



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON
FINANCE AND ADMINISTRATION**

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REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

**THIRTY-THIRD SESSION OF THE
COMMITTEE ON FINANCE AND ADMINISTRATION**

Item 1: Opening of the Session

1. The Chairperson of the Committee on Finance and Administration (CFA), Mr. Luke Thompson of the USA, welcomed all delegates to the Thirty-third Session of the Committee.

Item 2: Adoption of Agenda and Organization of Work

2. The Chairperson referred to the Provisional Agenda, as contained in document CFA(XXXIII)/1. He informed the Committee that the following two new items were proposed to be discussed under agenda item 14, "Other Business":

(a) Recommendations made by the Ad hoc Working Group on Financing Infrastructure and Fundraising Strategies; and

(b) Legal Measures Regarding the Financial Impairment.

3. The Chairperson proposed that the Secretariat draft a skeleton of a Council Decision on item (a) and the Committee could formulate an actionable Decision to be submitted to the Council. There were no objections from the floor.

4. As no further issues were raised, the Committee adopted the Provisional Agenda, as contained in document CFA(XXXIII)/1.

Item 3: Admission of Observers

5. The Chairperson advised the Committee that the Council had admitted all applicants shown in document ITTC(LIV)/Info.3, which lists states, inter-governmental and non-governmental organizations applying for Observer status. The Chairperson suggested that since some of the topics that are discussed in the early CFA meetings are deliberative and predecisional in nature regarding financial accounts, the Committee should generally be open to Members only. As there were no comments from the floor, the Committee approved the Chairperson's suggestion.

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

6. The Chairperson advised the Committee that the Report of the Fifty-Third Meeting of the Expert Panel for Technical Appraisal of Project Proposals (Document ITTC/EP-53) was deliberated on and concluded at the Joint Session of the Committees convened on 6 November 2018. The Joint Session had not requested any follow-up by the CFA.

Item 5: Draft Biennial Administrative Budget for the Years 2018 and 2019

7. The Secretariat referred to the Approved Administrative Budget for the 2018 and 2019 Financial Biennium, as contained in Document CFA(XXXII)/2 Rev.1 dated 2 December 2017, which was approved by the Council at its Fifty-third Session convened in Lima, Peru, in November – December 2017.

8. Since there were no other comments, the Committee concluded that no changes would be made to the budget for the financial biennium 2018-2019, as set out in Document CFA(XXXII)/2 Rev.1.

Item 6: Review of Contributions to the Administrative Budget

9. The Secretariat introduced document CFA (XXXIII)/3 Rev.1 dated 4 November 2018. This document detailed the status of Members' contributions to the Administrative Budgets for the financial years from 1986 to 4 November 2018, including assessments, receipts, interest charges, and arrearages in contributions. The Secretariat informed the Committee that, in 2018, \$1,409,005.82 had been received from Producer Members out of the total net assessment of \$3,312,289.91; and \$3,732,441.00 had been received from Consuming Members out of the net assessed amount of \$3,811,249.00.

10. The Secretariat further informed the Committee that the arrearages in contributions to previous years' budgets from Producing Members amount to \$4,629,372.21 and arrearages from Consuming Members amount to \$204,158.00. Furthermore, arrearages in contributions from former members of the Organization amounted to \$1,738,049.28, bringing the total outstanding arrearages to \$8,553,671.58.

11. The Committee took note of the report.

Item 7: Current Status of the Administrative Account

12. The Secretariat introduced document CFA (XXXIII)/4 Rev.1, dated 4 November 2018, on the current status of the Administrative Account for the financial year 2018, together with the estimated expenditures for the current year. The Secretariat informed the Committee that the estimated total expenditures for the financial year 2018 would amount to \$5,965,114.79 (i.e. \$1,143,432.21 less than the total amount approved in the budget for 2018 of \$7,108,547).

13. The Secretariat further informed the Committee that the total contributions received from both Producer and Consumer members amount to \$5,141,446.82, and it was anticipated that a deficit in the amount of \$823,671.97 would accrue in 2018. This amount would be deducted from the Working Capital Reserve.

14. The Secretariat informed the Committee that Section C of page 1 of the document shows the Special Reserve Fund of \$2,500,000, which is to be used only on Council approval in the event of the liquidation of the Organization.

15. The Secretariat further informed the Committee that the resources of the Working Capital Reserve was estimated to decrease from the year's opening balance of \$4,156,723.71 at the beginning of 2018 to \$3,825,762.03 by the end of 2018.

