1. The 61st session of the Finance Committee was held at the seat of UNIDROIT in Rome on 5 October 2006. The session started at 10 a.m. and ended at 12.30 p.m.

2. The Secretary-General welcomed the participants (a list of whom is reproduced in Appendix I hereto). He indicated that the situation of the Institute had improved dramatically since the session of the sub-Committee of the Finance Committee in July, and that he was happy to communicate the following good news:

   - the Government of Lithuania and the President of the Parliament of that country had communicated that the instrument of accession to UNIDROIT was under way of approval;
   - as concerned the draft Convention on Substantive Rules regarding Intermediated Securities, the Secretariat had secured private funding for the amount of 100,000 € which would permit to cover staff expenses for that project for the fifth year in 2007. This funding could be renewed in 2008 for the implementation process. Extremely positive was also the news that a Government had shown its interest in organising the diplomatic Conference for the adoption of the draft, which should take place in the end of 2007;
   - the Government of Luxembourg had accepted to host the diplomatic Conference for the adoption of the draft Protocol to the Cape Town Convention on Matters specific to Railway Rolling Stock. The Conference was to be held from 12 to 23 February 2007. The Government of Luxembourg was extremely efficient and extremely generous in this phase of organisation. It was a very positive sign that the Government of a country which considered itself a financial centre showed its interest towards this instrument. For the first time the organisation of a diplomatic Conference was accompanied by regular meetings with the industry and other stake-holders, so as to ensure the success of the Conference;
   - the process of ratifications and accessions to the Cape Town Convention and the Aircraft Protocol continued. A seminar – the Asia Pacific Cape Town Convention Summit – had been organised by the Government of the People’s Republic of China in September 2006, and this had given the
Secretariat the opportunity to meet 170 representatives of the industry and of Governments of the region. The process of the Chinese ratification was very well advanced.

- the Government of Italy had paid another 20,000 € in addition to its contribution, and the Institute was most grateful. The Secretariat considered the commitment of the host Government to be very important indeed.

- the ad hoc Committee set up by the Governing Council to review the Institute’s Regulations, and in particular the regulations concerning the staff, was at work and its members had received a document prepared by the Secretary-General containing information and comments required.

3. Lastly, the Secretary-General indicated that as Mr Joseph RENGLI (Switzerland), past Chairman of the Finance Committee, had returned to Switzerland, the Finance Committee was required to appoint a new Chairman.

4. The representative of Germany thanked Italy for its generous contribution. He thereafter proposed that Mr Kent VACHON (Canada) be appointed Chairman of the Finance Committee. The representative of France and the representative of the United Kingdom seconded this proposal. Mr VACHON accepted the appointment and consequently took the chair of the session.

5. The representative of Italy, who attended the Finance Committee for the first time, took the floor to introduce himself to the other members of the Committee. He indicated that the Italian contribution for 2006 had been increased as evidence of the commitment and of the support of the host Government towards the activity of the Institute. The Italian Government wished UNIDROIT’S activity to continue with the same high standard that had so far been shown.

6. The representative of the United States of America, who attended the Finance Committee for the first time, took the floor to introduce himself to the other members of the Committee and recalled that the Government of the United States staunchly supported UNIDROIT.

7. The representative of Switzerland, who attended the Finance Committee for the first time, took the floor to introduce herself to the other members of the Committee.

**Item No. 1 on the draft Agenda: Adoption of the agenda (AG/Comm. Finances (61) 1)**

8. The draft agenda was adopted as proposed. It is reproduced in Appendix II hereto.

9. The Deputy Secretary-General introduced document AG/Comm. Finances (61) 2 regarding the Accounts for 2005 as verified and sent to the Governments for their observations; document AG/Comm. Finances (61) 3 that contained a proposal of adjustments to the budget for the current financial year; document AG/Comm. Finances (61) 4 that illustrated the situation of arrears in member States contributions; document AG/Comm. Finances (61) 5 concerning the activity of the Institute, and lastly document AG/Comm. Finances (61) 6 on the draft budget for 2007 and which fixed the contributions of member States other than Italy.

10. The Deputy Secretary-General indicated that the Accounts for 2005 did not show any changes in comparison with the budget. The Accounts showed a surplus of € 74,110, which was a comparatively large sum due to the recovery of arrears. The Finance Committee was required to give an opinion that would be transmitted to the General Assembly which would give final approval to the Accounts.

