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**PROGRESS REPORT ON THE IMPLEMENTATION OF ITTO'S NEW FINANCING
ARCHITECTURE – PHASE II
DECISION 4(LVI)**

Item 17(a) & (b) of the Provisional Agenda

A. Introduction

Decision 4(LVI) on Implementing ITTO's New Financing Architecture – Phase II was adopted at the 56th Session of the ITTC in November 2020. This progress report has been prepared pursuant to operative paragraph 12 of this Decision: *“Request the Executive Director to report on the progress made and challenges encountered in the implementation of this Decision at its Fifty-seventh Session”*.

B. Update on implementation of Decision 4(LVI)

Decision 4(LVI) contains several operative paragraphs which are addressed here in the same order as presented in the Decision. A summary of the implementation status under each is reflected in Table 1 and 2.

Table 1 – Implementation of Decision 4(LVI)

Paragraph	Description	Status
1. Adopt the Programmatic Lines	The goals and objectives of each of the four Programmatic Lines as contained in Annex A have been adopted	COMPLETED
2. Streamlined project cycle	Online Concept Note (CN) form and online CN/project database developed	COMPLETED
3. Funding scenarios	The different funding scenarios under the Programmatic Approach as outlined in Annex B have been acknowledged	COMPLETED
4. First Open call for concept notes	Launched in December 2020, closed in April 2021. Received 12 valid submissions.	COMPLETED
5. New roles and responsibilities in the streamlined project cycle	New, respective roles and responsibilities of each of the participating actors in the streamlined project cycle have been acknowledged.	COMPLETED
6. Activities outside core budget to be CNS	Activities to be funded outside the core budget will be included in the Concept Note Database	ONGOING
7. Indicate how BWP aligns with Programmatic Lines	Alignment with the Programmatic Lines are already indicated in the BWP '21 -22 document.	COMPLETED / ONGOING
8. Virtual informed feedback loop	The virtual informed feedback loop will continue to be utilized where applicable	COMPLETED / ONGOING
9. Implementing Decision 8(LV) - Advisory Board, engaging with funding mechanisms including GEF	Advisory Board has had four meetings - in April & October 2020 and April & July 2021. Details explained under “Implementation of Decision 8(LV) & Decision 4(LVI)	COMPLETED / ONGOING
10. Formal TORs for Advisory Board	Draft developed and agreed by Advisory Board and proposed to ITTC57 for consideration	COMPLETED
11. Propose structure and approach for review of Decision 5(LIV) in 2022	Secretariat proposes to postpone the review until at least 2023, and that the review be undertaken by a 2 -person team through member surveys and selected visits; suggest more discussion at ITTC 57 (including future of regular project cycle)	ONGOING
12. Report on implementation of Decision 4(LVI)	The report is made at ITTC57	COMPLETED
13. Utilization of Working Capital	\$25,000 of \$200,000 authorized utilized to date for the development of the online systems	ONGOING

Table 2 – Engagement with other bodies called for by Decisions 8(LV) and 4(LVI))

Item	Description	Status
1. Engage with secretariat of GEF	ITTO letter sent in May 2021	COMPLETED
2. Extend the MoU with CBD and UNCCD	CBD MoU agreed in Feb 2021; UNCCD discussions commenced	COMPLETED/ ONGOING
3. Establish MoU with UNFCCC	Letter sent in April 2021, no response yet	ONGOING
4. Convey ITTO priorities for GEF-7, engage in the GEF Steering Committees	ITTO letter sent in May 2021 to all GEF and CBD focal points in member countries plus CBD Secretariat conveying priorities and informing of relevant projects requiring funds	COMPLETED
5. Formal accreditation to the GCF	The accreditation process with the GCF continues and is work in progress (the latest response to GCF's requests for more information was sent in September 2021).	ONGOING

Operative Paragraph 2 (a-g) – Implement a streamlined project cycle incorporating the concept notes approach

The implementation of a streamlined project cycle incorporating the concept notes approach is now complete with the successful utilisation of an online form and the development of a database (the existing Project Search database on the ITTO website was extended to allow searching for Concept Notes pending finance by country, topic, etc.).

