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Item No. 12 on the Agenda: Approval of the draft Budget for 2007 and fixing of the contributions of member States for that financial year

(prepared by the UNIDROIT Secretariat)

<i>Summary</i>	<i>Explanation of the proposed expenditure and receipts under the draft Budget for 2007 and the proposed contributions of member States</i>
<i>Action to be taken</i>	<i>Approval of the draft Budget for 2007 and fixing of the contributions of member States for that financial year</i>
<i>Related documents</i>	<i>None</i>

General considerations.

1. In accordance with Article 31 of the Regulations of the Institute, in March 2006 the Secretariat prepared first estimates of expenditure and receipts for 2007 which have been submitted to the Sub-committee of the Finance Committee at its 105th session held in Rome on 23 March 2006 (F.C./S.C. (105) 2/Rev.) ; some members of the Sub-committee expressed the concern of their Governments for the increases of certain chapters of the draft budget, and asked for more detailed information on some aspects of the Institute's organization.

The first estimates have subsequently been submitted to the Governing Council at its 85th session held in Rome from 8 to 10 May 2006. At the session the Secretariat gave the Governing Council an oral report on the reactions that the Sub-committee had given to these first estimates at its 105th session. The Council approved the first estimates.

The 106th session of the Sub-committee of the Finance Committee has taken place in Rome on 6 July 2006 ; the purpose of the session was the presentation by the Secretariat of supplementary documents for a deeper analysis of the issues raised by the members of the Sub-committee at its 105th session.

2. The draft Budget resulting from this procedure, as set forth in Appendix I to this paper, in line with the Institute's budgetary practice, has been submitted to the Governments of UNIDROIT member States with a view to receiving such observations as Governments might wish to make by 30 September 2006. Only the Japanese Government submitted observations, recalling the necessity of exercising the utmost budgetary discipline. At its 61st session, the Finance Committee was called upon, again in accordance with Article 31 of the Regulations, to express its opinion on the draft Budget, as commented on by the Governments, prior to its transmission for approval to the General Assembly at its 60th session, to be held in Rome on 1 December 2006. Some members of the Finance Committee expressed their concern with the increases in the expenditure, as well as the sustainability of the expenditures beyond 2007. The Finance Committee made a qualified recommendation to the General Assembly to adopt the draft budget, on condition that the Secretariat make additional effort to contain certain expenditure. Following the discussion in the Finance Committee, the Secretariat amended certain aspects of the draft budget, reducing the expenditure and thus reducing the proposed increase on contributions of member States other than Italy, and it is this amended version which is now transmitted to the General Assembly for its approval at its 60th session, to be held in Rome on 1 December 2006.

3. In preparing the draft Budget for 2007, the Secretariat has followed the basic structure of the Budget for 2006 as approved by the General Assembly at its 59th session, and has maintained the innovation consisting in the annotation of each Chapter and Article of the draft Budget, in line with the request addressed to the Secretariat by the Finance Committee. The Secretariat has therefore considered it appropriate to simplify its illustration of proposed expenditure in the light of these annotations to the draft Budget.

4. The draft Budget for 2007 is illustrated below, first, in terms of the projected expenditure of the Institute over that financial year and, secondly, in terms of the allocation of projected receipts. The Secretariat has made every effort to contain expenditure, notably in line with the insistence of member Governments on the Institute's observance of the principle of zero budgetary growth; he has however judged it necessary to propose increases in some chapters. During the session of the Governing Council, the members of the Council, whilst indicating that the Governments more and more foreseeing budget restrictions, nevertheless encouraged the Secretariat to ask for the necessary increases in the Budget, and this for the following reasons:

- the Budget of the Institute has always been the object of an extremely prudent management, based on savings, and this renders it very difficult to effect cutbacks;
- the principle of zero growth in nominal terms has already caused a reduction in the expenditure of certain chapters in real terms, namely the library and the duty travel, and this is cause of concern for the repercussions on the one hand on the important legacy constituted by the library, and on the other hand on the organisation and promotion of the Institute's activities;
- in particular, the problem of financing the position of Deputy Secretary-General has been caused, and has been prolonged through the years by the desire not to burden the Budget, but now the Secretariat has to act on the decision taken by the organs of the Institute to fill this post by external selection;
- the very small number of officers and employees on the other hand makes it extremely difficult to envisage staff reductions.