11. The proposals of adjustment to the 2006 budget were illustrated in a new document that had not been submitted neither to the sub-Committee of the Finance Committee, nor to the Governing
Council, and that was based on the real disbursements and the real incomes, as well as on the expenditure and receipts foreseen on 30 September 2006. The figures differed to some extent from those indicated in the 2006 budget which had been approved by the General Assembly in December 2005 but which had been prepared in February 2005. As concerned the receipts, the Deputy Secretary-General recalled firstly the important extra-budgetary contribution received from the United Kingdom, secondly the increase in income due to the direct distribution of the *Uniform Law Review*, and lastly the increase in the Italian contribution. As concerned the increase in expenditure, there were in the first place the expenses for the new post of Deputy Secretary-General, whose salary was covered mostly by the extra-budgetary contribution of the United Kingdom, to which the Institute had added a certain sum. During the year the activities of the Institute had accelerated considerably. Many projects, and in particular the organisation of the two diplomatic Conferences which were to take place in 2007, involved an increase in the expenses for telephone, postage and official journeys. The Secretariat made every effort to contain the expenses, but the organisation of these activities needed considerable work: printing and sending of documents (all the member States of the United Nations were invited to the diplomatic Conference on the Rail Protocol); official journeys and preparatory seminars. The Secretariat tried on the other hand to limit expenses under other chapters, such as office equipment and the upkeep of the building, and was extremely prudent in spending in order to compensate the chapters. Another important innovation - the on-line catalogue of the Library, the importance and usefulness of which were clear – had required an extraordinary expenditure for the purchase and installation of the software. The Secretariat had decided to distribute this expense over a few years, but this had proved to be technically impossible.

12. The situation of arrears was of constant concern to the Secretariat, which maintained continuous contact with the Governments of the member States concerned, sometimes through their national authorities, sometimes through their Embassies in Rome, sometimes through both. The Secretariat considered the recovery of at least part of these outstanding contributions to be realistic.

13. As concerned the implementation of the Strategic Plan, the Deputy Secretary-General referred to what the Secretary-General had said and would say on this item.

14. The document presenting the 2007 budget had already been the subject of a deep analysis by the Sub-committee of the Finance Committee. It contained an increase in expenditure amounting to 9.6%, part of which was covered by receipts of the Institute and extra-budgetary contributions. The Secretariat proposed an increase in the contributions of member States other than Italy of 3.4% in order to cover the exceeding sum. The Secretariat did remember the principle of zero growth. The index of inflation was approximately 2.5% for Italy and the Euro zone, and for 2007 the European Central Bank envisaged an index – linked to the fluctuation of the oil price - of 1.9% – 2.9%, i.e. an average of 2.4%. Accordingly the Secretariat asked for an increase in contributions of 1% in real terms. It had to be recalled that the 2007 draft budget, in accordance with the practise of the Institute, was illustrated in two columns to permit a comparison with the previous year’s budget, but the Accounts for 2006, for the reasons explained in the document concerning the adjustments to the 2006 budget, were higher. Therefore, the Secretariat asked for the level of accounts of the current year to be maintained, which meant a decrease in real terms.

15. The Deputy Secretary-General informed the members of the Finance Committee that the Secretariat had received the observations of the Government of Japan. The Government of Japan had no observations on the 2005 Accounts, and as concerned the 2007 budget it stressed the need to exercise the greatest budgetary discipline. The Secretariat, which wanted to thank the Government of Japan for its interest, gave assurances that it would make every effort to follow this indication.
16. The Deputy Secretary-General thereafter explained that the supplementary document that had been distributed to the members of the Finance Committee concerned the Italian contribution for the 2006 financial year that has been increased by € 20,000 as compared to the estimate indicated in the budget.

**Item No. 2 on the Agenda: Final modifications to the Budget, and approval of the Accounts for the 2005 financial year** (AG/Comm. Finances (61) 2 and Accounts 2005)

17. The Chairman asked if there were observations on this item. No comments being forthcoming, the Chairman concluded that the Committee had approved the Accounts for the 2005 financial year.

