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**APPENDIX 1**  
**BUDGET POLICY AND PRESENTATION**

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360. The description of the budget policy provides for the codification and clarification of recent budget practice. This is linked to the new and expanded presentation of budgetary information to enhance transparency and support the budget review and approval process by Member States. Following issues are addressed below: (a) calculation budget stages 2000-2001 and 2002-2003, (b) resource plan 2000-2001 and 2002-2003, (c) new arrangement of budget allocation by Union and Program, (d) new budget policy on information technology activities, and (e) additional modification of budget presentation.

**A. Calculation of budget stages 2000-2001 and 2002-2003**

361. The budget formulation process is developed through a number of stages including the following: (a) approved budget 2000-2001, (b) revised budget 2000-2001 in accordance with program structure of the biennium, (c) revised budget 2001-2002 in accordance with program structure 2002-2003, (d) program variations 2002-2003, (e) cost variations 2002-2003, and (f) proposed budget 2002-2003. Details on each of the budget stages are outlined below.

*Approved budget 2000-2001*

362. The starting point is the budget 2000-2001 as approved by Member States and presented in document A/34/2 in 1999.

*Revised budget 2000-2001 in accordance with program structure of the biennium*

363. The revised budget 2000-2001 includes the approved budget 2000-2001 and a number of budgetary adjustments, in particular the application of the budget flexibility formulas as shown in Appendix 3. This is the first time that the revised budget for the current biennium reflects resource implications. Previously, the initial budget was revised only for changes in the number of posts resulting from adjustments under the flexibility formula. This was separated from presenting the resource implications. Implications for the revised budget were presented later, following the conclusion of the budget period, in the context of the Financial Management Report. Implications for the forthcoming budget were shown as program adjustments. This represented a delayed recognition of resource requirements and is seen to create a distortion in the presentation of program adjustments for the coming biennium. Recognizing such budget adjustments as part of the revised budget 2000-2001 establishes an accurate basis for comparison: the new budget proposals 2002-2003 are compared with up-to-date budget 2000-2001 prevailing at the time of budget presentation.

364. The presentation of the revised budget 2000-2001 with full resource implications is not considered a change from previous budget practice, but as an enhancement of budget transparency and as addressing shortcomings of previous budget methodology.

### ***Revised budget 2001-2002 in accordance with program structure 2002-2003***

365. The proposed program structure 2002-2003 differs from the biennium 2000-2001. In order to provide for a comparison between both biennia, the revised budget 2000-2001 is realigned in accordance with the program structure proposed for the new biennium. This is done in Section D and illustrated in Table 14 and 15. Realignment covers the assignment of approved resources and program activities in accordance with the new program structure. This ensures that the program priorities approved by Member States are not altered, including new program priorities which Member States approved during the biennium, such as activities related to small and medium-sized enterprises. Resources assigned to this new activity during 2000-2001 provide the basis for elaborating new proposals for the biennium 2002-2003. The proposed budget 2002-2003 is compared with the revised budget 2000-2001. Differences are identified as program variations and cost variations as elaborated below.

### ***Program variation 2002-2003***

366. Program variations 2002-2003 represent the budgetary implications of new program proposals as compared to the budget 2000-2001. This includes proposals to be implemented during the biennium 2002-2003 as well as program modifications already addressed during the biennium 2000-2001. Such modifications cover strengthening or scaling down program activities through the redevelopment of resources. This can include, for example, the redeployment of posts between programs, involving new assignments to the position in question, or reclassifications of posts between the General Service and the Professional categories within the budget flexibility available to the Director General. Such changes are considered modifications to the initial budget 2000-2001 and are therefore indicated as program variations.

### ***Cost variation 2002-2003***

367. Cost variations 2002-2003 represent the budgetary implications of changes in the cost structure as compared to the biennium 2000-2001. Cost variations are calculated for staff and non-staff costs. For non-staff costs, the recosting reflects an adjustment for anticipated inflation of 1.8 per cent annually. For staff costs, three adjustments can be distinguished. First, the recosting includes changes approved or anticipated to be approved by the General Assembly of the United Nations with regard to post adjustment index and multiplier for professional and higher categories, salary levels of the General Service categories, contributions to the United Nations

Joint Staff Pension Fund and other common staff costs, such as language allowances to General Service category and education grant. Second, the recosting includes changes in the staff costs associated with changes in the level of post within each post category. Such changes may result from the reclassification of the post or, for example, by the promotion of a staff. For the biennium 2000-2001, the average staff level within each post category was estimated for D category (Grade 1 and 2) at 1.2, for P category (Grade 2 to 5) at 3.8 and for General Service category (Grade 4 to 7) at 5.2. For the biennium 2002-2003, the average staff level within each post category is estimated for D category (Grade 1 and 2) at 1.2, for P category (Grade 2 to 5) at 3.7 and for General Service category (Grade 4 to 7) at 5.4. Third, the recosting includes the delayed impact arising from the continuation of posts established during the second year of the biennium 2000-2001 only and continuing for the full duration of the biennium 2002-2003. This includes 12.0 posts approved in the context of the initial budget 2000-2001 and 56.5 posts introduced based on the flexibility in the context of the revised budget 2000-2001.

