



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON
FINANCE AND ADMINISTRATION**

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REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

**THIRTY-SIXTH 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), Ms. Teresa Guila Nube of Mozambique, welcomed all delegates to the Thirty-sixth Session of the Committee.

Item 2: Adoption of Agenda and Organization of Work

2. Due to the ongoing COVID-19 pandemic and global travel restrictions, it was decided by the ad hoc Advisory Group under ITTC Decision 9(XXXI) that the Fifty-seventh Session of the Council would be held virtually using the KUDO web conference system. As this decision allowed limited time to be allotted to discuss Committee-related agenda items during the Session, the Chairperson, through the Secretariat, requested Member Countries to provide comments to the CFA documents, circulated prior to the opening of the Council, so that comments would be incorporated in the CFA Report as interventions. Furthermore, it was decided at the Informal Advisory Group (IAG) that an agenda item on the review and possible development of a policy and procedures for the use of the Working Capital Reserve would be discussed by Council at its Fifty-seventh Session. Follow up on Liberia's request for 'Relief from Obligations' would be deferred to the next Committee Session as Liberia has not responded on the provision of modalities and a suitable payment plan for the Council's consideration. As there were no comments received on the Provisional Agenda, it was adopted by the Committee as contained in document CFA(XXXVI)/1.

Item 3: Admission of Observers

3. The Council had admitted all applicants shown in document ITTC(LVII)/Info.3, which lists states, intergovernmental and non-governmental organizations applying for Observer status. The Committee in the past has been open to all observers, except, in accordance with the rules of procedure, on those agenda items that are restricted to Members only, in which case observers would be requested to leave the room. As there were no comments, the Committee approved the admission of observers following past practice.

Item 4: Draft Biennial Administrative Budget for the Years 2022 and 2023

4. The Secretariat referred to the Draft Administrative Budget for the 2022-2023 Financial Biennium, as contained in Document CFA(XXXVI)/2 dated 30 July 2021, which was circulated to Members much earlier.

5. The Secretariat reported that the total budget for 2022 is estimated at US\$7,031,320, which is a decrease of US\$72,996 (1.03%) compared to the approved budget for 2020. The total budget for 2023 is estimated at US\$7,104,295, which is a decrease of US\$21 compared to the approved budget for 2021. As such, there is no nominal increase for the overall 2022-2023 budget compared with the approved budget for the 2020-2021 biennium. However, as in previous years, no contingency has been included in the proposed Administrative Budget for the financial years 2022 and 2023 and hence, unexpected shortfalls in the budget, such as exchange rate fluctuations, non-payment of assessed contributions by members, inflation and unforeseen personnel change, may need to be financed from the Working Capital Reserve.

6. As the Committee is informed above, the "Basic Administrative Costs" for the 2022-2023 biennium indicates a decrease of US\$72,996 (1.18%) for 2022 compared to the budget of 2021 and an increase of US\$21 (0.00%) for 2023 compared to the budget of 2021. This shows there is no significant change in the level of the basic administrative costs compared with 2021. The "Core Operational Costs" are budgeted at the same amount for 2022 and 2023 compared to the budget of 2021, again showing no significant change in the level of the Core Operational Costs compared with 2021.

7. The delegate of Mexico noted that there is an urgent need for the Organization to formalize a work/activity plan to incorporate new member countries and thus reduce the amounts of contributions from existing member countries. They added that this approach would also help rebuild the trust of the donor community and other stakeholders in funding projects and activities.

8. The Secretariat responded that it would be advisable for the delegation of Mexico to raise this matter during discussions under Agenda item 11 related to Article 19 of the ITTA, 2006, on the Administrative Account

to enable Council discussions on the best way forward. Meanwhile, Secretariat will continue to look into workable ways to encourage members to make timely payments of their assessed contributions.

9. The delegate of Japan sought clarification from the Secretariat on why there is a constant mention of “there is no contingency included in the proposed Administrative budget” when there are already two reserves established for this contingency purpose, namely, the Working Capital Reserve and the Special Reserve. They noted that each reserve amounted to very high proportions of the annual budget size/coverage of potential pension liabilities, relative to most other international organizations. Japan recommended that, if there was a perceived need to include this sentence in each budget document, the Secretariat should specify where it perceives lack of prudent measures, and how this could be resolved for consideration and approval by members, as provided by examples from other organizations. According to Japan’s observations, ITTO has sufficient reserves relative to other international organizations that it does not warrant setting up additional provisions/ reserves to cover any “contingencies”. They state that the Committee should rather focus on more flexible ways of enabling deployment of financial resources (from different line items, surplus within the biennium, etc) in times of need amid crises to maintain the core Secretariat functions. The United States supported this recommendation.

10. The Secretariat clarified that, as explained in page 2 of CFA(XXXVI)/2, there is no contingency included in the proposed budget to cover unexpected shortfalls in the budget under circumstances which necessitates the Secretariat to spend more than the approved budget. The Working Capital Reserve is used currently by the Secretariat up to the approved amount of US\$300,000 per year in circumstances where there are delays in the receipt of members’ assessed contributions and the Secretariat is unable to spend funds within the approved budget allocation and not to spend more than what is approved. The Special Reserve is only usable to meet obligations in the event that the Organization ceases to exist, and not for any other reason. The explanation in CFA(XXXVI)/2 regarding the contingency budget is there only to inform members that in the event unforeseen circumstances occur, the Secretariat may need to seek approval by Council to use additional resources including the Working Capital Reserve. The Secretariat took note of the comments by Japan and the U.S.A. and indicated it will consider revising the text to be clearer so that mention of there being no contingency is omitted and that reference is only made to the use of the Working Capital Reserve.

