



FINANCE COMMITTEE
76th session
Rome, 25 September 2014

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REPORT

(prepared by the UNIDROIT Secretariat)

1. The 76th session of the Finance Committee was held at the seat of UNIDROIT in Rome on 25 September 2014.

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

2. The session was opened at 10:00 a.m. by the *Secretary-General*, Mr José Angelo Estrella Faria, who welcomed the members of the Committee and thanked them for their presence (for a complete list of participants, see Appendix 1).

Item No. 2 on the agenda: Appointment of the Chair (F.C. (76) 1)

3. The *Secretary-General* noted that the previous two Finance Committee sessions had been expertly chaired by Mr Wu Cong, the representative of the People's Republic of China. The *Secretary-General* informed the Committee that Mr Wu Cong had declined to act as Chair of the Finance Committee due to his imminent departure from Rome.

4. In line with UNIDROIT established practice, which reserves the Chair of the Finance Committee for its longest-serving member, on the basis of the date of accreditation to the Government of Italy, a proposal was made that the Committee appoint Ms Alina Popescu, representative of Romania.

5. *The Committee agreed to this proposal. Ms Alina Popescu accepted and took office as the Chair of the Committee.*

Item No. 3 on the agenda: adoption of the agenda (F.C. (76) 1)

6. *The agenda was adopted as proposed in document (F.C. (76) 1).*

Item No. 4 on the agenda: Final modifications to the Budget and Accounts for the 2013 financial year (F.C. (76) 2)

7. On invitation from the Chair, the *Secretary-General* introduced the final modifications to the Budget and Accounts for the 2013 financial year, noting that this had been the practice of the Finance Committee in previous years. The *Secretary-General* noted that the Accounts were consistent with the provisional draft given to the Finance Committee at the previous meeting in

April 2014, aside from one minor clerical mistake detailed in the Agenda paper. The *Secretary-General* noted that the previous draft budget papers indicated a surplus of € 30,000, which was a figure incorrectly carried over from the previous year's papers. The correct cash account at the close of the 2013 financial year showed an actual balance of € 89,390.42. The *Secretary-General* noted that it was agreed at the previous Financial Committee meeting that this amount could be used for urgent repairs to UNIDROIT premises, installation of air conditioning, replacement of switchboard, as well of old office furniture and equipment.

8. *There having been no further comments, the Chairman of the Committee concluded that the Committee recommended that the General Assembly approve the final modifications to the budget and the Accounts for the 2013 financial year.*

Item No. 5 on the agenda: Adjustments to the Budget for the 2014 financial year (F.C. (76) 3)

9. The *Secretary-General* indicated that, on the basis of the average annual shortfall in assessed contributions in the past five years, the Secretariat anticipated a shortfall in ordinary receipts of €37,123.45 in 2014, primarily due to incomplete or late contribution payments on the part of member states. The *Secretary-General* emphasised, however, that UNIDROIT did not intend to request additional supplementary funding from member states.

10. The *Secretary-General* noted that the level of receipts was higher than the original estimate as a result of the permission the Secretariat had received from the Financial Committee at the April 2014 meeting to spend previous surpluses on capital expenditure. The *Secretary-General* emphasised the appropriateness of spending such funds on capital expenditure rather than running costs, given the nature of the surplus as a one-off excess. He also noted that the previous Finance Committee meeting had agreed that the UNIDROIT Secretariat did not need to report on every item of expenditure, and the UNIDROIT Secretariat had instead reported on groups of expenditure as presented in document FC (76) 3. The *Secretary-General* further noted that the Secretariat was waiting on permission from the Italian Ministry of Cultural Property to install air-conditioning units in the UNIDROIT offices, which is required due to the cultural protection enjoyed by Villa Aldobrandini. It was further requested of the Finance Committee that the sum set aside for this purpose be carried over for an additional year should the permission decision not be forthcoming this financial year.

11. The *Secretary-General* noted that the expected surplus in relation to staffing salaries was due to a delay in hiring two new professional staff and one general service staff member. The delay was caused by the unexpectedly high number of applications (109 for the general service position and 780 for the professional posts), which prolonged the selection process and subsequently the entry into duty for the new staff members. The *Secretary-General* proposed that any surplus showed at the close of the financial year under this chapter be credited to the printing chapter of the budget to build up a stock of UNIDROIT publications.