### ***Proposed budget 2002-2003***

368. The proposed budget 2002-2003 represents the sum of revised budget (in accordance with program structure 2002-2003), program variations and cost variation 2002-2003.

### **B. Resource plan 2000-2001 and 2002-2003**

369. A resource plan is presented in table 3 for the first time covering the biennium 2000-2001 and 2002-2003. The resource plan provides an integrated overview of all resources at the disposal of WIPO, including budget estimates, resource availability for the regular budget by Union, surplus projects and trust funds and the related movements of fund balances, including the Union reserves. Also illustrated is the application of the new surplus policy as approved by the Assembly in September 2000. In the following, the resource plan is elaborated by referring to the details provided in table 3.

### ***Regular budget and RWC funds***

370. The revised budget 2000-2001 of Sfr450,358,000 (line 3) includes the initial budget 2000-2001 of Sfr409,705,000 (line 1) presented in document A/34/2 and the increase of Sfr40,653,000 (line 2) elaborated in Section C of the current document. The resource availability 2000-2001 of Sfr450,358,000 (line 8) include the initial income estimate of Sfr409,884,000 (line 4) as presented in document A/34/2 and increases in the income estimate by Sfr116,160,000 (line 5) as elaborated in Section D of the current document. In order to balance the revised budget with resource availability, the surplus of Sfr75,687,000 is transferred to the reserve and working capital funds (RWC funds) of the respective Union (line 7 and 16).

371. For the biennium 2002-2003, the initial budget estimate amounts to Sfr512,600,000 (line 9) and the initial income estimate to Sfr531,784,000 (line 10), resulting in a surplus of Sfr19,184,000 (line 11). The surplus is transferred to the reserve and working capital funds of the respective union (line 19).

372. The implications of resource utilization and availability for the movement in the fund balances are indicated in line 13 to 21. As part of a new financial policy, the Member States established the total level of reserve and working capital funds (RWC funds) as a percentage of estimated biennial expenditures (PBE factor). Also approved were PBE factors (line 21) for the contribution-financed Unions (50 per cent), PCT Union (15 per cent), Madrid Union (25 per cent) and Hague Union (15 per cent). It was further decided to approve the level of the RWC funds of the respective Union in the context of the propose program and budget for the financial period.

373. The level of the RWC funds as of December 31, 1999 by Union amounts to Sfr127,332,000 (line 13). This includes working capital funds of Sfr8,342,000 as shown in table 13 of the Financial Management Report 1998-1999 and reserve funds of Sfr56,806,000 as shown in table 15 and the uncommitted balance of resource of Sfr62,184,000 contained in the Special Reserve Fund. In accordance with the new surplus policy, the uncommitted balance of resources under Special Reserve Fund is redistributed to the RWC Funds of each Union in accordance with its share of funding (line 14). Following this redistribution, the adjusted level of RWC Funds as of December 31, 1999 is indicated (line 15).

374. The table indicated the approval of projects funded from surplus resources in the amount of Sfr126,826 (line 17). This includes the approval of an additional amount of Sfr28,600,000 for the ex-WMO building and thereappropriation of Sfr15,326,000 of the unspent balance 1998-1999 for Program 12 (Information Technology Projects) as approved by the General Assembly in September 2000. It also includes additional proposals submitted for approval to Member States of Sfr82,900,000 for information technology projects.

375. As a result of transfers (line 16) and the approval of activities funded from surplus (line 17) the level of RWC Funds is expected to decrease to Sfr76,192,000 by December 31, 2001 (line 18). In particular, this reflects a marked decrease in the PBE factor for the PCT Union from 29 to 11 per cent as compared to the approved target of 15 per cent.

376. The implementation of the budget 2002-2003 is expected to result in a transfer of surplus to the RWC funds of Sfr19,184,000 (line 19) reaching a total of Sfr95,377,000 (line 20) by the end of December 31, 2003. It is anticipated that the reserve funds of all Unions will be in balance by the end of the biennium 2002-2003, with the three PBE factors in the range of the approved targets.

