



**INTERNATIONAL TROPICAL  
TIMBER COUNCIL**

**COMMITTEE ON  
FINANCE AND ADMINISTRATION**

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**REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL**

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



**Item 1: Opening of the Session**

1. The Chairperson of the Committee on Finance and Administration (CFA), Mr. Björn Merzell of Sweden, welcomed all delegates to the Thirty-seventh Session of the Committee.

**Item 2: Adoption of Agenda and Organization of Work**

2. The Chairperson referred to the Provisional Agenda, as contained in document CFA(XXXVII)/1. He opened the floor for comments. As no issues were raised, the Committee adopted the Provisional Agenda.

3. The Chairperson proposed that the Committee take up the Agenda items one by one, as listed in the Provisional Agenda. The Committee accepted the approach.

**Item 3: Admission of Observers**

4. No applicants had been received by the deadline of 12 October, as shown in Document ITTC(LVIII)/Info.4. However, the Chairperson noted that two new observers (Kenya and the Japan Paper Association), who submitted their application past the deadline, had been accepted as observers during the Council Session. The Chairperson advised the Committee that the Council had admitted all applicants, as shown in document ITTC(LIII)/Info.3, which listed states, inter-governmental and non-governmental organizations applying for observer status.

**Item 4: Approved Biennial Administrative Budgets for the Years 2022 and 2023**

5. At its Fifty-seventh Council Session in December 2021, the Council had approved the draft Administrative Budget for the Biennium 2022 and 2023, [Document CFA(XXXVI)/2 Rev.1], in accordance with Article 19(4) of the ITTA, 2006. No revision has been made to this document.

6. The delegate of the United States of America (USA) asked the Secretariat whether there would be any reduction of expected expenditures on Salaries and Benefits resulting from the retirement of two senior positions expected in the year 2023. The Secretariat explained that there was unlikely to be much change because the positions would be filled subsequently and similar levels of expenditures were projected.

7. Since there were no other comments, the Committee concluded that no changes would be made to the budget for the financial biennium 2022-2023, as set out in Document CFA(XXXVII)/2.

**Item 5: Review of Contributions to the Administrative Budgets**

8. Document CFA(XXXVII)/3 dated 1 October 2022 detailed the status of members' contributions to the Administrative Budgets for the financial years from 1986 to 1 October 2022, including assessments, receipts, interest charges, and arrearages in contributions. In 2022, \$1,456,710 had been received from producer members out of the total net assessment of \$3,299,463; and \$3,621,645 had been received from consumer members out of the net assessed amount of \$3,765,305.

9. The arrearages in contributions to previous years' budgets from producer members amounted to \$7,882,256.50 and arrearages from consumer members amounted to \$461,465.00. The amount outstanding from this year's assessment was \$1,842,753 for producer members and \$143,660 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 \$12,068,183.78.

10. The delegate of the European Union (EU), supported by the USA, noted that the Council should be invited to elaborate strategies to reduce the arrearages in contributions.

11. The delegate of the USA inquired whether the Secretariat had been in touch with members with a view to encouraging them to reduce their arrears. The Secretariat responded that, in addition to regular reminders that were sent out three times a year, the Executive Director had also personally sent letters to some members with large arrears and asked them to submit plans to pay. Noting that the outbreak of COVID-19, intense currency fluctuations and the Russia/Ukraine crisis had made it difficult for many members to pay their

assessed contributions, the Secretariat had been making a strong effort to encourage members to reduce their arrears.

12. The delegate of Ghana said there was a need to introduce a new formula for assessing members' contributions to the administrative budget, noting that the financial capabilities were not the same between, for example, the EU and countries in Africa. A more equitable way to distribute the assessed contributions should be established, he said. Such discussions should take place in the course of the renegotiation of the International Tropical Timber Agreement (ITTA), but the Committee could start its deliberations at this session and deal with the issue in the long term. Mexico recommended financial consultations within the Council to determine, for each member in arrears, how these might be resolved. This recommendation was supported by Brazil and the USA.

13. The delegate of the USA sought clarification from the Secretariat on how the assessed contributions were divided between producers and consumers. The Secretariat explained that the budget for the basic administrative costs were distributed evenly (50:50) between the producers and consumers, and the budget for core operational costs were allocated on a ratio of 20 percent for the producers and 80 percent for the consumers.

