



**INTERNATIONAL TROPICAL  
TIMBER COUNCIL**

**COMMITTEE ON  
FINANCE AND ADMINISTRATION**

Distr.  
GENERAL

CFA(XXXVIII)/8  
17 November 2023

Original: ENGLISH

---

THIRTY-EIGHTH SESSION  
13 - 17 November 2023  
Pattaya, Thailand

**REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL**

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



**Item 1: Opening of the Session**

1. The Executive Director explained prior to the meeting being opened that no nomination had been received for Vice-Chairperson of the Committee on Finance and Administration (CFA). Just before the Council session, the Secretariat received a nomination from the producers for CFA Chairperson but the designate had been unable to attend the session. Therefore, the Secretariat had asked Mr. Bjorn Merckell (Sweden), who had been CFA Chairperson at the 58th Session of the Council last year, whether he would kindly agree to chair the current session given the lack of committee office-bearers. Mr. Merckell agreed to chair the CFA for this session to enable it to fulfil its mandate, for which the Executive Director expressed her gratitude. The Committee welcomed Mr. Merckell as Chairperson for the session with applause.
2. Mr. Merckell welcomed all delegates to the Thirty-eighth Session of the Committee.

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

3. The Chairperson referred to the Provisional Agenda, as contained in Document CFA(XXXVIII)/1. He opened the floor for comments. As no issues were raised, the Committee adopted the Provisional Agenda.
4. The Chairperson proposed that the Committee take up the agenda items as listed in the Provisional Agenda. He said the Council had delegated the CFA to hold deliberations on Council agenda item 10 (on the recommendations of the Working Group on the Administrative Account) and suggested that this could be discussed after agenda item 8 of the CFA as item 8-*bis*. The Committee accepted this approach.

**Item 3: Admission of Observers**

5. No applicants had been received by the deadline of 20 October, as shown in Document ITTC(LIX)/Info.4. However, the Chairperson noted that two new observers (the Asian Forest Cooperation Organization – AFOCO and the Regional Community Forestry Training Center for Asia and the Pacific – RECOFTC), who had submitted their applications after 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(LIX)/Info.3, which listed states, inter-governmental and non-governmental organizations applying for observer status. This was accepted by the Committee.

**Item 4: Draft Biennial Administrative Budget for the Years 2024 and 2025**

6. The Secretariat referred to the Draft Administrative Budget for the 2024-2025 Financial Biennium, as contained in Document CFA(XXXVIII)/2 dated 31 July 2023, which was circulated to Members in early August 2023.
7. The Secretariat informed the Committee that the 2024–2025 biennium budget had been constructed using the United Nations official exchange rate for July 2023 of US\$1 = Yen 138.89 and that the exchange rate would not be revised at the time when the Committee considered the budget, in accordance with the Council decision at its Forty-fourth Session.
8. The Secretariat reported that the total budget for 2024 was estimated at US\$7,104,228, which was a decrease of US\$67 compared with the approved budget for 2023. The total budget for 2025 was estimated at US\$7,104,278, which was a decrease of US\$17 compared to the approved budget for 2023. As such, there was no nominal increase in the overall 2024–2025 budget compared with the approved budget for the 2022–2023 biennium. However, as in previous years, no contingency had been included in the proposed Administrative Budget for the financial years 2024 and 2025 and, hence, unexpected shortfalls in the budget, such as exchange-rate fluctuations, non-payment of assessed contributions by members, inflation and unforeseen personnel change, might need to be financed from the Working Capital Reserve (WCR).
9. As per the above, the “Basic Administrative Costs” for the 2024–2025 biennium indicated a decrease of US\$100,067 in 2024 and a decrease of US\$100,017 in 2025 compared with the budget of 2023. The change was due mainly to the difference in exchange rate between the rate used for the next biennium and the rate applied in 2023. There were no increases under Category A on salaries and benefits, but two professional-level positions were added to the staff using the Programme Support budget to increase capacity for future

programme planning and management, bearing in mind the new areas of work envisaged under current efforts by the Secretariat and as envisioned in the ITTO Strategic Action Plan 2022–2026. Furthermore, the job functions of the Planning, Monitoring and Evaluation Officer and the Finance/Administrative Officer had been dispersed between several positions, including the two proposed new positions, to streamline operations and improve efficiency.

