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FINANCE COMMITTEE
74th session
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REPORT

(prepared by the UNIDROIT Secretariat)

Item No. 1 on the agenda: Opening of the session

1. The 74th session of the Finance Committee was held at UNIDROIT Headquarters in Rome on 26 September 2013. The session was opened by the *Secretary General*, at 10.00 a.m, who welcomed the members of the Committee and thanked them for their presence (for a complete list of participants, see Appendix I).

Item No. 2 on the agenda: Appointment of the Chairman of the Finance Committee

2. The *Secretary-General* requested the Committee appoint a new Chair following the departure from Rome of the representative of the Austria, Ms Katharina Wieser, who chaired the Committee at its 73rd session. In line with UNIDROIT practice, which reserves the Chair of the Finance Committee for the longest-serving member, a proposal was made that the Committee appoint Mr Wu Cong, the representative of the People's Republic of China.

3. *The Committee agreed to this proposal. Mr Wu Cong accepted and took office as Chair of the Committee.*

Item No. 3 on the agenda: Adoption of the agenda (F.C. (74) 1)

4. *The agenda was adopted as proposed in document AG/Comm. Finances (F.C. (74) 1).*

Item No. 4 on the agenda: Final modifications to the Budget and Accounts for the 2012 financial year (F.C. (74) 2 and Accounts 2012)

5. The *Secretary-General* introduced documents F.C. (74) 2 and Accounts 2012 related to the Budget and Accounts for the 2012 financial year. As was customary practice, the accounts had been circulated to all member States in the Summer and will be presented to the General Assembly in December so that it may take note of the final accounts.

6. The *Secretary-General* noted that receipts in 2013 amounted to € 2,154,381.69 and actual expenditures amounted to € 2,079,171.29, with a possible cash balance at close of € 75,210.40 attributable to limitation on expenses and negotiation with new staff. He noted that use of any surplus would be allocated pursuant to agreement reached in the previous meeting of the Finance Committee.

7. *The Chair recommend that the General Assembly approve the Accounts for the 2012 financial year. It was so agreed.*

Item No. 5 on the agenda: Adjustments to the Budget for the 2013 financial year (F.C. (74) 3)

8. The *Secretary-General* noted that the document on Adjustments to the Budget for the 2013 financial year (F.C. (74) 3), reflected actual expenditures through the end of August, and projected expenditures through the end of December. Of particular relevance, he pointed out that the Secretariat deems it prudent to anticipate a shortfall in receipts of approximately € 69,000. Despite this projected shortfall, the Secretary-General indicated that the Secretariat does not intend to request supplementary funding. Instead, he explained the shortfall would be met with corresponding adjustments to expenditures, where significant cost-savings of approximately € 46,000 have already been achieved and in which a possible positive balance by the end of 2013 may nevertheless be achievable.

9. The Secretary-General also recalled that, following discussions at an informal meeting held on 20 June 2013, the Finance Committee had agreed to (a) hire a consultant(s) to undertake a "Total Compensation Comparison" between UNIDROIT and the Coordinated Organisations and other Rome-based international organisations, including those of the UN system, with a view to assessing the financial implications of a possible move to another pay scheme and also examine possible alternatives to the Italian social security scheme for purposes of health and pension insurance for UNIDROIT staff; and (b) use part of the surplus carried over from the financial year 2012 for that purpose. The *Secretary-General* mentioned that does not expect the cost of such studies to exceed € 10,000 each. The Finance Committee requested the Secretary General to keep the cost of the proposed studies as low as possible.

10. The *representative of Spain* thanked the Secretary for presentation of the report and for the cautious financial management of the Institute, and encouraged the Secretariat to use any surplus from years 2012 and/or 2013 to promote cost-savings measures and to reduce expenses in the future.

11. In response to the comments from the representative from Spain, the *Secretary-General* noted that a study on compensation would be a long-term investment in the financial standing of the Institute, given its potential to help standardize the handling of personnel compensation policies. He also mentioned that replacement of heating and cooling equipment would produce significant savings in energy consumption.

12. *The Finance Committee agreed to recommend to the General Assembly that it take note of the adjustments to receipt and expenditure under the 2013 budget.*

Item No. 6 on the agenda: Information on the extra-budgetary contributions received in 2013 and on their allocation to the activities and projects of the Institute (F.C. (74) 4)

13. The *Secretary-General* presented the information on the extra-budgetary contributions received by the Institute and their allocation to the activities and projects of the Institute which has been made available to the Finance Committee for the last three years. A total of € 168.966,88 was expected to be available under this heading in 2013, principally for the finalisation of the principles on close-out netting, for research scholarships and for library acquisitions. Despite some obstacles to donors, including the fact that UNIDROIT does not enjoy a beneficial tax status in Italy, the Secretary-General noted that efforts to obtain extra-budgetary contributions has and will continue. The unpredictable nature of these funds, however, make it difficult to apply them to core

Institute activities and projects and, thus, are more suitable to scholarships and library acquisitions.