14. The Chairperson informed the Committee that further deliberations on ways to reduce arrearages in contributions would take place under Item 14 (Other Business).

15. The Committee took note of the report.

#### **Item 6: Current Status of the Administrative Account**

16. The Secretariat introduced document CFA(XXXVII)/4, which detailed the current status of the Administrative Account, together with estimated expenditures for the current year and new disclosures required under the Financial Rules on bid and tender processes, sole suppliers, bad debt write-offs, approved banks and financial institutions, and matters related to the administration of the Administrative Account.

17. Document CFA(XXXVII)/4, dated 1 October 2022, reports on the current status of the Administrative Account for the financial year 2022, together with the estimated expenditure for the current year.

18. Section A of page 1 of the document shows that the estimated total expenditure for the financial year 2022 would amount to \$5,500,470.15 (i.e. \$1,530,849.85 less than the total amount approved in the budget for 2022 of \$7,031,320). The total contributions received from both producer and consumer members amounted to \$5,078,355, and it was anticipated that a deficit in the amount of \$375,813.15 would accrue in 2022. This amount would be deducted from the Working Capital Reserve (WCR).

19. Section B shows that the current year's arrears in contributions amounted to \$1,986,413. Total arrears for the period 1986–2021 amounted to \$7,837,932.96 for producer members, \$461,465 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, amounted to \$12,068,183.78.

20. Section C shows the Special Reserve Fund of \$2,500,000, which was to be utilized only on Council approval in the event of the liquidation of the Organization.

21. Section D shows that the resources of the WCR were estimated to decrease from the year's opening balance of \$6,229,651.66 at the beginning of 2022 to \$5,815,539.76 by the end of 2022.

22. Section E shows an interest income balance of \$228,575.24, which was 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 were to be made.

23. Annex 1 contains information required by the Financial Rules to be brought to the attention of the CFA. This included a list of procurement greater than \$100,000; sole suppliers; bad debts that were written off; and banks and financial institutions approved by the Council.

24. The delegate of Ghana asked the Secretariat about the rationale for including former members' arrearages in the financial document and whether the arrearages could be written off. The Secretariat explained that it was presented because the former member still had a legal obligation under previous ITTAs and its write-off could only be realized by approval of the Council.

25. The delegate of the EU reaffirmed the importance of the Council extending the mandate of the Working Group established under Decision 3(LVII) for another year in order to develop a strategy to adapt the budget of the Organization to long-term trends in payments of contributions. While supporting the current work of the Secretariat in reminding members to pay their arrears in a timely manner, the delegate suggested that the Council consider analysing options for reducing the size of the permanent staffing in the organigram, which could be discussed in 2023; and options for adapting the budget in the long term because expenses remained substantive and the continued use of the WCR to make up annual shortfalls in the Administrative Account would ultimately lead to its depletion.

26. The Secretariat informed the Committee that the possible extension of the mandate of the Working Group would be included in a draft Council Decision to be considered at this session. A number of issues discussed and considered by this Working Group might also require decisions by the Council, and the recommendations made by the Working Group would be presented to the Council for discussion at this session under the relevant agenda items. The extension of the mandate of the Working Group was considered necessary because some of the matters considered would require short- to medium-term planning to find the most effective ways for resolving the issues of members in arrears, motivating members to pay on time, and other matters.

27. The Secretariat noted that discussions on write-offs of arrears would also require more in-depth discussion. The Executive Director stressed that it would be most important to identify the reasons why members were not paying their assessed contributions.

28. Referring to the intervention on reducing the size of the Secretariat, the Executive Director noted that this would be an unhealthy discussion to enter into while ITTO was trying to stabilize its operational and functional status in international fora. This would be a matter for the Council, and such discussions might overlap with those on the extension or renegotiation of the ITTA, 2006. The Executive Director also referred to a potential overlap with Decision 5(LVII) on the Strategic Action Plan adopted by the Council in 2021, which tasked the Secretariat with developing a resource mobilization strategy. The interlinkages between these various discussions should be taken into account.

29. The Committee took note of the report.

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

30. Document CFA (XXXVII)/5 dated 5 October 2022 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.

31. 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(XXXVII)/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.

