



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON
FINANCE AND ADMINISTRATION**

Distr.
GENERAL

CFA(XXXIV)/9
6 December 2019

Original: ENGLISH

THIRTY-FOURTH SESSION
2 – 6 December 2019
Lomé, Togo

REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

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

Item 1: Opening of the Session

1. The Vice-Chairperson of the Committee on Finance and Administration (CFA), Ms Katharina Kuehmayer of Austria, welcomed all delegates to the Thirty-fourth Session of the Committee. As the Chairperson, Mr Jorge Mario Rodriguez Zuniga of Costa Rica, was unable to attend the entire session, it was decided that this session of the Committee would be chaired by the Vice-Chairperson.

Item 2: Adoption of Agenda and Organization of Work

2. The Chairperson referred to the Provisional Agenda, as contained in document CFA(XXXIV)/1 Rev.1. She informed the Committee that the following new item had been proposed by the Secretariat to be discussed under agenda item 13, "Other Business":

- Draft Policy Documents (Policy Prohibiting and Combatting Fraud and Corruption, and Complaints Policy) – CFA(XXXIV)/CRP-2

3. The Secretariat explained to the Committee the backgrounds of the draft policy document. The introduction of certain policies was aimed at strengthening the governance of the Organization, in addition to the other measures taken since the financial impairment came to light in 2015. Those actions included the successful implementation of the International Public Sector Accounting Standards (IPSAS), implementation of external and internal audits, and the introduction of a new chapter on governance on the ITTO website. The Secretariat raised this item to be discussed by the members of the Committee because other elements of governance—especially non-financial elements—were needed to provide an overarching governance framework.

4. ITTO had continued its efforts to be accredited to the Global Climate Fund (GCF) and the Global Environment Fund (GEF), and under the accreditation process of the GCF, it was a requirement for ITTO to have certain policies such as an anticorruption policy, an antifraud policy, and an official complaints policy. ITTO currently lacked such policies: some elements were included in existing policies but were not very detailed. Therefore, a draft has been prepared using examples from other intergovernmental organizations to illustrate what such a policy might look like in practice. The Secretariat highlighted to the Committee that the draft policies could either be stand-alone, or they could form annexes to the current Staff Rules and Regulations, to be recommended to the Council for approval and adoption.

5. The delegate of the USA inquired how urgent it was to adopt these policies for the accreditation processes of the GCF and GEF. The Secretariat replied that there was no immediate urgency for such steps to be taken at this Council Session, but if the CFA felt it prudent that the Council adopt such policies as part of regaining donor confidence, and while the Organization was piloting its fundraising approach, an intersessional decision could be taken. The Secretariat added that, if there were other elements not covered by the draft policies contained in the Conference Room Paper [CFA(XXXIV)/CRP-2], delegates were welcome to propose, deliberate on and include such elements.

6. As no further issues were raised, the Committee adopted the Provisional Agenda, as contained in document CFA(XXXIV)/1 Rev.1, and decided that the draft policy document [CFA(XXXIV)/CRP-2] would be discussed under Item 13 (Other Business).

Item 3: Admission of Observers

7. The Chairperson advised the Committee that the Council had admitted all applicants shown in document ITTC(LV)/Info.3, which lists states, intergovernmental and non-governmental organizations applying for Observer status. The Chairperson said that the Committee was open to all observers, except, in accordance with the rules of procedure, on those agenda items that were restricted to Members only, in which case observers would be requested to leave the room. As there were no comments from the floor, the Committee approved the Chairperson's suggestion.

Item 4: Draft Biennial Administrative Budget for the Years 2020 and 2021

8. The Secretariat referred to the Draft Administrative Budget for the 2020 and 2021 Financial Biennium, as contained in Document CFA(XXXIV)/2 dated 30 August 2019, which had been circulated earlier to Members.

9. The Secretariat reported that the total budget for 2020 was estimated at US\$7,091,487, which was a decrease of US\$12,854 (0.17%) compared with the approved budget for 2019. The total budget for 2021 was estimated at US\$7,104,316, which was a decrease of US\$25 compared with the approved budget for 2019. Therefore, there was no nominal increase for the overall 2020-2021 budget compared with the approved budget for 2019. However, as in previous years, no contingency had been included in the proposed Administrative Budget for the financial years 2020 and 2021 and therefore unexpected shortfalls in the budget, such as exchange rate fluctuations, inflation and unforeseen personnel change, might need to be financed from the Working Capital Reserve.

10. The Secretariat informed the Committee that the "Basic Administrative Costs" for the 2020-2021 biennium indicated an increase of US\$7,146 (0.12%) for 2020 compared with the budget of 2019 and an increase of US\$19,975 (0.32%) for 2021 compared with the budget of 2019. Therefore, there was no significant change in the level of the basic administrative costs compared with 2019. The "Core Operational Costs" indicated a decrease of US\$20,000 (2.17%) for 2020 and 2021 compared with the budget of 2019. Therefore, there was no significant change in the level of the core operational costs compared with 2019.

11. The Secretariat brought to the attention of the Committee that, in its report documented in ITTC(LV)/10, the ad hoc Working Group on Financing Infrastructure and Fundraising Strategies had made a recommendation to Council to "Consider reallocating the 2020-2021 "Expert Panel" budget [under the Core Operational Costs] to be used for "Resource Mobilization" at the CFA.

