



FINANCE COMMITTEE
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REPORT

(prepared by the UNIDROIT Secretariat)

1. The 85th session of the Finance Committee was held at the seat of UNIDROIT in Rome on 4 October 2018 and commenced at 10:05 am.

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

2. The *Chair of the Finance Committee*, Mr Benito Jiménez, a representative of Mexico, opened the session and welcomed the members of the Committee (for a complete list of participants, see Annex). He then introduced UNIDROIT's new Secretary-General, Professor Ignacio Tirado, who had formally assumed his duties on 27 August 2018.

3. The *Secretary-General* greeted all of the members of the Finance Committee, recognising in particular those representatives for which it was their first session. In commencing his opening remarks, he first expressed sympathy for those in Indonesia who were suffering from the recent tragic earthquake and tsunami, and he asked for a moment of silence, which was observed by the Committee. Following that silence, he expressed his gratitude for the confidence that had been placed in him with his recent appointment to the post. Having overseen the preparation of the documents before the Committee, it was clear that the Institute was extraordinarily healthy from a financial point of view and much improved from an administrative point of view. It was his intention to try to keep that standard and even to increase it in terms of administration. From his experience working over many years in various international institutions, collaborating generally with other inter-governmental Organisations, he was impressed by the amount and quality of work that UNIDROIT produced, especially in light of its small staff and limited budget. In this regard, he paid tribute to his predecessors, in particular Mr José Angelo Estrella Faria, who had served as Secretary-General until July 2017 and Deputy Secretary-General Professor Anna Veneziano, who had served as Secretary-General *ad interim* following Mr Estrella Faria's departure. He concluded by stating that he was very grateful to have the opportunity to work together with the Deputy Secretary-General, as well as with Mr Neale Bergman (Legal Officer), who had been supporting the Finance Committee with its work.

Item No. 2 on the agenda: Adoption of the agenda (F.C. (85) 1)

4. The *Chair* proposed the adoption of the agenda and opened the floor for comments. *The agenda was adopted as proposed in document F.C. (85) 1.*

Item No. 3 on the agenda: Final modifications to the Budget and Accounts for the 2017 financial year (F.C. (85) 2 and Accounts 2017)

5. The *Chair* drew the Committee's attention to document F.C. (85) 2 and invited the Secretary-General to present that document.

6. The *Secretary-General* recalled that the document was based on the first review of the Accounts of the 2017 financial year (F.C. (84) 3), which had been examined at the Finance Committee's 84th session (Rome, 15 March 2018) and then circulated to Member States for review. He pointed out that the 2017 financial year had been closed with a surplus of 83,510.15€ as shown in paragraph 6 of document F.C. (85) 2. That surplus came from both: (a) the Institute's good work and austerity measures in implementing the Work Programme and making sure that shortfalls were anticipated; and (b) the decrease in the amount payable for salaries and social security due to the vacancy of the post of Secretary-General for part of that year. In concluding his presentation, the Secretary-General pointed out that Article 38(4) of the Regulations governed the use of the surplus. In this regard, he proposed that the surplus could be used to cover Work Programme and other expenditures in 2018 and 2019, but suggested that such use could be discussed in connection with the next agenda item (see paragraph 10).

7. *Seeing no requests for the floor, the Chair concluded that the Finance Committee recommended that the General Assembly approve the final modifications to the Budget and Accounts for the 2017 financial year.*

Item No. 4 on the agenda: Adjustments to the Budget for the 2018 financial year (F.C. (85) 3)

8. The *Chair* drew the Committee's attention to document F.C. (85) 3 and invited the Secretary-General to present that document.

9. The *Secretary-General* explained that the document generally showed how the Secretariat had spent its resources up until the beginning of September when the document was finalised and circulated for the session. He pointed out that, as noted in paragraph 2 and the table for receipts on page 3, there was unfortunately a shortfall in receipts at the time of the document's publication of 149,723.68 €. While that figure had improved since publication thanks to the receipt of further payments, there was still an anticipated shortfall of 129,483.68 €. Member States were encouraged to make their payments in a timely manner because UNIDROIT was a small Organisation and, even though the Working Capital Fund provided a buffer, that Fund would only cover roughly two months of ordinary expenditure.