32. The current balance of funds under the Special Account and the Bali Partnership Fund is \$14,014,915.87, of which \$10,414,235.78 are funds committed to specific projects and activities. The unearmarked funds and the Sub-account B of the Bali Partnership Fund, which had a balance of \$3,886.74, may be allocated to projects/activities by the Panel on Sub-Account B of the Bali Partnership Fund. The Panel is normally convened during the period when the Council Session is held. As recommended by the Informal Advisory Group (IAG), however, it was decided that the Panel would not be convened at this session due to its low level of funding.

33. The Committee took note of the document.

**Item 8: Auditor's Report for the Financial Year 2021**

34. Document CFA(XXXVII)/6 on the "Financial Reports Prepared in Accordance with ITTO Financial Rules and Procedures (Annex 4)" 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 2021 prepared by the ITTO Management; and ITTO's Financial Statements for the year ended 31 December 2021, audited by the Independent Auditors.

35. 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 the financial audit for the period ending 2021 in March to June 2022.

36. The audited financial statements provided information on the financial position and performance of ITTO for the fiscal year ended 31 December 2021 (FY2021).

37. For ITTO's project accounts in FY2021, new voluntary contribution pledges of \$3.8 million were announced at the Council session, and total project cost expenses during that period were \$3.9 million from projects mostly funded prior to FY2021. Total Administrative Account assessed contribution revenues were \$7.1 million, of which \$2.0 million was not received during FY2021 and was accounted for as assessed contributions receivable (arrears).

38. The Council adopted Decision 5(LIV) at its 54th Session in November 2018 on enhancing the Organization's financing architecture and fundraising. 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 and 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 the decision. For calendar year 2021, it was reported that total pledges of \$419,582 were made associated with implementing the pilot, and the total cost associated with implementing the pilot was \$211,320.

39. Other highlights included the following:

- The surplus for the FY2021 Statement of Financial Performance was \$1.0 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 \$1.0 million between 2020 and 2021. This was due mainly to projects making more progress in 2021 compared with the beginning of the COVID-19 pandemic in 2020.
- Advance transfers to projects increased by \$0.3 million between 2020 and 2021. This was also mainly due to projects making more progress in 2021, increasing the funds transferred to executing agencies.

40. Document CFA(XXXVII)/CRP-1, "Management letter prepared by the independent auditors for ITTO management", comprises 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 the International Public Sector Accounting Standards (IPSAS), with no material misstatements or issues.

41. The delegate of the USA proposed that, from next time, a requirement should be added for the appointed auditor to have the draft audit report edited by native English speakers for readability. The Secretariat took note of the proposal.

42. The delegate of the EU accepted the report and accompanying financial statements and encouraged the Secretariat to continue its transparent and ethical management.

43. As there were no other comments, the Committee recommended to the Council that it approve the "Financial Reports Prepared in Accordance with ITTO Financial Rules and Procedures (Annex 4)" on the Accounts of the Organization for the financial year 2021, as contained in Document CFA(XXXVII)/6.

**Item 9: Appointment of Auditor**

44. Document CFA(XXXVII)/7 on the “Appointment of Auditor for the financial years 2022-2026” contained background on the process for identifying a qualified auditor for consideration of the Council, as described in ITTO’s Auditing Standards, 1.1 Selection Process.

45. The Secretariat explained the process taken on the appointment of the auditor, noting that the amended Financial Rules under Decision 5(LV) extended the term of the auditor from three years to five years, with the possibility for the same audit firm to be reappointed, given that the lead audit engagement partner would be rotated off an engagement after a maximum of five years in their capacity.

46. The delegate of the USA sought clarification from the Secretariat on why only one proposal was received out of the ten audit firms invited to the tender process. The Secretariat informed the Committee that, although not all firms had given explanations, most had declined due to insufficient capacity and/or a lack of expertise in conducting audit based on IPSAS.

47. The delegate of the USA expressed concern that, if the situation continued, only Ernst & Young would be available to audit ITTO’s financial accounts. The Secretariat responded that it was only Ernst & Young at this time but, in future, the capacity of the other audit firms could increase and their expertise in IPSAS might be established. Fortunately, the rules allowed ITTO to reappoint the same firm, as long as the lead partner was rotated off, so there would be no problem for the foreseeable future.