10. The “Core Operational Costs” for the 2024–2025 biennium indicated an increase of US\$100,000 each in 2024 and 2025 compared to the budget of 2023, due mainly to efforts to increase/enhance outreach activities and increased support for the ITTO Market Information Service and the Market Discussions held during Council sessions.

11. The Secretariat informed the Committee that the assessed contributions of Members for the 2024–2025 biennium are attached as Annex III.

12. As there were no comments from the floor, the Committee approved the Administrative Budget for the 2024–2025 Financial Biennium, as contained in Document CFA(XXXVIII)/2 Rev.1.

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

13. Document CFA(XXXVIII)/3 dated 11 October 2023 detailed the status of members’ contributions to the Administrative Budgets for the financial years from 1986 to 11 October 2023, including assessments, receipts, interest charges, and arrearages in contributions. In 2023, \$1,459,511 had been received from producer members out of the total net assessment of \$3,371,857, and \$3,656,745 had been received from consumer members out of the net assessed amount of \$3,801,791.

14. The arrearages in contributions to previous years’ budgets from producer members amounted to \$7,929,773 and arrearages from consumer members amounted to \$605,125. The amount outstanding from this year’s assessment was \$1,912,345.87 for producer members and \$145,046 for consumer members. Furthermore, arrearages in contributions from former members of the Organization amounted to \$1,707,005.72, bringing the total outstanding arrearages to \$12,299,295.59.

15. The delegate of the European Union (EU) asked whether the assessed contributions paid in advance for year 2024 were included in the document. The Executive Director explained that the receipt of any assessed contributions received in advance are recorded as received, but those resources would only be used for expenditure in 2024 and not in Document CFA(XVIII)/3. All contributions received in 2023 would be credited to the Administrative Budget of 2023, while contributions received in advance would be credited to the budget for 2024. The Chairperson further clarified that payments made in advance for 2024 were not reflected in the budget for 2023.

16. The delegate of Peru noted that while the total budget for 2023 was \$7 million, the contributions received for the same year amounted to \$5 million. He sought explanation from the Secretariat on how the \$2 million shortfall had been accommodated. The Executive Director responded that, due to the shortfall, certain activities could not be conducted, but the Secretariat had endeavoured to accommodate some activities under other headings to carry out as much as possible. She expressed regret that the Organization was unable to be as proactive as it desired and that some staff positions could not be filled due to the shortfall.

17. The delegate of Costa Rica expressed concern that restrictions on timber and agricultural products imposed on Costa Rica by certain policies, especially from the EU, meant that less funding was available for projects to develop capacities and technologies. He appealed to the Committee that even small projects would greatly benefit indigenous communities. He emphasized that more financial support for ITTO projects was needed to enable the Organization to do better work. He noted that, through such projects, producers would be helping not only their own countries but the entire planet.

18. Noting the recent decreasing trend of the Organization’s project funding, the Chairperson thanked the distinguished delegate of Costa Rica for raising this issue, although it was not directly related to the agenda item.

19. The Committee took note of the above document.

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

20. The Secretariat introduced Document CFA(XXXVIII)/4, which detailed the 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.

21. Document CFA(XXXVIII)/4, dated 11 October 2023, reports on the status of the Administrative Account for the financial year 2023, together with the estimated expenditure for the current year.

22. Section A of page 1 of the document shows that the estimated total expenditure for the financial year 2023 would amount to \$5,558,910.50. The total contributions received from both producer and consumer members amounted to \$5,116,255.71, and arrear payments received in 2023 amounted to \$1,092,510.06, as of the day of the report. Together with contributions expected to be paid by members before the end of 2023, it was anticipated that a surplus in the amount of \$649,855.27 would accrue in 2023. This amount would be credited to the WCR. The assessed contribution collection rate for year 2023 was 71.32% of the total assessment of \$7,173,648.

23. Section B shows that the current year's arrears in contributions amounted to \$2,057,391.87. Total arrears for the period 1986–2022 amounted to \$7,929,773 for producer members, \$605,125 for consumer members, and \$1,707,005.72 for former members. The interest charges on these arrears in contributions amounted to \$46,377.14. Total outstanding contributions to the Administrative Account, including interest charges, amounted to \$12,345,672.73.