11. The delegate of Japan also noted that no budget assigned to Section Q “Policy Work” for quite some time, despite this being part of the ITTA objectives. They inquired from the Secretariat whether the work on the Strategic Action Plan qualifies as a policy item and whether it used any resources from the core budget, or whether the related expenses were drawn from other line items related to meetings, consultants, and other miscellaneous expense lines. They wondered whether this policy budget line item needs to be separate or to assume that it is already incorporated under other line items as done by other Secretariats where this line of work is almost always considered as a “core” function. The way it stands gives the impression that ITTO has not conducted any work on policy/ guidelines when this does not seem to be the case. Since this line has not been filled for a while, Japan recommends that this line item be deleted as the reserves are likely to be allocated for this work or be covered under other items (such as meetings, consultants) or recommends reallocation from budget lines that can be substituted via digitalization (small meetings publications, etc.), as necessary and appropriate.

12. The delegate of Mexico also drew the attention of the Committee to Item Q. Work Policy, which includes Action Plan activities, for guidelines, manuals, among others where no resources were committed in the 2022-2023 period. They recommended that the commitment of resources for the period mentioned in Item Q be examined, since it would be necessary for the execution of activities during the approval and adaptation process of the Strategic Action Plan 2022-2026, as well as for the extension or renewal of the International Tropical Timber Agreement 2006 (ITTA).

13. The Secretariat clarified that under the explanation on the policy work of the Organization on page 20 of CFA(XXXVI)/2, it states that “the new ITTO Action Plan is normally produced every 6 years before the end of its duration”. In order to avoid sudden increases in the budget for certain years that require expenditure under this sub-heading, the Secretariat will propose the usage of alternative funding sources, including voluntary contributions, or the Working Capital Reserve at the time the Council takes the decision to produce the new ITTO Action Plan”. Therefore, the development of the new Strategic Action Plan was funded through the latest Biennial Work Programme (BWP) under item 11. Other policy related activities have also been conducted through the BWP Group 2 – “Normative work on policy guidelines or other strategic work” of the BWP. Taking Mexico’s comment into consideration, Secretariat will add a cross-reference to the BWP in the Administrative budget on this particular item.

14. The United States noted the Secretariat's laudable efforts to present a cost saving budget within the resources provided, which successfully accomplished all core functions of ITTO. They encouraged ITTO to continue its efforts to find cost efficiencies and savings.

15. The EU noted that it is ready to adopt the draft biennial administrative budget, but expressed its reserves on the realism of this budget against the persistent shortfall in contributions. The EU suggest to establish a process to review the secretariat structure and activities against long term trends in payments of assessed contributions to be completed before the discussion of the next biannual budget.

16. The Committee took note of the discussion and decided to recommend to the Council the adoption of the draft administrative budget for the 2022 and 2023 financial biennium.

Item 5: Review of Contributions to the Administrative Budgets

17. Document CFA (XXXVI)/3 dated 7 September 2021 detailed the status of members' contributions to the Administrative Budgets for the financial years from 1986 to 1 September 2021, including assessments, receipts, interest charges, and arrearages in contributions. In 2021, \$1,378,871.09 had been received from producer members out of the total net assessment of \$3,318,070.00; and \$3,646,821.00 had been received from consumer members out of the net assessed amount of \$3,786,243.00.

18. The arrearages in contributions to previous years' budgets from producer members amounted to \$6,924,918.51 and arrearages from consumer members amounted to \$322,043.00. The amount outstanding from this year's assessment was \$1,939,198.91 for producer members and \$139,422.00 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 \$11,063,631.70.

19. The delegate of Malaysia noted that they were overall agreeable to the CFA documentation. However, they emphasized that ITTO should focus on the incentives and punitive measures to ensure member countries pay their membership fees in full and on time, mainly producing countries. The Secretariat reminded the Committee that the issues on incentives and punitive measures to ensure member countries pay their membership fees on time were/will be addressed under ITTC(LVII)/6 "Matters related to Article 19 of the ITTA, 2006 on the Administrative Account", which will be discussed as Agenda Item 11 at the 57th Session of the Council.

20. The United States noted that the Secretariat should continue efforts to collect outstanding arrears and hold delinquent members accountable for their financial obligations. They recommended that ITTO follow the practice of other international organizations rather than write off arrears of member states that have lost their voting rights, as writing off arrears contributes to financial instability and threatens the viability of the ITTO. They suggested that one such standard practice for extraordinary situations was to spread arrears balances over longer time horizons such as 10 or 20 years and allocate the amount to the current annual payments. The United States proposed discussing reasonable approaches more fully before taking a final decision.

21. The EU welcomed the savings made by the Secretariat so far that have enabled the Organization to cover the core operational costs and encouraged the work in the future to further adjust the budget to the resources available by finding other savings and new financing resources. The main concern is the growing number of "long-term" arrears, with members owing ITTO five or more years of annual contributions. The EU further mentioned that they would like to encourage members to pay in a timely manner during the year they are assessed and to discuss the ways in which this can possibly be done. Further efforts to collect outstanding arrears and to hold members that have not paid their assessed contributions accountable for their financial obligations need to be made. Although EU's position would be in favor of a pay-off scheme for members in arrears where the Secretariat and the concerned country could agree to a long-term scheme for paying its arrears, other options may be explored. The EU mentioned that they would like to ensure that the new Executive Director takes this issue of the arrears as the major challenge to face in the years to come in order to have a sound and financially stable Organization. The actions to take should be included in the roadmap that would come along the Council decision of extension and that would be assessed by the time the extension of the ITTA, 2006 finalizes in five years.

22. Referring to Agenda item 11 and Document ITTC(LVII)/6 again, the Secretariat informed the Committee that a proposal has been made to revise the financial rules to create a more graduated discount scheme and update its approach to arrears, among other matters, in the hope of addressing these issues and further discussion could be held during the Council Session under this agenda item.

23. The Committee took note of the report.

Item 6: Current Status of the Administrative Account

24. Document CFA (XXXVI)/4 Rev.1, dated 14 October 2021, reports on the current status of the Administrative Account for the financial year 2021, together with the estimated expenditure for the current year.