10. The Secretary-General then explained, in accordance with Article 38(4) of the Regulations, his proposed uses for the surplus from the 2017 financial year of 83,510.15 € which, as a general matter, would be used to support the achievement of the Work Programme and not to offset non-payment of contributions by Member States. First, he proposed allocating some of that surplus to cover additional travel expenses under Chapter 1, Article 5 (Official journeys of representatives and staff) that would be attributable to both: (a) upcoming activities, including participation in conferences and events, related to the consideration of possible projects for the new Work Programme for the 2020-2022 triennium; and (b) efforts to increase UNIDROIT's membership. With respect to upcoming activities, he noted, for example, the proposal for future work on artificial intelligence that had been received from the Czech Republic and explained how he had participated in a workshop to narrow down the scope of that potential project and to explore the possibility of joint work in that area with UNCITRAL. With respect to membership, he stated that, in seeking the post of Secretary-General, he had expressed his desire to increase UNIDROIT's membership and that,

consistent with that desire and his previous experiences, he wished to reach out to more regions through various contacts to achieve that goal. He emphasised that, with respect to travel generally, it would be undertaken only where necessary, and the surplus only used with austerity in this regard. Second, he proposed also allocating some of the surplus to the finalisation of key instruments under the Work Programme, including with respect to the diplomatic Conference to formally adopt the draft Protocol to the Convention on International Interests in Mobile Equipment on Matters specific to Mining, Agricultural and Construction Equipment ("MAC Protocol"). Regarding the draft MAC Protocol, he noted that the Secretariat was considering the establishment of an expert task force to address the few remaining open issues with respect to that draft, which was an excellent and very well regarded text, in order to ensure that the diplomatic Conference was a success. He further noted that all Member States that had shown an interest in hosting were located in the southern hemisphere, which might entail higher travel expenses. Overall, the diplomatic Conference could give rise to some additional expenses under Chapter 1, Article 5 (Official journeys of representatives and staff), as well as under Chapter 1, Article 4 (Committees of Experts) and Chapter 2, Article 2 (Remuneration for occasional collaborators), for which the surplus could serve as a buffer if needed. In addition, he pointed out that some of the surplus might also need to be used to ensure sufficient support for the ongoing preparation and timely finalisation of the future Legal Guide on Agricultural Land Investment Contracts, the draft of which was advancing very well and would be the subject of broad consultations in the coming year. Third, he proposed that some of the surplus could be allocated to the implementation of the new social security system, which would be discussed in connection with the relevant item on the agenda (see paragraph 46 et seq. below).

11. The Secretary-General concluded his presentation by providing a few observations with respect to the table for expenditures and related explanatory notes on pages 4-5. First, he drew attention to the excess of 12,000€ under Chapter 2, Article 2 (Remuneration for occasional collaborators) and noted that the excess would be covered with the additional funding that had been received from Aviareto, which ran the International Registry under the Aircraft Protocol, in accordance with a five-year licensing agreement by which UNIDROIT provided an electronic version of the third edition of the Aircraft Protocol Official Commentary by Sir Roy Goode to Aviareto to make available to users of that Registry. Second, he pointed out the savings with respect to certain administrative expenses, in particular under Chapter 4, Articles 1 (Stationary) and 2 (Telephone, fax and Internet).

12. The *representative of Canada* welcomed the Secretary-General, thanked the Deputy Secretary-General for all the work that she did as Secretary-General *a.i.*, and expressed appreciation for the Secretariat's continuing efforts to economise. With respect to efforts to expand UNIDROIT's membership, she inquired about what those efforts would involve and noted that they should be approached carefully because of possible implications for resources. She stated that, while UNIDROIT should always be open to new Member States, the primary focus should be on promoting UNIDROIT's instruments.

13. The *Chair* inquired if the Secretariat could estimate how much of the surplus would be allocated to the various proposals, in particular with respect to the official journeys of representatives and staff and the diplomatic Conference. He then supported the representative of Canada's statement regarding the need for care in seeking to expand UNIDROIT's membership.

14. The *Secretary-General* replied that the Secretariat would indeed be careful and would consult regarding efforts to expand membership with the Permanent Committee and Member States so that such efforts were conducted in a transparent manner. The purpose of extending membership would not only be to increase available resources but also to promote UNIDROIT's instruments in the sense that such promotion would be a key component of the outreach to potential Member States. If a State was involved with the Institute, the more likely it was to adopt some of UNIDROIT's instruments. With respect to the Chair's inquiry regarding precise estimates of how much of the surplus would be

allocated to the various proposals, the Secretary-General stated that it was difficult to give precise estimates for the cost of each at the moment, but noted that any such expenses would be incurred in a transparent manner. For example, with respect to the contemplated expert task force to address the few remaining open issues with the draft MAC Protocol, he said that task force would likely cost roughly 10,000€-15,000€, but that it would in turn generate savings by resolving as many of those issues as possible prior to the diplomatic Conference, thereby ensuring that Conference could be conducted efficiently and expeditiously.

15. The *Chair* read out the text of Article 38(4) of the Regulations,¹ according to which the Secretary-General had made his proposals regarding the use of the surplus. He then opened the floor again for any further comments or questions.