5. In the document containing the first estimates, the Secretariat indicated that the negotiations underway with one State in particular permitted to foresee the adhesion of a new member State. This having occurred, the Secretariat is pleased to inform the members of the Finance Committee that a State classified in Category VIII will join the Institute as of 2007.

6. At the sessions of the Sub-committee of the Finance Committee which were held on 23 March and 6 July 2006, some members of the Sub-committee submitted proposals of which the Secretariat took note, with a view to following them up. Consequently, the Permanent Committee appointed from out of its members a Committee entrusted with the review of the Regulations of the Institute, in particular of the part dealing with the staff, and efforts are being made to reduce the cost of the publications of the Institute in general and of the Uniform Law Review in particular, while bearing in mind that they are indispensable tools which are part of the legislative activity of the Institute as well as of the essential activity of providing information, as was stressed by some Governments and members of the Governing Council.

Expenditure

7. The requirements of the Institute and the implementation of the Work Programme for the 2006-2008 triennium drawn up by the Governing Council at its 58th session oblige the Secretariat to propose an increase of certain chapters of the budget. In particular, as regards Chapter 2 (Salaries and allowances), Article 1 (Salaries of Categories A, B and C staff) of the draft budget, as well as Chapter 3 (Social security charges) which is linked to the aforementioned Chapter, the Secretariat proposes an expenditure higher than that of the 2006 budget.

8. At the end of 2005 the Governing Council has appointed two new Deputy Secretaries General. One of the two was recruited from within the ranks of the Secretariat, without any change of Category or salary of that officer. The other Deputy Secretary General, who also has the function of Chief Administrator, was recruited from outside the ranks of the Secretariat and took office on 1 January 2006. This was made possible thanks to a substantial contribution of the Government of the United Kingdom which, through Mr Anthony Inglese, has offered to renew this contribution also for 2007. The Institute, who expresses his gratitude for this offer, must however in 2007 – as was done in 2006 – cover the difference between the British extra-budgetary contribution and the total salary, social charges included, of the new Deputy Secretary-General, for whom it was not possible for 2006 to guarantee the level of remuneration foreseen for her post.

9. The function of Depositary of the Cape Town Convention and Aircraft Protocol is carried out by an Officer remunerated thanks to contributions made by a certain number of member States. These contributions make it possible to pay for this post until mid 2007. The Secretariat feels that, considering the importance of the function of Depositary, it is necessary to find the remaining sum required to renew this contract under the regular budget of the Institute.

10. Chapter 2, and consequently Chapter 3, have been increased because the system of remuneration of the officials of the Institute is linked to the system of the Coordinated Organisations (OECD) (albeit applied with a six-month delay and a 20% reduction). At the meeting of the Sub-committee of the Finance Committee certain participants asked whether the Institute had to remain linked to this system. It is not up to the Secretariat to propose that this system be modified. It should however be noted that it permits a small organisation like UNIDROIT to count on technical assistance which is impartial and suited to the needs of an international organisation

11. The Institute has also been able to take advantage of the important activity of an Officer, in charge of the project on the Intermediate Securities, whose position is financed by a gift of the German Banking Federation and whose contract will expire at the end of 2006. The Secretariat has been able to find new external funding for this position.

12. The Secretariat reminds that the Institute, which is clearly under-staffed, over and above the full-time Category A members of staff is able to count on other professional members of staff who work on the Institute's legislative activities: a Research Officer was seconded by the Government of the United Kingdom till May 2006, and a young lawyer is seconded to the Institute by the French Government for a 12-month period (renewable) under its "*volontaires internationaux*" programme. The Secretariat expresses its gratitude to the Governments concerned. The Institute can also count on the activity of some interns for limited periods of time.

13. As regards the variations in budgetary appropriations proposed under headings other than Chapter 2, Article 1, and Chapter 3, the Secretariat refers readers to the explanatory notes attached to the draft budget.