48. The delegate of Brazil asked whether other international organizations headquartered in Japan were facing the same issue, with difficulties in finding auditors that could conduct financial audits based on IPSAS. The Executive Director responded that ITTO was the first body in Japan to pass an audit for financial statements prepared based on the IPSAS standards. She noted that it might be the case that, in the next two or three years, other firms would obtain more exposure to the IPSAS accounting standards and more experience in dealing with international organizations such as ITTO. Given that ITTO was the only international organization headquartered in Japan, however, the situation was unlikely to change in the near future.

49. The Committee examined Document CFA(XXXVII)/7 and recommended to Council the appointment of Ernst & Young Japan to audit the accounts of the Organization for the financial years 2022 and beyond, in accordance with the provisions contained in the ITTO Auditing Standard (Annex 4 to the ITTO Financial Rules).

**Item 10: Draft Policy Documents**

50. The Committee examined document CFA(XXXVII)/8, which contained suggestions for amendments to several policy documents made by the open-ended member-led working group established this year in accordance with the CFA’s recommendation. By consensus, the Committee decided to recommend to the Council that it formally adopts the new policies together with the amendments.

**Item 11: Extension of the Tenure of Senior Management Staff Member/s**

51. The Executive Director recommended to the Committee the extension of the tenures of two senior management staff members, Dr Hwan Ok Ma and Dr Steven Johnson, upon reaching their retirement age in 2023, as provided for under Regulation 7.4 of the ITTO Staff Regulations and Rules. The recommendation was made in accordance with Rule 709 of the Staff Regulations and Rules of the ITTO.

52. The Executive Director stressed the institutional knowledge embodied in the two staff members, their exemplary work records, their project management skills and experience, their excellent relationships with partner members and organizations, and the difficulty in finding suitable replacements at short notice. The Executive Director described the recent work of Dr Ma and Dr Johnson that would require their ongoing involvement and hence the necessity of extending their appointments. In responding to points made by delegates, the Executive Director said the Secretariat was working to find a qualified replacement for Dr Ma. The position of Director of Reforestation and Forest Management had been advertised, and the Executive Director was confident that a suitable appointment would be made. Her main concern, however, was about

the transition, and the extension of Dr Ma's appointment would ensure that this would be as smooth as possible. She clarified that any decision to extend the tenures of Dr Ma and Dr Johnson would not require an explicit decision by the Council but could be noted in the report of this committee. The Executive Director also confirmed that she would fully consider the balance of professional staff between producer and consumer members and between regions.

53. There was consensus on extending the tenure of Dr Ma, whose term was due to expire in January 2023. Delegates also supported the extension of the tenure of Dr Johnson, although the delegate of Ghana questioned whether it was necessary at this session, given that Dr Johnson's tenure was not due to conclude until the end of October 2023. It might be more appropriate, he said, to make a decision intersessionally. After discussion, it was agreed to recommend to the Council that it approve the extension of the tenure of Dr Ma for one year beyond the current date of his retirement in January 2023 and to approve the extension of the tenure of Dr Johnson for three months beyond the current date of his retirement in October 2023. The further extension of Dr Johnson's tenure could be considered by the CFA at its next session in December 2023.

54. Upon agreement of the CFA, this was reflected in the recommendation section of the CFA report for adoption by Council.

#### **Item 12: Election of Chairperson and Vice-Chairperson for 2023**

55. The Chairperson of the Committee for 2023 will be announced by the producer caucus at a later date. The Vice-Chairperson of the Committee for 2023 will be announced by the consumer caucus at a later date.

#### **Item 13: Dates and Venue of the Thirty-eighth and Thirty-ninth Sessions**

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

#### **Item 14: Other Business**

##### **A. Projects funded at least 80% of its approved budget**

57. The Committee considered the recommendation from the Secretariat that, when at least 80% of the approved budget of a project or activity has been pledged, to allow the Executive Director to revise the budget and proceed with implementation using available funds without the need for further review or approval by the Council. The Executive Director said this had been the practice in the Secretariat for several years, and her preference was to formalize this practice with the agreement of the CFA and the Council.

58. The delegate of Peru expressed concern that, even if this practice was formalized, projects that could not secure financing up to 80% of its approved budget (such as the case of PD 916/21 Rev.1 (F) in Colombia, which had received partially funding in December 2021) could fall under the sunset clause and lose its validity for financing. He asked whether the Secretariat had considered ways to prevent such partially funded projects from becoming sunset or to raise the level of funding for partially funded projects to 80% so they could be implemented.