16. The Secretariat also informed the Committee that section E of page 1 of the document shows the Interest Income balance of \$215,286.27 to be used by the Executive Director for hiring consultants in accordance with the Financial Rules, Rule 5(10).

17. The document also contains details of expenditure for each budget item and where savings were made.

18. The Secretariat added that Annex 1 contains information required by the new Financial Rules to be brought to the attention of the CFA. This includes a list of procurements greater than USD 100,000; sole suppliers; and bad debts that were written off. In 2018, there were no procurements greater than USD 100,000 or bad debts that were written off.

19. The delegate of the USA, joined by Brazil, expressed concern over having a deficit in the Administrative Budget. They stated that ITTO should be encouraged to continue to explore methods and practices which will provide systemic management improvement that leads to economies and streamlining of its operations.

20. The Committee took note of the report.

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

21. The Secretariat presented document CFA (XXXIII)/5 Rev.1 dated 4 November 2018, on "Resources of the Special Account and the Bali Partnership Fund", which captures the current balance of funds under the Special Account and the Bali Partnership Fund.

22. The Secretariat indicated that, in accordance with the Terms of Reference of the CFA, as contained in Decision 7(LII), the CFA shall "review the assets and liabilities of the Organization and make recommendations to the Council on prudent asset and cash flow management and levels of reserves needed to carry out its work." Document CFA(XXXIII)/4 Rev.1 serves as a reference to review the assets

and liabilities of the Administrative Account, and this document was prepared as a reference to review the assets and liabilities of the Special Account and the Bali Partnership Fund.

23. The Secretariat informed the Committee that the current balance of funds under the Special Account and the Bali Partnership Fund are \$5,701,185.84, of which \$4,371,435.67 are funds committed to specific projects and activities. Attention was drawn to the unearmarked funds that have increased to \$134,164.16 due to Decision 9(LIII), which authorized the Executive Director to transfer to the unearmarked fund the donor funds left with ITTO without instructions from those donors on how to utilize the funds.

24. The Committee took note of the report.

Item 9: Auditor's Reports for the Financial Year 2017

25. The Secretariat introduced document CFA (XXXIII)/6 on the "Financial Reports Prepared in Accordance with ITTO Financial Rules and Procedures (Annex 4)". This document contained two reports required to be submitted by the ITTO Auditing Standard: The Executive Summary of ITTO's Financial Statements for the year ended 31 December 2017 prepared by the ITTO Management; and ITTO's Financial Statements for the year ended 31 December 2017, audited by the Independent Auditors.

26. The audit was carried out by Ernst & Young ShinNihon LLC, Tokyo, which was appointed by the Council in November 2017 to audit the Accounts of the Organization for the financial year. Ernst & Young ShinNihon carried out its financial audit for the period ending 2017 in March to June 2018.

27. The audited financial statements provided information on the financial position and performance of the International Tropical Timber Organization (ITTO) for the fiscal year ended 31 December 2017 (FY2017). Following the impairment of investments amounting to \$18 million in 2015-16, the International Tropical Timber Council (ITTC) adopted Decision 6(LII) in November 2016 to address the financial shortfall, which ITTO implemented to reorganize its finances in order to regain sufficient levels of funds to fully meet its financial obligations and resume its regular operations. As part of the requirement of the Decision, ITTO, at the 53rd Session of the ITTC in November 2017, provided a detailed report on the implementation of the Decision and concluded that all impacted projects/activities were fully operational and achieving their expected outputs and objectives and that ITTO was able to fully meet its financial obligations. The measures detailed in this report (ITTC(LIII)/12) were finalized and approved by the ITTC through Decision 7(LIII) on 2 December 2017.

28. In accordance with the Financial Rules and Procedures, ITTO adopted the International Public Sector Accounting Standards (IPSAS) as its standard for preparing its financial statements. As this is the second year reporting under IPSAS, comparative information has been made available for most information provided in the financial statements. Highlights include the following:

- The figures in the statement of financial performance have changed significantly between 2016 and 2017. This is due to 2016 including a non-recurring revenue of \$5.3 million in write-off of obligations approved under Decision 6(LII). The surplus/deficit for 2017 is close to zero and can be considered reasonable under regular operations for a non-profit organization;
- Voluntary contributions receivable increased by \$3.9 million between 2016 and 2017, which is mainly due to ITTO receiving assurance on the continuation of funding to certain projects in 2017; and
- Net cash outflow increased by \$2.4 million due to the recommencing of projects/activities in 2017, which were previously suspended in 2016 due to the financial impairment.

