2(LI);
      - Report of the IAG at its Twenty-ninth Meeting, 15 November 2015;
      - General observations by the IAG Members;
    - B. Matters Related to Article 14 of the ITTA, 2006
    - C. Opening of the Fifty-second Session of the Council
    - D. Status of the parties to the International Tropical Timber Agreement, 2006
    - E. Impairment of ITTO Funds
    - F. Extension of the Biennial Work Programme 2015-2016
    - G. Expert Panel (EP) for the Technical Appraisal of Project Proposals
    - H. Fellowship Programme
    - I. Filling Positions of Council Officers/Bodies
    - J. Consideration of draft decisions/elements of decisions submitted pursuant to ITTC Decision 7(XXXIII)
      - Projects, Pre-Projects and Activities [Decision 1(LII)];
      - Matters related to Article 14 of the ITTA, 2006 -- *submitted by the Secretariat*;
      - Extension of the ITTO Biennial Work Programme 2015-2016 -- *submitted by the Secretariat*;
      - Revised ITTO Financial Rules, Audit Standards -- *submitted by the Secretariat*;
      - Revised Staff Regulations and Staff Rules of ITTO -- *submitted by the Secretariat*;
      - Dealing with Projects and Activities Impacted by the Impairment in ITTO Funds -- *submitted by the Secretariat*;
      - Further Legal Action Against the Investment Advisor(s) and Against Former Staff Members -- *no draft decision submitted*;
    - K. List of possible decisions for the Fifty-second Session of the ITTC and report to the Council; and
    - L. Other matters
      - Reallocation of US\$1 million from the Working Capital Reserve to the Special Reserve;
- A. Brief background of the IAG**
3. In its deliberations, the IAG noted and made reference to Decision 2 (LI) and the Report of the Informal Advisory Group (IAG) at its Twenty-ninth Meeting held on 15 November 2015 in Kuala Lumpur, Malaysia as contained in document ITTC(LI)/2 dated 15 November 2015.

**B. Matters Related to Article 14 of the ITTA, 2006**

4. The Chairperson informed that six candidates were shortlisted for the position of ITTO Executive Director, including Ms. Stephanie Caswell (U.S.A.), Mr. Putera Parthama (Indonesia), Mr. Gerhard Dieterle (Germany), Ms. Sheamala Satkuru (Malaysia), Mr. Torgny Soderman (Sweden) and Mr. Ivan Tomaselli (Brazil). All candidates have been invited to attend the Fifty-second Session of the ITTC. The IAG noted the importance of reaching agreement on this issue at this Session of the Council. The IAG was briefed by the OIC on the selection panel process. The IAG recommended that all candidates address Council on the first day of the ITTC for an equal time allocation, to enable equity in the process. The order of speakers should alternate between consumer and producer countries in alphabetical order. The IAG recommended that each caucus develop two questions which are to be posed to all candidates. The OIC advised that candidates will be available until the fourth day of the ITTC period. If requested by the respective caucuses and to allow flexibility for further questions to be asked, the IAG recommended the possibility of the candidates meeting with each caucus after the list of candidates had been further reduced.
5. The IAG was briefed on the status of contributions to the administrative budget for 2016 and Member Countries that are eligible to vote. The IAG was also briefed on the Credentials of delegates, including countries that have delegated their votes, and the voting procedure to be adopted in case of voting, which will follow the procedure applied in Kuala Lumpur at the Fifty-first Session of the ITTC. Provisions have been made in the schedule for the caucuses to meet as early as possible in order to nominate members for the Credentials Committee. The Chairperson urged the members of the IAG to convey to their respective caucuses the importance of their members submitting their credentials to the credentials committee as soon as possible.

**C. Opening of the Fifty-second Session of the Council**

6. The OIC introduced the proposed agenda for the opening session of the Fifty-second Session of the ITTC. The OIC informed the IAG that the registration of observers was done in accordance with Decision 3(LI). The OIC further informed that the deadline for observer registration was 10 October 2016 and that in accordance with the decision, the list of registered observers was posted 2 weeks before Council.

**D. Status of the Parties to the International Tropical Timber Agreement, 2006**

7. The IAG was informed on the current status of the parties to the IAG. The OIC reported that Madagascar has become a member of ITTO. There are now 73 parties to the Agreement comprising 38 consumer members including the EU and 35 producer member countries. The IAG welcomed the new member of the Organization.