25. Section A of page 1 of the document shows that the estimated total expenditure for the financial year 2021 would amount to \$5,576,520.80 (i.e. \$1,527,796.20 less than the total amount approved in the budget for 2021 of \$7,104,317). The total contributions received from both producer and consumer members amounted to \$5,025,692.09, and it was anticipated that a deficit in the amount of \$550,826.71 would accrue in 2021. This amount would be deducted from the Working Capital Reserve.

26. Section B shows that the current year's arrears in contributions amounted to \$2,078,620.91. Total arrears for the period 1986–2020 amounted to \$6,880,594.94 for producer members, and \$322,043.00 for consumer members, and \$1,707,005.72 for former members. The interest charges on these arrears in contributions amounted to \$75,367.10. Total outstanding contributions to the Administrative Account, including interest charges, amount to **USD 11,063,631.67**.

27. Section C 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.

28. Section D shows that the resources of the Working Capital Reserve are estimated to increase from the year's opening balance of \$5,379,966.15 at the beginning of 2021 to \$5,663,737.81 by the end of 2021.

29. Section E shows an interest income balance of \$240,871.97, which is to be used by the Executive Director for hiring consultants in accordance with the Financial Rules, Rule 5(10). The document also contains details of expenditure for each budget item and where savings are to be made.

30. Annex 1 contains information required by the new Financial Rules to be brought to the attention of the CFA. This includes a list of procurement greater than USD 100,000; sole suppliers; bad debts that were written off; banks and financial institutions approved by the Council; and matters related to the administration of the Administrative Account relating to the proposal for the treatment of past provident fund management fees charged to staff;

31. On the Summary Statement and Expected Total Arrears, the delegate of Japan asked the Secretariat whether it can be assumed that expected total arrears do not reflect any IPSAS-related reporting adjustments (i.e. bad-debt from outstanding contributions that were over 4 years would be written off at 100% under IPSAS). If the intent was to indicate liquidity concerns of the organization, they suggested that the liquidity ratios, as used at other UN Conventions would be better indicators. They also drew the attention of the Committee that arrears should be placed in the context of cumulative indicative contributions as well, giving an example from UNCCD (below), since mixing stock and flow could sometimes provide misleading messages.

<https://www.unccd.int/sites/default/files/relevant-links/2020-07/OUTSTANDING%20CONTRIBUTION%202008%20-%202020%20AS%20OF%2030%20JUNE%202020.pdf>

32. The Secretariat responded that IPSAS related adjustments are not reflected in this document at this stage. This is because such adjustments may increase or decrease the balance based on receipt of contributions written-off in previous years, and the amount can neither be accurately determined nor can a reasonable estimate be made until the end of the year. The Secretariat further stated that the status of arrears of members were shown in CFA(XXXVI)/3 and may provide the necessary information as referred to above.

33. Regarding the surplus shown in the document, the delegate of Japan noted that there were high levels of surpluses in the operational activities portion (special activities, communications), and sought clarification

from the Secretariat how much of the savings could be realized on an ongoing basis, with a greater shift toward virtualization. They suggested that it would be good to identify any potentially permanent level of savings lines that can be re-allocated to under-served areas such as policy discussions (which has a zero allocation). They noted that it had been proven over the past year that smaller working groups could easily and effectively operate in a virtual setting.

34. The Secretariat responded that from what has been observed, there may be limited room to make permanent savings especially when considering the need to maintain ITTO's presence internationally, both during and in a post-COVID environment. Additionally, it should be noted that not all of the allocated budget may be used by the Secretariat due to nonpayment of assessed contributions by members and the current ceiling on how much of the Working Capital Reserve may be used to cover late payment by members. As explained above, allocations to policy work have been made under the BWP 2021-2021, hence does not reflect zero-allocation to policy work/discussions.

35. The United States appreciated the commendable management actions taken by the Secretariat to hold costs down and achieve a budgetary surplus. They encouraged the Secretariat to continue this application of prudent financial management policies. They also encouraged ITTO to continue to explore methods, technologies, and practices which would provide systemic management improvement that would lead to economies and streamlining of its operations. For efficiency of proceedings, the United States believed that the Council should vote on the use of surplus funds at the end of each financial year. Generally, their preference was for surplus funds to be returned to members or to be used for special one-time purposes that would not lead to future recurring costs. The United Nations Joint Inspection Unit examined the practices of organizations in the UN System and found that, on average, a reserve fund level equivalent of approximately 15% operating expenditures was typical. However, they noted that ITTO's Working Capital reserve for 2021 was projected to equal 98.50% of its annual expenditures.

36. The Secretariat took note and added that although there is a budget surplus, it anticipates that there will be a cash deficit of approximately \$550,000 in 2021, due to the level of arrears for the payment of 2021's assessed contributions. This amount will need to be replenished from the Working Capital Reserve. Therefore, there will be no surplus funds for 2021 that can be returned or allocated for other purposes. The Secretariat further noted that out of the Working Capital Reserve balance, the Secretariat is limited to using an amount of \$300,000 per year, which is equal to 5.38% of annual expenditures, to cover late payment of assessed contributions by members. The issue on the use of the Working Capital Reserve and replenishment of cash deficits is scheduled to be discussed further under Council agenda Item 11.

37. The Committee took note of the report.

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

38. Document CFA (XXXVI)/5 dated 1 September 2021, on "Resources of the Special Account and the Bali Partnership Fund", captured the current balance of funds under the Special Account and the Bali Partnership Fund.

39. 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(XXXVI)/5 serves 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.

40. The current balance of funds under the Special Account and the Bali Partnership Fund is \$15,510,671.56, of which \$12,154,289.47 are funds committed to specific projects and activities. The unearmarked funds and the Sub-account B of the Bali Partnership Fund, which has a balance of \$116,082.60, may be allocated to projects/activities by the Panel on Sub-Account B of the Bali Partnership Fund. This Committee is being convened electronically during this session and will be tabling its recommendations to Council for approval.