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

25. Section D shows that the resources of the WCR were estimated to increase from the year's opening balance of \$7,721,032.36 at the beginning of 2023 to \$8,330,768.99 by the end of 2023.

26. Section E shows an interest income balance of \$228,299.54, 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.

27. Annex 1 contains information required by the Financial Rules to be brought to the attention of the CFA. This includes 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.

28. The delegate of Peru sought clarification from the Secretariat on page 1 of the document, where it said "as at 11 October 2023" under the title but, in the summary, showed the estimated balance of the WCR "as at 31 December 2023". The Secretariat explained that this was the projected surplus by the end of the year, including estimated expenses and any contributions that might be received until then, and that the projection had been made based on information available as of 11 October 2023.

29. The delegate of Costa Rica asked whether the provision for costs related to the retirement of two senior officers were reflected in the document. The Secretariat responded that the two senior officers would retire at the end of January 2024 and thus the provisions were in the 2024 budget and not the 2023 budget.

30. The Committee took note of the above document.

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

31. Document CFA(XXXVIII)/5 dated 2 October 2023 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.

32. 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(XXXVIII)/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.

33. The current balance of funds under the Special Account and the Bali Partnership Fund was \$15,788,581.08, of which \$11,635,879.64 were 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 \$6,172.09, may be allocated to projects/activities by the Panel on Sub-Account B of the Bali Partnership Fund. The Panel normally convenes during the periods when the Council sessions are held. As recommended by the Informal Advisory Group, however, it was decided that the Panel would not convene at this session due to the account's low level of funding.

34. The Committee took note of the document.

#### **Item 8: Auditor's Report for the Financial Year 2022**

35. Document CFA(XXXVIII)/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 2022 prepared by the ITTO Management; and ITTO's Financial Statements for the year ended 31 December 2022, audited by the Independent Auditors.

36. 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 2022 in March–June 2023.

37. The audited financial statements provided information on the financial position and performance of ITTO for the fiscal year ended 31 December 2022 (FY2022).

38. For ITTO's project accounts in FY2022, new voluntary contribution pledges of \$4.0 million were announced at the Council session, and total project cost expenses during that period were \$4.5 million from projects mostly funded prior to FY2022. Total Administrative Account assessed contribution revenues were \$7.1 million, of which \$1.8 million was not received during FY2022 and was accounted for as assessed contributions receivable (arrears).

39. 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 were reported in the financial statements. For calendar year 2022, total pledges of \$2,589,401 were made associated with implementing the pilot, and the total cost associated with implementing the pilot was \$285,195.

40. Other highlights included the following:

- The surplus for the FY2022 Statement of Financial Performance was \$1.6 million due to differences in the timing of recognizing revenue and expenses (i.e. 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 increased by \$0.5 million between 2021 and 2022. This was mainly because of an easing of the impact of the COVID-19 pandemic, which enabled projects to make more progress in 2022 compared with the previous year.

41. Document CFA(XXXVIII)/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.

42. As there were no comments from the floor, 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 2022, as contained in Document CFA(XXXVIII)/6.

**Item 8-bis: Matters Related to Article 19 of the ITTA, 2006 on the Administrative Account**

43. The Chairperson explained the provisions of the draft Council decision on this item and reminded delegates that the Council has requested the CFA to discuss these and to report back on its discussions. Questions remained on aspects of the draft decision, such as the abolition of certain provisions in a previous Council decision (Decision 3(XXXIII)) and whether priority for project funding should be given to those countries that paid their contributions on time. He said any amendments to the detail of the draft decision could be made during the Chairperson’s Open-ended Drafting Group.

44. The delegate of India said he felt the draft decision contained no clear incentive for countries with arrears and the proposal would not resolve the issue and might further complicate it. ITTO should be focusing on solving problems such as that presented by the new EU deforestation regulation (EUDR). In his view, there was no clear link between the proposal and the incentive of being able to submit project proposals. He further clarified that this provision of barring members with arrears from submitting project proposals should be deleted. Projects should be dealt with on their merits.

45. The delegate of the USA said the Council had requested that the Working Group devise some sort of incentive for countries in arrears, and this was the proposal it had put forward. He would like to hear whether India had other proposals.

46. The Chairperson said he would like to have a wide discussion on the proposal before reverting to the Council, and sought more views from CFA members.