**E. Impairment of ITTO Funds**

8. The IAG was briefed on the impairment of ITTO funds and work done intercessionally, including issues of legal matters, revision of staff rules and regulations, and how to utilize the remaining ITTO funds to continue projects and operations. The IAG noted all the sub-items listed under this agenda item will be introduced in Council, but two of the sub-items will be discussed in-depth within the CFA. The IAG noted that a separate, informal Working Group may need to be set up if the work in the CFA proved to be time constrained. In addition, the Secretariat brought to the IAG's attention the proposed changes recommended by the Expert Panel established under Decision 1(LI.1) on the Terms of Reference of the IAG. The IAG recommended that, given the workload of this current session, consideration of the changes to the Terms of Reference for the IAG be postponed to the Fifty-third Session of the ITTC.

**F. Extension of the Biennial Work Programme 2015-2016**

9. Given the various challenges facing the Organization due to the impairment of funds, the IAG recommended that the BWP 2015-2016 be extended for one year and that a new BWP 2018-2019 be presented for consideration of the Council at the Fifty-third Session of the ITTC in 2017, after a brief introduction.

#### **G. Expert Panel (EP) for the Technical Appraisal of Project Proposals**

10. The IAG was briefed on the suspension of the 52nd EP due to the impairment of ITTO funds and the insufficient level of payments of 2016 assessed contributions to the administrative budget. Given the current financial impairment of the Organization, the IAG recommended as a temporary measure under extraordinary circumstances, that the EP be convened for one meeting in mid-2017. Recognising the importance of projects, it was noted that this should not be regarded as a normal situation and that Members should be encouraged to continue to contribute to funding of projects especially in light of the revised ITTO regulations and policies being put in place.

#### **H. Fellowship Programme**

11. The IAG was briefed on the suspension of awards under the Fellowship Programme in 2016 due to the impairments of ITTO funds. The IAG recommends that the Fellowship Selection Panel meets at the Fifty-second Session of the ITTC if sufficient funds are made available.

#### **I. Filling Positions of Council Officers/Bodies**

12. The IAG was informed on the vacant positions of Council Officers/bodies for the Fifty-second Session of the ITTC and the need for new nominations for the Fifty-third Session of the ITTC. The IAG noted the increased responsibility required for these positions under the proposed revisions to financial and staff rules and the need to consider suitably qualified officers for these positions.

#### **J. Consideration of Draft Decisions/Elements of Decisions Submitted Pursuant to ITTC Decision 7(XXXIII)**

13. The IAG considered the draft decisions/elements of decisions submitted pursuant to ITTC Decision 7(XXXIII) as follows:
- i. Projects, Pre-Projects and Activities [Decision 1(LII)];
  - ii. Matters related to Article 14 of the ITTA, 2006 -- *submitted by the Secretariat*;
  - iii. Extension of the Biennial Work Programme 2015-2016 for one year -- *submitted by the Secretariat*;
  - iv. Revised ITTO Financial Rules, Audit Standards -- *submitted by the Expert Panel established under Decision 1(LI.1)*;
  - v. Revised Staff Regulations and Staff Rules of ITTO -- *submitted by the Expert Panel established under Decision 1(LI.1)*;
  - vi. Dealing with Projects and Activities Impacted by the Impairment in ITTO Funds -- *submitted by the Expert Panel established under Decision 2(LI.1)*;
  - vii. Further Legal Action Against the Investment Advisor(s) and Against Former Staff Members – *no draft decision submitted*;

The IAG noted that a draft for item vii would be drafted, as needed, based upon discussion at Council.

#### **K. List of Possible Decisions for the Fifty-second Session of the ITTC and Report to the Council**

14. The IAG considered the possible list of decisions to be considered and adopted by the Council at its Fifty-second Session as follows:
- i. Projects, Pre-Projects and Activities [Decision 1(LII)];
  - ii. Matters related to Article 14 of the ITTA, 2006 -- *submitted by the Secretariat*;
  - iii. Extension of the Biennial Work Programme 2015-2016 for one year -- *submitted by the Secretariat*;
  - iv. Revised ITTO Financial Rules, Audit Standards -- *submitted by the Expert Panel established under Decision 1(LI.1)*;
  - v. Revised Staff Regulations and Staff Rules of ITTO -- *submitted by the Expert Panel established under Decision 1(LI.1)*;
  - vi. Dealing with Projects and Activities Impacted by the Impairment in ITTO Funds -- *submitted by the Expert Panel established under Decision 2(LI.1)*;

The IAG noted that a draft for item vii under agenda item J would be drafted, as needed, based upon discussion at Council.