41. The Committee took note of the report.

Item 8: Auditor's Report for the Financial Year 2020

42. Document CFA (XXXVI)/6 on the "Financial Reports Prepared in Accordance with ITTO Financial Rules and Procedures (Annex 4)" contains 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 2020 prepared by the ITTO Management; and ITTO's Financial Statements for the year ended 31 December 2020, audited by the Independent Auditors.

43. The audit was carried out by Ernst & Young Japan, appointed by the Council in November 2017 to audit the Accounts of the Organization for the financial year. It carried out the financial audit for the period ending 2020 during the months of March to June 2021.

44. The audited financial statements provided information on the financial position and performance of ITTO for the fiscal year ended 31 December 2020 (FY2020).

45. For ITTO's Project accounts in FY2020, new voluntary contribution pledges of \$4.1 million were announced at the Council Session, while total project cost expenses during this period was \$3.0 million from projects mostly funded prior to FY2020. Total Administrative Account assessed contribution revenues were \$7.1 million, of which \$1.6 million was not received during FY2020 and accounted for as assessed contributions receivable (arrears).

46. 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 were to be piloted and new streamlined project cycles and programmed themes were to be developed from 2019 in accordance with this decision. Information on revenue, direct and indirect costs associated with implementing this pilot would also be reported in the financial statements for calendar years 2019, 2020 and 2021, in accordance with this decision. For calendar year 2020, it was reported that total pledges of \$2,427,614 were made associated with implementing the pilot and total cost associated with implementing the pilot was \$324,338.

47. Other highlights include, among others:

- The surplus for the FY2020 Statement of Financial Performance was \$0.8 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. However, only expenses incurred during the same year are recognized as expenses from that year's budget).
- Project expenses decreased by \$2.7 million between 2019 and 2020. This was mainly due to projects being delayed or deferred in 2020 due to the COVID-19 pandemic and its consequences.
- Advance transfers to projects increased by \$0.3 million between 2019 and 2020 but this was not due to increased expenditure. Rather, it was due to the inability of the executing agencies to spend transferred funds for project implementation, mainly due to projects being delayed or deferred in 2020, reflecting the impact of the COVID-19 pandemic, affecting the spending rate for advance transferred funds by the executing agencies.

48. Document CFA (XXXVI)/CRP-1, "Management letter prepared by the independent auditors for ITTO management" was a letter 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 auditors 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.

49. The delegate of Japan noted that the heading "Other voluntary contributions" on page 8 of the document should be entitled "host country contributions" as \$1.14 million (as per note 20) is equivalent to Japan's host country contributions, which is not voluntary by nature and is not a standard heading with regard to host country contributions, as seen in statements of other conventions/ agreements. They considered the current heading would lead to misinterpretation that this contribution was akin to voluntary contributions related to projects (i.e.

not a core administrative contribution by nature) and the heading should be consistent with the footnotes to the financial statement explaining about the same financial figure (Note 20).

50. The Secretariat responded that it will make efforts to reflect the changes requested by the delegate of Japan in next year's financial statements since the auditors had already expressed their opinion in this current format. The Secretariat, additionally, indicated that references made in Note 20 of CFA(XXXVI)/6 and the "Statement of comparison of budget to actual amounts" had been changed to "Host Country Contributions" as requested and discussed at the CFA's thirty-fifth meeting.

51. To address commonly cited concerns about liquidity, the delegate of Japan recommended that ITTO include a similar table as below, which is a sample from the UNCCD's Board of Auditor Report:

Table 2: Ratio analysis

<i>Ratio</i>	<i>31 Dec 2020</i>	<i>31 Dec 2019</i>	<i>31 Dec 2018 (restated)</i>	<i>31 Dec 2017</i>
Assets-to-liabilities ratio^a				
Total assets : total liabilities	1.15	1.06	1.29	1.38
Current ratio^b				
Current assets : current liabilities	10.59	9.38	7.97	3.75
Quick ratio^c				
(Cash + short-term investments + accounts receivable): current liabilities	10.48	9.25	7.85	3.70
Cash ratio^d				
(Cash + short-term investments) : current liabilities	7.01	6.32	6.26	2.56

Source: Own calculations based on the UNCCD financial statements for 2020, 2019, 2018 (restated) and 2017

^aA high ratio is a good indicator of solvency.

^bA high ratio indicates an entity's ability to pay off its current liabilities.

^cThe quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

^dThe cash ratio is an indicator of an entity's liquidity. It serves to measure the amount of cash, cash equivalents or invested funds available in current assets to cover current liabilities.

52. The delegate of Japan stated that the inclusion of a table like above was important, especially for the administrative account, as there seemed to be concern relative to other organizations on ITTO's financial standing, when in fact, ITTO is actually much better off than most (as can be seen above, in comparison with UNCCD, for example, and many others). They added that this was not to belittle the problems of arrears and late payments (which was an issue for all international organizations, and ITTO was not an exception), but it was important to distinguish financial strength versus financial flexibility, especially in relation to managing the core administrative budget. In examining the rules, regulations, procedures and decisions, it is very clear that ITTO has very low flexibility granted in its financial management of accounts, which made it relatively inept at responding to financial event risks such as the pandemic, which has led to late and non-payments and an increase in arrears by certain member states. Despite its lower risk/ more liquid balance sheet than other organizations, ITTO has limited flexibility in drawing on resources allocated for the biennium, in the absence of following rules like the one from UNCCD and CBD below:

UNCCD: 8. *Within the General Fund there shall be maintained a working capital reserve at a level to be determined from time to time by the Conference of the Parties by consensus. The purpose of the working capital reserve shall be to ensure continuity of operations in the event of a temporary shortfall of cash. Drawdowns from the working capital reserve shall be restored from contributions as soon as possible (WCR only 8% of budget, no special reserve)*

CBD: 14. *At the end of each calendar year, the Trustee shall transfer any balance to the following calendar year and submit to the Conference of the Parties, through the Executive Secretary, the*

certified and audited accounts for that year as soon as practicable. The Trust Fund shall be subjected to the internal and external auditing procedure of the United Nations as laid down in the Financial Regulations and Rules of the United Nations.