29. Attention was also drawn to document CFA (XXXIII)/CRP-1, "Management letter prepared by the independent auditors for ITTO management". This management letter was submitted to the CFA meeting in accordance with the ITTO Auditing Standard and contains information on matters affecting the completeness or accuracy of the accounts and other matters that should be brought to the notice of the CFA that the

auditors identified during their audit. No significant items were identified in ITTO's latest audit. The Secretariat summarized that, overall, the auditors had provided their satisfactory opinion on ITTO's financial statements, noting that the financial statements were prepared in accordance with IPSAS with no material misstatements or issues.

30. The Secretariat further noted that In accordance with Rule 19(2) of the Financial Rules, as the Council was being held in Yokohama, the auditors were attending the CFA meeting to answer any questions from the floor.

31. The delegate of Japan congratulated the Secretariat's effort in ensuring a very fast transition to IPSAS, and appreciated the new financial statements, with comprehensive footnotes, and comparative information, which was one of the most comprehensive statements among the many financial statements produced by other international bodies she has seen. The delegate of Japan suggested that it could be beneficial for the readers if there was information on the impact of foreign exchange on the income statement, as the stronger yen potentially impacted the appearance of the deficit. She said it would also be beneficial to include more information on the operational surplus/deficit in future audit reports.

32. The delegate of USA, joined by EU, also thanked the Secretariat for its effort and appreciated the Organization's development and implementation of an internal audit system. USA conveyed its confidence that the financial statements will provide greater transparency and provide members with better tools to ensure that proper oversight functions are met. The EU encouraged ITTO to continue with the transparent and effective financial management, which will help Member Countries regain full credibility and trust in the Organization.

33. As there were no further comments, the Committee decided to recommend to the Council that it adopt the "Financial Reports Prepared in Accordance with ITTO Financial Rules and Procedures (Annex 4)" on the Accounts of the Organization for the financial year 2017, as contained in document CFA (XXXIII)/6.

34. Based on the positive comments from members, the CFA decided to recommend to Council at this Session the re-engagement of Ernst & Young ShinNihon LLC to audit the Organization's Accounts for the financial year 2018, as it concluded that their performance was satisfactory.

35. The delegate of Japan commented that short accounting terms tended to be associated with accounting problems and the longer-term appointment of auditors would be desirable to match best practices in the market. Given that it has been established that there is little choice in auditors with capabilities suited to ITTO's requirements, she recommended that the length of the auditor's term be considered for revision at the next Council session.

Item 10: Amendment to the Provision on the Retirement Age in the ITTO Staff Regulations and Rules

36. The Chairperson informed the Committee that the IAG had referred to the Committee to prepare a draft Decision related to this change of the staff rules. The Secretariat was invited to introduce this item to the Committee.

37. The United Nations had revised the retirement age on 1 January 2018 in their revision to the Staff Regulations and Rules documented in the UN document ST/SGB/2018/1. The retirement age was amended "to reflect the increase in the mandatory age of separation to 65 years to all staff members, including those appointed prior to 1 January 2014". Therefore, the Secretariat proposed that ITTO's staff regulations be amended to enable staff members to retire at the age prescribed by the United Nations. The increase in retirement age was the only staff regulations change that the Secretariat planned to propose at this time.

38. The UN has made significant changes to other rules with staff compensation. For example, the 2017 UN amendment (ST/SGB/2017/1) changed the dependency allowance and the 2018 amendment (ST/SGB/2018/1) changed the education grant. However, the ITTO Staff regulations are mostly worded so that amounts and figures are considered in accordance with the prevailing United Nations provisions, and therefore, ITTO had been able to automatically adopt these changes.

39. However, for the retirement age, the ITTO rules explicitly mention that the retirement age is 62 years. It is possible that the reason why the retirement age does not refer to the UN rules is because the previous UN rules had different retirement ages for people who joined at different times, which may not have been

ideal when ITTO was created. In any case, the proposed amendment would allow all current staff and any new recruit to retire at the age of 65 and any changes to the retirement age of the UN in the future would be automatically adopted.

40. The Secretariat informed the Committee that there would be some budgetary implications in the sense that the timing when separation/recruitment costs are incurred would change since staff may be retained 3 years longer than before. However, the Secretariat believed the merits would outweigh any demerits because the expertise of senior officials would be retained during this transitional period and aligning benefits with the United Nations system may make the Organization more attractive in the long run. The Secretariat also suggested that current staff be given an option for early retirement at the original retirement age of 62 if desired.

41. The Chairperson informed the Committee that, as directed by Council, the Secretariat had prepared and circulated a draft decision on retirement age. He gave delegates time to read through the document.