14. Overall, the Secretariat would therefore propose expenditure for 2007 amounting to € 2,199,850, representing an increase of 8.90% over that provided for under the Budget for 2006.

Receipts

15. In order to cover the estimated expenditure for 2007, the Secretariat proposes to increase the contributions of the member States, excluding Italy, by 2,57%, to estimate the Italian contribution at € 270,000.00, to estimate the surplus to be carried over from the 2006 financial year at € 50,000.00 (including part of the extra-budgetary contributions made by a group of member States in 2004 and effected to the salary of the officer in charge of the depositary function – see § 9 above), to estimate the miscellaneous receipts for 2007 (Chapters 2 and 3) at € 91,548.00 and, finally, to anticipate the Institute gaining one new Category VIII member State (the contribution of which would come to € 11,825).

16. The Secretariat would propose that the statutory contributions of member States other than Italy for 2007 be calculated on the basis of a unit of contribution amounting to € 2,365 euros representing an increase of 2,57% over the unit of contribution approved by the General Assembly for the statutory contributions of member States other than Italy for 2006 (€ 2,305).

17. Under this proposal, the statutory contributions of member States would rise in comparison with the year 2006 as follows (see also the contribution chart reproduced in Appendix II hereto):

Category I	from € 115,250	to € 118,250	(+ € 3.000)
Category II	from € 50,710	to € 52,030	(+ € 1.320)
Category III	from € 41,490	to € 42,570	(+ € 1.080)
Category IV	from € 29,965	to € 30,745	(+ € 780)
Category V	from € 25,355	to € 26,015	(+ € 660)
Category VI	from € 20,745	to € 21,285	(+ € 540)
Category VII	from € 18,440	to € 18,920	(+ € 460)
Category VIII	from € 11,525	to € 11,825	(+ € 300)
Special Category	from € 2,305	to € 2,365	(+ € 60)

18. As regards the contribution of Italy, the amount indicated is an estimation of the Secretariat based upon the amount of the Italian contribution for 2006.

19. The extra-budgetary contribution from United Kingdom is based on letter from Mr Anthony Inglese, member of the UNIDROIT Governing Council, announcing that he is prepared to offer, from the budget of the British Department of Trade and Industry, an extra-budgetary contribution of £ 50,000 towards the maintaining of the post of Deputy Secretary-General that has been filled by an

external selection – on condition that UNIDROIT find the remainder of the resources required to fund fully the post for a second year. The Secretariat wishes to express its gratitude for this generous offer.

20. The Secretariat is happy to announce that a new member State belonging to Category VIII will join the Institute in 2007.

21. The miscellaneous receipts that the Secretariat would anticipate receiving in 2007 are made up of € 5,000 by way of interest, € 10,500 by way of the contributions to overhead expenses to be made by the Office for Italy and San Marino of the International Labour Organization in return for use of certain services connected with the use of certain parts of its premises, € 71,548 by way of sales of the Institute's publications and € 5,000 representing a compensation by private donors for services rendered by the databases. It will be noted that the amount of receipts to be received by the Institute by way of sales of publications is estimated to increase in 2007, as a consequence of the direct distribution of the *Uniform Law Review*.

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22. In the light of the foregoing considerations, the Secretariat would invite the General Assembly to adopt the draft budget for 2007, in particular given that the proposed increase in the contributions of member States other than Italy corresponds to the current inflation rate in Italy and in the Euro zone (running at about 2.5%) as well as the projected rate for 2007 (between 1.9 and 2.9%).