47. The Chairperson agreed there was no guarantee that countries putting forward concept notes and project proposals would receive funding for those.

48. The producer spokesperson said producer members had exchanged ideas on other possible incentives for paying arrears and yearly contributions. The current proposal was welcomed, and it helped in reflecting on other possible long-term solutions. Allowing member countries that had paid arrears to present concept notes was intended to help those members, but there was no guarantee that the submitted proposals would be approved or receive financing. So, a country that decides to pay arrears and submits a proposal might be disappointed, given that no more than 10% of concept notes are approved and financed. Therefore, the proposed solution was not convincing or a good incentive. As the delegate of India had said, it could generate other problems because a country that pays arrears and presents a concept note that does not receive financing might react negatively.

49. The producer spokesperson said the producers had been exploring other win-win solutions. They were yet to develop a final proposal, but one idea was that countries that paid arrears of a certain number of years could be incentivized by receiving a percentage of these funds – perhaps 50% – as finance for projects. This was an idea worth exploring and a win-win solution, provided that it was allowable under administrative rules.

50. The Chairperson said the Secretariat would consider this idea and come back with an indication of whether such an approach would be allowable under the rules. He asked for other reactions to the proposal.

51. The delegate of Japan said she opposed the proposal to use project money to refinance arrears because the administrative and project accounts should be separate and separately accounted for. Projects were funded through voluntary contributions, and the administrative account was the obligation of members. Regarding the point made by the delegate of India that the draft decision would complicate matters and not offer an incentive, the delegate of Japan said this was the root cause of the issue because producers had said they were losing interest and engagement because they had lost their right to put forward project proposals because they were in arrears. The draft decision would enable such producers to re-engage and come back to ITTO. Moreover, it is not possible to finance all concept notes and project proposals – it is a competitive process and there are no guarantee. Financing depended on the quality of the proposal and should not be guaranteed.

52. The producer spokesperson thanked the delegate of Japan for her comments regarding the producers' proposal. Producers understood that the proposal might be difficult to implement from the point of view of administration and regulations, but it is an option that should be considered. It might require modification, and perhaps a trial period could be adopted to see if it worked. What was important was for the Organization to receive new money. The proposal was that 50% of the funds received from members to pay their arrears would go to the Administrative Account and 50% would go back to the countries in the form of project funding as an incentive. There was also a need to intensify contacts with countries to encourage them to pay their arrears. Strategies were needed to make direct contact with countries to convince them to pay their arrears because ultimately such payments are a political decision.

53. The Chairperson agreed that direct contact between the Secretariat and countries was important, and also that it is a political issue.

54. The delegate of India said the Organization was not primarily for funding projects, it was for solving problems. Producers were facing problems such as the EUDR and this was what the Organization should be addressing to facilitate producer countries in their trade. This would provide an incentive for producers to pay their arrears.

55. The Chairperson said he agreed that ITTO was there to help solve problems.

56. The delegate of New Zealand expressed concern about the proposed draft decision because it might create an incentive for some producers to not pay fees and then pay their arrears to benefit from the incentive, and it also penalized those producers that were paying their dues on time. She noted the comment from Japan and welcomed efforts to find a temporary solution, perhaps along the lines suggested by the producer spokesperson.

57. The delegate of the USA asked for clarification from the Secretariat on whether the arrangement proposed by the producers would legally be possible.

58. The Secretariat responded that it would be possible to use the Working Capital Reserve (WCR), which was at the disposal of members. Payments of arrearages were currently usable by the Secretariat in case of shortfalls in contributions. At the end of each biennium, however, any remaining funds from payment of arrearages would go into the WCR, and the Council has the option to decide on the use of WCR.

59. The delegate of the USA said he considered that the proposal would not be fair to those countries that always paid their assessed contributions on time. The idea did not strike him as a good one.

60. The Chairperson commented that there seemed to be hesitation among some countries towards the proposal from the producer spokesperson. He proposed establishing a contact group on the matter among interested producers and consumers, with him as chair, to enable a freer discussion.

61. The delegate of the EU said her delegation supported the proposal put forward by the Working Group in the draft decision. She noted the concerns of producer countries and echoed the concerns expressed by the delegates of Japan, New Zealand and the USA on the idea put forward by the producers. She supported the establishment of a contact group.