These draft decisions (except for the first) are included in Annex A to this report.

**L. Other Matters**

15. The IAG was advised by the OIC that there were insufficient funds in the Special Reserve and that it would require a transfer of US\$ 1 million from the Working Capital Account to the Special Reserve Fund in order to reflect the updated estimate of costs necessary in case of liquidation of the Organization. Based on past procedures which required a recommendation in the CFA report, there may be no requirement for a Council decision.

**M. Adjournment**

16. The Thirtieth meeting of the IAG was adjourned with a vote of thanks to the Chairperson of the meeting.

## **ANNEX A**

### **Draft Decisions**

**Only text of draft Decisions is appended to this Report.**



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### DECISION ....(LII)

#### APPOINTMENT OF THE EXECUTIVE DIRECTOR

The International Tropical Timber Council,

Recalling its Decision 5(XLII) of 12 May 2007 which appointed Mr. Emmanuel Ze Meka to the post of Executive Director of ITTO for a period of four years beginning on 6 November 2007,

Recalling also its Decision 2(XLVI) of 18 December 2010 which renewed the mandate of Mr. Emmanuel Ze Meka with effect from 6 November 2011 to 5 November 2015, as the second term of his appointment;

Acting pursuant to Article 14, paragraphs 1 and 2 of the International Tropical Timber Agreement (ITTA), 2006;

Further recalling Decision 5(LI) on matters related to Article 14 of the ITTA, 2006, and in particular the Annex to Decision 5(LI) on the Vacancy for the Position of the Executive Director of ITTO;

Also further recalling the Report of the Panel on Matters Related to Article 14 of the ITTA, 2006, [ITTC(LII)/6];

Underscoring the strategic role of the Executive Director as the Head of the Organization;

Noting the applications for the position of Executive Director of ITTO;

Decides to appoint [by consensus] .....*name*..... as Executive Director of the International Tropical Timber Organization for a period of four years, beginning on .....*date*..... in accordance with the terms and conditions contained in the letter of appointment approved by the Council.

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### DECISION .... (LII)

#### EXTENSION OF THE ITTO BIENNIAL WORK PROGRAMME 2015-2016

The International Tropical Timber Council,

Appreciating the work of the Secretariat in implementing the Biennial Work Programme for the years 2015-2016;

Taking note of ITTO's financial impairments, leading to the suspension of a significant number of activities under the BWP 2015-2016;

Also taking note of the recommendation of the Informal Advisory Group to extend the BWP 2015-2016;

Decides to:

1. Extend the Biennial Work Programme for 2015-2016 as contained in the Annex to this Decision for a period of one year;
2. Authorize the Executive Director to seek additional voluntary contributions from Member Countries and other funding sources to finance the continued implementation of the activities listed in the Annex;
3. Request the Executive Director to report to Council on the progress in implementing the Biennial Work Programme during the Fifty-third session of the Council.

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### DRAFT DECISION ...(LII)

#### REVISION OF ITTO FINANCIAL RULES AND PROCEDURES

The International Tropical Timber Council,

Recalling the provisions of the International Tropical Timber Agreement, 2006 regarding the Administrative Account, Special Account, and Bali Partnership Fund as provided for by Articles 19, 20 and 21;

Also recalling Decisions 6(XXIII), 8(XXIX), 3(XLIII), and 6(XLVIII) revising ITTO's Rules of Procedure and Financial Rules and Rules Relating to Projects;

Further recalling Resolution 1(VIII), Decision 7(XII) and Decision 3(XXXV) establishing the Special Reserve Fund, the Working Capital Account and the Executing Agencies Account, respectively;

Particularly recalling Decision 1(LI.1)) which reflected the urgent need to further revise ITTO's Financial Rules and Procedures to ensure relevant lessons from ITTO's loss of investments are taken into account and that ITTO's financial management and governance is improved and strengthened;