12. The *representative of Italy* announced that, on 3 September 2014, the Italian Parliament had approved the exchange of notes between the Italian Government and UNIDROIT amending article 1 of the headquarters agreement between Italy and the Institute, whereby the Italian Government declares that, for the purposes of article 16, paragraph 1 of the UNIDROIT Statute, its contribution the budget of the Institute shall correspond to the contribution payable by member States classified in category I of the UNIDROIT contribution chart, without prejudice to any additional voluntary contribution that the Italian Government may be in a position to make. He further informed the Committee that the implementing legislation authorised that level of contribution as of 2014, which would mean an increase in the Italian contribution to UNIDROIT compared to the last three years. The new law would also ensure that, in the future, the Italian contribution to the UNIDROIT budget would not be affected by austerity measures. The *Secretary-General* thanked the representative for Italy for his support in achieving this measure of having the

Italian contribution to UNIDROIT placed under the chapter of mandatory contributions from the Italian Ministry.

13. *The Chair concluded that the Committee recommended that the General Assembly approve the adjustments to the Budget and Accounts for the 2014 financial year were adopted as presented by the UNIDROIT Secretariat.*

Item No. 6 on the agenda: Information on the extra-budgetary contributions received in 2014 and on their allocation to the activities and projects of the Institute (F.C. (76) 4)

14. The *Secretary-General* indicated that the purpose of this agenda item was to ensure that member states were fully informed of any additional voluntary contributions that UNIDROIT had received.

15. The *Secretary-General* drew the Finance Committee's attention to the contribution from the International Fund for Agricultural Development (IFAD), for the preparation of a Legal Guide on Contract Farming, noting that the entirety of the funding must be used this financial year and that UNIDROIT is not authorised to keep any of the contribution for other purposes. The *Secretary-General* welcomed an additional voluntary contribution from the People's Republic of China of € 20,000 to support the UNIDROIT scholarship program. This contribution was not reflected in the relevant document paper as it was received by the Secretariat after printing of the agenda item.

16. The *Secretary-General* noted a residual voluntary contribution from the Association of German Banks from 2011 that was revealed during the 2014 financial year. The discovery of these funds caused UNIDROIT to undertake a thorough review of balances past voluntary contributions received, which were now fully reflected in the document before the Finance Committee.

17. The *Secretary-General* cautioned member states not to draw the conclusion that voluntary contributions were steadily increasing, noting that the 2014 increase was primarily due to the large contribution made by IFAD.

18. *The Finance Committee took note of the information on extra-budgetary contributions received by UNIDROIT in 2014 and requested that this information also be submitted to the General Assembly at its 73rd session.*

Item No. 7 on the agenda: Arrears in contributions of member States (F.C. (76) 5)

19. The *Secretary-General* noted that, aside from the particular situation of one member state, no member states are in arrears in their contributions by more than one year. This situation constitutes a significant improvement on previous years, where it was not uncommon for member states to be in arrears of their contributions by three years or more. The *Secretary-General* also noted he is comfortable with member states being up to one year in arrears, as this situation can easily arise due to the differing accounting practices of member states.

20. The *representative of Iran* explained that delay in the payment of his Government's assessed contributions were the restrictions on banking and international payments currently affecting the Islamic Republic of Iran as a result of sanctions imposed against his country. The representative of Iran indicated that his Government desired to pay its contributions in a punctual manner, and requested that the reasons why it had been prevented from doing so be stated in the relevant documents. The *Secretary-General* thanked the representative for Iran for his renewal of support for UNIDROIT's work. The *Secretary-General* noted that it was not customary for the Secretariat to indicate the reasons as to why specific countries were in arrears and that the *representative for Iran's* comments would be reflected in the Finance Committee's final report.

21. *The Chair concluded that the Finance Committee had taken note of the comments and information concerning arrears in contributions of member States, and invited the member States*

wishing to provide additional information on the status of payment of their contributions and the reasons for their being in arrears to submit such information for consideration by the General Assembly at its 73rd session.

Item No. 8 on the agenda: Draft Budget 2015 and observations submitted by member States (F.C. (76) 6)

22. The *Secretary-General* noted that the Secretariat proposes that the expenditure for 2015 represent a decrease of € 794.00 in expenditure as compared to the expenditure included in the budget for 2014. This was a satisfactory result, demonstrating the Secretariat's commitment to keeping contributions as low as possible for member states.

23. *The Finance Committee adopted the Draft Budget for 2015.*

Item No. 9 on the agenda: Review of the compensation and social security package offered to UNIDROIT staff (F.C. (76) 7)

24. The *Secretary-General* indicated that this item continues to be an ongoing issue of significant concern for the Secretariat. The *Secretary-General* emphasised that this issue has the potential to adversely affect the sustainability of UNIDROIT as an organisation.