Operative Paragraph 3 –Acknowledge the different funding scenarios under the Programmatic Approach as outlined in Annex B (Financing Flows under the Pilot Programmatic Approach)

This is acknowledged through Council's adoption of Decision 4(LVI) and its publication on the ITTO website.

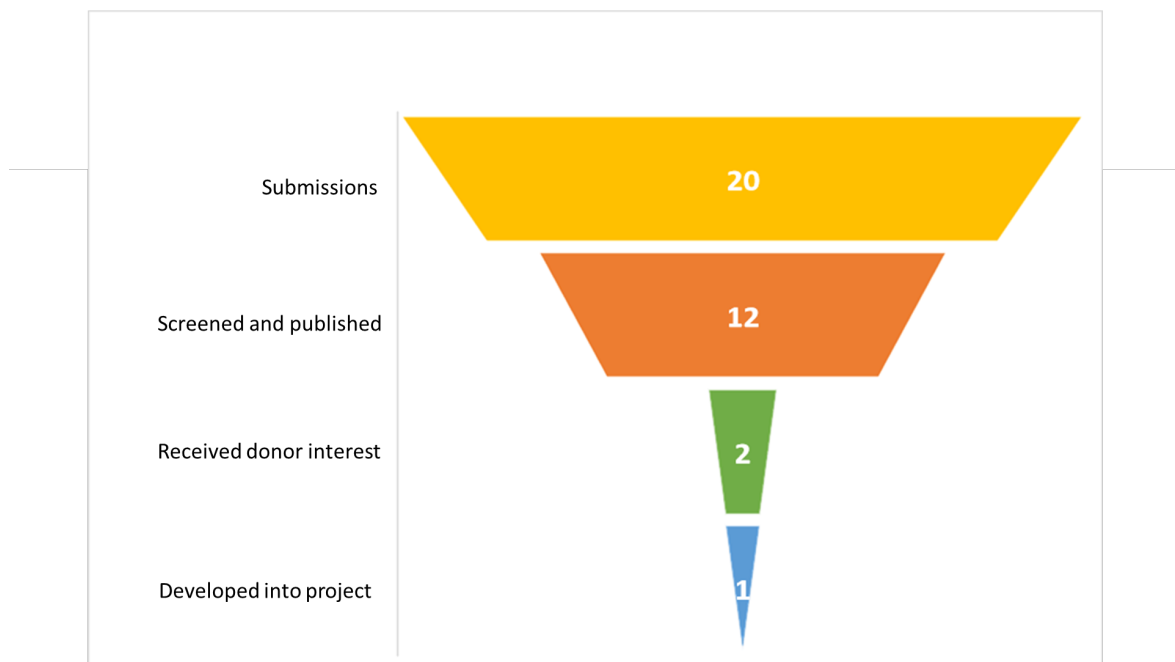
Operative Paragraph 4 – First open call for concept notes

The first open call for concept notes under Funding Scenario 4 was launched in December 2020 and closed in April 2021 during which the Secretariat received 20 concept note submissions. All of these were screened by the Secretariat and 12 were accepted as meeting the criteria specified in Decision 4(LVI). Out of those 12 concept notes, which were all posted on the ITTO website in April 2021 and remain available to anyone who wishes to review/fund them, 2 have so far received preliminary expressions of donor interest (there is no deadline for donors to express interest other than the sunset provision of Decision 2(X) under which CNs without confirmed donor interest will lapse 20 months after posting). Out of those two CNs, one received confirmed donor interest and was developed into a project, in close collaboration with the donor and Secretariat. That project (PD 922/21 Rev.1 (I) "Promotion of Sustainable Domestic Wood Consumption in Vietnam") has been reviewed by the Expert Panel (upon request from the donor and the project proponent) and was approved under the online no objection process that concluded in September 2021. PD 922/21 Rev.1 (I) has subsequently been fully funded through a pledge from the government of Japan (Japan Forestry Agency). The Secretariat calls upon all donors to consider the concept notes and projects submitted by members that are pending finance. Figure 1 provides a summary of the process under the first open call for proposals.