14. The *representatives of Canada and France* congratulated the Secretary-General on the clarity and transparency in reporting of extra-budgetary contributions. The *representative of France* noted small surpluses in some of the budget items and asked whether they may be used for further library acquisitions.

15. The *representative of the United States* commended the Secretariat for the clarity of its report and emphasised the importance of extra-budgetary contributions, which he mentioned are particularly meaningful to supplement the budget of small organizations. He acknowledged the limitations in fundraising described previously, but noted that rule of law reforms are increasingly recognised as a priority in the highly competitive drive for donor funds and encouraged the Secretariat to continue its efforts.

16. In responding to the query from the representative of France, the *Secretary-General* noted that a surplus in any extra-budgetary account should, by definition, be used for the specific activity for which the funds were donated. As an example, he mentioned that a surplus in scholarship funds in one year would be used to extend scholarships in another. With regard to the Library, however, the Secretary-General mentioned that surpluses in voluntary contributions could be used to update the collection, but that the proposed increase in the library's regular budget for 2014 was intended to allow for subscription of e-databases, which, being a recurrent expenditure, should not be made dependant on voluntary contributions.

17. The *Chair* thanked the Secretary-General for the report and thanked all the public and private donors for their generous contributions to the work of the Institute.

18. *The Finance Committee took note, with satisfaction, of the Secretariat's report.*

Item No. 7 on the agenda: Arrears in contributions of member States (F.C. (74) 5)

19. The *Secretary-General* presented the report on arrears in contributions of member States noting member States are largely up-to-date on quota payments. He also noted that no State is over two years in arrears, thus, pursuant to Article 16 (7) of the UNIDROIT Statute, no State would be barred from voting in the upcoming General Assembly elections of Governing Council Members.

20. The *representative of Iran* mentioned that exchange and money transfer controls impeded timely payment of his Government's dues, but noted that a solution had been apparently found to allow Iran to make payment of one-year quota.

21. In response to clarification requested by the representative of Spain, the *Secretary-General* confirmed that Bolivia, Cuba, Iraq and Nicaragua would not be entitled to vote at the General Assembly, as indicated in the Note Verbale circulated on 8 July 2013.

22. *The Finance Committee took note of the Secretariat memorandum.*

Item No. 8 on the Agenda: Draft Budget 2014 (F.C. (74) 6)

23. The *Secretary-General* noted that, despite steady increases in personnel, administrative and other institute expenses, the Draft Budget for 2014 has been the first in five years to propose an increase in unit of contribution. As a result, the Secretariat has maintained strict cost-savings and expense-reduction measures. However, he mentioned that the proposed 3.2% increase corresponded to projected increases in expenditures, needed to return the Secretariat to a functional staffing level after the loss of two full-time staff members, including the only native English-speaking member of the General Services Staff. Among other projected increases, the Secretary-General described higher expenditures in Chapters 1 and 4 due to increased cost meeting costs for Committee of Experts meetings, including projected increases in the cost of

facilities and simultaneous interpretation. He also noted increase in salaries and social security expenses in upcoming years. The Secretary-General recalled the zero nominal growth policy for international organizations explained by some delegations at the 73rd session of the Finance Committee, but, in acknowledging this policy implication for member States, reminded the Committee that the increase was simply to bring the Secretariat back to a minimum functional level, particularly with regard to the personnel necessary to conduct the Institute's workload and to maintain efficient and safe operation of its facilities and meeting space. With regard to the specific increase per member State, the Secretary-General read out the proposed increased as follows:

- Category 1 States: increase of € 4,000 per year
- Category 2 States: increase of € 1,760 per year
- Category 3 States: increase of € 1,440 per year
- Category 4 States: increase of € 1,040 per year
- Category 5 States: increase of € 800 per year
- Category 6 States: increase of € 720 per year
- Category 7 States: increase of € 640 per year
- Category 8 States: increase of € 400 per year
- Category 9 States: increase of € 80 per year

24. The *representative of Canada* noted that the increase in the proposed value per unit of contribution comes in addition to the reclassification exercise, which recently also increased Canada's quota payment. He explained that zero nominal growth is the policy of his Government, but acknowledged that every effort has been made by the secretariat to find cost savings, with resulting progress by the Secretariat to correct the downward economic spiral of previous years. The representative of Canada noted that the proposed increase was modest and that his delegation would make all efforts to accept the proposed increase at the General Assembly.

