

## DESIGN & IMPLEMENTATION OF A NEW ITC TRUST FUND SYSTEM

ITC is consolidating the various current ITC trust funds into one “**ITC Trust Fund**” (ITF) aligned to the ITC Consolidated Programme Document (CPD) 2008-2009. The aim is to attract (mainly) un-earmarked and multi-year funding and to harmonize and streamline administrative work through the provision of one single trust fund report presented to all stakeholders.<sup>1</sup> It is recognized that change will be achieved over time and the new ITF-structure provides for this. With this effort, ITC is responding to the need to re-examine existing governance and accountability structures in order to provide a more effective mechanism for operational programming, effective use of funds and simplified reporting, as requested by the Denmark led evaluation.

### Structure

ITC’s proposal for a new trust fund structure follows the general nature of contributions. In principle there are two types of contributions:

- a) **unearmarked/soft-earmarked**, and
- b) **earmarked** contributions.

#### a) **Unearmarked/soft-earmarked contributions:**

Unearmarked means the donor does not indicate any preference on the use of the contribution. The Senior Management Committee (SMC) of ITC attributes the funds to meet the goals and objectives of the organization. These objectives are described in the Strategic Framework, the Strategic Plan and the CPD.

Soft-earmarked means the donor does not designate a defined amount, proportion or percentage of the contribution to a specific thematic or geographic aspect. However, the donor provides relative importance and guidance in terms of donor priority, i.e. for programmes delivering targeted goals and objectives for example, gender, environment, poverty, or regions such as sub Saharan Africa. The SMC attributes these funds, consistent with donors’ requests but with a degree of flexibility to respond to beneficiary countries’ needs.

The difference between un-earmarked and soft earmarking is the degree of guidance given to ITC in terms of amount, allocation to a broad or narrow theme(s) or geography.

#### b) **Earmarked contributions:**

Earmarked means the donor designates a defined amount, proportion or percentage of the contribution to a specific thematic or geographic aspect.

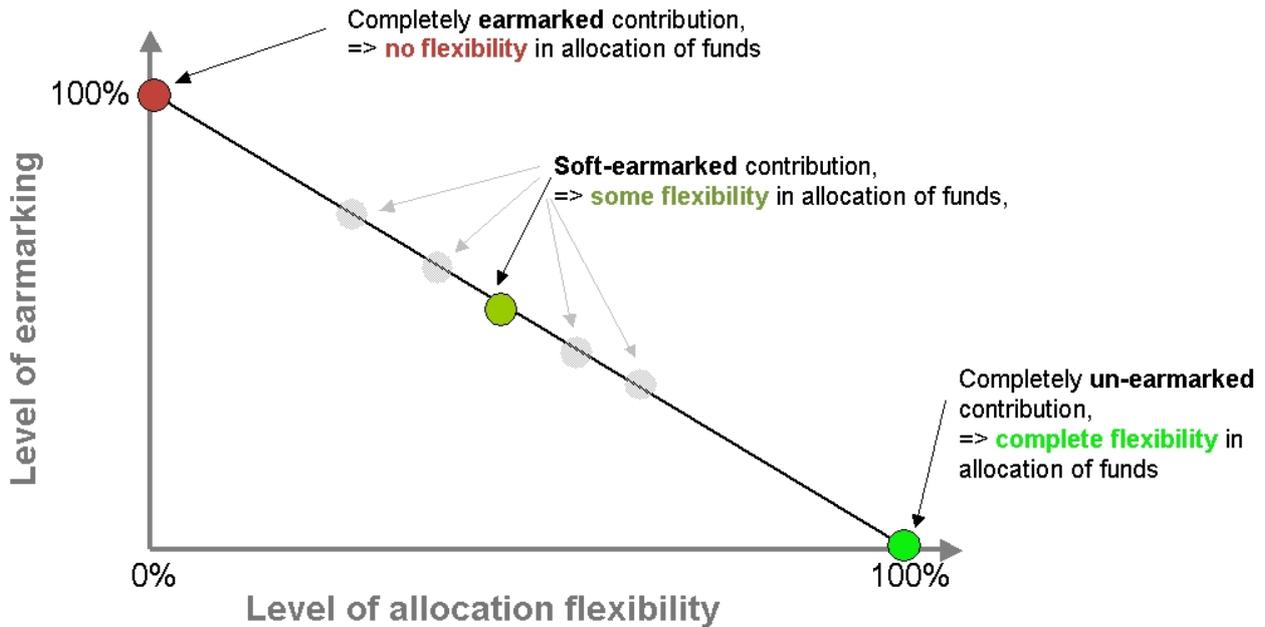
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<sup>1</sup> At present, ITC prepares a yearly, individual financial report to all bilateral and funds-in-trust donors. This includes a statement of account showing the funds received and the allocations made and the balance. In addition, ITC prepares yearly reports to the Consultative Committee of the Global Trust Fund, to the JITAP Steering Committee and reports in Euros in the EC format for the European Communities.