42. The delegate of the USA asked whether the language used mirrored that of the United Nations.

43. The Secretariat clarified that the language was that used in the latest set of United Nations rules.

44. There being no other comments, the Chairperson referred the draft to the Chairperson's Open-ended Drafting Group.

Item 11: Anti-money Laundering and Counter Terrorism Financing Policy (AML/CFT)

45. The Chairperson informed the Committee that an anti-money laundering and counter terrorism financing policy was introduced at the 30th session of the Committee in November of 2015 in order to support ITTO's application for accreditation to the Green Climate Fund. However, the decision to adopt the policy had been deferred at the time due to the issue of the financial impairments, which became a priority at that session. The Secretariat had restarted its application for accreditation to the Green Climate Fund and the Committee may therefore consider recommending to Council the adoption of this policy through a formal council decision.

46. The delegate of the USA asked whether, given that ITTO had already instituted robust financial oversight and control over the past several years, and that most of the measures indicated in the proposed policy were already being carried out, adopting this policy would imply any additional cost to the Secretariat. The Secretariat responded that it did not anticipate any cost implications because a compliance officer would be appointed from among the existing staff and most of the specified procedures were compatible with existing resources.

47. The delegate of Japan sought clarification from the Secretariat regarding the partners the Secretariat intended to work with in support of the policy. The Secretariat replied that potential partners would mainly be Executing Agencies, which were organizations that ITTO partners with during the implementation of ITTO projects in member countries. Other potential partners would be any other organization that ITTO may send funds to or have any business relationships with, including suppliers.

48. The delegate of the USA asked the Secretariat how the policies would be captured by the Organization. The Secretariat proposed to annex the policy as annex A of the document to the financial rules. The programme will be an internal document, which would be produced by the Executive Director.

49. There being no other comments, the Chairperson referred the draft to the Chairperson's Open-ended Drafting Group.

Item 12: Election of Chairperson and Vice-Chairperson for 2019

50. Mr Jorge Mario Rodríguez Zuniga of Costa Rica, was elected Chairperson of the Committee for 2019. The Vice-Chairperson of the Committee for 2019 would be announced by the consumer caucus at a later date.

Item 13: Dates and Venue of the Thirty-Fourth and Thirty-Fifth Sessions

51. The Committee agreed that its Sessions may be held on the same dates and at the same venues as the Fifty-fifth and Fifty-sixth Sessions of the Council.

Item 14: Other Business:

(a) Recommendations made by the Ad hoc Working Group on Financing Infrastructure and Fundraising Strategies

52. The Chairperson invited comments on this item, which the Council had referred to the Committee with a view to ultimately formulate an actionable Decision to be submitted to the Council.

53. The delegate of Togo proposed a revamp of the system for funding projects whereby the Council would recommend to the Expert Panel to limit the number of project proposals submitted to the Council for funding. This, he said, would ensure that the number of projects considered by Council would more closely match the funds available. He also suggested that the Organization undertake a study of a possible tax that could be levied on transactions of wood and forest products, and the funds raised could be channelled into an account for project financing. Projects, he said, were essential for convincing producer governments of the merits of ITTO membership.

54. The delegate of Mexico remarked that the proposal by the delegate of Togo to reduce the number of projects put forward for consideration by Council was a measure designed to reduce the number of project proposals that are approved but which never receive funding. She said the proposal by the delegate for Togo, in which the Secretariat would select a finite number of projects, was aimed at providing a clearer and more streamlined project selection process. This would be a stepping away from the existing business model and is proposed for consideration. It would involve two phases—a conceptual grading, followed by a request for greater detail for selected projects. This proposal would constitute the most efficient form of financing.

55. The delegate of the EU said that more information would be needed on the consultant's advice to consider bidding for competitive tenders to bilateral or multilateral donors to provide technical assistance or managed grant programmes. Information would be needed, for example, on estimated costs and timeframes, and examples demonstrating how the system might function would also be helpful. She said the EU supported the recommendation to suspend the project cycle in 2019 because it would ease the backlog of projects, and the development of streamlined interconnected project financing, which would reduce project fragmentation through a more strategic approach. She also said it was imperative to properly plan any changes and to set priorities at all levels—including members concerning project proposals and within the Organization regarding short-term and longer-term recommendations.