16. *Seeing no requests for the floor, the Chair concluded that the Finance Committee recommended that the General Assembly approve the adjustments to the Budget and Accounts for the 2018 financial year. He further noted that the Finance Committee had authorised the Secretariat to use the surplus, to the extent necessary, for the activities proposed by the Secretary-General.*

Item No. 5 on the agenda: Information on the extra-budgetary contributions received in 2018 and on their allocation to the activities and projects of the Institute (F.C. (85) 4)

17. The *Chair* drew the Committee's attention to document F.C. (85) 4, noting that the document was only for informational purposes. He then invited the Secretary-General to present it.

18. The *Secretary-General* noted that the document largely related to UNIDROIT's non-legislative activities, including the promotion of UNIDROIT's instruments and the Research Scholarship Programme. Scholarships, in particular, were a very significant component of UNIDROIT's promotional and outreach efforts, and he expressed his hope that there would in the future be more contributors, including Member States, to the Research Scholarship Programme. As reflected in the Annex to the document, he recognised the generous and significant contribution of the People's Republic of China to that Programme and expressed his gratitude. He also recognised the contributions from Governing Council members and various Italian law firms, noting in this regard that UNIDROIT's President, Professor Alberto Mazzoni, was a driving force behind contributions received from the private sector. In concluding, he noted that, with his academic background, he believed that the Library played a very important role in the Institute's life. Accordingly, he wished to continue to replenish its stocks and intended, as part of the strategic plan that he would submit for review and consideration, to enhance the Library's role to the extent possible.

19. The *representative of Canada* expressed appreciation both for the report and for those who had contributed funds.

20. The *Chair* also expressed appreciation for the contributions. In noting the Annex's reference to the preparation of the UNIDROIT-FAO-IFAD Legal Guide on Contract Farming, he stated that the Secretariat should inform Member States if it needed additional support in seeking further collaboration or funding from FAO, IFAD or other Organisations because Member States might be able to help in that regard.

¹ UNIDROIT Regulations, art. 38(4) ("If the accounts show, at the close of the financial year, any residual balance made up of the difference between revenue on the one hand, and expenditure and liabilities on the other hand, the Secretary-General may propose to the Finance Committee: (a) to use the surplus for any purpose other than the original allocation, in particular when the surplus results from the recovery of arrears owed to the Institute by member Governments, or from savings made or other economy gains achieved by the Secretariat; (b) to record the surplus as revenue in the next financial year, thus reducing assessed contributions of member Governments, in particular when the surplus resulted from an overestimation of expenditure.").

21. *Seeing no further requests for the floor, the Chair acknowledged that the Finance Committee took note of the information on extra-budgetary contributions received by UNIDROIT in 2018 and requested that such information also be submitted to the General Assembly at its 77th session.*

**Item No. 6 on the agenda: Arrears in contributions of Member States
(F.C. (85) 5)**

22. The *Chair* drew the Committee's attention to document F.C. (85) 5 and invited the Secretary-General to present that document.

23. The *Secretary-General* explained that the document provided an update regarding the arrears in contributions of Member States. He further explained that, for the 2018 financial year, Member States had until February 2019 to make their contributions because the Accounts for 2018, consistent with UNIDROIT's practice, would be closed at that time. Unfortunately, the document showed that the level of arrears was still high and was actually higher than in the previous year, as the total amount of arrears had accumulated to roughly 312,000€ in 2018, whereas that amount was roughly 244,000€ in 2017.² The timely payment of contributions was very important for the Institute because of its tight budget and relatively small Working Capital Fund, and the Secretary-General encouraged Member States to pay their outstanding contributions. He noted that the Secretariat would continue to apply austerity measures and to utilise its resources in a prudent manner. He then noted, however, that Member States that had accumulated more than two years of arrears would lose their voting rights in the General Assembly.³ He further noted that the Secretariat was in the process of following up with those Member States that were in arrears and would make sure that they knew of the amount of arrears and the consequences of those arrears. In this regard, he was hopeful that the upcoming elections for the Governing Council, which were to take place at the General Assembly's 77th session (Rome, 6 December 2018), might incentivise at least a few Member States in arrears to address those arrears so that they could vote in the elections.

24. The *representative of Canada* stated that the level of arrears remained a concern and that Canada would support the Secretariat's efforts to encourage Member States to pay any arrears and to be more active in UNIDROIT matters. To the extent that such arrears or inactivity were due to a lack of interest in UNIDROIT's Work Programme, those Member States could be encouraged to make proposals for the new Work Programme for 2020-2022.

25. The *representative of Germany* welcomed the new Secretary-General and thanked the Deputy Secretary-General for all of her work during the interim period. He supported what had been said by the representative of Canada and encouraged UNIDROIT to seek payment of the arrears, including by making Member States with more than two years of arrears aware that, absent payment, they would not be able to vote. The total amount of arrears was now very considerable, and payment of those arrears would have a very positive effect on the budget.