18. *It was so agreed.*

**Item No. 3 on the Agenda: Adjustments to the Budget for the 2006 financial year** (AG/Comm. Finances (61) 3)

19. The Chairman asked if there were observations on this item.

20. The representative of the United Kingdom asked if it would be possible to have analytical presentation of these adjustments. She also indicated that her Government expected that its extra-budgetary contribution be accounted for in the budget for the 2006 financial year.

21. The representative of Italy indicated that his Government expected that the increase of its contribution be accounted for in the budget for the 2006 financial year.

22. The Deputy Secretary-General specified that certain expenses were linked to specific activities currently under way, and that the Secretariat had prepared a document that she would send to the members of the Finance Committee. She also assured the representative of the United Kingdom and the representative of Italy that the contributions given respectively by the Government of the United Kingdom and by the Government of Italy would be accounted for in the receipts of the current financial year.

23. The representative of Germany stressed that due to the possibility to compensate increases, its Government agreed with the adjustments presented.

24. The Deputy Secretary-General proposed that an Appendix be added to document AG/Comm. Finances (61) 3 containing the figures showing the state of the budget at a date nearer to that of the General Assembly.

25. The Chairman stated that the members would appreciate such a document. In his capacity of representative of Canada, he asked what the Secretariat intended to do with the roll over indicated in the Accounts 2005, and suggested to report it on the 2007 financial year.

26. The Deputy Secretary-General replied that for the time being, for the sake of prudence, the sum was kept in the 2006 budget as some member States were late in the payment of their contributions. If this delay was recovered, the Secretariat would follow the suggestion made by the representative of Canada.

27. No further comments being forthcoming, the Chairman concluded that the Committee had approved the Adjustments to the budget for the 2006 financial year.
28. *It was so agreed.*

**Item No. 5 on the Agenda: Arrears in contributions of member States** (AG/Comm. Finances (61) 4)

29. As regarded the arrears in member States’ contributions, the *Secretary-General* reported to the Committee that the Government of Israel had informed the Secretariat that the payment was underway. During the summer the Secretary-General had been in constant contact with the Ambassador of Argentina, who had reported that he was deploying all his efforts. The principal concern of the Secretariat, Bolivia, had recently contacted the Secretary-General: and this was thanks to a project of the Institute. In fact, the Head of the Commercial Law Unit in La Paz had received the project of the “Model Law on Leasing”, and had contacted UNIDROIT directly. This proved that the interest for a concrete activity may assist the recovery of arrears.

30. The *Chairman* commended the Secretariat for its efforts in this regard.

31. The *representative of France* thanked the Secretariat for the efforts deployed in order to resolve the situation of the outstanding contributions of member States, and encouraged it to continue in this direction in an area which was of great concern to the Government of France.

32. The *Deputy Secretary-General* informed the Committee that all the Governments with outstanding contributions had been contacted before the drafting of the document and that all were mindful of the situation.

33. The Chairman, taking the floor as the *representative of Canada*, recalled that the Finance Committee had developed a series of progressive measures to be applied in the case of arrears. He thus asked the Secretariat to remind those States that these measures existed, in a document sent to all the member States before the General Assembly.

34. *It was so noted.*

**Item No. 5 on the Agenda: Implementation and up-date of the Strategic Plan** (AG/Comm. Finances (61) 5)

35. At the opening of the session the *Secretary-General* had informed that Finance Committee of the good news concerning the implementation of the Strategic Plan.

36. The *representative of the United Kingdom* greeted the new presentation of documents, but asked if it would be possible to have more clarity in the accounts, and to have a more strict link of the costs to the different projects. She also observed that if all the projects were listed as high priority, this was equivalent to not having any priority, and that she believed that the States expected more prioritisation.

37. The *representative of the United States of America* underlined that he agreed with the opinion expressed by the representative of the United Kingdom and thus asked the Secretariat to tie the costs to the different projects. He offered to assist the Deputy Secretary-General in this difficult task.

38. The *representative of Germany* underlined the importance of taking the available resources into consideration in the decisions concerning the activities, and indicated the necessity of taking priorities into account. The Finance Committee should express the opinion that great importance should be attached to these projects, but that the financial and the human resources must always
be kept in mind, and therefore he supported what had been stated by the representatives of the United Kingdom and the United States of America.