59. The Secretariat reaffirmed that efforts were always made to secure funds of at least 80% through consultations with donors. Funding for concept notes was one way to secure funds by allowing donors to express interest and to formulate project proposals that could be implemented with the available funding. Moreover, partially funded project proposals already had a longer period before sunset (26 months compared with 20 months), and sunset proposals could also be resubmitted.

60. The delegate of France suggested that feasibility studies should be carried out to assess projects that received 80% funding and their budgets were modified subsequently so they could be implemented with available funds. The Executive Director responded that all approved projects had been screened by the Expert Panel on Technical Appraisal of Project Proposals. The Expert Panel, which represented the members, essentially conducted feasibility studies as part of their process. The Executive Director added that the current



practice to enable projects to proceed with 80% funding was done while also working with other donors to obtain financing for the remaining 20% of the project.

61. As there were no objections from the floor, the Committee decided to recommend that the Council approve this rule.

B. Matters related to the Administrative Account

62. The Chairperson invited the Secretariat to introduce the suggestion made by the Working Group (WG) established under Decision 3(LVII) on the Administrative budget that the following topics should be discussed at the CFA:

- (i) Amendments to Rule 5 of the Financial Rules to improve cashflow in the Administrative Account in order to allow arrear payments to be placed directly into the current operational account for the year in which it is received, and to allow flexibility for annual budgets to be used within the same financial biennium without being returned to the WCR at the end of the year.
- (ii) Propose ways to prompt members to pay their assessed contributions. The WG deferred this discussion to the CFA at ITTC 58 for an open and frank exchange among members and to make recommendations to the Council.

(i) Amendments to Rule 5 of the Financial Rules

63. The delegate of Peru said that urging members to pay their arrears in full did not seem to be in line with the “flexibility” suggested by the WG. The Secretariat explained that the term “flexibility” was used in the context that late payments received would be used within the same financial biennium, instead of returned to the WCR.

64. The delegate of Peru pointed out that the proposed draft decision did not contain details for partial payments of arrears. The Chairperson thanked Peru for this intervention and noted that this issue could be discussed in the open-ended drafting group.

65. In response to a request from the delegate of the USA, the Secretariat clarified that, under Rule 5 of the Financial Rules, any surplus would be transferred to the WCR at the end of each financial year, regardless of the financial biennium. Since the WG discussed ways to improve cashflow, the proposed amendment to Rule 5 would allow the surplus of the first year of the financial biennium to be used to cover expenses incurred in the second year of the financial biennium rather than transferring it to the WCR.

66. The delegate of New Zealand indicated her country’s support for an amendment to the rules to allow arrears to be used directly in the year in which it was received. She also noted that ITTO sends out its invoices for assessed contributions immediately following Council sessions, which was normally around the beginning of December, with a due date for payment of 1 January of the following year. This meant that members had only one month’s notice, which was insufficient time to secure a budget. She proposed exploring ways in which invoices could be issued with more notice, such as was the practice in the World Organisation for Animal Health, which generally met mid-year. The Secretariat explained that the due date was specified in the ITTA, 2006 and changing it might therefore require a Council decision. She noted that members could address this issue by securing adequate budgets one year in advance, as Malaysia did.

67. The delegate of Australia, joined by Malaysia and the EU, supported the WG’s recommendation on providing the Executive Director with flexibility in the use of late payments of assessed contributions. The delegate of Australia flagged that, where large arrears were involved, sufficient oversight of this needed to be in place.

68. The delegate of the USA asked whether adding surpluses to the cashflow would not change the total amount authorized for use from the WCR. The Chairperson confirmed that that was correct.

69. The delegate of New Zealand noted that this amendment would be consistent with the financial rules adopted by other commodity organizations. She also recommended the use of the term “late payments” in the amendment to Rule 5 instead of “arrears” to avoid confusion. In this case “late payments” referred to payments that were due in the first year of the financial biennium but were received in the second year. The Chairperson

noted that this point would be taken into consideration at the open-ended drafting session. The Secretariat clarified that the term “arrears” and “late payments” were not used in Financial Rule 5. For the purposes of the amendment, neither term would need to be used.