### *Surplus projects*

377. The financial situation of surplus projects is illustrated in column G of table 3. The initial expenditure estimates of Sfr80,000,000 (line 1) were increased by

Sfr35,500,000 (line 2) with the approval of additional projects activities in September 2000. With the additional project activities proposed for approval during the biennium 2000-2001, resources of Sfr126,826,000 (line 5) become available to be expended during the duration of the projects. Compared with the estimated expenditure of Sfr115,500,000, an amount of Sfr11,326,000 (line 7 and line 16) is transferred to the fund balance of surplus projects. Expenditure under surplus projects are expected to reach Sfr165,900,000 (line 9) during the biennium 2002-2003, to be funded by drawing down the fund balances. As a result, following an initial increase of the fund balance from Sfr174,678,000 (line 15) as of December 31, 1999, to Sfr186,004,000 (line 18) as of December 31, 2001, this balance is reduced to Sfr20,204,000 (line 20) by December 31, 2003, with the progressive implementation of the surplus projects (see also document WO/PBC/3/3).

### *Trust Funds*

378. The financial situation of trust funds is illustrated in column H of table 3. For the biennium 2000-2001, expenditure are estimated to reach Sfr21,000,000 (line 1) and income Sfr17,500,000 (line 4). For the biennium 2002-2003, expenditure is estimated at Sfr20,500,000 (line 9) and income at Sfr18,500,000 (line 10). As a result, the fund balance of trust fund resources is expected to decrease from Sfr8,569,000 (line 15) by December 31, 1999, to Sfr5,069,000 (line 18) by December 31, 2001, followed by a subsequent decrease to Sfr3,069,000 (line 20) by December 31, 2003.

### **C. New arrangement of budget allocation by Union and Program**

379. The proposed budget 2000-2001 provided for the distribution of expenses across Unions as outlined in Annex 12 of WO/PBC/1/2 based on following issues: (a) amount of work carried out for each Union concerned, (b) size of the budget of the different Main Programs, (c) financial responsibility of each Union. Annex 6 of document WO/PBC/1/2 presents a table indicates the share of each program allocated for the funding to a specific union.

380. The proposed budget 2002-2003 presents a new arrangement. Rather than indicating the program share allocated to each Union, as was previously the case, the new arrangement indicates the union share allocated to each program. This is seen to provide for a transparent decision making on determining the size and sharing of budgets of the Unions. Details on the presentation are provided in table 8. The table distinguishes between Contribution-financed Unions, PCT Union, Madrid Union, Hague Union and Arbitration/Others. The latter includes the activities related to the Mediation and Arbitration Services, including support activities, and the services provided by WIPO to UPOV against reimbursement. Funding is allocated according to three categories.

***Category A: Sharing of funding according to size of Union budget***

381. As indicated in Table 8, the program costs contained in Part I (Policy, Direction and Management) and Part IV (Administration) are shared equally between the Unions in accordance with the size of the respective Union budget. For Part I, the share equals 5.0 per cent and for Part IV this is 35.5 per cent. Program costs of Part I and IV are therefore viewed as overhead costs for programs listed in Part II and III. The share under column Other for Part IV (Administration) reaches 37.5 per cent since it also includes the administrative services provided by WIPO to UPOV.

***Category B: Direct funding of Union program activities***

382. Program activities, which can be attributed fully or mainly to a Union are directly funded under the Union concerned. This includes Program 07 (Madrid, Hague and Lisbon System) which is covered under the Madrid and Hague Unions, Program 08 (Development of Copyright and Related Rights) under the Contribution-financed Unions, Program 06 (Patent Cooperation Treaty System) under the PCT Union and Program 11 (Arbitration and Mediation Center) under Arbitration and Others. Half of the cost of Program 05 (Development of Industrial Property Law) and Program 10 (Global Intellectual Property Issues) is covered by the Contribution-financed Unions.

***Category C: Sharing of funding according with balance of Union budget***

383. Program activities under category C represent cross-cutting issues and include Program 09 (Global Communications) and Part III (Intellectual Property Infrastructure and knowledge) and the balance of program 05 and 10 not covered under category B. The costs of those activities are shared equally between the Unions in accordance the size of the budget balance. This balance is determined after taking into account the resource requirements resulting under Category A and B. This process determines the share of each Union in the funding of program activities under Category C. The appropriate share of each Union under Category C is therefore closely linked to the decision on the size of the overall Union budget. The allocation of Union budgets by program is therefore an integral part of the decision which determines the overall budget scenario, including decision effecting income, expenditure and fund balance as illustrated in the resource plan (table 3).

**D. Budget policy on information technology activities**

384. For the biennium 2001-2000, the budget policy for information technology (IT) activities included three main principles. First, in addition of program 12 (Information Technology and Intellectual Property Information Services), IT activities were also included in several main program in which IT deliverables and services

were used. Second, activities covered under program 12 included ongoing infrastructure support as well as project activities. Third, the funding of program 12 was determined by object of expenditure, with staff costs covered of Sfr17,135,000 covered under the regular budget and non-staff costs of Sfr28,220,000 covered from surplus resources. Fourth, in addition to program 12, project activities were implemented off-budget through a project approval mechanism utilizing surplus funding.