39. The Secretary-General expressed his agreement with these interventions. The document on the Strategic Plan changed through the year, and the decisions on the priorities that would be approved by the General Assembly would be brought to the Governing Council and would be considered binding on the Secretariat.

40. The representative of Italy stressed the relevance for the Italian Government of the Library which formed a substantial part of the activity of the Institute.

41. The Chairman, as representative of Canada, reverted to the issue of publications. The budget showed receipts coming from this activity. However, also the cost of the staff employed in the preparation of publications must be taken into account: those members of staff were "money losers" for the Institute. This did not imply that these activities must necessarily stop, but that a more comprehensive account of the costs of these publications be made, and this would confirm what the Government of Canada had been saying over the last years, i.e. that more efficient ways of producing these activities must be found. Coming to the depositary function, the Government of Canada wished to suggest that the Secretariat should remain flexible on this point, and, with the exception of the Cape Town Convention and Protocol, verify if a State might be ready to accept this burden, thus contributing to the reduction of the costs of the Institute.

42. The Secretary-General indicated, as concerned the staff involved in the production of the publications, that it was true that law journals were a complex work: the outsourcing of the functions of editing and translating would encounter difficulties for the need of precision of the results. He recalled that the Review was the only existing source of information on uniform law, as well as on the activity of the Institute and of the other organisations working in this field. As for the function of depositary, the Secretariat would follow the instruction of the member States.

43. The representative of Germany indicated, as concerned the publications and the Library, that the opinion of the German Government was that the Library was unique. As for the Uniform Law Review, it was highly appreciated because it was the only review of this kind in the area that it covered. Therefore, the German Government was not in favour of any economies on these chapters, apart from examining possibilities of a better organization on the administrative side and on the production of the publications.

44. It was so agreed.

Item No. 6 on the Agenda: Approval of the draft Budget 2006 and fixing of the contributions of member States for that financial year

(AG/Comm. Finances (61) 6)

45. The representative of Germany expressed the agreement of his Government to the 2007 budget despite the increases in the contributions.

46. The representative of the United Kingdom appreciated the improvements in the presentation of the budget which was much clearer. As concerned the increases, she indicated the necessity of giving priorities to the projects, because it was better to do a small number of things extremely well rather than many things without the necessary resources. The Government of the United Kingdom, in spite of these concerns and the proposed increase of 3.4% would reluctantly accept the increases, but only on the condition of avoiding large increases in 2008.
47. The representative of France thanked the Government of the United Kingdom and the Government of Italy for their generous contributions. UNIDROIT worked well, and the French Government gave an extremely positive evaluation of the activity of the Institute as well as of its governance. The work of the Secretary-General and of the Deputy Secretaries-General was greatly appreciated by the French Government. The budget had been established following serious considerations and evaluations based on the concern of making savings. However, the concern of the Government of France regarded in the first instance the increases in Chapter 2 No. 1 and Chapter 3 No. 2. The representative of France affirmed that he had no elements to understand those increases. These were high amounts on which it was necessary to receive further information. The representative of France underlined that even if the proposed increase in contributions amounted to 3.47%, the 2007 draft budget showed an increase in expenditure of 9.6%. The French Government would like to know how the Secretariat planned to sustain these expenditures in the next years in the absence of the extra-budgetary contributions, and would like to receive before the month of December some positive signals. The representative of France recalled the principle of zero growth, i.e. the updating to a level near to the inflation rate. The Government of France wished the Institute to follow this discipline for the expenditures.