56. The delegate of the EU strongly encouraged ITTO to pursue the processes of becoming an implementing agency under the Green Climate Fund (GCF) and the Global Environment Facility (GEF). She supported the recommendation for the Executive Director to approach non-traditional donors to determine their interest and funding priorities. She referred to a question raised by Australia in the plenary regarding opportunities for strategic partnerships with other members of the Collaborative Partnership on Forests (CPF) and the potential to collaborate more closely with the Global Forest Financing Facilitation Network (GFFFN) and agreed there was a need to know more about the nature of any competition between organizations in competitive processes. Lastly, she referred to the recommendation in the report of the Ad Hoc Working Group that council decisions pertaining to the report should have a joint review mechanism and sought clarification on the meaning of "associated groups".

57. The Chairperson asked members of the Working Group to clarify the joint review process that was referred to in the recommendations.

58. The Secretariat informed the Committee that the Expert Panel for Technical Appraisal of Project Proposals customarily evaluated projects against the criteria and requirements specified in the ITTO Project Evaluation Manual. It divided proposals into tiers, and only those designated as tier 1 were considered suitable for funding. Not all submitted proposals, therefore, were automatically approved for funding and there was a rigorous selection process. Regarding the proposal to impose a tax on transactions involving wood products that could be channelled for project funding, this might be practically difficult for ITTO to implement, although it could form part of a member's national contribution.

59. In responding to comments by the delegate of the EU, the Secretariat referred to examples presented to the plenary by the consultant showing how competitive bidding can work. She said a number of processes for competitive bidding were opened up each year with specific time limits for submissions. She informed delegates that the Secretariat had already embarked on several competitive tender processes, one through South-South Cooperation worth USD 2 million. The Secretariat was intending to prepare a submission for a call by the UK Department for International Development, which was scheduled to close on 18 December 2018. She said that the short timeframe for many calls meant that a significant issue was obtaining buy-in from the relevant ITTO members.

60. The Secretariat informed the Committee that work to obtain accreditation with the GCF and the GEF was continuing. The proposed Council decision on Anti-money Laundering and Counter Terrorism Financing Policy was mainly for registering with the GCF. She said it was difficult for ITTO to be hopeful of being a single beneficiary of any funding from the GCF and that partnerships with other organizations, especially members of the CPF, offered the biggest hope of success. She further informed the Committee that the Secretariat intended, early in 2019, to further investigate potential non-traditional donors, such as large wood-consuming countries not currently members of ITTO and philanthropic organizations.

61. The delegate of Peru asked what benefit accreditation with the GCF and the GEF would bring ITTO, given that most producer members already had access to these funds through other accredited institutions.

62. The Secretariat responded that the effort to gain accreditation to these bodies had been at the request of the ITTO membership. Possible benefits from producer members might include, in the GCF, innovative areas in terms of carbon sequestration, reducing carbon emissions, and carbon storage.

63. Referring to associated groups, the Secretariat informed the Committee that these could include civil-society and industry-related groups and groups directly affected by the work to ensure the views of stakeholders were taken into account.

64. The delegate of Switzerland sought clarification of the role of Council in the event that the Secretariat assumed a role in intervening in calls for proposals. She further asked whether participation of the Organization in bilateral calls for proposals was the most effective means for addressing the needs of producer countries, which normally, in ITTO, are articulated in project proposals.

65. The Chairperson said he had heard similar expressions in the plenary on the need for caution as the Organization pursues a different type of financing model, and valid questions are being asked.

66. The delegate of Mexico, who had been a member of the Working Group, shared her view of what the Working Group had in mind. ITTO plays a strong role in promoting trade, whereas producer countries aim to achieve SFM and want buyers for their products produced through good practices. The Working Group believed that ITTO's added value was in bringing together producers and consumers and fulfilling environmental, economic and social objectives. Much Official Development Assistance, however, lacked the role of encouraging timber trade, and many producer countries were net importers of wood. ITTO, on the other hand, had the skills and knowledge to help producer countries achieve this aim of encouraging trade. Business lines were needed to link ITTO's mandate to link productive forests and timber trade with sustainable development in line, for example, with the Sustainable Development Goals and the Paris Agreement, thereby offering considerable value to members. The idea was to ensure fair, equitable trade whereby producers could sell their products at a greater scale.

67. The delegate of the USA said she appreciated the discussion and would explore additional questions directly with the consultant and Working Group members on, for example, the direct and indirect costs of a competitive bidding approach and whether these would affect its viability, giving thought to the capacity of the Organization and the accounting system for properly tracking these costs.