385. For the biennium 2002-2003, the budget policy for IT activities has been revised according to following principles: (a) consolidation of IT activities under one main program and (b) rationalization budget classification and associated funding arrangements according to programmatic criteria. Accordingly, all information technology activities previous scattered among a number main program are consolidated in Main Program 15 (information technology). Such redeployment of resources would establish the new program within the budget 2000-2001 at the level of Sfr37,998,000 as indicated in table 14. With regard to the rationalization of the budget classification, a clear demarcation has been introduced between the regular budget and project activities. The regular budget covers the ongoing maintenance of IT infrastructure and systems. Project activities are one-time investment for the development and deployment of IT systems funded from surplus resources. Project activities are to be approved off-budget on the basis of a detailed project submission and the guidance received from the Standing Committee of Information Technologies (SCIT). Once operational, the maintenance of these new IT system will be transferred to the regular budget (see also document WO/PBC/3/3).

386. The new budget classification is seen to enhance budget transparency and accountability. Ongoing IT requirements are fully integrated into the regular budget process. The project mechanism ensures a close link to the work of SCIT to the requests formulated by Member States in the information technology fields and the availability of funding. Implementing this new approach during 2002-2003 requires the redeployment of 17 posts at Sfr5,497,000 from the regular budget to project budgets, with the associated shift in funding from regular budget to surplus resources. It also requires the redeployment of Sfr16,679,000 in non-staff resources from surplus funding to regular budget funding. In total, the new budget policy implies an increase of Sfr11,182,000 under the regular budget funding, fully offset by a corresponding decrease in surplus funding. The new budget policy is reflected in the program structure for the regular budget 2002-2003. Main Program 15 (Information technology) presents a consolidation of information technology activities previously scattered among a number of main programs. Sub-program 15.1 (Information technology projects and program support) covers the cross-project management capacity and costs related to servicing SCIT. Under this sub-program, reference is made to the various projects approved off-budget and funded from surplus resources. Sub-program 15.2 (Information technology services) covers the total cost (staff and non-staff) of the ongoing maintenance of IT infrastructure and systems.



## **E. Additional modifications of budget presentation**

### *Detailed discussion and presentation of income estimates*

387. Budget proposals are presented by elaborating in detail proposed activities and associated expenditures as well as income estimates. With regard to income estimates, limited information was previously provided as part of the proposed program and budget. In order to facilitate the review of budget proposals, a detailed presentation of income estimates for the biennium 2000-2001 and 2002-2003 are provided in Section E of the program and budget.

### *Flexibility formulas*

388. As part of budget flexibility, Member States authorized the Director General to adjust the biennial budget of global protection systems. The formulas provide for a justifiable increase in the number of posts in case of unforeseen increases in workload, as they also require corresponding decreases in case of lower than anticipated levels of workload. Appendix 3 provides a short description of the flexibility formulas for PCT, Madrid and Hague and recommends a number of adjustments. Also proposed is the introduction of a flexibility formula for the WIPO Internet domain name dispute resolution process.

### *Financial indicators 1996 to 2005*

389. In order to demonstrate that decisions proposed for the budget period can be subsequently during a longer period, a four-year financial plan is presented in appendix 2 of the budget document. The introduction of such a plan has already been indicated in paragraph 65 of document WO/PBC/2/6 (Adjustment of Budget Process, Policy on Reserve and Work Capital Funds and Policy on Budget Surplus). The financial plan is based on indicators of the recent past, overall providing the financial scenario for a 10-year period from 1996 to 2005.

### *Information on surplus projects and trust funds*

390. In order to enhance budget transparency, financial information is provided in addition to the regular budget provide for a comprehensive resource picture. This includes in particular information on the use of surplus project and trust fund resource as illustrated in Table 3 (Resource plan 2000-2001 and 2002-2003) and Table 10 (Resource utilization 2002-2003: Regular budget, surplus and trust fund activities by program).



*Enhanced financial presentation*

391. A number of adjustments have been introduced to enhance budget transparency. With regard to the budget presentation by Unions, the Arbitration and Mediation Center previous covered under the Unions and is shown separately under a new category entitled Arbitration and Others. This category also includes the budget and funding of the administrative services provided by WIPO to UPOV. The budgetary information shown in table 11 for each program has been expanded, now indicates non-staff as well as staff resources by sub-program. The budget allocation for miscellaneous and unforeseen is clearly identified in table 6 and 9 as an unallocated provision in accordance with previous budget practice. In the biennium 2000-2001, this allocation was subsumed under operating expenses. The amount is calculated as one per cent of the program budgets for the biennium 2002-2003.

[Appendix 2 follows]