26. The *Secretary-General* emphasised that the arrears were indeed a concern and that it would be a great relief for them to be paid in the near future. He observed that the arrears were a collective action problem and that, if some Member States did not pay, that non-payment was unfair to other Member States. He further observed that there were some Member States in arrears for which it would be difficult to regularise their outstanding contributions because of social and political

² See UNIDROIT 2017 – F.C. (83) 5 (noting, in the table in the appendix, a total amount of arrears of 244,199.28€).

³ UNIDROIT Statute, art. 16(7) ("Participating Governments which are more than two years in arrears with the payment of their contribution shall lose the right to vote in the General Assembly until they regularise their position. Furthermore, no account shall be taken of such Governments in the process of arriving at the majority required by Article 19 of this Statute.").

problems, whereas there were other Member States that were likely in arrears simply due to a change of personnel in the particular government. The Secretariat would continue to follow up with its contacts in these States, in particular those in the latter situation. He expressed appreciation for the comments regarding the importance of the upcoming Work Programme for 2020-2022 in this regard and noted that all Member States had been sent requests for proposals for that Programme, about which the Secretariat could follow up to seek to get Member States in arrears more involved in UNIDROIT's core functions again.

27. The *Chair* thanked the Secretary-General for his remarks and invited the Secretariat to continue to seek payment of all contributions in a timely manner. *Seeing no requests for the floor, the Chair concluded that the Finance Committee had taken note of the status of arrears in contributions of Member States.*

**Item No. 7 on the agenda: Draft Budget 2019 and observations submitted by
Member States (F.C. (85) 6)**

28. The *Chair* drew the Committee's attention to document F.C. (85) 6 and invited the Secretary-General to present that document.

29. The *Secretary-General* began his presentation by offering some general remarks on the draft Budget for 2019, noting that the draft Budget – in accordance with the Finance Committee's previous recommendations – remained basically a zero nominal growth one. The Secretariat proposed a total expenditure of 2,289,370€, which reflected an increase compared to the expenditure authorised under the previous budget of 17,500€, an amount which was fully attributable to annual payment from Aviareto (see paragraph 11 above). Recalling the prior Secretary-General's statements in this regard, he cautioned that, if the Institute was to continue being highly productive and to have the necessary resources for its activities, it might be better to begin contemplating some small budgetary increases in the future. Indeed, such increases might actually just be a mechanism or way to preserve the current status and, as a recently appointed Secretary-General bringing some new ideas to the Institute, he asked for Member States to provide him with some leeway in this regard, even though no increases were under consideration at this stage.

30. Regarding receipts on pages 4-5, the Secretary-General drew particular attention to explanatory note 1, which flagged that the UN scale of assessments for 2019-2021 would likely not be available until late December 2018. As a result, there were two possibilities for determining the contributions of Member States for 2019, including (a) basing the new Contributions Chart that was adopted at the General Assembly's 76th session (Rome, 7 December 2017) on the current UN scale of assessments for 2016-2018; or (b) using the current Contributions Chart for an additional year. Among those possibilities, the latter option seemed to be preferable because it would avoid the possibility that Member States could have three different contribution amounts in three consecutive years (i.e. 2018, 2019 and 2020), which could give rise to difficulties given budgetary cycles and the need for timely payments. Accordingly, the Secretariat was proposing, subject to the Finance Committee's views, use of the current Contributions Chart in 2019. The Secretariat was further proposing that the new Contributions Chart, which would make use of the UN scale of assessments for 2019-2021, would then come into effect in 2020.

31. Regarding expenditures on pages 6-9, the Secretary-General first discussed explanatory notes 1 and 3, which referred to the Secretariat's allocation of the Aviareto payment (see paragraphs 11 and 29 above) to increase Chapter 1, Article 5 (Official journeys and promotion of activities) and Chapter 2, Article 2 (Remuneration for occasional collaborators) by 5,000 € and 12,500 € respectively. With respect to explanatory notes 2 and 5, he noted that, in light of the recent compensation and social security reforms, the Secretariat had proposed increases to Chapter 2,

Article 1 (Salaries of Categories D, P and GS staff and consultant) and Chapter 3, Article 1 (Insurance against disablement, old age and sickness) of 10,000€ and 20,000€ respectively and pointed out that these increases were actually lower than those that had been forecast by the outside expert on compensation matters in the context of the compensation and social security review. For social security charges in particular, he pointed out that that increase was largely due to the fact that his predecessor, Mr Estrella Faria, had been able to maintain his participation in the UN social security system, which was less expensive.