Welcoming the work of the Expert Panel established under Decision 1(LI.1) in making proposals for amending relevant ITTO Financial Rules and Procedures;

Further welcoming the additional work on this matter carried out by the Committee on Finance and Administration as reflected in the relevant recommendations contained in its report to this session;

#### Decides to:

1. Adopt the revised Financial Rules and Rules Relating to Projects of the ITTO and the associated policies and manuals, namely;
  - the Investment Policy;
  - the Charter for the Investment Oversight Panel;
  - the Auditing Standard;
  - the Audit and Financial Statements Reporting Cycle Procedural Manual;
  - the Financial Delegations Procurement and Disbursements Manual; as well as
  - the Procurement and Tender Manual

as contained in Annex 1 to this Decision.

2. Approve the establishment of the Investment Oversight Panel as soon as practical.

3. Approve the implementation of the revised Financial Rules and Rules Relating to Projects of the ITTO and the associated policies and manuals with effect from 1 January 2017 or as soon as practical thereafter.
4. Authorize the Executive Director to utilize an amount not exceeding US\$200,000 from the Working Capital Reserve to meet the expenses related to the adoption of the International Public Sector Accounting Standards (IPSAS) and to increase the scope of the 2016 audit in accordance with the ITTO Audit Standards.

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### DRAFT DECISION ...(LII)

#### AMENDMENTS TO THE STAFF REGULATIONS AND RULES OF THE INTERNATIONAL TROPICAL TIMBER ORGANIZATION (ITTO)

The International Tropical Timber Council,

Recognizing the provisions under Rule 901 of the Staff Regulations and Rules of the International Tropical Timber Organization (ITTO) which provide for the “Amendments of, and Exceptions to, the Staff Rules”;

Recalling that the Staff Regulations and Rules of the International Tropical Timber Organization (ITTO) were approved by the Council for implementation on 17 November 1988 and amended through ITTC Decision 3(XLIV);

Also recalling Decision 1(LI.1) on Revision of ITTO Financial Rules and Procedures, Audit Standards, and Relevant Staff Regulations and Rules;

Noting the ongoing process through the CFA to revise the Staff Regulations and Rules of the ITTO, (which are based on those of the United Nations), to synchronize with the changes in the staff regulations and staff rules of the United Nations which are undergoing major revision;

Further noting the urgent need to revise relevant Staff Regulations and Rules to ensure relevant lessons from ITTO’s loss of investments are taken into account;

Recalling the recommendation of the CFA as endorsed by the ITTC at its 49<sup>th</sup> Session approving the ITTO Whistleblower Policy;

Appreciating the work of the Expert Panel established under Decision 1(LI.1) in making proposals for amending relevant ITTO Staff Regulations and Rules;

Welcoming the additional work carried out by the Committee on Finance and Administration on this matter as reflected in the relevant recommendations contained in its report to this session;

Decides to:

1. Approve the amendments to the Staff Regulations and Rules of the ITTO, as contained in the annex to this Decision;
2. Approve the implementation of the revised Staff Regulations and Rules of the ITTO with effect from 1 December 2016; and
3. Resume consideration of the ITTO Staff Regulations and Rules at its Fifty-third Session to take account of the outcome of related work in the United Nations.

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### DECISION ...(LII)

#### GUIDELINES FOR ADDRESSING ITTO FINANCIAL SHORTFALL

The International Tropical Timber Council,

Welcoming the ongoing work of the Oversight Committee pursuant to decisions 4(LI) and 2(LI.1) in providing advice to the Chair, Secretariat, and IAG to address financial losses, including issuance of this decision;

Recalling the loss of \$18.2 million USD in ITTO funding due to the failure of investments as described in the Oversight Committee Report and Addendum delivered pursuant to decision 4(LI);

Noting that as a result of the financial losses the ITTO Special Account and the Bali Partnership Fund no longer contain sufficient funds to fulfill outstanding ITTO commitments to on-going technical projects and activities of the organization (\$14.2M), and donor refunds due from completed projects (\$3.8M);

Acknowledging the need for a fair and transparent process to allocate limited resources to outstanding commitments;