68. The delegate of the USA reiterated points made by the EU that, in addition to needing to think through questions related to the piloting of competitive bidding, the Working Group had made several other valuable recommendations on which the Council could take action at this session, such as developing strategic partnerships, suspending the 2019 project cycle, maintaining the sunset clause, continuing the accreditation process for the GCF and the GEF, approaching non-traditional donors, and exploring opportunities with the GFFFN in a global consumer goods forum. Any decision of the Council on fundraising should include a new working group to continue the work, including the further development of a detailed process to shorten, streamline and improve coordination of the process of project approval and funding; providing timely

feedback to the Secretariat; and further developing communications in specific areas of value added, including a survey of the membership.

69. The delegate of the EU asked the Secretariat to clarify the difference between service lines or business lines, as set out in the Working Group report, and the existing thematic programmes. She also asked whether adopting an approach to participate in competitive bidding would mean that the type of projects would differ from those previously considered in the Organization. Would it mean, for example, larger projects or the aggregation of projects, including across borders? She inquired whether the Working Group had discussed the implications for producer countries. She further asked about the possible implications for the role of the Expert Panel, which had accumulated valuable expertise. It would be important to ensure that such expertise was not lost to the Organization.

70. The Secretariat proposed that the Executive Director and the lead consultant provide a further explanation of the content of service lines in plenary tomorrow. She expected that projects would not differ in nature but they would increase in size, and there might be aggregation of projects, including across borders. It was anticipated that the Organization's typical projects, which are limited in size and country-based, would continue. However, the aim was to group these in more programmatic ways rather than by themes. The Expert Panel might need to be adapted to this work, but there was no intention of losing the expertise.

71. The Chairperson asked the Committee for views on the proposal for further explanation of the service or business lines.

72. The Producer Spokesperson said producers considered that the report of the Ad Hoc Working Group had presented a relatively simple proposal for short-term, medium-term and long-term solutions. During this Committee session, however, a series of problems, questions and doubts had been raised, so the issue was more complex than first appeared. The Working Group had indicated that it had had insufficient time to undertake a more detailed analysis, although it had achieved a great deal in a short time. The producers considered that the current dialogue is important, but more work was needed to fully understand the implications.

73. The Chairperson said he was hearing that delegates recognized that the Working Group report and recommendations contained considerable content and there was still work to be done. Comments had been made, he said, about reconstituting the Working Group, and thought was required on its composition and mandate. There were also short-term recommendations in the Working Group report that needed attention. The Secretariat would prepare a draft text for a possible decision that would provide a starting point for concrete discussions.

74. The delegate of Australia said that the Committee had had a productive dialogue on the opportunities to diversify funding sources for ITTO, but the way forward was not yet clear. She cautioned that there was a need for a methodical approach before the investment of significant resources, including the Secretariat's time. It was important to assess how the potential opportunities in competitive bidding would best align with ITTO's mandate and the needs of ITTO members. There was a need to be strategic in engaging with potential funding bodies to obtain an understanding of their calls and how they might align with the Organization. Regarding a future working group, the delegate of Australia considered that a secondary purpose might be to analyse the broader programmes and to identify where synergies exist to better target ITTO resources. Regarding Togo's proposal for a wood product tax, she said that this might compromise efforts to send the message that "wood is good", and she suggested caution in such an approach.

75. The delegate of Switzerland said that, in Switzerland, there was a legal obligation to issue calls for proposals for grants to guarantee an open and transparent process. There was an exception, however, and calls for proposals were not needed for international organizations. This was a technical detail, but it might be worthwhile reflecting on the question of whether there was a need for ITTO to participate in calls for proposals.

76. The delegate of the EU echoed the comment by the delegate of Switzerland, saying that the EU also had specific grant approval processes for organizations for which it can be demonstrated they have de facto or legal monopoly in expertise. If it can be demonstrated that ITTO is such a specific organization with no competition with other organizations, there would be no need for competitive bidding.

77. The delegate of the USA said that the intention was to initiate a pilot programme only to enable an evaluation of the costs and benefits. It was not necessary to wait for all the answers before testing the

approach, which would be part of the process. So the question now was whether the Organization wanted to initiate a pilot programme.

78. The delegate of Peru summarized the discussion, saying that the aim was to create a new financial system to improve the project cycle, the thematic programmes, and the Bali Partnership Fund. Proposals for immediate change could have important consequences for countries in the producer caucus. Lacking a more nuanced proposal on how to raise more funds, however, it would be sensible to carry on with the current system and to wait for a more detailed proposal.

79. The Chairperson said there might be elements among the recommendations that the Committee and the Council would choose not to move forward with. When a draft decision had been provided it would be possible to better determine which elements could be moved forward.