32. Regarding reductions in expenditure in particular, the Secretary-General pointed out that the Secretariat had cautiously anticipated substantial savings in Chapters 4 (Administrative expenses) and 5 (Maintenance costs). In this regard, UNIDROIT was now using new, cheaper technologies for calling and conducting meetings, and it was following a new paper saving policy. He then drew attention to the proposed reduction of 12,500€ to Chapter 1, Article 4 (Committees of Experts), recalling that this line of expenditure had been increased by 30,000€ in the Budget for 2017 and that, if needed, some of the authorised expenditure of the surplus from the 2017 financial year (see paragraphs 10 and 13-16 above) could be used as a buffer in this regard.

33. The *Chair*, in thanking the Secretary-General for his remarks, clarified that the categories in UNIDROIT's Contributions Chart were based on the UN scale of assessments. He recalled that the Secretariat's proposal was to use the current Contributions Chart, as it was, for an additional year and he said that he had spoken to his colleagues in Mexico, who confirmed that the new UN scale of assessments for 2019-2021 was unlikely to be approved until the end of December 2018. He then opened the floor for comments and questions.

34. The *representative of Canada* thanked the Secretariat for the clear and carefully prepared draft, which was supported by Canada. She said that Canada also supported the Secretariat's proposal to continue using the current Contributions Chart in 2019, on the understanding that the new Contributions Chart with its additional categories would be used in 2020, together with the new UN scale of assessments for 2019-2021. Regarding proposals for expenditure, she inquired about the reference to the Work Programme in the second paragraph of explanatory note 1 on page 7, asking in particular whether the Secretariat had anticipated if the new Work Programme might entail additional meeting expenses. She then stated that Canada supported the proposed use of the Aviareto payment, including with respect to the funding of occasional collaborators as mentioned in explanatory note 3 on page 8.

35. The *representative of the United States of America* welcomed the new Secretary-General and stated that it was a pleasure for her to join the Finance Committee and to be introduced to the Institute which, while small, did great work. She echoed the representative of Canada's remarks and supported the Secretariat's cautious approach to the draft Budget for 2019. She then expressed support for the Secretariat's proposal to use the current Contributions Chart for an additional year. She then asked the Secretariat to prepare and circulate, once the new UN scale of assessments was available, the new Contributions Chart using that scale so that Member States would know as soon as possible the future levels of assessed contributions.

36. The *representative of Spain* thanked the Chair for his service, welcomed the new Secretary-General and expressed appreciation to the Deputy Secretary-General for her work throughout the interim period. He supported use of the current Contributions Chart for an additional year, noting that the new UN scale of assessments would not be available in time. Regarding expenditures, the efforts for savings and efficiencies, in particular in Chapter 1, Article 4 (Committees of Experts) and in Chapters 4 (Administrative expenses) and 5 (Maintenance costs), were greatly appreciated. He encouraged the Secretariat to continue pursuing such savings and efficiencies throughout the Budget, to be prudent regarding new initiatives which might create new structural costs, and to continue following the zero nominal growth policy in the coming years.

37. The *representative of Italy* thanked the Secretariat for the prudent, cautious and clear budget. It was in line with UNIDROIT's tradition of prudent management of the Accounts and of following a zero nominal growth policy. He then supported the representative of Spain's comments regarding the containment of expenses, in particular for administrative issues and maintenance costs. He further supported the Secretariat's proposal regarding use of the current Contributions Chart for an additional year.

38. The *representative of the United Kingdom* echoed the statements of all the other representatives thus far and welcomed the new Secretary-General. She then expressed support for use of the current Contributions Chart for an additional year.

39. The *Chair* stated that Mexico supported the use of the current Contributions Chart for an additional year. He said that the Secretariat would be in a position, by the Finance Committee's 86th session (Rome, Spring 2019), to provide a draft of the new Contributions Chart for 2020, so that Member States would then be aware of their future contributions.

40. The *Secretary-General* thanked the representatives for their comments, which were all very positive and much appreciated. Regarding the representative of Canada's inquiry about anticipated increases in expenses linked to the new Work Programme, he stated that there would indeed be new work, but that part of the overall work would be a continuation of projects on the current Work Programme that had not been completed yet. He then stated that, in preparing the draft Budget, the Secretariat had considered the upcoming meeting schedule, based on ongoing and possible new projects, and anticipated that the estimated expenditure in Chapter 1, Article 4 (Committees of Experts) should be sufficient, noting as well that some of the work might be better addressed by individual or smaller groups of experts, which could be covered by Chapter 2, Article 2 (Remuneration for occasional collaborators).

41. The *Deputy Secretary-General* clarified that the new Work Programme, which would be for 2020-2022, would not come into effect in 2019, but in 2020. As a result, it would not necessarily influence the Budget for 2019, though there could be – as the Secretary-General had rightly pointed out earlier – some activities related to the preparation and adoption of that Work Programme.