25. The diversity of social security regimes currently utilised by Secretariat staff is illustrated by the three new staff members, who are separately covered by the Italian national pension system, the United States retirement system and the Australian superannuation systems. The *Secretary-General* noted that the small size of UNIDROIT as compared to other international organisations is a hindrance in solving this issue.

26. The *representative of Germany* noted his support for the efforts of the Secretariat in trying to resolve this issue. He indicated that Germany views the review of salaries, allowances and benefits (Appendix, F.C. (76) 7) as a positive step, which, however, does not clearly yet identify a conclusive feasible alternative approach. He noted also that the proposals in the Appendix are not particularly transparent or simple to understand, propose a complex mix of other systems instead of focussing on one specific system and are based on outdated information. The representative for Germany pointed out that Germany had provided documents to the Secretariat on two separate occasions in 2014 outlining their concerns. In summarising the documents they had submitted, the representative for Germany emphasised that adopting any changes to the compensation and social security package must be cost neutral. Lastly, the representative for Germany noted that the matter is very complex and that several future discussions on the matter will be required.

27. The *representative of Canada* thanked the Secretariat for the documents provided. The representative of Canada asked for clarification from the Secretariat on the meaning of several phrases in the appendix, particularly in relation to the meaning of the guiding principles of 'fairness', 'cost-effectiveness' and 'equity' and also how UNIDROIT must bring its practices into line with other 'progressive organisations' in a 'competitive' manner.

28. The *Secretary-General* explained his understanding of the thinking of the expert who prepared the appendix; that the terms 'fairness' and 'equity' related to the diversity in treatment of staff under the current arrangements. The current arrangements allow staff to retire at different ages depending on their national systems, with varying and inequitable levels of benefits. Furthermore, the established practice of the General Assembly to approve budget proposals that automatically incorporate a 20% reduction in the salary increases proposed by the OECD, as authorised by Article 41(3) of the Regulations, had completely disconnected longer serving professional staff members from the current salary scales of the Co-ordinated organisations. This meant that a new recruit placed several steps below that of existing staff members might be paid upon initial appointment the same amount as existing staff members who had suffered continuous

20% decreases in their pay rises annually. The Secretary-General noted that his understanding of the references to 'progressive organisations' and remaining 'competitive' related to ensuring UNIDROIT continues to attract quality staff members. The Secretary-General indicated that his view is that the current remuneration packages are competitive, noting that they are linked to the OECD coordinated organisations scale, although UNIDROIT does not offer all of the benefits that the Co-ordinated Organisations or the United Nations common system organisations do. The Secretary-General indicated that he disagreed with the expert's view that the expatriation allowance sunsets too early and that his preference is to continue the current sunset arrangements. The Secretary-General also indicated that he disagreed with the current practice that Category B and C staff move are automatically promoted upward through the pay grade categories merely by seniority and that this practice is not consistent with other similar international organisations. The Secretary-General also indicated that the Secretariat does not intend to expand the remuneration packages of staff in a way that would increase the contributions for member states.

29. The *representative for Canada* indicated that Canada was grateful for the time and thought spent considering this issue and that the work completed thus far constitutes a good basis for discussion but not for a conclusion. In particular, the representative for Canada indicated that it was necessary to definitively calculate the transitional costs from the current system to a new system, including costs associated with moving the current employees to a new pension system. He proposed that these issues be studied further by an informal working group of the Finance Committee, which would give in-depth consideration to each of the possible options and the costs to member states. The representative for Canada noted that, in the current economic environment, all nations are concerned about the augmentation of public expenditure, and that Canada has a policy of maintaining zero level growth in contributions to international organisations.

30. The *representative of the United States* thanked the Secretariat for the efficient preparation for this meeting and congratulated the Chair for her appointment. He echoed the comments of the distinguished delegates from Germany and Canada and indicated that the United States was interested in joining the informal working group.

31. The *representative of China* congratulated the Chair for her appointment. The representative of China emphasised the importance of developing a full, clear and transparent picture of the proposed scheme, including cost implications. He indicated that China was interested in joining the informal working group.