APPENDIX I

DRAFT BUDGET FOR THE FINANCIAL YEAR 2007

RECEIPTS (in Euro)

	Budget 2006	Budget 2007
Estimated balance on 1 January ¹	30,000.00	50,000.00
Chapter 1: Contributions of member States		
Art. 1 (Italian Government) ²	250,000.00	270,000.00
Art. 2 (Other member States) ³	1,650,380.00	1,703,723.00
Art. 4 (Contribution from new member State) ⁴	11,525.00	11,825.00
Extra-budgetary contribution from United Kingdom ⁵		72,754.00
Chapter 2: Other receipts:		
Art. 1 (Interest)	5,000.00	5,000.00
Art. 2 (Contributions to overhead expenses) ⁶	16,500.00	10,000.00
Art. 3 (Sale of publications) ⁷	57,445.00	71,548.00
Chapter 3: Various receipts⁸		5,000.00
Total of receipts	2,020,850.00	2,199,850.00

EXPLANATORY NOTES TO THE DRAFT BUDGET- RECEIPTS:

1. The balance that the Secretariat would anticipate being carried over from the financial year 2006 is predicated on the assumption of the Institute recovering part of the arrears. It includes part of the extra-budgetary contribution paid by a group of States in 2004 and earmarked for the salary of the officer in charge of the depositary function, that covers its salary for the first months of 2007, and that was not included in the 2006 budget (but will be included in the 2006 Accounts).
2. This receipt is an estimation of the Secretariat based on the amount of the Italian contribution for 2006.
3. The Secretariat has calculated this receipt on the basis of a unit of contribution amounting to € 2,365, representing an increase of 2.57% in comparison with 2006 (€ 2,305). See § 16 and 17 of the explanatory introduction to the draft budget. This receipt includes the contribution of Latvia.
4. The Secretariat has included in this receipt the contribution of a new member State belonging to the Category VIII expected to join the Institute in 2007. See § 20 of the explanatory introduction to the draft budget.
5. This receipt is based on an offer made by from Mr Anthony Inglese, member of the UNIDROIT Governing Council, from the budget of the British Department of Trade and Industry; see § 19 of the explanatory introduction.
6. This receipt has decreased in comparison with 2006 draft budget by reason of the agreement between the Institute and U.N.I.D.O. granting that Organization the use of part of its premises not being maintained.
7. The increase of this receipt is derived essentially from the direct distribution of the *Uniform Law Review*.
8. This receipt represents a compensation by private donors for services rendered by the databases.

EXPENDITURE (in Euro)

	Budget 2006	Budget 2007
Chapter 1		
Reimbursement of expenses		
Art. 1 (Governing Council and Permanent Committee) ¹	55,000.00	55,000.00
Art. 2 (General Assembly)	p.m.	p.m.
Art. 3 (Administrative Tribunal)	p.m.	p.m.
Art. 4 (Auditors)	3,500.00	3,500.00
Art. 5 (Committees of Experts) ²	60,000.00	65,000.00
Art. 6 (Official journey of representatives, members of staff and collaborators) ³	28,000.00	28,000.00
Total	146,500.00	151,500.00
Chapter 2		
Salaries and allowances		
Art.1 (Salaries of Categories A, B and C staff) ⁴	1,162,000.00	1,295,000.00
Art.2 (Remuneration for occasional collaborators and special work) ⁵	17,500.00	17,500.00
Total	1,179,500.00	1,312,500.00
Chapter 3		
Social security charges		
Art. 1 (Insurance against disablement, old age and sickness) ⁶	300,000.00	345,000.00
Art. 2 (Insurance of staff against accidents) ⁷	8,000.00	8,500.00
Total	308,000.00	353,500.00
Chapter 4		
Compensation retired members of staff⁸	2,500.00	2,500.00
Chapter 5		
Publications' printing costs⁹	36,500.00	31,500.00
Chapter 6		
Administrative expenses		
Art. 1 (Stationery)	21,000.00	21,000.00
Art. 2 (Telephone and fax)	20,000.00	23,000.00
Art. 3 (Postage) ¹⁰	18,000.00	20,000.00
Art. 4 (Entertainment and representation)	4,650.00	4,650.00
Art. 5 (Interpreters)	27,500.00	27,500.00
Art. 6 (Miscellaneous)	6,700.00	6,700.00
Total	97,850.00	102,850.00
carried forward	1.770.850,00	1.954.350,00