53. The delegate of Japan further mentioned that there are also much more flexible rules allowing for transfers between budget lines in both these conventions. Some other organizations (WIPO, IUCN) have reserve policies in place to handle situations like what ITTO has faced over the past year.

54. The delegate of Japan suggested that, for example, in response to such problems and if there was greater need for flexibility in the rules, the Secretariat can highlight the need for greater flexibility in financial management in the rules/ regulations, if not propose elements in a draft decision for member states' consideration, as done by the CBD, for example, as shown below:

Example from latest elements in budget draft decision (proposed by the CBD Secretariat and authorized by Parties):

Also authorizes the Executive Secretary to enter into commitments up to the level of the approved budget, drawing on available cash resources, including unspent balances, contributions from previous financial periods and miscellaneous income, in accordance with the decisions of the Conference of the Parties and the financial rules and regulations of the United Nations Environment Programme, and requests the Executive Secretary to report on the details and rationale of any budget reallocations in line with paragraph 11 below;

11. Authorizes the Executive Secretary to transfer resources among the programmes between each of the main appropriation lines set out in table 2b below up to an aggregate of 15 per cent of the total programme budget, provided that a further limitation of up to a maximum of 25 per cent of each such appropriation line shall apply;

55. The Secretariat took note of the suggestions by the delegate of Japan and indicated it may consider including information on ratio analysis in the Executive Summary of the Financial Statements at the Council's Fifty-eighth session. Secretariat further recommends that further discussion on the management of ITTO's reserves should be discussed under Council Agenda item 11 as decided at the Informal Advisory Group.

56. The United States supports Japan's proposal for greater flexibility, without giving preference to a particular model approach. The United States additionally supports a recommendation to the Council that it accept the Auditor's Report on the Accounts of the Organization for the financial year 2020 and endorse the Secretariat's proposal for terminating projects not in compliance with contractual obligations.

57. The EU indicated that they are ready to approve both the Independent Auditor's report and on the Accounts of the Organization for the financial year 2020 and the sets of Financial Statements. They also supported the Secretariat's proposal for terminating projects which are not in compliance with contractual obligations and encourages ITTO to continue the transparent and effective financial management and to fully regain credibility and trust to the ITTO.

58. As there were no other comments, the Committee recommends to the Council that it approves the "Financial Reports Prepared in Accordance with ITTO Financial Rules and Procedures (Annex 4)" on the Accounts of the Organization for the financial year 2020, as contained in document CFA (XXXVI)/6.

59. The Committee concluded that the auditor's performance was satisfactory and recommends for Council approval at this Session the re-engagement of Ernst & Young Japan to audit the Organization's Accounts for the financial year 2021.

Item 9: Draft Policy Documents

60. Document CFA (XXXVI)/7, on the "Draft Policy Documents", contains the background and proposed text for ITTO's new policy documents to be adopted.

61. The delegate of Mexico recommended that a resource commitment be made in the Administrative Budget 2022-2023 for wider dissemination of the new ITTO policy documents, once approved, in line with the transparency mechanisms that are administered within the Organization. They emphasized that by doing so,

it could facilitate accreditation to multilateral funds offered by the donor community, for example, the Green Climate Fund (GCF) and the Global Environment Facility (GEF). The Secretariat responded that it would look into the best method for widely disseminating and publicizing these documents in the most cost-efficient manner. The delegate of Japan commended the Secretariat's initiative to provide policy updates to facilitate good governance and accreditation with major funds and donors. They provided for reference the list of policies that can facilitate accreditation with the GEF (<https://www.thegef.org/documents/policies-guidelines>), and noted that these present minimum fiduciary standards are those that all Partner agencies need to comply with.

62. The United States believes that member states should be given the opportunity to discuss these policies in more detail, and therefore suggested the creation of a working group to do so. During a non-virtual session, some of this discussion could be accomplished within the CFA or on the margins. However, the short 90 minutes allocated to committee business at ITTC57 was not conducive to this level of discussion. In the interest of advancing the strengthening of the organization and associated accreditation processes, the United States supports adopting these policies on an interim basis at ITTC57 - contingent on discussing and addressing any concerns and edits suggested by them - and working through further details inter-sessionally. The United States welcomed the Secretariat detailing specific outreach and implementation plans for these policies and describing how member states will receive reporting on the effect of these policies. They also noted several proposed edits to the policies included in the Annex to this report.

63. The United States supports the establishment of institutional policies that codify ethical conduct and data management. Their support for efforts to develop an investment policy, whistle-blower policy, and a code of conduct for the Executive Director of the organization were intended to support such institutional reform. They noted that it was incumbent upon ITTO to demonstrate how the particular policies put forth in this agenda item would meet the needs of ITTO, while also conforming to international management best practices. For this reason, the United States would appreciate additional details from the Secretariat on each of the policies including how ITTO planned to implement them and which offices or individuals would be charged or involved in the processes described. The United States additionally proposes that an ad hoc working group be established to review and discuss these proposed policies more thoroughly and requests an estimate from the Secretariat on what additional cost such a review might impose.

64. Secretariat expressed gratitude to the US for having been actively involved in the introduction of all previous ITTO policies aimed at institutional reform. Taking into account the comments from the US, Secretariat informed the Committee that all necessary amendments have been included in the (ref revised policy doc), made available to members on the ITTO website. Secretariat is confident the amendments address matters raised by the US. Secretariat further wishes to inform the Committee that some elements of these policies need to be expanded in the face of developments within other UN organizations and international entities. Additionally, the adoption of the new policies suggested to the CFA at this Council Session is intended to further enhance existing policies to be aligned with those of other similar organizations and international best practices. The introduction of these additional policies is to ensure that ITTO meets the requirements of ongoing accreditation processes, particularly that of the GCF, which requires such policies to be in place. Once all the new policies are agreed to and adopted by Council, the aim would be to merge all ITTO policies into one single Code of Ethics & Conduct encompassing all the policies. An example is the United Nations Development Programme (UNDP) Code of Ethics. The Secretariat does not anticipate significant additional costs in conducting a review of these policies through an ad hoc working group if such a review is conducted electronically/virtually, save for online conference meetings costs (for example an annual subscription to MS Teams or Skype Business).