42. *Seeing no further requests for the floor, the Chair concluded that the Finance Committee recommended that the General Assembly adopt the draft Budget for the 2019 financial year.*

Item No. 8 on the agenda: Implementation of the new compensation and social security package offered to UNIDROIT staff (F.C. (85) 7)

43. The *Chair* drew the Committee's attention to document F.C. (85) 7 and invited the Secretary-General to present that document.

44. The *Secretary-General* emphasised the importance of UNIDROIT's recently adopted compensation and social security reforms, noting that those reforms were important to the sustainability of the Institute, to providing a modern working environment and system of administration and for enhanced mobility of staff. Regarding compensation aspects, he recalled that the Secretariat, with the assistance of an expert consultant, had implemented the transition to the UN salary scales localised for Rome and that, as of February 2018, all staff had been transitioned to those scales. He further recalled that, at the Finance Committee's 84th session (Rome, 15 March 2018), there were several inquiries about this transition which related to the budgetary impact of the compensation reforms and the cost of the compensation package, which made use of the UN salary scales together with certain allowances provided by the Co-ordinated Organisations' system of allowances. With respect to the budgetary impact, he drew attention to paragraph 13, which

explained that the transition to the UN salary scales was expected to be less costly than what had been forecast by the expert compensation consultant in his report. For 2019, for example, the expert consultant had predicted that UNIDROIT's gross annual salaries would amount to roughly 1,327,000€, whereas the Secretariat's forecast based on current staffing for that year was roughly 1,302,000€.

45. Regarding the budgetary impact of the compensation reforms, as well as the concerns expressed with respect to costs, the Secretary-General drew attention to paragraphs 4 and 5, which explained that the UNIDROIT compensation figures upon which those concerns were based were not net as those figures did not deduct UNIDROIT employees' contributions for social security, in particular 9.34% for the Italian social security system (INPS) or 16,7% for the scheme of the International Service for Remunerations and Pensions (ISRP) that was recently adopted and to be implemented. Further to cost, he also pointed out that, although the UN did not provide an expatriation allowance and the OECD's dependent child allowance was higher than the UN's allowance, the UN system offered other very important contributions to employees that UNIDROIT's new system did not have, including rental subsidies for housing costs and education grants for children, the latter of which could amount to roughly \$30,000 (USD) annually. He then emphasised that UNIDROIT's expatriate allowance was indeed only for expatriates and not the entire staff, began to sunset after 3 years and disappeared after 7 years. He further emphasised that, overall, the UN system was much more generous.

46. Regarding social security aspects, the Secretary-General noted that he was informed that the Secretariat had hoped that the new ISRP-developed pension plan would be implemented by mid-2018, but that those efforts had not yet been concluded. He then provided an update on recent developments in this regard, which were detailed in paragraphs 8-11 of the document. In doing so, he pointed out that a meeting had been held with staff members in June 2018 prior to his arrival in order to answer questions about the new pension plan and to try to identify those staff members who might wish to transition into that plan. At that meeting, various questions were raised, including staff members' requests for information that was more tailored to their particular situations, such as particularised estimates of the anticipated benefits from the new plan. As a result, the Secretariat reached an agreement with the ISRP for the development of an online pension and leaving allowance simulator, which would allow staff members to enter their information (e.g. pay grade, years of service, applicable allowances) and to receive benefits estimates. That simulator was just received, so it had taken more time than anticipated to identify staff members for the new plan. In addition, the Secretary-General explained that he had met with an ISRP representative regarding administration of the pension plan, for which ISRP had provided a fixed cost figure of 23.000€ annually, which was unworkable for the transitional period in which only a few staff members would be enrolled. He further explained that the Secretariat was looking for alternative interim solutions in this regard.

47. With respect to medical and related insurances in particular, the Secretary-General recalled the Finance Committee's recommendation, with which the Secretariat remained in agreement, that the Allianz Silver quotation was the preferred plan. He pointed out, however, that that quotation had to be reconfirmed once the staff members who wished to join the new plan were identified and that the premium that would ultimately be paid depended upon the number of staff. He noted in this regard that, with the pension and leaving allowance simulator, the Secretariat was now in a position to make progress in this regard.

48. Regarding the budgetary impact of the social security reforms, the Secretary-General stated that the Secretariat did not anticipate those reforms having any budgetary impact beyond the increases that would have otherwise occurred even if those reforms were not adopted. The new system would be better for the Institute because it entailed – in line with the Co-Ordinated Organisations' Third Pension Scheme upon which ISRP had based UNIDROIT's new scheme – cost sharing of 45% for the staff member and 55% for UNIDROIT, whereas under the current Italian system

used by most staff members there was cost sharing of 25% for the staff member and 75% for UNIDROIT.