	brought forward	1.770.850,00	1.954.350,00
Chapter 7			
Maintenance costs			
Art. 1 (Electricity)		14,500.00	14,500.00
Art. 2 (Heating)		20,000.00	20,000.00
Art. 3 (Water)		6,500.00	7,000.00
Art. 4 (Insurance of premises)		11,500.00	11,500.00
Art. 5 (Office equipment)		24,000.00	24,000.00
Art. 6 (Upkeep of building)		15,000.00	15,000.00
Art. 7 (Labour costs) ¹¹		25,000.00	25,000.00
Total		116,500.00	117,000.00
Chapter 8			
Various reserve funds		p.m.	p.m.
Chapter 9			
Library			
Art. 1 (Purchase of books) ¹²		92,000.00	92,000.00
Art. 2 (Binding)		6,500.00	6,500.00
Art. 3 (Software)		15,000.00	15,000.00
Total		113,500.00	113,500.00
Chapter 10			
Promotion of UNIDROIT instruments		5,000.00	5,000.00
Chapter 11			
Legal co-operation programme¹³		15,000.00	10,000.00
Total ordinary expenditure		2,020,850.00	2,199,850.00

EXPLANATORY NOTES TO THE DRAFT BUDGET - EXPENDITURE

1. This sum is designed to cover the travel and subsistence expenses incurred by the members of the Governing Council in their attendance of the session of that body, to be held in Spring 2007.
2. This sum is designed to cover the expenditure that will be incurred by the Institute in organizing the meetings of the committees of experts and other meetings connected with the projects of the Institute currently undertaken. The proposed increase is based on the corresponding rise of the costs. The Secretariat wishes to mention that it carries out efforts in order to obtain external financing covering part of these expenses.
3. This article covers the travel and subsistence expenses incurred by representatives of the Institute, members of staff and collaborators in connection with official travel, on behalf of the Institute, in all cases other than those covered by Chapter 10 (Promotion of UNIDROIT instruments). These missions are accomplished for a number of purposes, whether to further awareness of the Institute's work in general and, where appropriate, to encourage accession to the Statute of the Institute, to attend meetings organised by the Institute's sister Organisations, the Hague Conference on Private International Law and the United Nations Commission on International Trade Law, or in respect of the Institute's ongoing work.
4. The proposed increase takes into account the recruitments indicated in § 6 and 7 of the explanatory introduction to the draft budget.

This Article covers the salaries and allowances of the Secretary-General, the two Deputy Secretaries General, three other full-time and one part-time Category A professional members of staff, eight full-time and one part-time Category B administrative, secretarial and library members of staff, three full-time Category C members of staff (two ushers and the lodge-keeper), as well as the salary of a consultant.

The salaries and allowances of Category A members of staff, pursuant to a decision taken by the General Assembly at its 36th session, follow the Salaries Scales of the Organisation for Economic Co-operation and Development, albeit with increases being reduced by an amount equal to 20% and delayed in their application by six months, whereas the salaries and allowances of Categories B and C members of staff follow a scheme, involving amendment of Articles 41 and 67 of the Regulations, approved by the General Assembly at its 38th session. Under this scheme, the salaries and allowances of Categories B and C members of staff are closely modelled on the Salaries Scales of the Organisation for Economic Co-operation and Development, albeit on a considerably reduced scale.