Operative Paragraph 5 – Acknowledge new roles and responsibilities in the streamlined project cycle

The new, respective roles and responsibilities of each of the participating actors in the streamlined project cycle and different funding scenarios under the Programmatic Approach have been acknowledged and will be applied as appropriate. Since the only experience so far is with funding scenario 4, work will be ongoing to ensure all stakeholders understand roles and responsibilities under other funding scenarios as/if these become operational.

Figure 1 – 2021 Call for Concept Notes under funding scenario 4 of Decision 4 (LVI) - Results



Operative Paragraph 6 - Activities Outside Core Budget to be Formulated as CNs

This is already being operationalized, with a proposal from the government of Japan for a study on contributions of ITTO work to “deforestation-free” goals to be implemented as part of Activity 2 of the 2021-22 Biennial Work Programme (BWP) submitted as an additional concept note in September. All members were alerted to this additional CN and comments are currently being sought through the virtual informed feedback loop process before funding is confirmed and work commences. In addition, development of the 2023-24 BWP (to be approved at ITTC 58) will ensure that all new activities proposed are submitted as CNs for member consideration/comments before incorporation in the 2023-24 BWP.

Operative Paragraph 7 – Secretariat to continue to indicate in the Biennial Work Programme (BWP) how each activity aligns with the Programmatic Line(s)

The alignment of relevant activities with the Programmatic Line(s) is indicated in the BWP 2021-2022 and the Secretariat will continue this effort for future BWPs.

Operative Paragraph 8 - Virtual Informed Feedback Loop - Request the Secretariat to provide Members with necessary information in a timely manner under the virtual informed feedback loop to ensure transparency and adequate time for Members to provide feedback.

The Secretariat commenced the utilisation of the virtual informed feedback loop in 2020 in accordance with the requirements in Operative Paragraph 8 and will continue to do so as appropriate and necessary. As noted under Operative Paragraph 6, the virtual informed feedback loop is currently being consulted regarding a CN submitted by the government of Japan.

Operative Paragraph 9 – Implementing Decision 8(LV) Advisory Board, engaging with funding mechanisms including GEF

Secretariat has continued under Decision 4(LVI) to periodically convene the Advisory Board (AB) established under Decision 8(LV), which met twice in both 2020 and 2021 (April and July of both years). Minutes of Advisory Board meetings in 2020 and 2021 have been posted on the members’ portal of the ITTO website and are available in document ITTC(LVII)/Info.10. The Advisory Board received comprehensive updates at each meeting on the implementation of Decisions 8(LV) and 4(LVI). Additionally, the Advisory Board was consulted by the Secretariat on several matters as appropriate in the implementation of both these Decisions.

Letters to official contact points of GEF and CBD in ITTO members were sent in May 2021, informing all recipients of ITTO projects and concept notes that are pending finance and the existence of the pilot Programmatic Approach and Programme Lines, urging in-country coordination (ITTO focal point details were provided) and highlighting the role that ITTO can play in contributing to GEF objectives in member countries. A letter was also sent to the CBD secretariat informing of the above communications and requesting its support in communicating ITTO priorities to the GEF-8 replenishment cycle. Follow up communications related to this

topic are ongoing with some member countries, notably Japan which has made several efforts to raise ITTO's profile in relevant fora (GEF, G7, etc).

The accreditation process with the GCF continues and is work in progress (the latest response to GCF's requests for more information was sent in September 2021). More details will be provided under Council Agenda item 16 on Matters related to Article 15 of the ITTA, 2006 on cooperation and coordination with other organisations.

Operative Paragraph 10 – Formal terms of reference (ToR) for Advisory Board

A draft TOR agreed by the Advisory Board is attached as Annex 1. These ToR will be discussed and considered for adoption by Council under Agenda Item 17 (b).