62. The delegate of India suggested thinking of other arrangements to support countries unable to pay their arrears and proposed that the Secretariat explore funding support for arrears outside the ITTO framework.

63. The Chairperson said the Council had had similar discussions previously, including on the possibility of countries making voluntary contributions to help countries pay their arrears, and other possibilities might exist. He noted that the EU supported convening a small contact group and asked for other feedback. Seeing nodding from delegates, he proposed that the contact group convene later in the day. He asked the Secretariat to clarify the reasoning behind the proposals in the draft decision to abolish provisions established in previous Council decisions (Decision 7(XXXIII), Annex 1, Part C).

64. The Secretariat said the proposal to abolish the indicated provision was because a similar clause existed in the ITTA, 2006. The indicated provision was part of a decision taken by the Council in 2002 before the ITTA, 2006 came into force, and its abolition would streamline the rules on write-offs and project submission eligibility. The Secretariat did not envisage any adverse effects due to this measure.

65. Later, the Chairperson reported to the Committee that the contact group had duly convened. Its fruitful discussions had started generally and then became more focused. It was able to find wording that was later discussed in the Chairperson's Open-ended Drafting Group, and the draft decision was finalized there.

#### **Item 9: Updates to the Project Audit Framework**

66. The Secretariat introduced Document CFA(XXXVIII)/7 dated 12 October 2023 on "Update to the Project Audit Framework".

67. At its 56th Session in November 2020, the Council approved a recommendation by the CFA to adopt the new project audit framework, as contained in Document CFA(XXXV)/7 Rev.1, for all future audits. Accordingly, the new audit standard was applied to all new applicable projects and activities from 2021, and ITTO had been collecting feedback from executing agencies and auditors on the effectiveness of the framework. The new framework brought reliability and efficiency to the audit procedures and was met with mostly positive feedback, although areas where further streamlining and improvements could be made were identified. An update to the project audit framework was developed and further reviewed by an independent audit firm for compliance with relevant international standards and effectiveness to detect material issues.

68. The main changes to the framework are contained in the financial statements reporting format. New notes had been added to collect additional information required for compatibility with the International Public Sector Accounting Standards (IPSAS) while simplifying the main financial report to one cashflow statement to streamline the process. The terms of reference for auditors and their reporting format was updated accordingly to reflect this change, and all these documents are annexed to this Committee document.

69. In addition, some improvements to the rules governing the framework are proposed in the document, including rules for the timing and frequency of annual and final audits to allow the use of Programme Support assigned to a particular project in cases where audit budgets are insufficient due to unforeseen circumstances.

70. The Committee considered the proposed updates to the project audit framework and recommend to the Council that it adopt and immediately implement the framework for all future project audits.

#### **Item 10: Election of Chairperson and Vice-Chairperson for 2024**

71. Mr. Pyoabalo Alaba (Togo) was elected Vice-Chairperson of the Committee for 2024. The consumer caucus will announce the Chairperson of the Committee for 2024 at a later date.

#### **Item 11: Dates and Venue of the Thirty-ninth and Fortieth Sessions**

72. The Committee agreed that its sessions may be held on the same dates and at the same venues as the Sixtieth and Sixty-first Sessions of the Council.

#### **Item 12: Other Business**

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

#### **Item 13: Recommendations to the International Tropical Timber Council**

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

- 1) to approve the Biennial Administrative Budget for the financial years 2024 and 2025, as contained in Document CFA (XXXVIII)/2 Rev.1, in the amount of USD 7,104,228 and USD7,104,278, respectively;
- 2) to approve the Financial Reports prepared in accordance with ITTO Financial Rules and Procedures (Annex 4) for the financial year 2022, as contained in Document CFA(XXXVIII)/6;
- 3) to take note of the list of disclosures required by the Financial Rules, as contained in Annex 1 of

Document CFA(XXXVIII)/4, and endorse the list of sole providers and approve the list of banks and financial institutions;

- 4) to adopt the updates to the project audit framework, as contained in Document CFA (XXXVIII)/7, and immediately implement the framework for all future project audits; and
- 5) to take note of the deliberations held regarding “Matters related to Article 19 of the ITTA, 2006, on the Administrative Account”.

**Item 14: Report of the Session**

75. The Committee adopted this report.