12. The delegate of Japan said his delegation appreciated the improved disclosures under the current auditor and the efforts made to conform with best practices, noting that the financial statements were at a much higher level than those of several other multilateral bodies with which he was familiar. Nevertheless, he requested that, at the next Council session, the Secretariat show clearly the budgetary contributions of the host country, in line with standard practice in other organizations. The delegate of Japan referred to Table 1 in document CFA(XXXIV)/2, which indicated costs met by the host country but included no actual figures. In other international organizations, he said, typical budget tables included income lines for transparency, including the amounts funded by assessed contributions, the host country, and reserves. To clearly align the budget with revenues, the delegate of Japan requested the inclusion, by the next Council session, of the combined host contribution, comprising those of the City of Yokohama and the Government of Japan.

13. The delegate of Japan said he appreciated the clear report made by the Secretariat and supported the proposal of zero nominal growth in the budget. Noting that the communication strategy had been unfunded for some time in the biennial work programme, he suggested that there was a need to reconsider an allocation in the communication and outreach budget line. Many international organizations were shifting away from print to "ecofriendly" web versions, and it might therefore be possible to reduce the amount of US\$260,000 currently allocated to publications.

14. Referring to document CFA(XXXIV)/4, the delegate of Japan noted that, in item 8.2 on page 4, the cost of convening Council sessions outside Japan was stated at US\$200,000, but the budgeted cost in the draft administrative budget for the 2020 and 2021 financial biennium was US\$400,000. Therefore, the allocation could theoretically be reduced by half, to US\$200,000.

15. The delegate of Japan noted that the amount currently in the Working Capital Reserve was more than 70% of the core budget and was used in an ad hoc manner. He recommended that a policy and procedures be developed for the use of this reserve at the next Council session. Finally, the delegate of Japan requested clarification in the document on the amounts indicated in the items on post adjustment and provident fund, where the size and rate of growth seemed high.

16. The Secretariat concurred that the actual figures on the host government contribution to the administrative budget were disclosed in the financial statements but were not included in the draft budget document. This would be amended in the presentation at the next Council session when the Secretariat

would present the approved budget for 2021, which would include the amounts provided by the host government.

17. Regarding the amount allocated to publications in the draft budget and after internal consultations, the Secretariat reported that it would be possible to reduce printing and dissemination costs by about US\$65,000 by streamlining and making digital copies available. Thus, the amount allocated to O1. Publications (for content, printing and distribution) could be reduced to US\$195,000, with the balance (US\$65,000) reallocated to O2. Outreach, with no overall impact on the total budget.

18. The delegate of Cameroon referred to the proposal by the delegate of Japan concerning publications. While it was important to reduce the environmental impact of printing, she said, many producer countries lacked sufficiently reliable and widespread internet connections to enable adequate access to electronic versions of publications. She requested that this proposal be subjected to further review. The Chairperson acknowledged this concern and requested the Secretariat to examine the pros and cons of phasing out printed versions of publications.

19. The delegate of Japan thanked the Secretariat for its quick response. He said his purpose was not to reduce the cost of publications to zero but to reduce it and to reallocate the amount to outreach. Having worked in Africa for about ten years, he said, it was his experience that internet reliability was good in several African countries, and the modality of printing and distributing hardcopy publications was therefore out of date. He expressed hope that the transfer of the cost of publications could be increased in the future.

20. Regarding the cost of sessions outside Japan, the Secretariat referred to and read aloud the rationale behind the accounting practice for this item, as contained in footnote (b) on page 4 of CFA(XXXIV)/2. The amount of US\$200,000 was allocated in each of the two years of the biennium, although the actual costs would be incurred in only one of those years (2019 in the case of the present Council session). The actual cost was anticipated to consume the entire amount of US\$400,000 allocated over two years. The Secretariat would update the presentation to make this clear.

21. The Secretariat further responded that the management of the Working Capital Reserve would be included in the agenda of the next session of the Committee, scheduled for Yokohama in 2020, as requested by the delegate of Japan.

22. Referring to the request for clarification on the post adjustment and provident fund, the Secretariat informed the Committee that the post adjustment rate was calculated in accordance with Staff Regulations 2.7, which stated that, in order to maintain standard of living, the staff in professional and higher categories shall receive cost-of-living payments in conformity with the prevailing post adjustment schedules of the United Nations. In accordance with this rule, the Secretariat had consulted the scales released by the United Nations in August 2019, which was when the budget had been prepared, and the post adjustment for Japan was 81.2% of the base salary. This was the amount being budgeted. The Secretariat further referred to Staff Rule 5.01, which stated that all staff members shall participate in the provident fund, which will consist of a contribution by the staff member and a contribution by the Organization, with the percentages of both set by the United Nations Joint Staff Pension Fund. In accordance with this, the appropriate amount was budgeted for payment to the provident fund. The explanatory notes would be updated to make this clear in the future.

23. The delegate of Japan said he appreciated the explanations provided by the Secretariat. Regarding the cost of convening Council sessions outside Japan, he suggested the inclusion of an explanatory footnote to make clearer this accounting practice. He requested more information on the post adjustment and provident fund.

24. The Chairperson thanked the delegate of Japan for his inputs and said she had seen nodding from other delegates regarding his suggestion for the development of procedures for the use of the Working Capital Reserve.

25. The delegate of Guatemala asked for clarification on the strategies in place to improve the timely collection of member's assessed contributions.

