



**INTERNATIONAL TROPICAL
TIMBER COUNCIL**

**COMMITTEE ON
FINANCE AND ADMINISTRATION**

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REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

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

Item 1: Opening of the Session

1. Before the meeting opened, the Secretariat reported that no nomination had been received for Chairperson of the Committee on Finance and Administration (CFA). The Secretariat had therefore invited Mr. Pyoabalo Alaba, Vice-Chairperson of the CFA, to chair the current session, and Mr. Alaba had kindly agreed. The Secretariat and members of the Committee expressed their gratitude to Mr. Alaba for his willingness to take on this task. The Committee welcomed Mr. Alaba as Chairperson for the session, with applause.
2. Mr. Alaba welcomed all delegates to the Thirty-ninth 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(XXXIX)/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. The Committee accepted this approach.

Item 3: Admission of Observers

5. The Chairperson advised the Committee that the Council had admitted all applicants, as shown in Document ITTC(LX)/Info.3, which listed states and intergovernmental and non-governmental organizations applying for observer status. This was accepted by the Committee.

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

6. At its Fifty-ninth Council Session in November 2023, the Council had approved the draft Administrative Budget for the Biennium 2024 and 2025, [Document CFA(XXXVIII)/2 Rev.1], in accordance with Article 19(4) of the ITTA, 2006. No revision has been made to this document.
7. Noting that Canada had become a member of the ITTO during the biennium and had paid its assessed contribution, the delegate of the USA asked whether the new funds contributed would be used to maintain reserve funds and/or there would be a reallocation of the assessed contributions of other countries. The Secretariat responded that a provision in the ITTA stated that, once a biennial budget is approved, it is fixed for that biennium and therefore the assessments for the current biennium would not be revised. The contributions of newly joined members were assessed based on their number of votes and the time remaining in the year of joining and would be in addition to the approved budget. If there was a surplus in that year, after all expenses had been taken into account, the surplus amount would go into the Working Capital Reserve (WCR), as per Rule 5.5 of the Financial Rules.
8. Since there were no other comments, the Committee concluded that no changes would be made to the budget for the financial biennium 2024–2025, as set out in Document CFA(XXXIX)/2.

Item 5: Review of Contributions to the Administrative Budgets

9. Document CFA(XXXIX)/3 Rev.1 dated 14 November 2024 detailed the status of members' contributions to the Administrative Budgets for the financial years from 1986 to 14 November 2024, including assessments, receipts, interest charges, and arrearages in contributions. In 2024, \$2,029,428 had been received from producer members, out of a total net assessment of \$3,280,222, and \$3,394,981 had been received from consumer members, out of a net assessed amount of \$3,881,366.
10. The arrearages in contributions to previous years' budgets from producer members amounted to \$8,856,449 and arrearages from consumer members amounted to \$438,631. The amount outstanding from the present year's assessment was \$1,250,794 for producer members and \$486,385 for consumer members. The document also showed the status of arrearages in contributions affecting eligibility to submit project proposals and countries that had become eligible to submit project proposals/concept notes under Decision

4(LIX). As of the date of the meeting, no countries had become eligible to submit project proposals/concept notes under this Decision. Arrearages in contributions from former members of the Organization amounted to \$1,707,006, bringing the total outstanding arrearages to \$12,739,264.

11. The delegate of Japan made a statement regarding the closure of ITTO's bank account in the United States of America and its impact on the transfer of Japan's assessed contribution for 2024. Due to the Japanese government's financial regulations, Japan could only transfer US dollars to banks outside Japan.

12. The Secretariat explained that, previously, contributions had been transferred to ITTO's account at Citibank in the US. In April 2024, however, the bank had abruptly decided to close this account due to tightened measures such as for anti-money laundering and combating the financing of terrorism. As this was the only bank account ITTO had outside Japan, ITTO no longer held a bank account to receive contributions from Japan in US dollars.

13. The delegate of Japan said the Government of Japan was ready to pay its assessed contributions for 2024 in full once the account problem had been solved, and that it intended to pay as soon as possible. The delegate noted that Japan was closely coordinating with the ITTO Secretariat and sincerely hoped that the issue would be resolved in near future.

14. The Secretariat, confirming that this was the current status, explained that ITTO held bank accounts mainly in Japan as the host country. Due to tightened restrictions globally, it would take time to open another bank account overseas, especially because ITTO did not have a presence outside Japan.

15. The Secretariat said it was contacting financial institutions where ITTO was able to open bank accounts, and progress was being made. The Secretariat believed that this issue would be resolved soon and Japan would be able to transfer its assessment in a timely manner. The Secretariat said it would continue to work closely with Japan to resolve this issue.

16. The delegate of the European Union referred to the trial measure adopted through Decision 4(LIX) para.2, which enabled members that were ineligible to submit project or pre-project proposals or concept notes, in accordance with ITTA, 2006, Art. 19.8 and Decision 4(LVI), to be allowed to submit one project proposal or one concept note for every two years of arrears paid. Noting that two member countries had indicated interest in following this approach, the delegate of the European Union expressed hope that this would yield results and that the provision would be the solution it was expected to be. The delegate added that, in negotiating a new ITTA, it would be desirable to consider putting in place appropriate mitigation and recovery actions, and their delegation looked forward to further discussions on this matter.

17. The Committee took note of the above document.

Item 6: Current Status of the Administrative Account

18. The Secretariat introduced Document CFA(XXXIX)/4 Rev.1, 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.

19. Document CFA(XXXIX)/4 Rev.1, dated 14 November 2024, reports on the status of the Administrative Account for the financial year 2024, together with the estimated expenditure for the current year.