Recognizing that the financial losses have impacts on all of the ITTO membership and that any solution needs to provide sufficient flexibility to enable the Executive Director and the ITTO Secretariat to effectively address the financial shortfall;

Further recognizing that the recent audit of ITTO accounts and associated work by the Secretariat allowed the closure of several past projects and identification of extra reserves in other accounts, providing the possibility of drawing upon the reserves in other ITTO accounts as described in the report of the extended Oversight Committee under the provisions of Decision 2(LI.1);

Welcoming the efforts that the Secretariat has already undertaken to minimize administrative and project costs, and the need for its continuous efforts to achieve even further savings through efficiencies in project management and administration as far as possible;

Acknowledging that even with all reserves from other accounts that may be applied to the funding gap, ITTO will still have a shortfall in meeting outstanding commitments and that cost saving measures, closure of some projects, and prioritization of activities will need to occur;

Seeking partnership, solidarity and understanding from both producer and consumer members in the face of likely budget limitations and the need to write off relevant approved project expenses as per the terms of this Decision;

Reiterating the desire to immediately resume the operation of all projects/activities without significant impacts on their expected results/outputs;

Decides to:

1. Request the Executive Director to apply the following guidelines to projects and activities pledged before ITTC51, in a fair and transparent manner, in addressing the financial shortfall:
  - Minimize administrative and project costs as far as possible to achieve further savings through efficiencies in project management and administration;
  - Ensure that project expenses already legitimately incurred by implementing agencies and/or treated as liabilities in ITTO's accounts, including ITTO's contractual obligations to donors, are met as expeditiously as possible;
  - Consult with donors;
  - Consult with executing agencies, country contact points, project managers and regional officers on the recommencement of impacted projects/activities, making all savings possible in the budgets of these projects;
  - Take into account the desirability of balancing impacts between geographic regions and diversity of project activities
  - Consider recommending projects for termination that have not started for at least two years following funding, provided that the donor(s) to the projects thus terminated must approve of any use of funds thus derived from termination; and
  - Close, scale back, or postpone selected activities of the Biennial Work Programme 2015-2016, except activities for which contracts have been signed governing their implementation, which do not have sufficient funds for their completion, or which are not considered to be a priority for 2017 under the extension of the 2015-2016 BWP [adopted in Decision XX (LII)] and provided the donor(s) to the activities must approve of any use of funds thus derived;
2. Request donors with unallocated funds in ITTO's accounts to use these funds in so far as possible to help to address the funding shortfall;
3. Urge all members to consider contributing additional resources to address the financial shortfall, be it through voluntary contributions, in kind resources to projects and activities, or other means;
4. Authorize the Executive Director to utilize the following amounts to be applied to assist in meeting the shortfall of funds:
  - Up to a maximum of \$5.24 million from the following reserves of the Special Account and Bali Partnership Fund:
    - o Unearmarked Funds and Bali Partnership Fund Sub-Account B (up to \$2.80 million)
    - o Thematic Programme Pooled Account (up to \$0.84 million)
    - o Programme Support fund (up to \$0.8 million)
    - o Ex-post Pooled fund (up to \$0.8 million)
  - As an extraordinary measure and to indicate the shared commitment of members to addressing this problem, up to a maximum of \$4.16 million from the reserves of the Administrative Account:
    - o Reserve provided by Administrative Account interest income excluding interest income under Dec 2 (XXXIV) (up to \$1.66 million)
    - o Working Capital Reserve (up to \$2.50 million) while retaining sufficient funds in the Reserve to comply with the Financial Rules;
5. Request the Executive Director to consult with implementing agencies on possible cost saving measures in remaining projects/activities, including administering a proportionate cut across all remaining projects and activities as the most immediate, fair and transparent solution for ensuring the resumption of the maximum number of projects/activities possible;
6. Confirm that no payment is due with respect to the demands made to date by the liquidators of the Ardent funds, taking into account ITTO's Headquarters Agreement with the government of Japan;
7. Request the Executive Director to provide transparent, detailed reporting to the Council on how the provisions of this Decision have been applied, including a preliminary report within three months of the adoption of the Decision and an annual summary report at ITTC53.



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**SAMPLE**

**DECISION ....(LII)**

**FURTHER LEGAL ACTION**

The International Tropical Timber Council,

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