65. The United States suggested that member states should also be given the opportunity to fully deliberate on each proposed policy measure. They have submitted a number of questions and proposed edits seeking to clarify language and ensure staff members are able to clearly identify who they can reach out to if faced with issues of harassment or retaliation. As noted, they suggest the creation of a member-led working group where these technical questions could be discussed with the Secretariat. They reiterated that a more deliberative process would ensure the policies adequately employ best management practices and would be thoughtfully implemented.

66. Secretariat welcomes the suggestion from the United States for members to have the opportunity to fully deliberate on each proposed measure as currently contained within the revised policy document (ref) and welcomes the suggestion to establish a member-led working group to discuss and consider all the points raised in this paragraph, fully supporting the need to employ best management practices. To this end, members who wish to participate in this working group are requested to kindly inform the United States delegation and

Secretariat to indicate their interest as soon as practicably possible in order to agree a feasible timeline during which such discussion could be held, aimed at finalizing the policies.

67. On the Policy Prohibiting and Combating Fraud and Corruption, the United States requested an annual review of the proposed anti-fraud/corruption policy so that the policy remained consistent with international best practices. They support further discussion of this policy and would support interim adoption contingent on addressing any concerns and edits contained in the Annex to this Report. They noted that the policy is similar to those adopted elsewhere in the UN System but considered that it needed further details in order to be appropriately implemented. Specifically on Policy 3.6, they asked if there was an indicative timeline associated with fraud investigations.

68. The Secretariat responded that with the agreement of the CFA, annual reviews on this particular policy can be conducted if appropriate to remain aligned to international best practice. However, Secretariat also noted that fraud per se has not been detected in the ITTO's activities concerning projects/activities being executed in recent years. Additionally, the ITTO is a small organization in comparison to the several UN organizations and agencies and multinationals. As clarified in paragraph 58 above, the need to have such a policy is to be consistent and be able to fulfill the requirements of accreditation processes currently being undertaken, primarily under the GCF. On timelines, it would typically depend on the kind and complexity of fraud that potentially occurs where bank fraud investigations are usually investigated within 45 days and more complex fraud could take much longer, depending on the number of personnel or entities involved.

69. The United States requested a review of the proposed Complaints Policy as well, in order to ensure it is consistent with international best practices. The United States is in support of the interim policy contingent on the edits as proposed in the Annex to this Report. They inquired from the Secretariat on what specific sources were used to develop this policy. to which the Secretariat responded that the Complaints Policy was based on a policy adopted by the UNICEF, which is largely based on the United Nations complaints mechanism, which varies depending on applicability. For example, the complaints process under the UN for procurement varies from that for conduct in field missions.

70. On the Code of Ethics for ITTO Personnel, the United States supports its interim adoption, noting that they had helped develop a code of conduct as a result of the improper actions of senior management and this code of ethics is in a similar vein. They asked the Secretariat how it would be implemented and what actions were expected as a result of the implementation of the code. For example, would training/outreach be conducted so that staff are aware of the new policy. They further inquired whether the Secretariat had learned any best practices as an outcome of implementing the code of conduct for the Executive Director, that could contribute to a better implementation of the code of ethics. The United States also asked whether all staff and the Executive Director would be subject to this Code of Ethics. Additionally, the United States inquired whether Secretariat has considered the expansion of the Code, making reference to the case of WHO (World Health Organization) as one of the international organizations that has both codes (Ethics and Conduct) in one document, and that it is a robust document that explains everything from how gifts should be handled, procurement, and roles and responsibilities. They also referred to OAS (Organization of American States) that referenced the link between international civil service code of conduct and the organization's code of ethics.

71. The Secretariat responded that it intends to conduct training so that staff are aware of all new relevant policies which would be applicable to the Executive Director and all staff, contrary to the code of conduct which is only applicable to the Executive Director. It was precisely for this reason that Secretariat proposed establishing a Code of Ethics applicable to the Executive Director and all staff members, to be aligned to other international organizations that have had such policies in place for some years. The Secretariat further acknowledges that it is worth considering the expansion of the Code to incorporate/merge the elements on Ethics and Conduct, which can be discussed and agreed in the proposed working group to be established. A good example here is the United Nations Development Programme (UNDP) Code of Ethics, which incorporates elements of good and ethical conduct amongst several of the other policies being discussed at this meeting.

72. Regarding the Policy on Prohibition of discrimination, harassment, sexual harassment and abuse of authority, the United States supports its interim adoption, while welcoming to hear from the Secretariat if the ITTO had a policy prior to this one and how it handled cases. They also referred to Policy 3.1 and inquired whether the policy applied to the Executive Director, or other types of non-staff. On Policy 5.11, the United States noted that they had not found evidence that six months was a recognized best practice for the reporting of sexual harassment, and thus this matter needed to be further discussed. On Policy 5.12, they had also not

found evidence that this paragraph conformed to best practices and requested the Secretariat to provide source for that language. Referring to Policy 5.13, the United States stated that cases of sexual harassment should be investigated by an entity's professional investigative entity, inquired which position in ITTO would be able to investigate, and whether there was a process to address instances of conflict of interest. Regarding Policy 5.20, they asked if ITTO conformed to a zero-tolerance policy which generally results in the termination of those who were found to have infringed the policy.