20. Section A of page 1 of the document shows that the estimated total expenditure for the financial year 2024 would amount to \$6,115,374. The total contributions received from both producer and consumer members amounted to \$5,424,409, and arrear payments received in 2024 amounted to \$560,361, as of the day of the report. Together with contributions expected to be paid by members before the end of 2024, it was anticipated that a surplus in the amount of \$316,361 would accrue in 2024. This amount would be credited to the WCR. The assessed contribution collection rate for year 2024 was 75.74% of the total assessment of \$7,161,588.

21. Section B shows that the current year's arrears in contributions amounted to \$1,737,179. Total outstanding contributions for the period 1986–2023 amounted to \$12,292,299.

22. 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.
23. Section D shows that the resources of the WCR were estimated at \$7.9 million by the end of 2024.
24. Section E shows an interest income balance of \$359,019, 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.
25. 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.
26. The Chairperson welcomed the efforts made to achieve a collection rate of close to 76% of the Assessed Contribution for the current year.
27. The delegate of the European Union expressed support for the Secretariat to explore innovative ways to prompt members to pay contributions to the Administrative Budget. The delegate noted that it was important to adapt the budget for the long term because expenses remained substantive, and ongoing withdrawals from the WCR were reducing it unsustainably. The delegate suggested there was a need to find ways to avoid depleting the WCR in the future.
28. The delegate of Japan sought clarification on how the unspent balance of \$988,854 was generated. The Secretariat explained that, although it was allowed to spend up to the amount of the budget, the full amount of the budget was usually not received. If the entire budget was spent, the difference would need to be drawn from the WCR. The Secretariat was tasked with managing its resources in terms of cashflow, and, as a result, savings were made and the budget managed to match the cash received. The unspent balance shown in this document was the result of such management.
29. The Committee took note of the above document.

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

30. Document CFA(XXXIX)/5 Rev.1 dated 14 November 2024 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(XXXIX)/5 Rev.1 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 balance of funds under the Special Account and the Bali Partnership Fund was \$17,231,221, of which \$12,422,447 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 \$107,878, may be allocated to projects/activities by the Panel on Sub-Account B of the Bali Partnership Fund, which would convene during the week.
33. The Committee took note of the document.

Item 8: Auditor's Report for the Financial Year 2023

34. Document CFA(XXXIX)/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 2023 prepared by the ITTO Management; and ITTO's Financial Statements for the year ended 31 December 2023, audited by

the Independent Auditors.

35. The audit was carried out by Ernst & Young Japan, which was appointed by the Council in November 2017 and reappointed in November 2022 to audit the accounts of the Organization for the financial years 2022 and onwards. It carried out the financial audit for the period ending 2023 during March to June 2024.

36. The audited financial statements provided information on the financial position and performance of ITTO for the fiscal year ended 31 December 2023 (FY2023).

37. For ITTO's project accounts in FY2023, new voluntary contribution pledges of \$6.2 million were announced at the Council session, and total project cost expenses during that period were \$4.7 million from projects mostly funded prior to FY2023. Total Administrative Account assessed contribution revenues were \$7.2 million, of which \$1.4 million was not received during FY2023 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 were reported in the financial statements. For calendar year 2023, total pledges of \$3,871,018 were made associated with implementing the pilot, and the total cost associated with implementing the pilot was \$273,350.

39. Other highlights included the following:

- The surplus for the FY2023 Statement of Financial Performance was \$1.5 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, but only expenses incurred in the same year are recognized as expenses in that year's budget), and reduced personnel costs due to a number of vacancies.
- The new IPSAS 41 standard for Financial Instruments was implemented as of 1 January 2023 which replaces IPSAS 29. The impact of applying the new standard in 2023 mainly consisted of an increase of \$1.1 million in accumulated loss allowance for expected credit losses for assessed contributions, and an increase of \$0.2 million in allowance expenses for debt in the Administrative Account.

40. Document CFA(XXXIX)/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. In accordance with Rule 19(2) of the Financial Rules, because the Council was being held in Yokohama, the auditors were available online to answer any questions from the floor at this time.

41. As a condition for ITTO's recent accreditation to the Green Climate Fund, the CFA was requested to provide oversight of ITTO's internal audit activities and assessment of the performance of its independent internal audit function. The Committee was invited to examine document CFA(XXXIX)/CRP-2 (Internal Audit Report) and recommend to the Council that it add this new responsibility to the functions of the CFA. As noted in the report, ITTO's control environment and governance practices provided adequate mitigations to the most significant risks and the auditors did not identify any recommendations with critical or high ratings at this time.

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 2023, as contained in Document CFA(XXXIX)/6, as well as to add to the function of the CFA, a new responsibility to provide oversight of ITTO's internal audit activities and assess the performance of its independent internal audit function.

Item 9: Election of Chairperson and Vice-Chairperson for 2025

43. Mr. Pyoabalo Alaba (Togo) was elected Chairperson of the Committee for 2025. The consumer caucus will announce the Vice-Chairperson of the Committee for 2025 at a later date.

Item 10: Dates and Venue of the Fortieth and Forty-first Sessions

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

Item 11: Other Business

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

Item 12: Recommendations to the International Tropical Timber Council

46. 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 2023, as contained in Document CFA(XXXIX)/6;
- 2) to take note of the list of disclosures required by the Financial Rules, as contained in Annex 1 of Document CFA(XXXIX)/4 Rev.1, and endorse the list of sole providers and approve the list of banks and financial institutions; and
- 3) to add to the function of the Committee on Finance and Administration, a new responsibility to provide oversight of ITTO's internal audit activities and assess the performance of its independent internal audit function.

Item 13: Report of the Session

47. The Committee adopted this report.