80. The delegate of Mexico said the intention was not to stop the current funding model but to institute a pilot to test other approaches for generating additional funding.

81. Resuming this item the next day, The Chairperson informed the Committee that the Secretariat had prepared and distributed a draft decision drawing from the recommendations of the Ad Hoc Working Group, taking note of the presentations made yesterday and particularly that of the Working Group co-chair, which showed some of the more time-sensitive issues that needed to be considered. The Chairperson gave delegates time to read through the document.

82. The delegate of Switzerland suggested that the chapeau text could include a reference to outstanding membership contributions, which currently amounted to about USD 8.5 million. This is part of the Organization's funding structure, she said, and therefore a paragraph could be included to urge members to pay their arrears. She pointed out that, in seeking funds from other sources, those bodies would no doubt look at the Organization's balance sheet and wonder about the large amount of outstanding member contributions and what the Organization was doing about it.

83. The Chairperson said there may have been other occasions when the Council has included a similar point in its decisions, and this could be used as a basis for similar text.

84. The delegate of Peru acknowledged that the issue of outstanding contributions caused problems in the administrative fund, but the decision under consideration was about fundraising and referred primarily to projects and a pilot programme. Therefore, alluding to outstanding contributions would be irrelevant to this decision. He informed the Committee that the producer caucus had addressed this subject today, and a strong call had been made to producer countries to make maximum efforts to comply with their obligations to make contributions. If there was a need to make a special call to countries in arrears, this should be done separately but not in this decision.

85. In agreeing with the delegate of Peru, the delegate of Brazil stated that the decision was specifically about fundraising and a potential new methodology for project funding. The issue of outstanding contributions was another track and it would be preferable to focus specifically on fundraising.

86. The delegate of Japan indicated support for the suggestion of Switzerland to include reference to outstanding contributions. Fundraising required allocations of core resources in the Biennial Work Programme, and this should be represented accurately.

87. The delegate of Togo referred to operative paragraphs 4 and 5 to maintain the sunset clause and suspend the project cycle. In effect, this would mean a loss of information in the project pipeline, or what he would call the "database". So the two paragraphs were contradictory. He also referred to his earlier proposal to introduce a tax on international transactions. He mentioned that, in the African Union, states had recently agreed to institute new taxes to fund the budget of the organization. The Committee should offer this option to the Council and thus have the merit of trying.

88. The Chairperson suggested that the first point made by the delegate of Togo might require more conversation. He asked the Committee for views on the proposal for a tax on internationally transacted wood products.

89. The delegate of the EU expressed the view that ITTO lacked a mandate on international taxation and therefore she did not see the possibility of engaging fruitfully on the issue.

90. The delegate of Peru said it would be difficult to suspend the project cycle in 2019, given that the Secretariat had already distributed the calendar for the next year, which included two project cycles. He said that the sunset clause is already very short, at 20 months.

91. The delegate of the USA asked the Secretariat whether it was possible to separately track direct costs and income, and also to track labour hours spent working on the pilot programme and therefore to obtain the information needed to properly assess the programme's success.

92. The delegate of the USA referred to the view of some members that the issue of arrears in assessed contributions was unrelated to fundraising. The Working Group had recognized, however, that such assessed contributions were directly linked to the operational cost of the Organization and, if they were not made on time, this would affect operational efficiency. She also understood the sensitivity of pointing out such arrears in a decision; the Working Group had balanced the issue by urging members to consider making voluntary contributions.

93. The delegate of Brazil said she agreed with the delegate of the EU that the Organization lacked the mandate to propose the measure, as suggested by the delegate of Togo, to impose a tax on international transactions of wood products. She also referred to the 2018 Annual Market Discussion, in which producers and importers had reported huge challenges in buying and selling tropical timber and an overall decrease in the trade. The proposal would pose another challenge for those producers and importers.

94. Referring to operative paragraph 9 of the draft, the delegate of Brazil asked for clarification on the amount of USD 50 000 from the Working Capital Account and whether this was a reallocation of funds, not additional budget.

95. The Chairperson responded that the additional USD 50 000 specified would be new.

96. The delegate of Brazil indicated that her delegation did not support an increase, considering that the Organization was already facing financial difficulties.

97. The delegate of the EU clarified that the additional funds would come from the Working Capital Account, which is financed through the assessed contributions paid by members. The EU was therefore in favour of this paragraph.

98. The delegate of Peru said he insisted that this draft decision was not the right context for the proposal to include a paragraph to encourage payment on the side of producer countries. The arrears was a problem, and might require a special decision calling on those countries to pay their contributions. The problem of the lack of money for financing projects was not new and had been an issue for at least ten years, whereas the non-payment of arrears was not a long-term problem.