5. In recent years this Article has essentially covered the Secretariat's needs for external technical support, whether in the context of the updating and maintenance of the Institute's stock of computers and software or in the transcription of materials as the Acts and Proceedings of diplomatic Conference which saw the adoption of the Cape Town Convention and Aircraft Protocol.
6. This Article covers the insurance of all Categories A, B and C members of staff against disablement, old age and sickness. With a few exceptions, all members of staff are insured for these purposes with the Italian social security system (I.N.P.S.). The proposed increase takes into account the recruitments indicated in § 6 and 7 of the explanatory introduction to the draft budget.
7. This Article covers the insurance of all Categories A, B and C members of staff against accidents. All members of staff are insured for this purpose with a private Italian insurance company. The proposed increase takes into account the recruitments indicated in § 7 and 8 of the explanatory introduction to the draft budget.
8. This Chapter covers the payments made to certain retired members of staff to cover the periods, in the past, during which they were not covered for social security purposes. As time goes on and the members of staff in question become fewer and fewer in number, it becomes possible to reduce expenditure under this Chapter. Currently, it covers the payments made to only two retired members of staff.
9. This Chapter is designed to cover the cost of printing both the four issues of the *Uniform Law Review* that appear annually and of some official documents of the legislative instruments of the Institute (Acts and Proceedings of Conferences etc). The Secretariat wants to underline that the *Review* and the other publications are the principal instrument of promotion and support to the implementation of the Institute's activities as well as of the activities of the "sisters" organisations.
10. This Article covers expenditure on posting the Institute's correspondence and publications as well as on (on ever rarer occasions) sending telegrams. The increase is connected to the fact that the *Uniform Law Review* is now distributed directly by the Institute, which should however provoke an increase of the receipts (see « Other receipts », art. 3 – Sale of publications).
11. This Article covers the cost of the two cleaners responsible for keeping clean the main building and the library respectively, as well as the cost of the gardener responsible for keeping tidy the part of the garden of Villa Aldobrandini for which the Institute is responsible. None of these are members of staff: they are all outside contractors.

12. This Article covers the cost of acquisitions for the library's stock of books and the maintenance of its subscriptions to law journals. It is to be noted that, with the ever escalating cost of both, the library is necessarily forced severely to restrict its new acquisitions. It has to be added that the publication of the *Uniform Law Review* permits the library to count on exchanges (180 publications) and on complimentary copies sent by the publisher and/or the author wishing to see a book-review published in the *Review*.
13. This Chapter covers the cost of the Institute's contribution to its scholarships programme for lawyers from developing countries and countries engaged in the transition to a market economy. The reduced provision for this chapter will be compensated by the fact that the Governing Council at its 58th session has decided to create a scholarship that will be financed personally by the members of the Council; the Secretary General has decided to create a scholarship that he will finance personally.
14. In total, the Secretariat therefore proposes that the expenditure for 2007 be increased to € 2,199.850, which represents an increase of 8.90% as compared with the budget for 2006.

APPENDIX II

**CHART OF THE ANNUAL CONTRIBUTIONS TO UNIDROIT
OF MEMBER STATES FOR 2006 AND 2007**

(as proposed by the Secretariat in the draft Budget 2007)

Cat.	State	Units	Contribution for 2006	Contribution proposed for 2007	Increase
I	France	50	€ 115,250	€ 118,250	+ € 3,000
	Germany	50			
	Japan	50			
	United Kingdom	50			
	United States of America	50			
II	Canada	22	€ 50,710	€ 52,030	+ € 1,320
	China	22			
	Russian Federation	22			
	Spain	22			
III	Australia	18	€ 41,490	€ 42,570	+ € 1,080
	Belgium	18			
	Netherlands	18			
	Republic of Korea	18			
	Sweden	18			
	Switzerland	18			
IV	Brazil	13	€ 29,965	€ 30,745	+ € 780
V	Argentina	11	€ 25,355	€ 26,015	+ € 660
	Austria	11			
	Denmark	11			
	Finland	11			
	Greece	11			
	Mexico	11			
	Norway	11			
VI	Poland	9	€ 20,745	€ 21,285	+ € 540
	Portugal	9			
	South Africa	9			
VII	Czech Republic	8	€ 18,440	€ 18,920	+ € 460
	Hungary	8			
	India	8			
	Ireland	8			
	Israel	8			
	Turkey	8			
	Venezuela	8			

Cat.	State	Units	Contribution for 2006	Contribution proposed for 2007	Increase
VIII	Bolivia	5			
	Bulgaria	5			
	Chile	5			
	Colombia	5			
	Croatia	5			
	Cyprus	5			
	Egypt	5			
	Estonia	5			
	Iran	5			
	Latvia	5			
	Luxembourg	5	€ 11,525	€ 11,825	+ € 300
	Malta	5			
	Nigeria	5			
	Pakistan	5			
	Romania	5			
	Serbia	5			
	Slovakia	5			
	Slovenia	5			
Tunisia	5				
Uruguay	5				
Special	Holy See	1			
	San Marino	1	€ 2,305	€ 2,365	+ € 60