(ii) How to propose ways to prompt members to pay contributions

70. The Chairperson opened the floor for comments and facilitated a wide discussion on how to propose ways to prompt members to pay assessed contributions.

71. The delegate of the USA thanked the Secretariat for the documents that helped clarify this complicated discussion. She noted that, when the arrears were divided by decade, the arrears under the ITTA, 1983 added up to only US\$778,000, involving only three members, while, under the period of the ITTA, 1994, the amount was \$1 million. She sought an explanation from the Secretariat on the current scheme for writing off arrears. She inquired whether the Secretariat had the flexibility to provide discounts and perhaps to consider deeper discounts to resolve this “longstanding overhang” to enable a focus on arrears under the current agreement. The Secretariat informed the Committee that provisions under Decision 7(XXXIII) allow the write-off of arrears accumulated during the period of the ITTA, 1983. This decision stated that, if members cleared all payments from 2002, they would obtain a one-fifth write-off of their arrears accrued during the period of the ITTA, 1983. Currently, this was the only automatic write-off mechanism specified. There was a provision in the ITTA, 2006 that the Council may approve write-offs as deemed necessary. A 5.5 percent discount was available to members that paid their assessed contributions within four months of the due date. Discussion on schemes for write-offs and discounts were held at the previous session of the Council but had been deferred to this session.

72. The delegate of Ghana inquired whether there was any provision for write-offs under the ITTA, 2006. He noted that donors generally had more financial capacity to pay their assessed contributions early and thus obtain the discount. The problem was that producer members that had accumulated arrears over many years had no financial incentive in the form of a discount. He noted that policymakers in producer countries often faced decisions on whether to pay arrears to ITTO or use the sparse funds for immediate development needs, such as the provision of potable water. There was a need to look at a fair formula for assessed contributions based on economic size.

73. Responding to the delegate of Ghana, the delegate of the EU said that the basis for calculating the assessed contributions were set out in the ITTA, 2006.

74. The delegate of the EU referred to Decision 7(XXXIII) in 2002 about write-offs of arrears in the period 1986–1996. The idea of this measure, he said, was to stimulate those members with long-term arrears to get back on track. He asked for information on whether this measure had worked in practice.

75. The Secretariat reported that six countries had obtained write-offs with a total value of \$1.2 million under this decision (as indicated in the table on page 36 of Document ITTC(LVIII/4). Today, some of those countries, such as Togo, had no arrears, but some other countries had large arrears, so it might have been a temporary solution. The Secretariat also clarified that there was no provision for write-offs for the periods covered under the ITTA, 2006 or the ITTA, 1994; the only Council decision with a provision for write-offs was for the period 1983–1996 under the ITTA, 1983 (as described above). A new Council decision would be needed for new write-offs. He noted that, under Article 30 of the ITTA, 2006, members were free to make their case regarding the payment of their assessed contributions in exceptional circumstances, and some countries had made use of this. Liberia had made such a case in 2019 and the CFA had requested them to develop a payment plan, which was yet to be received.

76. The delegate of Ghana used a hypothetical example to propose a means for incentivizing producer members to pay arrears. If a member with an assessed contribution of \$150,000 obtained funding for a project to the amount of \$300,000, a percentage of the total (e.g. 10 percent, or \$30,000) could be contributed towards that member’s assessed contribution. This would compel governments to submit proposals. The Chairperson said his immediate reaction was that money set aside for projects should be used for projects, but it might prompt similar ideas. The Executive Director said there were no rules that would allow such an arrangement. She noted that, under Article 19 of the ITTA, 2006, members in arrears were unable to submit projects to ITTO. The delegate of the USA said her delegation was open to considering positive incentives but suggested obtaining reactions from members with arrears to determine the feasibility of the proposal. The delegate of Peru suggested directing a percentage of project funds already apportioned to the Secretariat for project monitoring and administrative costs to the Administrative budget. The delegate of the EU said that his

preliminary thinking was that arrears in assessed contributions were for meeting certain administrative costs and core activities, as set out in the ITTA, 2006. This was different to project funding, and transferring funds between project and administrative budgets would not necessarily be consistent with good practice and the financial standards of international organizations. There was a need to ensure that any new arrangements did not compromise the efforts of the Organization to maintain good financial management. The delegate of Papua New Guinea suggested that, for approved projects, the percentage of project funding going to the administrative budget could be increased. The Executive Director said that funding for projects was voluntary, and it was not possible to put a proportion of that funding into the Administrative Account to cover arrears. The delegate of Ghana clarified that his proposal was not to use a proportion of project funds for defraying debt; rather, his proposal was forward-looking, from 2023, to encourage members to pay their assessed contributions going forward. Another option was that the typical contributions of home countries to project funding, when they comprised cash, could be allocated to paying assessed contributions.