99. The delegate of the USA clarified that the Swiss proposal was to urge members to pay their assessed contributions, not to urge producers.

100. The delegate of Mexico indicated support for the comment made by the USA.

101. The delegate of Togo supported the delegate of Peru, suggesting that another decision was needed to deal conclusively with the issue of arrears. Regarding the proposal for a tax on international transactions on wood products, he did not demand that this be inserted. Nevertheless, it should be possible "think outside the box" and to be able to discuss difficult issues.

102. The consultant remarked that, in his assessments of donor requirements, the largest donors used a scoring system to assess proposals and would generally allocate 3–7% of points to the fiscal management of the applying organization. There might therefore be a disadvantage to ITTO if there was an imbalance in its own revenue and expenditures.

103. The delegate of Switzerland expressed concern about the ability of the Secretariat to practically be able to carry out large-sized tenders with its current capacity.

104. The consultant, Mr. Knapp, responded that part of the funds received for successful tenders would be available to increase staff capacity.

105. The delegate of Switzerland said there might also be an issue regarding the physical capacity of the Secretariat's resources to accommodate such an expansion in personnel.

106. The Chairperson responded that this concern would be recorded in the Committee report as an issue that might arise in the future.

107. The delegate of Peru proposed the establishment of a fund in ITTO to harness voluntary payments for globally significant environmental services provided by sustainably managed tropical forests, to constitute an innovative source of funding for projects in the Organization.

108. The Chairperson then opened the floor for live-editing of the draft decision and later referred the edited draft decision to the Chairperson's Open-ended Drafting Group.

(b) Legal Measures Regarding the Financial Impairment

109. The Chairperson clarified that it was appropriate and necessary for the Committee to consider this decision because of operative paragraph 3, which had budgetary implications. He invited comments.

110. The delegate of Switzerland asked the Secretariat to clarify the full amount being specified.

111. The Secretariat informed the Committee that an amount of USD 150 000 had been approved under a previous Council decision, of which USD 73 000 remained. If the additional amount was approved, therefore, the available funds under the decision would amount to about USD 123 000. The actual outlay required would depend on how far legal proceedings were able to continue within the jurisdiction of Japanese legislation.

112. The delegate of Brazil asked for clarification on whether this amount was additional or a reallocation. She also asked about the function of the fund from which the amount would be reallocated.

113. The Secretariat responded that the amount of USD 73 000 was the balance remaining from a previously approved amount earmarked for legal action against certain parties. The additional USD 50 000 specified in the draft decision would be obtained from the Working Capital Reserve.

114. The delegate for the USA asked the Secretariat to further clarify the purpose of the Working Capital Reserve and what it can and cannot be used for.

115. The Secretariat responded that the Working Capital Reserve is a reserve in the administrative account. It includes administrative assessment payments from members, and when payments of arrears are made they are credited to the Working Capital Reserve. The financial rules stipulate that Council decisions were required for use to be made of monies in the Working Capital Reserve.

116. The delegate of Peru, referring to the first operative paragraph in the draft decision, said it would be preferable to be more specific in requesting the Executive Director to pursue the three former ITTO employees.

117. The Chairperson proposed that further work on the language in the decision could take place in the Open-ended Drafting Group.

118. The Chairperson informed the Committee that draft Council Decision 6, operative paragraph 5, had funding implications and therefore the CFA should consider this. He read the operative paragraph and asked the Secretariat to confirm that the necessary resources were available in the account.

119. The Secretariat confirmed that such resources were available. The Chairperson invited comments from the floor and, there being none, he requested that a note be included in the Committee report indicating that the Committee had duly reviewed the financial implications of the decision.

Item 15: Recommendations to the International Tropical Timber Council

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

- (1) To approve the Financial Reports prepared in accordance with ITTO Financial Rules and Procedures (Annex 4) for the Financial year 2017, as contained in document CFA(XXXIII)/6;
- (2) To continue to appoint Ernst & Young ShinNihon LLC, Tokyo, to audit the Accounts of the Organization for the financial year 2018;
- (3) To consider, at the next Council session, amending the financial rules to extend the audit term to match best practices in the market;
- (4) To endorse the list of sole providers as contained in Annex 1 of CFA(XXXIII)/4 Rev.1; and
- (5) To examine and take actions to secure the needed resources to achieve the objectives of the Organization.

Item 16: Report of the Session

121. The Committee adopted this report as amended.

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