



# INTERNATIONAL TROPICAL TIMBER COUNCIL

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## DECISION 6(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 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 (\$14.2 million), and donor refunds due from completed projects (\$3.8 million) (see Annex);

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

Also acknowledging that this Decision addresses ITTO commitments of US\$14.2 million to ongoing projects and activities and does not address refunds of US\$3.8 million owed to donors from the remaining balances of completed projects that were impacted;

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 as many projects/activities as possible 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 (including those set out in the final two parts of Table 4.2 in the report of the Oversight Committee), 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 2(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 and welcome the efforts of donors who have already done so;
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 \$5.66 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 \$4 million) while retaining sufficient funds in the Reserve to comply with the Financial Rules approved at this Session;
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; and
7. Request the Executive Director to provide detailed reports 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.

## Annex

### Breakdown of ITTO Funds and Commitments

#### 1. Funds Not Otherwise Earmarked by Council, Available for Dealing with Impairment Requiring Council Decision

| <i>Name of Fund</i>  | <i>Cash Available (Rounded)</i> | <i>Associated Account</i>       |
|--|---------------------------------|---------------------------------|
| Reserve provided by Admin Interest Income excluding Interest Income under Dec 2(XXXIV) | \$1,660,000                     | Administrative                  |
| Working Capital Reserve (Unearmarked)  | \$4,000,000                     | Administrative                  |
| Unearmarked Funds and Bali Partnership Fund Sub-account B                              | \$2,800,000                     | Special / Bali Partnership Fund |
| Thematic Programme pooled account  | \$840,000                       | Special                         |
| <b>Total</b>   | <b>\$9,300,000</b>              |                                 |

#### 2. Funds Requiring Donor Consent Prior to Allocation

| <i>Name of Fund</i>   | <i>Cash Available (Rounded)</i> | <i>Associated Account</i> |
|---|---------------------------------|---------------------------|
| Donors' funds (surplus from completed projects and unallocated funds) | \$970,000                       | Special                   |
| Project/Activity committed/safeguarded funds                          | \$2,640,000                     | Executing Agency          |
| <b>Total</b>  | <b>\$3,610,000</b>              |                           |

#### 3. Other Funds

| <i>Name of Fund</i>  | <i>Cash Available (Rounded)</i> | <i>Associated Account</i> |
|--|---------------------------------|---------------------------|
| Programme Support  | \$810,000                       | Special                   |
| Ex-post pooled funds   | \$800,000                       | Special                   |
| Interest income utilized by ED (Decision2[XXXIV])  | \$190,000                       | Administrative            |
| Working Capital Reserve (\$1.2M cash flow buffer limit established by Council + \$0.85M provision) | \$2,050,000                     | Administrative            |
| Special Reserve  | \$1,850,000                     | Administrative            |
| Current Year's Administrative Operational funds  | \$2,800,000                     | Administrative            |
| Liabilities (Staff Assessment, Accruals, etc.)   | \$120,000                       | Administrative / Special  |
| <b>Total</b>   | <b>\$8,620,000</b>              |                           |
| <b>Total ITTO Funds (Balance of all bank accounts)</b>   | <b>\$21,530,000</b>             |                           |

#### 4. Commitments owing from Special Account and Bali Partnership Fund

|   |                     |
|---|---------------------|
| Approved on-going projects/activities         | \$14,220,000        |
| Refunds to donors due from completed projects | \$3,780,000         |
| <b>Total</b>                                  | <b>\$18,000,000</b> |