77. The delegate of Indonesia reiterated that payments of arrears could be used for operational costs but any surpluses should be returned to the WCR. Regarding Ghana's proposal, such funds could be called additional revenue for assessed contributions but the Organization would not function without actual contributions. He proposed that arrangements could be made in which a portion of revenues generated by ITTO projects, such as through voluntary carbon markets and compliance markets, could be dedicated to paying arrears. The Executive Director said the Secretariat had commenced discussions along these lines. She also mentioned an idea of setting thresholds for paying arrears, beyond which members might receive write-offs of the remainder.

78. The delegate of Australia said that the Administrative Account was there to serve the core functions that benefit all members, and earmarking certain funds around arrears would raise issues. He asked if it was possible in the rules to make voluntary contributions to the Administrative Account. He said Australia was open to proposals for encouraging payments in the future, perhaps by discounting, over time, those countries that paid their annual dues. The delegate of Peru said that, rather than putting pressure on members to pay arrears, incentive mechanisms were urgently required. The delegate of Mexico proposed that, for members with arrears that paid their assessed contributions over a period of three years, they would become eligible for submitting project proposals and, when they did so, a portion of the project funding (e.g. 20 percent) could be allocated to drawing down their debt.

79. The delegate of New Zealand acknowledged the difficult financial circumstances faced by many members, and she said the delegate of Ghana had sent a strong message of choosing between paying historical arrears to ITTO and vital services such as infrastructure. In principle, New Zealand did not support discounting arrangements associated with projects, but there could be a balancing of historical arrears and future contributions. She proposed discounting arrears for forward payments to incentivize members to pay their contributions and thus become eligible for project funding. The delegate of Japan said that contributions to the administrative budget was an international commitment, and any discussions should keep in mind that any exception for relief should be subject to Article 30 of the ITTA, 2006, which specified measures in exceptional circumstances.

80. The Executive Director said it was not possible to mix funding between voluntary contributions and the Administrative Account; if a donor country wished to undertake the arrears of another country, it would require amendment to the rules. She said the big question was why members were not paying their assessed contributions. Many countries were in arrears before the COVID-19 pandemic, so this was not the only factor.

81. The Chair proposed recommending extension of the WG for another year with a view to proposing concrete solutions at the next Council session. The delegate of Ghana proposed making use of the producer spokesperson in the WG as a conduit for all producer members to contribute to the WG.

#### **Item 15: Recommendations to the International Tropical Timber Council**

82. The following recommendations were provided by the Committee to the Council:

- 1) to approve the Financial Reports prepared in accordance with ITTO Financial Rules and Procedures (Annex 4) for the Financial year 2021, as contained in document CFA(XXXVII)/6;
- 2) to approve the appointment of Ernst & Young Shin Nihon LLC to audit the Accounts of the Organization for the financial year 2022 and beyond, subject to satisfactory performance;
- 3) to formalize the "Policy Documents" as an official document, publish it on the ITTO website and disseminate to relevant audiences, as appropriate;

- 4) to take note of the list of disclosures required by the Financial Rules, as contained in Annex 1 of CFA(XXXVII)/4, and endorse the list of sole providers and approve the list of banks and financial institutions;
- 5) to endorse the policy for the Secretariat to allow the Executive Director, when at least 80% of the approved budget of a project/activity has been pledged, to revise the budget and proceed with implementation using available funds without the need for further review/approval by the Council;
- 6) to approve the extension of the tenure of Dr Hwan Ok Ma, Project Manager, Reforestation and Forest Management, for one year beyond his current retirement date, to 31 January 2024, and of Dr Steven Johnson, Director, Trade and Industry, for three months beyond his current retirement date, to 31 January 2024; and
- 7) to approve the extension of the working group on Decision 3(LVII) on the Administrative budget for one year.

**Item 16: Report of the Session**

83. The Committee adopted this report.