Operative Paragraph 11 – Propose structure and approach for review of Decision 5(LIV) in 2022

Due to only one project having so far been approved (and about to begin implementation) under the pilot programmatic approach following the initial open call for proposals that was begun in December 2020, the Secretariat believes it is premature for this review to be undertaken in 2022, a view also shared by the Advisory Board when it reviewed the results of the first open call for CNs at its July 2021 meeting. As such, it is recommended for Council's consideration that the review be postponed at least until 2023 to enable a more thorough assessment on the long-term effectiveness and feasibility of the pilot approach as stipulated under Decision 5(LIV).

It is further proposed that the review, when undertaken, would consist of a two-person team of one consultant each from a consumer and producer member country to review the implementation of the decision and the pilot programmatic approach through member surveys and selected visits to member countries, especially countries that hopefully by then would have benefitted from concept notes being implemented as projects. Council may also consider establishment of a working group to review the work produced by the consultants and make recommendations for changes/improvements to the programmatic approach. If Council is of the view that the review should go ahead in 2022 as called for in Decision 4(LVI), then there needs to be a wider discussion on the TOR for the review at this Session.

Operative Paragraph 12 – Request the Executive Director to report on the progress made and challenges encountered in the implementation of Decision 4(LVI) at its Fifty-seventh Session

This document contains the progress report required under this Operative Paragraph. The next section enumerates challenges as perceived by the Secretariat.

Operative Paragraph 13 – Utilization of Working Capital

Utilization of up to US\$200,000 of the Working Capital Reserve is authorized to implement this Decision. Less than \$25,000 has been utilized to date, primarily for the development of the online system referred to under Operative Paragraph 2 but also for communications expenses. If a review of the programmatic approach is undertaken as proposed under Operative Paragraph 11, there will be further expenditure but still well within this approved budget.

C. Challenges encountered in the implementation of the Decision

The following challenges have been encountered to date in implementing the pilot programmatic approach.

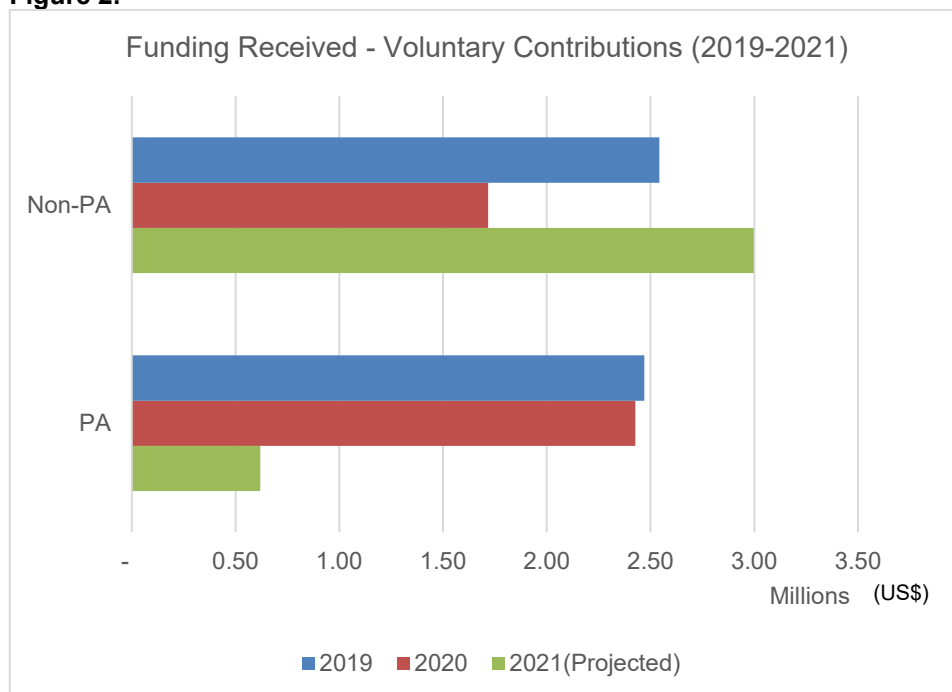
1. The first open call for CNs launched in December 2020 resulted in twelve valid CNs being submitted to Secretariat by the closing date in April 2021. Out of the twelve received, only one CN has received donor interest and was developed into a project proposal for implementation. Significantly greater interest from donors is necessary for the programmatic approach to successfully contribute to the objectives of the ITTA.
2. When seeking funding contributions for CNs and/or ITTO projects from external donors, such donors invariably ask how much funding will be provided from within ITTO. Hence, initial expressions of interest from ITTO donors are usually a prerequisite to encourage interest and contributions from external funding sources.
3. Table 3 is an updated version of the table presented to Council in 2019 and 2020 summarizing Secretariat efforts to seek external funding for ITTO work related to the new programmatic approach. Unfortunately, all unsolicited submissions (e.g., responding to open calls) previously reported to Council shown in the bottom of Table 3 have been unsuccessful. It has so far proven more productive to seek funding for activities and/or projects related to the programmatic approach from existing donors. Figure 2 shows the breakdown between funding related to the programmatic approach and other funding received from donors for 2019-21. While funding to these two categories was roughly comparable in 2019 and 2020, current