25. The *representative of France*, while recognizing that significant steps had been taken by the Secretariat to contain the expenses of the Organisation, reminded that France supported a policy of zero nominal growth budget. He noted that the justifications presented by the Secretariat to explain the increase in costs and the proposed increase in the basis for calculating contributions of members did not seem convincing: the Organisation should continue to look for efficiencies and prioritise activities and expenses arising as an international organisation must be able to do so. In particular, he noted, France has emphasized that the cost of interpretation and translation was, as an instrument of multilingualism, a fundamental means of achieving the objectives of the Organisation and therefore could not be the same trade-offs as other operating expenses which should be more controlled. However, exceptionally, in a spirit of compromise and in order to facilitate its adoption, France was ready to support the consensus in favour of the draft budget for 2014 presented with the reservations it had expressed and stressed it would ensure that future budget reflect these .

26. The *representative of Japan* expressed Japan's approval to the proposed budget in general. However she requested that priority be given to non-managerial personnel when reviewing salaries and the cost of social security. Furthermore she requested Unidroit to continue to thoroughly apply the fiscal discipline, above all UNIDROIT'S fiscal rules.

27. The *representative of the Republic of Korea* indicated that, in view of the change in the classification of his country from category 3 to category 2 of the UNIDROIT contributions chart, the contributions due by the Republic of Korea had gone from € 44,100 to € 53,900 in 2012, it would be difficult for the Republic of Korea to raise the contribution next year again, in particular as its budget for 2014 had already been adopted. While unable to guarantee that it could raise the contribution for 2014 on time, the Korean Government would make efforts to find a way to share the burden.

28. The *representative of Brazil* expressed Brazil's support for the proposed budget. She stated that that UNIDROIT has been operating under significant funding pressures for many years and that the Secretary-General has done a commendable job to increase operational efficiencies.

29. The *representative of Switzerland* commended the *Secretary-General* for the cautious and disciplined management of the Institute's budget and expressed Switzerland's acceptance of the proposed increase in the value of contribution.

30. The *representative of Spain* reminded the Committee that her country's policy with regard to international organisations is that of zero nominal growth, as stated originally at the 73rd session of the Finance Committee. She stated, however, that, should a general consensus emerge in favour of the proposed increase, in the spirit of constructiveness Spain would not oppose to it.

31. The *representative of Austria* noted the great efficiency savings achieved by the Secretariat of UNIDROIT in the past years, and suggested that efforts with regard to the containment of administrative costs continue in the future, so as to maintain and further increase the project capability of UNIDROIT. She stated that, against that background, Austria would be able to support the consensus on the suggested increase of the unit of contribution.

32. The *representative of Romania* stated that her country appreciates the efforts to reduce expenditures, but explained that Romania, at this time, was unable to agree to the increase in unit of contribution.

33. The *representative of the United States* commended the Secretary-General's judicious use of resources. Although he mentioned that zero nominal growth is also the policy of the United States, he stated that his delegation recognizes that such policy disproportionately affects small organizations and that the United States will not oppose consensus on the proposed budget.

34. The *representative of Italy* stated that his delegation supports the proposed budget.

35. In response to a question on the decision-making practice of the UNIDROIT General Assembly, the *Secretary-General* indicated that the basic rule, in accordance with Article 7 of the UNIDROIT Regulations, was that, except when otherwise set forth in the Statute, decisions of the General Assembly were taken by a majority of members present and casting a vote. However, neither the General Assembly nor the Finance Committee usually resorted to formal voting. Accordingly, they traditionally took their decisions by consensus, which, however, was not understood as unanimity or lack of opposition. As had happened at the General Assembly's 69th session (Rome, 1 December 2011), when the General Assembly approved the revised chart of contributions, a member State opposing the adoption of a decision by consensus had the right to request a formal vote.

36. The *Chairman* summarised the discussion indicating that the consensus reached at the session was to recommend to the General Assembly the adoption of the budget as proposed by the Secretariat noting, however, that a few Finance Committee members had expressed reservations.

Item No. 9 on the Agenda: Other business

37. With no other business to conduct, the Chair closed the meeting at 12:12 pm.

APPENDIX**List of participants**

Ms Gudrun MATT	(Austria)
Ms Gilda MOTTA SANTOS NEVES	(Brazil)
Mr Marc-Antoine DUMAS	(Canada)
Mr Wu Cong	(China)
Mr Cédric MANUEL	(France)
Mr Marco ACQUATICCI	(Germany)
Mr Seyed Kamel MIRKHALAF	(Iran)
Mr Fernando PALLINI ONETO DI SAN LORENZO	(Italy)
Ms Satoko KOIKE	(Japan)
Mr LEE Je-Hyoung	(Republic of Korea)
Ms Alina POPESCU	(Romania)
Mr Evgeny EGOROV	(Russian Federation)
Ms Lorea ARRIBALZAGA	(Spain)
Ms Teresa DI VITO	
MR MARCUS ROTHEN	(Switzerland)
Mr Stetson SANDERS	(United States of America)

UNIDROIT Secretariat

Mr José Angelo ESTRELLA FARIA	(Secretary-General)
Ms Anna VENEZIANO	(Deputy Secretary-General)
Mr John WILSON	(Senior Officer)