73. The Secretariat responded that ITTO did not have a similar policy in the past and such incidents were handled by management on a case-by-case basis. The new policy is envisioned to apply to the Executive Director, all staff, and other types of non-staff that work for ITTO, as appropriate. The policy is mainly based on a similar policy issued by the UNICEF, UNDP and other UN organizations. The Secretariat reiterated its commitment to conforming to best practices and a zero-tolerance policy and welcomes further discussions to continue improving its policies. Under policy 4.2, ITTO will conduct mandatory awareness programmes for all staff to raise awareness of its zero tolerance of discrimination, harassment, sexual harassment and abuse of authority.

74. Finally, on the Data Protection Policy, the United States suggested this policy be adopted on an interim basis pending additional discussion by member states and further assessment of best practices in that area. While they considered the policy to be generally in line with some international standards, they did not have time to conduct a thorough analysis. They suggested that the Secretariat could help by explaining how they plan to implement the policy, identifying areas of risk, and noting if they have conducted a separate review to ensure best practices are followed. They further noted that discussions with member states should occur at an established point of time.

75. Secretariat response to the query on the Data Protection Policy is that it is based on the EU General Data Protection Regulation (GDPR), compliance to which is required relating to data protection of ITTO's contact points and communications within the EU. Ensuring ITTO's compliance with the GDPR facilitated ITTO passing the EU Pillar Audit Assessment. In response to the suggestions made by the United States, the Secretariat proposed that the open-ended, member-led working group to be formed after the Council Session could further discuss questions and/or concerns of members at a specified point of time.

76. The EU agrees that ITTO should be aligned with other accredited organizations and welcomed the proposed documents on the:

- Policy Prohibiting and Combatting Fraud
- Complaints policy, as well as Code of ethics for ITTO personnel

The EU also mentioned that it would like to know if its implementation will imply additional costs, and if so, how will this be foreseen to be covered. The Secretariat indicated that it did not foresee any additional costs for the implementation of the proposed policies.

77. The edits suggested by the United States are contained in the Annex to this Report and are reflected in Document CFA (XXXVI)/7 Rev.1.

78. The committee decided to create an open-ended, member-led working group where technical questions could be further discussed virtually, as appropriate, in the intersession with the Secretariat and to recommend to the Council to adopt on an interim basis the new policy documents as contained in CFA(XXXVI)/7 Rev.1.

Item 10: Staff Health Insurance

79. Document CFA (XXXVI)/8, on "Staff Health Insurance", contains the proposal by the Secretariat to revise staff members' health insurance premium subsidy by the Organization.

80. The delegate of Mexico inquired from the Secretariat whether the homologation of ITTO Staff Social Security with the United Nations Scheme represent the commitment of additional resources in the Administrative Account for the years 2022, 2023 and beyond.

81. The EU agreed to change the policy on costs to be subsidized by the Organization for health insurance premiums to be based on prevailing United Nations rates. They also sought confirmation that the cost could be covered with the existing budget allocations.

82. The Secretariat responded to Mexico and the EU that, at this stage it was anticipated that any increase would be marginal and could be covered within the existing budget allocation without any need for increasing the budget.

83. The United States supports a recommendation to the Council with the understanding that any increase would be marginal and could be covered within the existing budget allocations, specifically, the Accident/Health Insurance line.

84. The committee decided to recommend to the Council to adopt the proposal for the percentage of health insurance premium to be subsidized by the Organization as contained in CFA(XXXVI)/8.

Item 11: Election of Chairperson and Vice-Chairperson for 2022

85. The Vice-Chairperson of the Committee for 2021, Björn Merckell of Sweden, was elected Chairperson of the Committee for 2022. The Vice-Chairperson of the Committee for 2022 would be announced by the producer caucus at a later date.

Item 12: Dates and Venue of the Thirty-seventh and Thirty-eighth Sessions

86. The Committee agreed that its Sessions may be held on the same dates and at the same venues as the Fifty-eighth and Fifty-ninth Sessions of the Council.

Item 13: Other Business

87. There was no other business discussed by the Committee.

Item 14: Recommendations to the International Tropical Timber Council

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

(1) To approve the Biennial Administrative Budget for the Financial Years 2022 and 2023, as contained in document CFA (XXXVI)/2 Rev.1, in the amount of USD7,031,320 and USD7,104,295, respectively;

(2) To approve the Financial Reports prepared in accordance with ITTO Financial Rules and Procedures (Annex 4) for the Financial year 2020, as contained in document CFA(XXXVI)/6;

(3) To continue to appoint Ernst & Young Japan, Tokyo, to audit the Accounts of the Organization for the financial year 2021;

(4) To take note of the list of disclosures required by the Financial Rules as contained in Annex 1 of CFA(XXXVI)/4 and:

- a) Endorse the list of sole providers;
- b) Approve the list of banks and financial institutions
- c) Approve the matter related to the Administration of the Administrative Account regarding the proposal for the treatment of past provident fund management fees charged to staff;

(5) To endorse the policy for the secretariat to immediately recommend for termination projects and activities that do not comply with contractual obligations for financial reporting for two consecutive years;

(6) To create an open-ended, member-led working group where technical questions on the new policies and other technical matters introduced at this meeting could be further discussed virtually in the intersession with the Secretariat, and to adopt the new policies on a no-objection and interim basis as contained in CFA(XXXVI)/7 Rev.1 from 1 January 2022;

(7) To adopt the proposal for the percentage of health insurance premium to be subsidized by the Organization as contained in CFA(XXXVI)/8 with immediate effect; and

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

Item 14: Report of the Session

89. The Committee adopted this report as amended.

ANNEX

Edits recommended by the United States of America to Draft Policy Documents [Document CFA (XXXVI)/7] (Agenda Item 9)