26. The Secretariat explained that, immediately at the conclusion of Council sessions, the Secretariat sends letters to all members informing them of their assessed contributions for the following year. For the present session, letters would be sent within the two weeks following the conclusion of the session. Before the end of the first quarter of the year in question, reminders are sent to those members who had not yet

paid, urging payment in order to qualify for the discount. For those members that failed to pay, a second reminder is sent in the second quarter. This process is repeated in the third quarter; additionally, reminders are occasionally also sent just before the Council session. In the reminder letters sent, members are informed of the repercussions of a failure to pay their contributions within a two-year time frame.

27. The delegate of China emphasized that the timing of members' financial processes differed to those of ITTO, and this sometimes created an issue in which such countries may be unable to qualify for the discount.

28. The delegate of Guatemala proposed a "strategic mapping" of interested sectors in each member country, such as associations and cooperatives, that might be able to indicate to the party in charge of payments that it might be in the best interest of the member country to pay its assessed contributions in a timely manner.

29. The Secretariat responded that such strategies were pursued concurrently with official processes.

30. The delegate of Switzerland sought clarification on salaries in the notes on page 15 of CFA(XXXIV)/2, specifically on the 2.0% per annum compulsory salary increment.

31. The Secretariat explained that this was in accordance with Regulation 2.4 of the Staff Regulations and Rules, which stated that salary increments shall be awarded annually at levels set out in the salary scales of the United Nations. The United Nations revised its salary scales from time to time.

32. The delegate of Switzerland sought further clarification that the compulsory increment was related to the United Nations system, and any increases in that would be applied to ITTO.

33. The Secretariat responded that the compulsory increment was related to the United Nations salary scale and its levels and steps. Each year, a staff member advanced by a step, which was the compulsory step referred to in the explanatory notes. The Secretariat further explained that the United Nations salary scale is available publicly, showing the steps of each level. At the level of P1, for example, a staff member was entitled to 13 stepwise annual increases, after which there would be no further increase without promotion to a higher level, which was not automatic. At higher levels, increases were biannual. The Executive Director had the prerogative to award two-step increases in appropriate circumstances. The performance of ITTO staff members was subject to annual appraisals, and under the present Executive Director there had been no reason to date to withhold stepwise increases.

34. The delegate of Switzerland requested that the notes made the link between the stepwise increases and staff appraisals, so it was clear that a performance system was in place linked to increases.

35. The delegate of Côte d'Ivoire said that, speaking on behalf of her country and most producer members, it was difficult to convince the ministry of economy to pay assessed contributions. The best incentive was related to project funding—if contributions were not paid, no projects would be forthcoming. She called on the Organization to fund those projects that had been approved. If her country did not see tangible benefits from paying contributions it may be slow in acting, given many other priorities for funding, with forest conservation not always among the highest of these.

36. The Secretariat responded that countries were reminded of the consequences of a failure to pay assessed contributions regarding project funding.

37. The delegate of Ghana said he shared the sentiment of the delegate of Côte d'Ivoire. Those in charge of paying assessed contributions frequently referred to the lack of project funding and wanted to see a correlation between payments and receiving benefits. He pleaded with his consumer colleagues to do what they could to assist with voluntary contributions for project funding. He said that Ghana's assessed contributions were about US\$75,000, and it had an approved project valued at US\$150,000. Without project funding, his government might decide to use the US\$75,000 for other purposes.

38. The delegate of Cameroon echoed the interventions of Côte d'Ivoire and Ghana. Cameroon had paid its contributions for 2018 and 2019, following regular procedures. The Committee documents had been printed before these contributions had reached the Secretariat; nevertheless, Cameroon's contributions should be included in the accounts. She requested the Secretariat to check this, because her delegation had documentation showing that the bank transfers had been made. Cameroon had not been two years in

arrears since 2015, yet it had not benefited from any project funding. When the country made an effort to pay it would be nice to see a tangible improvement in the situation. Her minister had asked, in the plenary, that Council members not punish Cameroon due to the actions of the previous Secretariat administration. Cameroon had been punished and she would like this suspension lifted.

39. The Secretariat responded that the funds from Cameroon had not reached the ITTO bank account, neither for 2018 or 2019 as of 4 December 2019. There had been considerable communication and contact between the Secretariat and the official contact point in Cameroon, and there was a problem with the intermediary bank. Efforts had been ongoing for nine months to resolve this problem. Despite documentation held by the Cameroon authorities showing the transfer, the transfer had not been completed.

40. The delegate from the EU said that his delegation underlined that the payment of legally due subscriptions by all members constituted legal obligations attached to membership of the Organization. He emphasized that the Organization's activities and objectives should be at the heart of the national interest of member countries, and it was important that those priorities would also be clearly expressed in the bilateral and plurilateral relations. ITTO should supplement or complement national prioritization in that regard. Developments in ITTO in recent years showed that the process of healing had progressed and that the Organization was on a course for a more stable and predictable future. Discussions on the new financial framework were interesting, and continued stability, predictability and continuity of the management would be seen as important in resolving open funding issues. His delegation had been listening carefully to what members had been saying and would take those messages home.

41. The delegate of Cameroon said her delegation would be in touch with the Secretariat to provide documentation of the transfers so it could monitor the situation.