48. The Deputy Secretary-General explained that the Secretariat had considered that the salary and the social charges of the new Deputy Secretary-General and the officer in charge of the depositary function – who were qualified as hors cadre – should be included in the regular budget of the Institute. This was the reason for the relatively high increase shown in Article 1 of Chapter 2 and in Article 1 of Chapter 3, increases that had in fact already taken place in 2006. The 2006 budget had been drafted before these two important differences had been adopted: the post of the new Deputy Secretary-General and the inclusion in the regular budget of the salary of the officer in charge of the depositary function – and who by the way dealt also with other functions. A high percentage of the salary of the second Deputy Secretary-General was covered by the extra-budgetary contribution made by the Government of the United Kingdom. As for the depositary, his salary was covered, till mid 2007, by extra-budgetary contributions made in 2004 by the Governments of the United States of America, the United Kingdom and, to a smaller proportion, Greece. For 2007 the Secretariat proposed to maintain in real terms the current level of salaries and social charges. The Secretariat could have drafted two budgets, a regular budget and an extraordinary budget, which would have shown the extra-budgetary contributions coming from private donors as well as from Governments, and that often, but not always, were earmarked for particular projects. This had not been done because the extra-budgetary contributions considered here covered ordinary activities, and some Governments and the Secretariat considered that good governance suggested to group in one accounting document all the expenditures tied to the activity of the Institute. In 2007 there would be the inclusion in the regular budget of the salaries of the new Deputy Secretary-General and of the officer in charge of the depositary function, who were already there in 2006 but had not been included in the budget (but will be included in the 2006 Accounts).

49. The representative of Italy indicated that the voluntary increase in the contribution made by the Government of Italy was evidence of the commitment and support of the host country, to ensure that UNIDROIT’s activity may continue with the same high standard that had so far been shown. He encouraged the other member States to make every effort in the same direction. On a more specific point, the representative of Italy indicated that the supplementary document distributed by the Secretariat to the members of the Finance Committee at the opening of the session (reproduced in Appendix III hereto) was motivated by the fact that the Government of Italy had increased the contribution for the 2006 financial year by € 20,000 after the circulation of the documents to the members of the Commission. As per the Italian contribution for 2007, this is a UNIDROIT’s secretariat’s estimate based on the Italian contribution for 2006. Accordingly § 18 on page 4 and note no. 2 on page 7 of document AG/Comm. Finances (61) 6 must be dropped.
50. The Chairman, as representative of Canada, stressed his concern for the quick increase in the expenditures. The Government of Canada had no comments on the OECD scales, considered that the costs of the staff had to grow and for this reason had soften its position on the principle of zero growth in nominal terms. However, it continued to want the increases to stick to the principle of zero growth in real terms, not exceeding the rate of inflation. The rate of increase proposed was not sustainable. While some member States’ representatives had indicated that, gritting their teeth, they were prepared, with some additional explanations, to accept the draft budget even if they did not like it, the representative of Canada suggested that the approval of the draft budget would not be a favour to the organisation. The Government of Canada was concerned by what could happen when the Institute did not receive any extra-budgetary contributions, and when the arrears would start to increase. For many years it had stated that it was necessary to indicate priorities. In that respect, activities like the seminars on the promotion of the Convention on international cultural property did not seem to be of high priority. This was an issue on which the representative of Canada had already expressed his opinion. Even if the Governing Council had agreed that all the activities indicated were of high priority, when everything was of high priority there were no priorities. Governments were obliged to make choices, and none of them saw their budget increase at the rate of the UNIDROIT budget. Accordingly, the representative of Canada asked the Secretariat to reduce the 9.6% increase indicated. He stated that he understood that some elements were beyond the control of the Secretariat, such as the OECD scales; but for the rest, the Government of Canada considered that improvements could be made by recognising that not everything was of high priority.

51. The representative of the United States of America declared that his Government supported the 2007 draft budget, even if it considered that the rate of increase indicated could not be maintained. The representative of the United States considered that the representative of Canada was right when he affirmed the need of deciding priorities. However, he reaffirmed, after having expressed his gratitude to the Governments of the United Kingdom and Italy for their generous contributions, that the Government of the United States supported the 2007 budget.

52. The representative of France has thanked the Deputy Secretary-General for the explanations. He wondered if it would be possible in a table, which could be contained in one page, to have the increases of the posts that had been indicated. This would be very useful to Governments. The representative of France stressed that his previous intervention had been made in a constructing spirit. There was a problem of long-term sustainability and the Government of France did not want to see the Institute blocked the following year. Beyond the 2007 budget, which was the object of the present session, it was necessary to think in advance in order to avoid difficulties in coming years.

53. The representative of Germany indicated that, looking beyond 2007, the Government of Germany considered that UNIDROIT should continue to examine the possibility of consolidating the staff expenses. The allocation of human resources should be critically viewed and the possibility of outsourcing certain administrative tasks should be examined.