projections based on information received from donors indicate there will be a large difference in favour of non-programmatic approach related projects/activities this year.

Table 3 – Funding pledged or sought related to the pilot Programmatic Approach

Fundraising efforts	Program Line	Tentative Budget	Status	Actual results to date
2019: Japan Forestry Agency / LSSC-related training modules in Congo Basin countries	PL 1: LSSC	USD 316,000	Operational	USD 316,000
2019: German BMEL – Regional Teak Program – Mekong Region	PL 1: LSSC	USD 1.24 million	Operational	USD 1.24 million
2019: German BMEL - Programme on Legal and Sustainable Supply Chains (LSSC) for Tropical Wood and Forest Products	PL 1: LSSC	USD 2.39 million	Operational	USD 2.39 million
2020: German BMEL funding agreement for Global Forest Education Survey/Platform; Consortium FAO (lead)-IUFRO-ITTO	PL 4: Emerging	USD 124,000	Operational	USD 124,000
2020: Japan Emergency Forest Fire Project (Peru, Indonesia)	PL 4: Emerging	USD 2.2 million	Operational	USD 2.2 million
2020: Soko Gakkai/Japan Local community and climate adaptation	PL 2: FLR	USD 90,000	Operational	USD 90,000
2020: Japan Forestry Agency/LSSC-related activities in China, Myanmar and Viet Nam	PL 1: LSSC	USD 723,000	Operational	USD 723,000
2021: Japan Forestry Agency/PD922/21 Rev.1(I) "Promotion of Sustainable Domestic Wood Consumption in Vietnam"	PL 1: LSSC	USD 339,500	Pledged	USD 339,500
Request from German BMEL to submit proposal for transfer of the Global Timber Tracking Network from EFI to ITTO	PL 1: LSSC	TBC	Discussions with BMEL ongoing	USD 0
Building LSSC capacities for tropical enterprises; trade associations, governments; MoU with SAR Macau under discussion	PL 1: LSSC	TBC	Dialogue started but stalled due to COVID 19	USD 0
EU Draft Proposal under the EU Action Plan to Protect and Restore the World's Forests – submitted January 2020	PL 1: LSSC	EUR 10 million	Submitted: January 31, 2020 - unsuccessful	USD 0
German BMU-IKI Call for Proposals - Thematic Program – West Africa: Forest landscape restoration by local communities/women; DL 06 April 2020	PL 3: FLR	EUR 16 million	Submitted: April 6, 2020 - unsuccessful	USD 0
German BMU-IKI Call for Proposals - Indonesia Social Forestry: Development of Bamboo Economy; DL 30 April 2020	PL1: LSSC	EUR 15 million	Submitted: April 29, 2020 - unsuccessful	USD 0
Totals: 1. Secured a) 2019		~USD 3.95 mil.		~USD 3.95 million
b) 2020		~USD 3.14 mil.		~USD 3.14 million
c) 2021		USD 339,500		USD 339,500

Figure 2.