42. The delegate of Ghana said he shared the sentiment expressed by the EU, and he considered that all members present, including his producer colleagues, would acknowledge what had been said. He reassured that producer countries did prioritize the objectives of ITTO and believed in its ideals. He also acknowledged that there were problems, especially those caused by the impairment. It was important to understand the situation in producer countries, which still had many issues to tackle. Restoring an area of degraded land might not be as pressing as fixing a hospital bed, for example.

43. The Committee took note of the discussion regarding payment of assessed contributions, the lack of project funding, and the many pressing needs of some producer countries. The Committee requested the Secretariat to place the possible development of a policy and procedures for the use of the Working Capital Reserve on the agenda of the 35th Session of the Committee. The Committee further decided to recommend to the Council the adoption of the draft administrative budget for the 2020 and 2021 financial biennium.

Item 5: Review of Contributions to the Administrative Budgets

44. The Secretariat introduced document CFA (XXXIV)/3 dated 5 November 2019, which detailed the status of members' contributions to the administrative budgets for the financial years from 1986 to 5 November 2019, including assessments, receipts, interest charges, and arrearages in contributions. The Secretariat informed the Committee that, in 2019, \$1,563,269.77 had been received from producer members out of the total net assessment of \$3,361,093.80; and \$3,730,382.00 had been received from consumer members out of the net assessed amount of \$3,809,148.00.

45. The Secretariat further informed the Committee that the arrearages in contributions to previous years' budgets from producer members amounted to \$5,854,590 and arrearages from consumer members amounted to \$243,562.00. The amount outstanding from this year's assessment was \$1,797,824.03 for producer members and \$78,766.00 for consumer members. Furthermore, arrearages in contributions from former members of the Organization amounted to \$1,738,049.28, bringing the total outstanding arrearages to \$9,442,791.31.

46. The delegate of Japan expressed concern that the level of arrearages, particularly those of producer members, was very high compared with other international conventions. He stressed the importance of all members paying their assessed contributions, as per their legal obligations, to sustain the operation of the Organization.

47. The delegate of the USA joined Japan in encouraging members to pay their arrears and noted the importance of doing so to ensure the financial viability of the Organization. He expressed appreciation for the efforts of the Secretariat in collecting arrears.

48. The delegate of China said he fully understood the importance of members settling their assessed contributions in a timely manner. He drew the attention of the Committee to the fact that, for some countries, including China, it was difficult to make early payment and thereby qualify for the encouragement mechanism, due to the timing of their respective budget approval processes.

49. The delegate of the EU noted the importance of all ITTO members settling their assessed contributions in order to assist the Organization to continue its financial recovery. He asked the Secretariat about what plans were in place to encourage members to pay their dues in a timely manner.

50. The Secretariat explained that there were mechanisms to issue invoices as soon as each Council was concluded, and incentive mechanisms to encourage members by making discounts available for early payment. The Secretariat noted China's concern that the fiscal year and the budget approval process at the national level could be problematic for making early payments; under the current rules, however, the discount could not be extended. The Secretariat added that invoices are also sent to members who had not paid their assessed contributions by the middle of the calendar year and another in the third quarter of the year. Moreover, in 2019 and also in 2018, the Secretariat had initiated direct contact with the official focal points of members who had not yet paid their assessed contributions. The Secretariat informed the Committee that some members had questioned the necessity for them to pay their assessed contributions in a timely manner when it was unlikely that their approved project proposals would be financed. The Secretariat expressed concern that the penalty imposed on non-paying members may not encourage them to pay their arrears. Nevertheless, the Secretariat was doing its utmost to convince producer members to pay their assessed contributions and arrears.

51. The delegate of the EU noted the link between the fulfillment of the legal obligations of members to pay their assessed contributions and the possibility of accessing funding for project proposals. He suggested that the huge value of arrears could be discouraging donors to provide voluntary contributions; thus, producer members may not be helping their cause by acting in that way. The Secretariat reassured that producer members were fully aware of their legal obligations and of the fact that the status of their obligations was unaffected by whether they would, or would not, receive project financing.

52. The delegate of the EU asked the Secretariat whether the volume of the arrears was reducing or increasing. The Secretariat replied that it was increasing, for different reasons and for different producer regions.

53. The Committee took note of the report.

Item 6: Current Status of the Administrative Account

54. The Secretariat introduced document CFA (XXXIV)/4, dated 5 November 2019, on the current status of the Administrative Account for the financial year 2019, together with the estimated expenditures for the current year. The Secretariat informed the Committee that the estimated total expenditures for the financial year 2019 would amount to \$5,447,344.77 (i.e. \$1,656,996.23 less than the total amount approved in the budget for 2019 of \$7,104,341).

55. The Secretariat further informed the Committee that the total contributions received from both producer and consumer members amounted to \$5,293,651.77, and it was anticipated that a deficit in the amount of \$153,690.00 would accrue in 2019. This amount would be deducted from the Working Capital Reserve.

56. The current year's arrears in contributions amounted to \$1,876,590.03. Total arrears for the period 1986–2019 amounted to \$5,533,018.97 for producer members, and \$243,562.00 for consumer members, and \$1,707,005.72 for former members. The interest charges on these arrears in contribution amounted to \$82,614.59. Total outstanding contributions to the Administrative Account, including interest charges, amounted to **USD 9,442,791.31**.

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

58. The Secretariat further informed the Committee that the resources of the Working Capital Reserve were estimated to increase from the year's opening balance of \$5,111,202.12 at the beginning of 2019 to \$5,373,910.14 by the end of 2019.