Proposed Policy	Source drawn from	Edits recommended by the USA
Policy Prohibiting and Combating Fraud and Corruption	<p>Per CFA (XXXVI)/7 chapeau para 1: <i>The Green Climate Fund has indicated in their accreditation criteria that accredited Organizations should have a policy on combatting fraud and corruption and a policy on receiving complaints</i></p> <p>Per CFA (XXXVI)/7 chapeau para 2: New, <i>"Prepared based on examples from other intergovernmental organizations"</i></p>	<p>2.3 Include the appropriate entity or individual charged with investigating allegations. The reporting procedure should be clearly articulated. Consider detailing how allegations against the executive director will be managed.</p> <p>3.2 Explain the reference to the Whistleblower policy further.</p> <p>3.5 Note who in ITTO will ensure vendors have whistleblower protection policies that meet ITTO standards.</p> <p>3.6 Officials/offices charged with investigations should be listed in this policy.</p> <p>3.9 Detail who will be charged with taking follow up actions when fraud is found.</p> <p>4.4 Include a reporting requirement to the Committee on losses due to fraud and provide a regular update on the number of cases and potential losses being investigated annually.</p> <p>Suggested language addition: The executive head of the Organization is responsible for the administration, revision, interpretation, and application of this policy. The policy will be reviewed annually and revised as needed</p> <p>Suggest adding similar language to the below:</p> <p>Compiled from various policies: "Managers at all levels of the Organization have an overall responsibility for preventing fraud. They are expected, with the assistance of relevant staff members, to adhere to the established system of internal control to prevent fraud and, in particular, to: a. monitor and assess any internal and external risks of fraudulent, corrupt and/or collusive practices and employ existing risk-control mechanisms to prevent such practices or propose additional mechanisms where appropriate; b. raise awareness of risks of fraudulent, corrupt and/or collusive practices through on-going training of, and guidance to, staff members; and c. adhere to the terms of this Policy in exercising their delegated authority to enter into recruitment decisions and contractual arrangements with any cooperating partners, suppliers and/or other third parties; d. take prompt and reasonable action to recover misappropriated funds or losses caused by fraudulent, corrupt and/or collusive practices. Managers who fail to take appropriate actions in this connection or who directly or indirectly tolerate or condone improper activity under this Policy may be held accountable for violations of this Policy and relevant Organization's Regulations and Rules, including the Standards of Conduct for the International Civil Service."</p>

Complaints Policy	<p>Per CFA (XXXVI)/7 chapeau para 1: <i>The Green Climate Fund has indicated in their accreditation criteria that accredited Organizations should have a policy on combatting fraud and corruption and a policy on receiving complaints</i></p> <p>Per CFA (XXXVI)/7 chapeau para 2: New, <i>"Prepared based on examples from other intergovernmental organizations"</i></p>	<p>Consider changing the title to "External Complaints Policy" and referencing the internal policy for clarity.</p> <p>5.1.1 Complaints should be sent to a central location where there can be accountability on how the cases are managed. Later steps can involve the manager of the area concerned. This is an effort to avoid conflicts of interest. Consider detailing how complaints sent to member states should be handled.</p> <p>5.1.4 The office or person in charge of investigating complaints should be detailed in the policy.</p> <p>Suggested Additions:</p> <ul style="list-style-type: none"> - Council should receive annual report stating disposition, number of complaints, and any trends observed. - The Executive Director is responsible for the administration, revision, interpretation, and application of this policy. The policy will be reviewed annually and revised as needed.
Code of Ethics for ITTO Personnel	<p>Per CFA (XXXVI)/7 chapeau para 2: New, <i>"Prepared based on examples from other intergovernmental organizations"</i></p>	<p>The Code should include language on regular review and updating.</p> <p>*Notes by Japan: Like the policy on harassment below, we think there should be clear articulation here that the policies herein apply to all personnel, including the Executive Director (this is based on a past ITTO decision, but it should also be articulated in the policies themselves).</p>
Policy on Prohibition of discrimination, harassment, sexual harassment and abuse of authority	<p>Per CFA (XXXVI)/7 chapeau para 2: New, <i>"Prepared based on examples from other intergovernmental organizations"</i></p>	<p>2.4 While Heads of Office/Division are responsible for the implementation of this directive, it should not seem they are not the sole/main reporting avenue. This should be clarified by referring to the process in Section 5.</p> <p>3.1 The policy should apply to all including the Executive Director or other types of non-staff and this should be stated. For example, the UN model policy states: "Non-staff personnel who are alleged to have committed sexual harassment will be subject to action in accordance with the terms and conditions of their contract and of other applicable policies regarding such non-staff personnel. Action of the reports will depend on the status of the alleged offender." In this context non staff are volunteers, interns, consultants, vendors, etc.</p> <p>4.5 Officials to be contacted should be listed here for clarity.</p> <p>5.4 "should give serious consideration" should be replaced as it makes it seem it is a victim responsibility to resolve a harassment on their own. The model UN policy uses this language: "Targets/victims/affected individuals may on a voluntary basis, if they feel comfortable and safe doing so, approach alleged offenders about inappropriate behaviour or instances of possible sexual harassment"</p> <p>5.9 The formal process should be described here for clarity.</p> <p>5.10 We support an avenue for anonymously filing complaints and suggest this language "If the person making the report chooses to report on an anonymous basis, the reporter must provide sufficient information concerning the basis of the allegations and sufficient detail or supporting factual basis that the matter can be pursued responsibly. Otherwise the matter typically cannot be pursued</p>

		<p>further.”</p> <p>6.1 Investigations should be concluded regardless of the employment status of the individuals involved.</p> <p>7.2 Suggest changing “may” to “will inform.”</p>
Data Protection Policy	<p>Per CFA (XXXVI)/7 chapeau para 1: <i>A recent Pillar Assessment by the European Union concluded this year indicated that a formal data protection policy should be endorsed by Council to better comply with their latest regulations. (https://gdpr-info.eu/)</i> The General Data Protection Regulation 2018 (GDPR).</p> <p>Per CFA (XXXVI)/7 chapeau para 2: New, <i>“Prepared based on examples from other intergovernmental organizations”</i></p>	<p>The policy should include language on regular review and updating.</p>