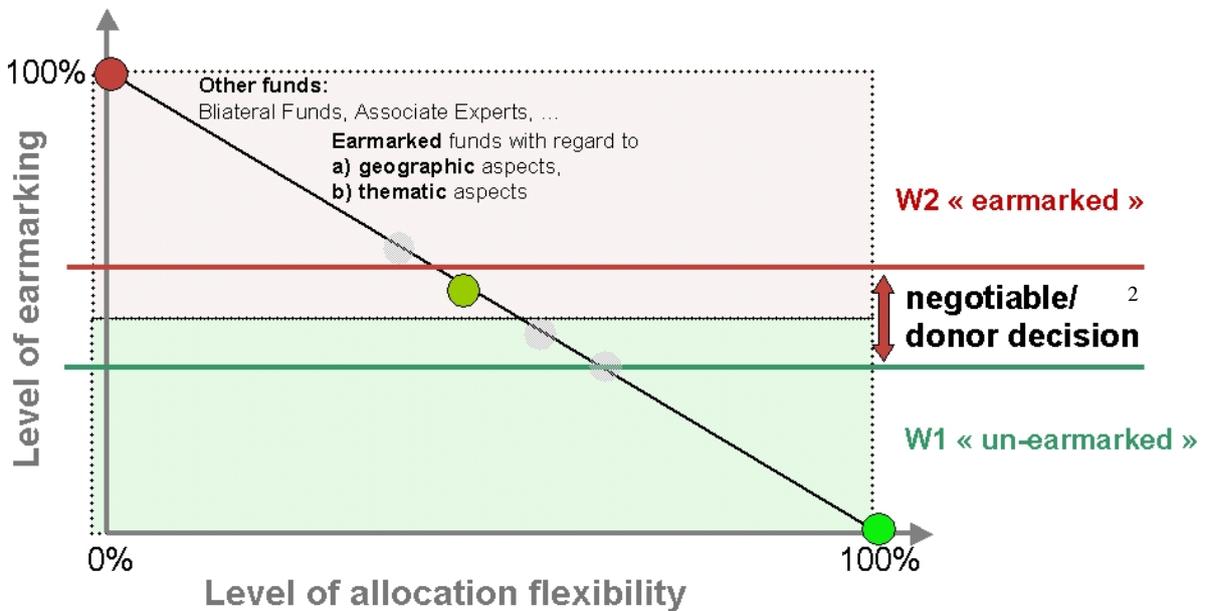
ITC will continue to accept earmarked contributions to other funds, such as bilateral funds or Associate Experts, based on their specific characteristics and requirements.

According to these types of contributions and in order to simplify and streamline ITC’s fund structure, ITC offers two fund windows as shown in the two figures below. The degree of earmarking and decision to allocate to W1 or W2 of the new ITC Trust Fund will be agreed in discussions with each donor.

### Types of Contributions and Allocation Flexibility



### Types of Contributions, Allocation Flexibility and Trust Fund Windows



<sup>2</sup> The reporting on W2 will include other funds, such as Bilateral Funds or Associate Experts. The reporting on the use of these funds might follow rules and conditions specific to them and distinct to the ITC Trust Fund conditions.

Unearmarked funds contributed to W1 will be deployed to activities in a manner reflecting the CPD.

## Reporting

### **a) Financial Reporting**

ITC shall provide global financial statements and substantive<sup>3</sup> reports prepared in accordance with the United Nations accounting and reporting procedures:

- a. An audited financial statement for a given biennium and an unaudited interim financial statement for the first twelve months of the biennium.
- b. A biannual report on the ITF showing contributions to the TF windows by time period and by donor; income and expenditure status and funds balance by windows over the time period and as of 31 December of a given biennium.

ITC is moving towards results based reporting. The income and expenditure status and funds balance reports by windows may be delivered in different formats, clustered either by topics or geographically by countries or regions.

Until the end of the 2-year transition phase, ITC will continue to report on the GTF.

### **b) Substantive Reporting**

A single ITC annual report will be prepared based upon the CPD, reflecting programme activities.

Donors of bilateral trust funds may receive detailed project reports, evaluations and other project related reports as agreed when a bilateral trust fund is established.

ITC is moving towards results based reporting linking expenditures to indicators of results. ITC's rate of progress towards this goal is associated with the availability of resources dedicated to this work and to the development and implementation of the Enterprise Resource Planning (ERP) system of the UN Secretariat, which will replace the legacy IMIS system currently used by ITC. The United Nations is anticipating implementation of the ERP during 2011. ITC will report to the Consultative Committee of the Global Trust Fund (CCGTF) on its progress towards this goal.