4. Table 4 shows the significant number of Council approved ITTO projects, activities and concept notes currently awaiting financing. Several producer member countries have requested clarification from the Secretariat as to why these existing submissions, all approved by Council, remain unfunded and what can be done to rectify this situation. The Secretariat is working with all such countries to identify potential funding sources, but it is a challenge to persuade members to submit new proposals under the programmatic approach when high priority projects submitted earlier remain unfunded. Several countries have indicated that the recent decline in project funding has led to internal discussions regarding the priority to place on paying assessed contributions to the administrative budget.

Table 4 – Projects/activities/CNs pending finance

Pending finance	Total budget	No.
Projects	\$10,242,521	23
BWP activities	\$3,497,216	18
Concept Notes	\$1,936,356	12
Total	\$15,676,093	53
<i>Projects Sunset by the end of 2022</i>	<i>\$6,018,966</i>	<i>11</i>
<i>Projects and CNs Sunset after 2022</i>	<i>\$4,223,556</i>	<i>12</i>

Note: 8 projects were sunset in 2021 with a total budget of \$2,274,655.

5. Several operational elements of the programmatic approach remain to be clarified by Council, including:
- The frequency of calls for CNs
 - The relationship between the programmatic approach and the regular project cycle (i.e. maintain both for 2022 prior to further discussion at ITTC 58 and/or following the Review on the Programmatic Approach?)
 - The status of the thematic programs established under the ITTA, 2006 (i.e. are thematic programs still considered operational?)
 - Decision 4(LVI) states that current qualification criteria and sunset provisions for projects will apply equally to concept notes that are submitted. The Secretariat's interpretation of this is that, in accordance with the sunset provision of Decision 2(X), submitted concept notes will be removed from the concept note database if no donor interest is expressed within 20 months of being published on the ITTO website. However, Decision 2(X) refers to projects losing their approved status following expiry of the sunset period (CNs are not subject to any "approval" process by Council) and allows countries to extend the sunset period by writing to the Executive Director. Council may wish to consider clarifying the application of the sunset clause of Decision 2(X) to CNs.

D. Recommendations

In its deliberations on this agenda item, Council is recommended to (inter alia):

1. Adopt the formal terms of reference for the work of the Advisory Board as contained in the annex of the draft decision; and
2. Decide on the timing and nature of the review of the implementation of Decision 5(LIV).

A draft Council decision incorporating both recommendations is included in Annex 2.

Annex

DRAFT Decision on the adoption of the terms of reference for the Decision 4(LVI) Advisory Board and the timeline and terms of reference for the review under Decision 5(LIV) on the pilot Programmatic Approach



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DRAFT **DECISION XX(LVII)**

ADOPTION OF THE TERMS OF REFERENCE FOR THE DECISION 4(LVI) ADVISORY BOARD AND THE TIMELINE AND TERMS OF REFERENCE FOR THE REVIEW UNDER DECISION 5(LIV) ON THE PILOT PROGRAMMATIC APPROACH

The International Tropical Timber Council,

Recalling Decision 4(LVI) requesting the Advisory Board to develop formal terms of reference for its work, to be considered by the Council at its Fifty-seventh Session;

Further recalling Decision 5(LIV) which requested the Executive Director to undertake a review of its implementation in 2022, including the long-term effectiveness and feasibility of the pilot programmatic approach;

Taking into consideration the work and recommendations of the Advisory Board established under Decision 8(LV) as well as the progress report on the implementation of ITTO's New Financing Architecture - Phase II as contained in document ITTC(LVII)/14;

Noting that to date only one concept note has been developed into an approved project and funded under the pilot programmatic approach following the initial open call for proposals that was undertaken in December 2020, and that it is therefore premature for a review to be undertaken in 2022;

Decides to:

1. Adopt the formal terms of reference for the work of the Advisory Board as contained in the Annex;
2. Request the Executive Director/Officer-in-charge to prepare a second progress report on the implementation of the pilot programmatic approach for consideration at ITTC 58; and
3. Postpone the review of the implementation of Decision 5(LIV) until at least 2023, and take a final decision on the timing and terms of reference of the review at ITTC 58.