59. The Secretariat also informed the Committee that section E of page 1 of the document showed an interest income balance of \$229,062.94, which was to be used by the Executive Director for hiring consultants in accordance with the Financial Rules, Rule 5(10).

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

61. The Secretariat added that Annex 1 contained information required by the new Financial Rules to be brought to the attention of the CFA. This included a list of procurements greater than USD 100,000; sole suppliers; bad debts that were written off; and banks and financial institutions approved by the Council. In 2019, there were no procurements greater than USD 100,000 or bad debts that were written off.

62. The delegate of Japan showed concern about the balance of over \$5 million in the Working Capital Reserve, noting that it was much higher compared with other conventions such as the CBD, CITES and UNCCD. He stated that normally the Working Capital balance should be kept at around 15% of the Organization's core budget. In the case of ITTO, the core budget was \$7.1 million, while the balance of the Working Capital Reserve was \$5.1 million, which was about 72% of the core budget. The delegate of Japan also suggested that this matter be further reflected upon for discussion at the 56th Session of the Council.

63. The delegate of the USA commended the efforts of the Secretariat in keeping down costs, and encouraged the Organization to continue to explore methods that provided cost efficiencies and savings. He appreciated that the travel expenses were well under control. Noting it as the position of USA and also generally accepted practice, he recommended that at the end of each financial year the Council should vote either the excess balance in the Working Capital Reserve be returned to members or to be used for a special one-time purpose that did not lead to future recurring costs. The USA joined Japan in noting that a threshold of about 15% for the Working Capital Reserve was the practice of organizations of this sort, as per the United Nations Joint Inspections Unit (UNJIU). The USA, noting that the Working Capital Reserve projected for 2019 amounted to 98.65% of annual expenditures, expressed concern at the very high level of the balance of the Working Capital Reserve.

64. The Secretariat explained that the Working Capital Reserve was managed in accordance with provisions in the Financial Rules of the Organization, namely, Rule 5 paragraph 4 and 5. The source of the Working Capital Reserve was a surplus (revenues over expenditures) of the Administrative Account, and late payments by members of their Assessed Contributions. Moreover, the Working Capital Reserve may be used up to \$300,000 should expenditures exceed revenues in the year; any other usage of the Working Capital Reserve required a Council Decision. There was also a rule that the Executive Director shall notify members should the Working Capital Reserve fall below 15% or approximately 2 months of the annual operating budget. Changing the way the Working Capital Reserve was managed would require an amendment to the Financial Rules which requires a Council Decision.

65. The Committee took note of the report.

Item 7: Resources of the Special Account and the Bali Partnership Fund

66. The Secretariat presented document CFA (XXXIV)/5 Rev.1 dated 11 November 2019, 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.

67. 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(XXXIV)/5 Rev.1 served as a reference for reviewing 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.

68. The Secretariat informed the Committee that the current balance of funds under the Special Account and the Bali Partnership Fund was \$16,204,772.14, of which \$13,676,620.74 were funds committed to specific projects and activities. Attention was drawn to the unearmarked funds and the Sub-account B of the Bali Partnership Fund, which had a balance of \$116,874.80. This may be allocated to projects/activities by the Panel on Sub-Account B of the Bali Partnership Fund, which will convene during the week.

69. The delegate of the USA noted that the total fund balance doubled from 2018, and requested the Secretariat to provide more details in the statement regarding the revenues and expenditures of each fund, particularly the Programme Support Reserve, to achieve a higher level of transparency.

70. The Secretariat informed the Committee that the increase in the Programme Support Reserve was a result of Programme Support Revenue generated from new pledges received at the 54th Session of the Council and intersessional pledges received during 2019. The Secretariat took note of the request made by the delegate of the USA and indicated that such details would be added to the statement at the next Session.

71. The Committee took note of the report.

Item 8: Auditor’s Reports for the Financial Year 2018

72. The Secretariat introduced document CFA (XXXIV)/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 2018 prepared by the ITTO Management; and ITTO’s Financial Statements for the year ended 31 December 2018, audited by the Independent Auditors.

73. The audit was carried out by Ernst & Young Japan, which was appointed by the Council in November 2017 to audit the Accounts of the Organization for the financial year. It carried out its financial audit for the period ending 2018 during the months of March to June 2019.

74. The audited financial statements provided information on the financial position and performance of ITTO for the fiscal year ended 31 December 2018 (FY2018).

75. For ITTO’s Project accounts in FY2018, new voluntary contribution pledges of \$3.8 million were announced at the Council Session, while total project cost expenses during this period was \$4.7 million from projects mostly funded prior to FY2018. Total Administrative Account assessed contribution revenues were \$7.1 million, of which \$1.5 million was not received during FY2018 and accounted for as assessed contributions receivable (arrears).

76. In November 2018, Council adopted Decision 5(LIV) at its 54th Session for enhancing the financing architecture and fundraising of the Organization. Additional fundraising approaches would be piloted and new streamlined project cycles and programme themes would be developed in the coming years. Information on revenue, direct and indirect costs associated with implementing this pilot would be reported in the financial statements for calendar years 2019, 2020 and 2021, in accordance with this decision.