54. The Secretary-General declared that sustainability was a constant concern of the Secretariat. As underlined by the Deputy Secretary-General, the Secretariat did not expect any increase in expenditure beyond 2007. With the help of the Finance Committee and of the General Assembly the Secretariat would try to better assign the priorities when the Governing Council met. It was not up to the Secretariat, it was up to the member States’ Governments in the General Assembly and to the other organs to indicate their priorities. As regarded the non-legislative activities, or better, legislative supportive activities, the Secretary-General underlined that the Scholarships Programme, the publications and the Library were the only channels of communication of the Institute. The Scholarship Programme was the principal way to communicate with developing
countries, and as for the Review, it was the only way to make UNIDROIT products known to the outside world because the Institute had no resources to organise seminars and conferences around the world as UNCITRAL could do. The Secretary-General stated that he was convinced that the members of the Committee would be happy to hear that the United Kingdom Foundation for International Uniform Law had been launched a few months previously, and that the United States Foundation for International Uniform Law was to be launched during the month of October 2006. The aim of both Foundations was to collect private funds for certain activities of the Institute, such as the Scholarship Programme. The Secretary-General informed the Committee that he had recently received the visit of a representative of a French company who has indicated the possibility of subventions from French companies to UNIDROIT projects, and these might contribute to take the organisation beyond 2007.

55. The Chairman of the Finance Committee, drawing the conclusions of the discussion, stated that a number of member States’ representatives indicated serious concern as regards the proposed increased expenditure and, in particular, its implications for the sustainability of the Organization going forward. Other member States’ representatives, while accepting the 2007 draft budget, emphasized that the 2008 budget should not show further increases. The member States representatives invited the Secretariat again to examine possible ways to limit the proposed increase ahead of the session of the General Assembly so as to be able to send positive signals that acknowledged the concerns raised. The Finance Committee thus made a qualified recommendation that the General Assembly adopt the draft budget for 2007, on condition that the Secretariat identifies achievable efficiency savings before, and after, the end of the 2006 financial year.

56. It was so agreed.

Item No. 7 on the Agenda: Any other business

57. No further comments having been made, the Chairman closed the meeting.
APPENDIX I

LIST of PARTICIPANTS

Members:

Mr Kent VACHON (Chairman) (Canada)
Mr Alexandre GIORGINI (France)
Mr Peter ADAMEK (Germany)
Ms Thea SCHARSICH
Mr Nicola TODARO MARESCOTTI (Italy)
Mr Kazumi ENDO (Japan)
Ms Luz Estela SANTOS (Mexico)
Ms Natalia CHIZH (Russian Federation)
Ms Manuela LEIMGRUBER (Switzerland)
Ms Lynne MCGREGOR (United Kingdom)
Mr Leslie DEGRAFFENRIED (United States of America)

UNIDROIT SECRETARIAT:

Mr Herbert KRONKE (Secretary-General)
Ms Alessandra ZANOBETTI (Deputy Secretary-General)
APPENDIX II

AGENDA

1. Adoption of the agenda (AG/Comm. Finances (61) 1)

2. Final modifications to the Budget, and approval of the Accounts for the 2005 financial year (AG/Comm. Finances (61) 2 and Accounts 2005)

3. Adjustments to the Budget for the 2006 financial year (AG/Comm. Finances (61) 3)

4. Arrears in contributions of member States (AG/Comm. Finances (61) 4)

5. Implementation and up-date of the Strategic Plan (AG/Comm. Finances (61) 5)

6. Approval of the draft Budget 2006 and fixing of the contributions of member States for that financial year (AG/Comm. Finances (61) 6)

7. Any other business.
Subsequent to the sending of the documents for the Finance Committee, we have received the contribution of the Italian Government for 2006 which amounts to euro 270,000.00. It is therefore a contribution which is superior by euro 20,000.00 to the contribution set in the 2006 budget.

The Secretariat wishes to express its gratitude for this generous contribution.

The Secretariat, which the Italian Government had informed of the possibility that the contribution might be increased by euro 20,000.00, had recorded this sum, accompanied by an explanatory note, in the 2007 budget. The Italian Government points out that this recorded sum must therefore be considered to refer to the year 2006, and that § 18 on page 4 and note no. 2 on page 7 of document AG/Comm. Finances (61) 6 must be considered as not having been made.