49. Lastly, the Secretary-General discussed two further administrative matters, specifically with respect to job descriptions and the UNIDROIT Regulations. With respect to job descriptions, he recognised that, with the transition to the new compensation and social security system, full job descriptions tailored to that system were needed. He indicated that it might be necessary to hire an expert consultant to support the development of those descriptions, which would be based on the grades in the UN system. As a small Organisation, he cautioned that such descriptions would have to be developed with a certain flexibility in order to be able to adapt to various circumstances. He then stated that the Secretariat would share those descriptions with the Finance Committee at its 86th session (Rome, Spring 2019). With respect to the UNIDROIT Regulations, he recalled that prior discussions had focused on whether a polishing of the Regulations was necessary. He stated that, in his view, the Regulations were in need of a more in-depth review and might require further work than a mere polishing. He then stated that the language was a bit outdated and there were certain important aspects that were not regulated or insufficiently regulated, such as: (a) extension of the spousal allowance to couples which were not married, but legally recognised to have the same rights in many States; (b) paternity leave, because the Regulations only mentioned maternity leave; and (c) medical certifications for sick leave, because the Regulations only required such certifications after five days of absence, which seemed to be too broad and inconsistent with current practice. In concluding, he pointed out that he would conduct a broader review of the Regulations, which would be subject to the procedure set out in Article 17(1) of the UNIDROIT Statute.⁴

50. The *representative of Germany* expressed once again reservations about the compensation and social security reforms, in particular on behalf of the Ministry of the Interior and the Ministry of Finance. He stated that, although it might be a misunderstanding, the net salaries comparison between the UN system and UNIDROIT's system did not seem to be clear, and the Ministry of Interior had developed an alternative chart in which it tried to explain better the comparison between those net salaries. He drew attention to the last set of columns in that chart, which had been circulated to the members of the Committee, and stated that one could see the clear differences in compensation, in particular for people with various family situations. With the social security contributions and taxes applied, one could see that the net salary of UNIDROIT employees was higher than that of UN employees for the D1 and D2 grades and the respective steps. In recalling the point about different packages of allowances, he stated that such differences were precisely the problem. Not adopting one system completely and just picking some elements from the UN and some from the Co-Ordinated Organisations might not only create some confusion but also result in unequal payment. He further stated that this was why Germany still had reservations about the reforms and, in particular, the continued usage of UNIDROIT's expatriation allowance as it was. He then requested the Secretariat to provide a chart which showed the real net salaries for all categories and grades, which could possibly prove that the compensation was the same or even less than the UN system. He said that that showing would make the reforms acceptable without any problem. He concluded by stating that the current status in this regard was not sufficiently transparent, which was why the reservations unfortunately had to be maintained.

51. The *representative of Switzerland* welcomed the new Secretary-General and commended the Secretariat for its transparent processes by which it informed Member States regarding the implementation of the compensation and social security reforms. She stated that a clear, transparent and innovative compensation and social security system was a necessary condition for employee satisfaction and that, even if implementation would need some more time, the reforms were the best solution that the Secretariat could have taken. She then thanked the Secretariat for the high quality

⁴ UNIDROIT Statute, art. 17(1) ("Rules governing the administration of the Institute, its internal operations and the conditions of service of the staff shall be adopted by the Governing Council and must be approved by the General Assembly and communicated to the Italian Government.")

of the documents that had been circulated as such quality was not always the case for documents received from other organisations.

52. The *representative of the United States of America* thanked the Secretariat for all of the implementation work done thus far, particularly with respect to the social security reforms, for which staff buy in, clarity of process and strong communication with Member States were keys to success. She stated that the United States very much looked forward to the discussion at the Finance Committee's next session regarding job descriptions. She then mentioned the reference – in paragraph 20 of the document – to input from Member States regarding the review of the UNIDROIT Regulations and inquired whether there would be a call for input and, if so, how that input should be submitted.

53. The *representative of Canada* thanked the Secretariat for the explanations regarding the transition to the UN salary scales, which was supported by Canada. With respect to the implementation of the new pension scheme, she acknowledged that staff members had an important decision to make and she expressed hope that the ISRP simulator tool would help staff to make that decision so that UNIDROIT could soon have greater certainty for budget decisions. Regarding administration of the pension, she agreed with the Secretariat's view that, for the time being, the administration costs appeared to be rather high, given the relatively small number of participants, and stated that other options for the transitional period should be explored. At the same time, however, it was important for the pension fund to be carefully administered and to have proper accounting and reporting, both for the employer and participating staff. Regarding job descriptions, she supported the proposal for preparation of draft job descriptions for the Committee to review at its next session. Such descriptions would be a useful classification tool, but UNIDROIT, as a small organisation, needed to have descriptions which were fairly general to allow flexibility. She further supported the proposal to build on the UN system's various categories and grades and then tailor the job descriptions to UNIDROIT's specific situation. Regarding the Regulations, she noted that Canada had expressed its support for reviewing in particular Part 3 of the Regulations, which dealt with staff matters. She then said that there was not yet enough information to know whether the rest of the Regulations also needed work, but she supported the Secretary-General's proposal to study the Regulations and consult with staff and Member States to determine whether a proposal to the Governing Council would be warranted. She cautioned, however, that an open-ended review of the Regulations could become a lengthy process and be quite burdensome, so she hoped that any such proposal would be quite specific.