77. In accordance with the Financial Rules and Procedures, ITTO had adopted the International Public Sector Accounting Standards (IPSAS) as its standard for preparing its financial statements. As this was the third year of reporting under IPSAS, fixed assets were now recognized and reported since the exemption period for first-time adopters of IPSAS had ended. Other highlights include, among others:

78. The surplus for the FY2018 was \$1.1 million due to differences in the timing of recognizing revenue and expenses (e.g. the entire Administrative Budget is recognized as revenue in the year that the assessments are due, but only expenses incurred during the same year are recognized as expenses from that year’s budget).

79. Deferred revenue decreased by \$2.2 million between 2017 and 2018. This was due mainly to projects pledged in prior years making progress in 2018.

80. The main impacts of the initial recognition of fixed assets and software for FY2018 were \$291,000 for property and equipment, \$12,000 for intangible assets and \$157,000 for lease obligations.

81. Attention was also drawn to document CFA (XXXIV)/CRP-1, "Management letter prepared by the independent auditors for ITTO management". This letter was submitted to the CFA meeting in accordance with the ITTO Auditing Standard and contained 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.

82. As there were no 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 2018, as contained in document CFA (XXXIV)/6.

83. The Committee concluded that the auditor's performance was satisfactory and decided to recommend to Council at this Session the re-engagement of Ernst & Young Japan to audit the Organization's Accounts for the financial year 2019.

Item 9: Amendments to the ITTO Financial Rules

84. The Secretariat introduced the background to this Agenda Item. The Committee on Finance and Administration at its Thirty-third Session had recommended to consider amending, at the next Council session, the financial rules to extend the audit term to match best practices in the market. Moreover, the Secretariat had conducted a systems appraisal, which was required at least once every three years under the Financial Rules, to assess the appropriateness of systems and the proper functioning of internal controls and to make improvements if necessary.

85. Accordingly, the Secretariat had prepared document (CFA(XXXIV)/7), which contained proposed amendments to the ITTO Financial Rules related to the mandatory audit firm rotation, financial delegations, and ex-post evaluation pooled funds.

86. For the Mandatory Audit Firm Rotation, in order to match best practices in the market, the proposal was to change the term of the auditor from three years to five years. The mandatory audit firm rotation policy was to be abolished by allowing firms to submit proposals and be reappointed, allowing for competition and for ITTO to retain the same firm if other firms did not meet desirable standards. If reappointed, however, the lead audit engagement partner should rotate off an engagement after a maximum of five years in his or her capacity. Upon rotation, that person would be off the audit team for at least five years to minimize any threat to independence.

87. For the rules on Financial Delegations, the proposal was to change the threshold for authorizing payments and procurements in order to improve the efficiency and cost benefit of the internal controls of the Organization by effectively assigning approvals to the appropriate positions based on the transaction's level of risk.

88. Moreover, it was proposed to move the rules on ex-post evaluation pooled funds contained in Decision 3(XXVIII) into the Financial Rules, with slight amendments to the text to allow funds to be automatically transferred after a certain time passes.

89. The delegate of Japan strongly supported the changes proposed by the Secretariat regarding the term of independent auditors, noting that his delegation had raised this issue at the previous Council Session. He reiterated that this approach was more realistic and in line with other international organizations, and that Japan would support a term even beyond five years, considering the unique context of the Organization.

90. The delegate of Indonesia generally accepted these recommendations to strengthen the effectiveness and efficiency of internal audit and payment approval mechanisms with regard to amendments to the audit provision. He sought clarifications on: (i) whether a record clarifying the period and evaluations of the

auditors engaged over the past few years would be made available; and (ii) whether the rule to extend the auditor's term of engagement would be applied retroactively.

91. The Secretariat informed the Committee that the information on past auditors was usually presented in the CFA document when a bid for new auditors was to be held, and the record of all past auditors was kept with the Secretariat; this practice would be continued. The evaluations and findings of the auditors were disclosed to members in the management letter prepared by the audit firm, as contained in CFA(XXXIV)/CRP-1. The Secretariat noted that the proposed rule to extend the auditor's term of engagement would be applied retroactively, extending the current auditor's term from the current three years to five years.

92. Regarding the proposed amendment to item j) contained in Annex 6 paragraph 3-1 of the document, the delegate of the EU requested the reinstatement of the original text stating that international travel for all staff and consultants was subject to approval by the Executive Director.

93. The Secretariat explained that the rationale for the amendment was to separate the human resource element of authorizing staff to travel, which was already mentioned in the staff rules, with the procurement element, such as the purchasing of flight tickets and payments for accommodation. The Secretariat amended the document to make this point clearer.

94. As there were no more interventions, the Committee accepted the proposed changes contained in CFA (XXXIV)/7 Rev.1. In accordance with Rule 28 of the ITTO Financial Rules, which stipulates that amendments must be approved by the Council, the Committee decided to recommend to the Council that it adopt the proposed changes for their immediate implementation.

Item 10: Request by Liberia for 'Relief from Obligations'

95. The Secretariat reported that, on 20 December 2018, ITTO had received a letter from the government of Liberia requesting the waiver of its arrears from 1990 to 2017 for the amount of US\$753,037.80 due to the inability of the Liberian government to settle these arrears emanating from Force Majeure of a 14-year civil war. The government of Liberia had, at the same time, committed to settling the current arrears covering 2018 in the amount of US\$70,797.00. Accordingly, the Secretariat had prepared document, CFA(XXXIV)/8, which contained information on this matter, including several annexes. In accordance with Article 30 of the ITTA, 2006, on "Relief from Obligations", the Secretariat suggested that the Committee might wish to consider this request and to make recommendations to the Council on the terms and conditions on which, and the period for which, the government of Liberia would be relieved of such obligation, and the reasons for which the relief would be granted. The Secretariat further noted that Decision 7(XXXIII) (contained in Annex 6 of the tabled document) also provided a mechanism to write off arrears by authorizing the Executive Director "to write off, on an annual basis, one-fifth of a Member's arrears of the period 1986-1996 for any Member which has no arrears in its contributions to the Administrative Budget in respect to its obligations related to the year 2002 and beyond".