## Role of the CCGTF and the Role of the SMC

The SMC will continue to review and approve proposals for activities funded from the GTF/ITC TF.

Un-earmarked, multi-year donor contributions will be aligned to the Strategic Plan and programmes described in the Consolidated Programme Document.

Funds given to W1 (unearmarked) will be allocated by ITC to reflect as best as possible the overall priorities of the organization in terms of substance, themes and geographical balance.

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<sup>3</sup> Substantive reporting refers to the ITC Annual Report 2007 and future years' Annual Reports.

The role of the CCGTF (ITC/AG(XXIX)/155, of 12 March 1996) as endorsed at the 29<sup>th</sup> Session of the JAG, 15-19 April 1996, is to provide advice to the ITC Secretariat and ensure transparency on the utilization of the resources of the Global Trust Fund.

Depending on the outcome of member states discussions on the setting up or not of the Consultative Board, the CCGTF may wish to revisit the defined role to update it for the current situation.

On request of a donor, funds contributed to the GTF in 2008 and 2009 could be retained in the GTF until 31 December 2009.

Following the adoption of the “General conditions for the implementation of the ITC Trust Fund” by the Consultative Committee, contributions received in 2008 and initially placed under Window 1 of the Global Trust Fund and where such funds are not yet committed, they will be transferred to the ITC Trust Fund and projects will be managed from the ITC Trust Fund.

### Information on Contributions

Information on individual donors’ contributions to each of the trust fund windows will be available. Expenditures from those windows will be available at a consolidated programme level for each trust fund window.

### Interest

To comply with the recommendation contained in the report of the Board of Auditors A/63/5 (Vol. III) to increase the level of the ITC Operating Reserve<sup>4</sup>, exchange rate gains and annual interest accrued will be credited to the ITC Operating Reserve until this account reaches 15% of ITC’s expected annual expenditures. The funds held within the ITC Operating Reserve are used for bridge financing of technical cooperation activities and to meet final expenditures of trust fund activities, including liquidating liabilities. Thereafter, any exchange gains and annual interest attributable to the contributions shall be retained in the ITF and used for technical cooperation activities. Currently the ITC Operating Reserve stands at around \$1.89 million, which is approx. 6.55% of the annual expenditures during 2007.

Upon request of a donor, exchange gains and annual interest attributable to its particular (“earmarked”) contribution will not be transferred to the Operating Reserve but will be kept within the Window.

Based on an assumption of an annual value of technical cooperation activities of \$28.87 million, it is anticipated that to reach the 15% target of \$4.33 million value, it would take between 1,5 and 4,5 years time. This estimate will be influenced by exchange rate fluctuations and by any direct donor contributions to the operating reserve.

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<sup>4</sup> The ITC Operating Reserve is a sum set aside within the cash resources of the trust funds to cover any delays in payments of pledged contributions and to be used to meet the final expenditures of trust fund activities, including liquidating liabilities. ITC continues its efforts to incrementally increase this reserve as members agreed at the 40th Meeting of the Joint Advisory Group Meeting in April 2007. Following the Secretary-General’s Bulletin, ST/SGB/188, 1 March 1982, paragraph 26, a pledge is a “written commitment by a prospective donor to make a contribution to a trust fund. (A written commitment which is subject to the need to secure an appropriation or other national legislative approval is considered a pledge).”

ITC will regularly report on the status of the level of the ITC Operating Reserve so that donors can see progress in achieving the goal of arriving at 15% of annual estimated expenditures. This information could also be provided informally.

## Transition Phase

ITC has established the new ITC Trust Fund System as at January 1st, 2008.

### *Global Trust Fund*

The projects and programmes under the Global Trust Fund will continue to exist for a transition period of two years, until projects are completed and/or absorbed in the new ITC Trust Fund. After the transition period any remaining balance will be credited to the unearmarked trust fund window W1 of the new ITC Trust Fund.

### *Other Funds*

In some cases, these funds continue to be earmarked for specific projects or activities, with varying conditions and separate approval and reporting procedures. However, for the sake of harmonization, donors are encouraged to contribute to the new ITC Trust Fund.

Any projects/programmes funded from GTF still active at 31 December 2009 will be redistributed into the ITC TF, thus allowing the closing of the GTF as planned.

## General Conditions

ITC submits to the Consultative Committee the draft “General conditions for the implementation of the ITC Trust Fund (ITF)” for review and adoption in a separate handout.

## Necessary Agreements

The Consultative Committee of the Global Trust Fund CCGTF as well as donor countries would have to agree on the following:

- a) ITC will provide reports as described under bullet point 2 above.
- b) An agreement on the general conditions.