Annex

Draft Terms of Reference for the Decision 4(LVI) Advisory Board (established under Decision 8(LV) and augmented under Decision 4(LVI))

Introduction

The establishment and general role of the Advisory Board (AB) is governed by decisions 8 (LV) ¹ Implementing ITTO's New Financing Infrastructure – Phase I and 4 (LVI) Implementing ITTO's New Financing Infrastructure - Phase II. ²

Composition of the AB

The AB is composed of the ITTO Informal Advisory Group (IAG) complemented by representatives of the Trade Advisory Group (TAG) and the Civil Society Advisory Group (CSAG), or their designated alternates.

Mode of Operation

1. The AB will be chaired by the Chairperson of Council, or in his/her absence, by the Vice-Chairperson of Council.
2. The AB will meet three times a year including one meeting immediately prior to, during or following Council sessions. Intersessional work by the AB will be conducted virtually, by e-mail and telephone, as appropriate.
3. The AB may propose informal joint producer/consumer sessions for the consideration of the ITTC Chairperson, as appropriate, to address key financial matters during respective Council sessions.
4. The AB will liaise closely with the Executive Director, the Committee on Finance & Administration (CFA) and the Secretariat in carrying out its functions.
5. The AB will be supported by the ITTO Secretariat to plan meetings, provide meeting and documentary support and undertake any intersessional work as deemed appropriate and necessary.
6. The AB may make recommendations based on its remit under the appropriate Council Decisions for the Consideration of Council. In doing so, the AB will take direction solely from Council and will not give direction to, nor take direction from the IAG, the producer/consumer caucuses, individual members or the Secretariat.
7. The final minutes of all AB meetings will be made publicly available/available to the ITTO membership by being posted on the ITTO website within a reasonable timeframe following each AB meeting and final clearance by the AB.

Role and Responsibilities of the AB

8. To request and receive regular updates from the Executive Director on the implementation of the pilot programmatic approach and ITTC-endorsed Programmatic Lines, including engagement with international bodies such as potential funding partners, as stipulated in applicable Council decisions.
9. To advise the Executive Director on the ongoing implementation of applicable decisions on ITTO's financing architecture including on new/emerging funding opportunities that the AB may be aware of and/or appropriate timing of new calls for proposals under any of the four funding scenarios described in Decision (4(LVI)).
10. To provide guidance to the Executive Director on the most appropriate methods of implementation of the finance architecture approved by council in order to achieve the objectives stipulated in the applicable decisions.
11. To specifically advise the Executive Director and make recommendations for Council's consideration on how the regular project cycle is to be dealt with during the pilot phase of implementation of the Programmatic Approach and applicable decisions.

¹ **Reference para in Decision 8 (LV)** 16. Establish an advisory board composed of the IAG complemented by representatives of TAG and CSAG, or their designated alternates, that meets via conference call every four months to receive an update on the implementation of the pilot programmatic approach, including engagement with international bodies such as potential funding partners, and to advise the Executive Director.

² **Reference para in Decision 4 (LVI)**: 9. Request the Executive Director to continue to implement the activities requested under Decision 8(LV), including periodically convening the Advisory Board; and engaging with funding mechanisms, including the GEF and its partners ahead of its eighth replenishment process; 10. Request the Advisory Board to develop formal terms of reference for its work, to be considered by the Council at its Fifty-seventh Session.

12. To provide guidance to the Executive Director on the most appropriate methodology for reviews of the implementation of the Programmatic Approach, including its long-term effectiveness and feasibility.
13. To review and advise the Executive Director on draft/proposed memorandums of understanding (MOUs) or other agreements of cooperation between the ITTO and other organizations or entities to ensure alignment with the intent of relevant Council decisions and directives.

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