96. The delegate of Liberia said that the Managing Director had presented Liberia's case to the Secretariat on 20 December 2018, explaining the force majeure due to civil unrest and requesting a waiver of arrears in the amount of US\$70,797.00 and US\$753,037.80.

97. The delegate of Indonesia said that, in principle, he had no objection to Liberia's request. He sought clarification on whether there had been previous cases of such waivers and whether there would be future implications for the Organization.

98. The delegate of the USA said that, while his delegation understood the difficult situation faced by Liberia, it did not support the writing off of arrears, in part because it could create an unstable financial situation for the Organization should other members also pursue such measures. However, the USA did support the financing of such arrears, assuming that the assessed contributions for 2018 and 2019 had been paid.

99. The delegate of the EU welcomed the presentation of the Secretariat on this matter and had listened carefully to the additional argument put forward by the delegate of Liberia. He recognized that Liberia was home to half the remaining rainforest in West Africa, and almost 45% of the country was covered by forest. The country had been the victim of two periods of internal strife, but it was possible to observe a more

positive dynamic in the last couple of years regarding sustainable forest management and the trade of timber, not least because of collaboration between the EU and Liberia in the context of a voluntary partnership agreement. In view of this, the EU was not convinced of the case presented for relief from past contributions. Moreover, there was a need to balance the request with the interests of the Organization, which was still in a process of financial recovery and required the support of all members, not least from one whose timber trade was beginning to generate considerable revenues. There was also a risk that acceding to such a request might encourage other members to put forward similar requests.

100. The delegate of Japan thanked the USA and the EU for their interventions. The delegate said he understood the situation of 14 years of civil war, but, as for the USA and the EU, Japan could not support this recommendation. The delegate said he had not seen such special treatment for relief from obligations in other conventions, and he inquired of the delegate of Liberia why, when Liberia had had no arrears in several other conventions, such as the United Nations Convention to Combat Desertification (UNCCD) and the Convention on International Trade in Endangered Species of Wild Fauna (CITES), it had accumulated arrears at ITTO.

101. The delegate of China said he fully understood the Organization's financial impairment caused by mismanagement, and that ITTO was still in the process of recovery. He also understood the difficulties faced by Liberia in making its assessed contributions, especially in light of the force majeure and the seriousness of the situation. China, therefore, was willing to give serious consideration to Liberia's request.

102. The Secretariat responded to the question from the delegate of Indonesia by informing the Committee that there had been two previous cases of the writing off of arrears in ITTO's history, as contained in Annex 4 and Annex 5 of document CFA(XXXIV)/8. The first case had been in 2007, when parts of Liberia's arrears had been written off, with conditions stated in the decision. The second had been in 2017, when the arrears of the Central African Republic had been written off. Those were the only two cases.

103. The Chairperson invited the delegate of Liberia to respond to the question from the delegate of Japan. The delegate of Liberia said that, apart from the force majeure, Liberia had been going through a change of leadership, which had increased the difficulty of those entities responsible for forest management to obtain a commitment on the payment of assessed contributions.

104. The delegate of Japan repeated that, even during the 14 years of civil war, Liberia had continued to meet its financial obligations to the UNCCD, CITES and similar conventions and it was therefore unclear why special relief was needed for ITTO.

105. The delegate of Liberia said he didn't want to dwell on other international commitments.

106. The delegate of Japan said that the reason he had mentioned the other conventions was because, during the 14 difficult years, the problem of payment of assessed contributions should have applied equally to other conventions, but it appeared that this had not been so. On the other hand, ITTO was also facing difficult circumstances and required financial stability. He said that, given Liberia's difficult situation, it might be possible to consider a restructured payment scheme to make it easier for Liberia to pay its arrears.

107. The Chairperson said that Liberia had explained its difficult times, which had been acknowledged by other Committee members. Nevertheless, some delegations required more answers to their questions with a view of solving the issue. Given a lack of consensus and as suggested by Japan, she proposed that a means be found to restructure the payments.

108. The delegate of the EU said he understood the proposal of Japan as a request to the Secretariat to discuss with Liberia modalities and a suitable payment plan with a view to enabling Liberia to settle its outstanding contributions, and to bring the matter back to the Council at its next meeting. From the perspective of the EU, he said, any payments that Liberia was able to make during the year, above what it had already committed, would be looked on very favourably.

109. The Committee decided to recommend to the Council that it request the Secretariat to engage with the government of Liberia in this process of restructuring and to report back to the Council at its next session.

Item 11: Election of Chairperson and Vice-Chairperson for 2020

110. The Vice-Chairperson of the Committee for 2019, Ms Katharina Kuehmayer of Austria, was elected Chairperson of the Committee for 2020 and Ms Teresa Guila Nube of Mozambique was elected Vice-Chairperson of the Committee for 2020.