54. The *Chair* expressed Mexico's general support for the implementation of the compensation and social security reforms. Regarding job descriptions, he agreed that such descriptions had to be flexible as UNIDROIT was a small Organisation. Regarding Germany's reservations about implementation, he recalled that when use of the UN salary system had been discussed throughout the compensation and social security review, the Finance Committee preferred not to adopt the UN's full compensation package as it would dramatically increase UNIDROIT's budget.

55. The *Secretary-General* replied to the various interventions, first thanking the representatives of Canada and Switzerland for their kind words. Regarding the review of the Regulations, he stated that that review would be specific and time-limited. He further stated that, in response to the inquiry from the representative of the United States, the intention was not only to request input from all Member States, but also to circulate the various proposals for amendments to the Regulations, so that all would have the opportunity to review and comment. He hoped that the review of the Regulations would progress substantially by the Finance Committee's next meeting and noted that, if necessary, he would engage an expert consultant to assist with that review. He then thanked the Chair for his statement regarding the reservations that had been maintained by the representative of Germany. With respect to those reservations, he recalled that Germany's concerns related to issues which had been debated repeatedly within the Finance Committee and that, while criticisms

that would ultimately improve the Institute were of course welcome, he was not convinced that the reservations expressed would lead to improvements. He said that the Secretariat would take those reservations into consideration and would provide the requested chart in due course. His initial reaction to those reservations, however, was that the reason why the full UN package was not adopted was because it would be too expensive and would significantly increase costs. While UN staff did not get expatriation allowances, they did receive other benefits which were not factored into the chart. The Finance Committee, moreover, had recommended, after lengthy debate, a different solution than adopting the UN package in full. In concluding, he thanked the representative of Germany for his comments and noted that he would seek to continue the dialogue separately, including through possible conference calls with officials at the German Ministry of the Interior, as well as possibly meeting with them during his upcoming mission to Berlin in early November.

56. The *Chair* noted that the Secretariat would prepare and circulate the requested salary comparison chart and then opened the floor again for comments. *Seeing no further requests for the floor, the Chair concluded that the Finance Committee took note of the updates regarding the implementation of the compensation and social security package offered to UNIDROIT staff. He further concluded that the Finance Committee recommended the further development of job descriptions, as well as the review of the UNIDROIT Regulations.*

Item No. 9 on the agenda: Any other business

57. The *Chair* drew the Finance Committee's attention to the final item on the agenda and opened the floor for comments and questions regarding any other business.

58. The *representative of Italy* congratulated the new Secretary-General on his appointment. He noted that, while UNIDROIT was a small Organisation, it was one to which Italy attached a lot of importance. He said that UNIDROIT was on a very positive path and praised UNIDROIT's work and careful management. He then thanked the Deputy Secretary-General for all of the very good work that she did during the interim period.

59. The *representative of Indonesia* also congratulated the new Secretary-General, thanked the Deputy Secretary-General for all of her excellent work during the interim period and stated that it was an honour to join the Finance Committee. He also thanked the Secretary-General for the sympathy that had been expressed to the Indonesian people and stated that everyone would do their best to continue in the rebuilding process and to help all those affected.

60. The *Chair*, seeing no further requests for the floor, thanked the Committee members and closed the meeting at 11:55am.

ANNEX**List of participants**

Mr Eduardo BRIGIDI DE MELLO	(Brazil)
Ms Claudia HINZER	(Canada)
Mr LI Dongchao	(People's Republic of China)
Ms ZHUO Yujun	
Mr Pascal GAND	(France)
Mr Olaf REIF	(Germany)
Ms Agustina DIAN KARTIKA DHARMAWATI	(Indonesia)
Mr Riccardo CURSI	(Italy)
Mrs Yuki TOKUO	(Japan)
Mr Benito JIMENEZ	(Mexico)
Mr Rafael OSORIO	(Spain)
Ms Lorenza FÄSSLER	(Switzerland)
Ms Sandrine GOFFARD	(United States of America)

UNIDROIT Secretariat

Mr Ignacio TIRADO	(Secretary-General)
Ms Anna VENEZIANO	(Deputy Secretary-General)
Mr Neale BERGMAN	(Legal Officer)