32. The *representative of Italy* indicated that Italy would be interested in joining the informal working group.

33. The *representative of France* indicated that France, as already indicated in previous meetings of the commission, and the last informal meeting in particular, was completely in favour of the principle of a review allowing for a more balanced and more equitable solution for UNIDROIT personnel. She echoed the comments expressed by the US, Germany and Canada, that is to avoid an increase in costs in the context of the implementation of a new system. In particular, the representative for France suggested that the Committee may in some way take advantage of the works of experts such as the ICSC and other groups of experts with this focus as the CCR (Co-ordinating Committee on Remuneration), given the legal and administrative complexity of the issue, made more difficult given the small size of the Institute.

34. The *Chair* asked for further indications of interest in joining the informal working group. The *representatives for Brazil, Canada, China, France, Germany, Iran, Italy, Japan, and the United States* confirmed their interest in joining the informal working group. The *representative for Switzerland* indicated that he would need to confirm their interest and involvement first with the competent authorities in Berne.

35. The *Chair* summarised that member states recognised the importance of reviewing the compensation and social security scheme of UNIDROIT, in order to find a solution that is cost neutral, transparent and equitable for UNIDROIT staff.

36. *The Finance Committee recommended the establishment of an informal working group to further review the compensation and social security package offered to UNIDROIT staff.*

Item No. 10 on the agenda: Any other business

37. The *representative of Canada* noted that, in earlier sessions, the Finance Committee had considered the classification of member States in the UNIDROIT contributions chart and the desirability of reviewing the methodology used for that purposes. He reaffirmed the importance for member states to continue paying contributions in-line with their capacity, using the level of their contributions to the United Nations budget as a parameter. The representative of Canada noted that the classification of member States in the UNIDROIT contributions chart had been reviewed three years ago, and proposed that the review be delayed for another three years.

38. The *Secretary-General* pointed out that the procedure set forth in Article 16 of the UNIDROIT Statute, which allows member States to raise objections to their re-classification during the year that follows the General Assembly decision on the matter, means that the process as a whole spans a period of two years. He recalled that, at its 69th session (Rome, 1 December 2011), the General Assembly had adopted the chart for the apportionment of the contributions of member States to the regular UNIDROIT budget for 2012, 2013 and 2014, as set forth in Appendix II to that Resolution. At the same time, the General assembly had requested the Finance Committee, in accordance with its mandate, to review the current methodology and consider possible enhancements, bearing in mind the principle of the capacity to pay, and to make recommendations to the General Assembly in due course. Furthermore, when considering the objections raised by Portugal and Spain, at its 71st session (Rome, 29 November 2012), the General Assembly had requested the Finance Committee, in accordance with its mandate, to review the current methodology and consider possible enhancements in 2014, bearing in mind the principle of capacity to pay, and to make recommendations the General Assembly in due course. The Secretary-General indicated, however, that following informal consultations, a consensus had emerged within the Finance Committee that, the onerous and time-consuming nature of the reclassification process made it more appropriate to complete the process every six years. The Secretary-General noted that then Finance Committee required four formal and two informal meetings in one year to complete the reclassification process in 2011. The Secretary-General noted that the United Nations are due to adopt a new scale of assessment in 2015, and that this process could be used as the basis for the next UNIDROIT reclassification.

39. The *representative for China* proposed that the deferral in reclassification of member state contributions be submitted to the consideration of the General Assembly as a recommendation from the Finance Committee.

40. *On proposal from the Chair, the Finance Committee agreed to recommend to the General Assembly that the classification of UNIDROIT member States in the organisation's contributions chart be reviewed and, as appropriate, revised once every six years, with the next reclassification process being deferred until 2017.*

41. With no other business to conduct, the *Chair* thanked the delegates for their participation and closed the meeting at 11:00 a.m.

APPENDIX 1**List of participants**

Ms Lavinia LANNER	(Austria)
Mr André Souza Machado CORTEZ	(Brazil)
Mr Warren SENKOWSKI	(Canada)
Mr WU Cong & Mr ZHANG Xu	(China)
Ms Amélie DURANTON	(France)
Mr Marco ACQUATICCI	(Germany)
Mr Korosh JAFARI	(Iran)
Mr Fernando PALLINI ONETO DI SAN LORENZO	(Italy)
Ms Yukiko CONSTANTINESCU	(Japan)
Ms Alina POPESCU	(Romania)
Mr Evgeny EGOROV	(Russian Federation)
Ms Lorea ARRIBALZAGA	(Spain)
Mr Marcus ROTHEN	(Switzerland)
Mr Stetson SANDERS	(United States of America)

UNIDROIT Secretariat

Mr José Angelo ESTRELLA FARIA	(Secretary-General)
Mr William BRYDIE-WATSON	(Legal Officer)