Item 12: Dates and Venue of the Thirty-fifth and Thirty-sixth Sessions

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

Item 13: Other Business

- Draft Policy Documents (Policy Prohibiting and Combatting Fraud and Corruption, and Complaints Policy) – CFA(XXXIV)/CRP-2

112. As it had done at the first meeting of this session of the Committee, the Secretariat explained the background of the draft policy document. The introduction of certain policies was aimed at strengthening the governance of the Organization, in addition to the other measures that had been taken since the financial impairment came to light in 2015. Such actions included the successful implementation of the International Public Sector Accounting Standards (IPSAS), the successful implementation of external and internal audits, and the introduction of a new chapter on governance on the ITTO website. The Secretariat had raised this item to be discussed by the members of the Committee because there were other elements of governance that could be included in order to provide an overarching system of governance, including non-financial elements.

113. The Secretariat said that ITTO was continuing its efforts to be accredited to the Global Climate Fund (GCF) and the Global Environment Fund (GEF), and under the accreditation process to the GCF, it was a requirement for ITTO to have certain policies in place, including an anticorruption policy, an antifraud policy, and an official complaints policy. ITTO currently did not have such policies—although some elements were included in existing policies, they were not detailed. Therefore, the Secretariat had prepared a draft of certain policies based on the examples of other intergovernmental organizations to illustrate what such policies might look like in practice. The Secretariat highlighted to the Committee that the draft policies could either be stand-alone, or they could form annexes to the current Staff Rules and Regulations, to be recommended to the Council for approval and adoption. The Committee could decide to work on the documents for a possible intersessional decision, or it could initiate a consultation process to develop the drafts further with a view to adoption at the next Council session.

114. The delegate of the EU thanked the Secretariat for this reintroduction of the matter. His understanding was that these were working documents of the Secretariat that had not yet been discussed with potential funding partners and therefore represented a first attempt to capture the conditionalities of those partners. If the Secretariat would value the EU's inputs, it would be available to examine the documents and provide comments and observations to the Secretariat with any deadline established, with the aim of finalizing the documents for approval at the next Council session.

115. The delegate of Switzerland said this was a good initiative, and she understood that it was a work in progress. She noted that, on page 2 of the working paper, the applicability was indicated as "staff and non-staff personnel", but the Executive Director should also be included.

116. The Secretariat thanked the delegates of the EU and Switzerland for their interventions and confirmed that these were working documents, and external partners had not yet been consulted. The Secretariat was grateful for the offer of the EU to be involved in a consultation process and would welcome suggestions for improvement and possible expansion. She noted that the Organization already had an independent whistleblower's policy, but several elements of a comprehensive code of ethics were still absent. It would be possible to further develop separate policies on anticorruption and antifraud, or they could be combined. She said that, in compiling the drafts, the Secretariat had researched the policies of United Nations organizations and had aimed to establish policies of an equivalent level. The Secretariat agreed with the suggestion by the delegate of Switzerland, and this would be taken on board.

117. The delegate of Côte d'Ivoire requested the translation of the documents into the other two working languages of the Organization to enable all delegations to provide constructive inputs.

118. The Secretariat responded that usually only official documents of the Organization were translated, but the Secretariat would endeavour to make translations available, especially as part of initiating the consultation process. She regretted that it would not be possible to provide the translations by the end of the Council session, but the aim would be to provide the translated versions by early January 2020.

119. The Chairperson requested that the suggestion by the delegate of Switzerland be incorporated in the draft before translation and the new version made available in English by Friday this week.

120. The delegate of the EU sought clarification on the timing of the process and when contributions might be requested.

121. The Secretariat responded that the timeline would need to be confirmed after internal consultations about the work schedule for 2020, but, most likely, a request for inputs would be initiated in the first quarter of the year with a view to the timely finalization of the drafts for the 56th Session of the Council.

122. The Committee decided to recommend to the Council to request the Secretariat to initiate a process of consultation with ITTO members and partners on additional policies for the governance of the Organization, and to present a draft of these policies for the Council's consideration at its 56th Session.

Item 14: Recommendations to the International Tropical Timber Council

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

(1) To approve the Biennial Administrative Budget for the Financial Years 2020 and 2021, as contained in document CFA(XXXIV)/2 Rev.1, in the amount of USD7,091,487 and USD7,104,316, respectively;

(2) To approve the Financial Reports prepared in accordance with ITTO Financial Rules and Procedures (Annex 4) for the Financial year 2018, as contained in document CFA(XXXIV)/6;

(3) To continue to appoint Ernst & Young Japan, Tokyo, to audit the Accounts of the Organization for the financial year 2019;

(4) To place the possible development of a policy and procedures for the use of the Working Capital Reserve on the agenda of the next Session of the Committee;

(5) To request the Secretariat to engage with the government of Liberia to discuss modalities and a suitable payment plan for the Council's consideration at its next Session;

(6) To request the Secretariat to initiate a process of consultation with ITTO members and partners on additional policies for the governance of the Organization, and to present a draft of these policies for the Council's consideration at its next Session;

(7) To endorse the list of sole providers as contained in Annex 1 of CFA(XXXIV)/4 Rev.1;

(8) To amend the Financial Rules of ITTO as contained in CFA(XXXIV)/7 Rev.1; and

(9) To examine and take actions to secure the needed resources to achieve the objectives of the Organization.

Item 15: Report of the Session

124. The Committee adopted this report as amended.