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**Report on financial issues
of the change of status of IALA
for IALA Council 61**

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A. Introduction

„You must be the change you wish to see in the world“

Mahatma Gandhi

Men far wiser than all of us at IALA have stated that without change progress will not happen. However change does not happen overnight and outside of fairytales possible risks need to be identified, analyzed and managed in order to get what we all aim for: an even more successful and influential IALA in the complex world of today and tomorrow.

The financial circumstances are essential to such a process and need to be examined carefully. This report is supposed to investigate financial matters on how the change of status might affect IALA's financial situation and offer solutions on how the status change can be accomplished in a responsible and realistic way.

Based on the year 2014 as a reference the financial situation for IALA as an IGO will be looked at considering three different scenarios taking into account changing circumstances and possible adaptations to the new status.

B. Current Financial Status

The year 2014 as the last financially fully concluded year is taken as the reference year.

IALA in its current status derives its legal status from the French Law of Associations of 1901. As such IALA is bound by the employment, fiscal, immigration and other requirements of the domestic legislation and practice in France. Therefore IALA as the employer and IALA staff as the employee are obliged to participate in the French social security system. The French social security system is financed by social contributions paid by employers and employees, a general welfare contribution and various other contributions and taxes.

In the moment IALA changes its status and becomes an IGO the obligation to take part into in the French social security system cease to exist. However in order to gain protection at least similar to the status of the French security system IALA will be obliged to participate in existing international systems or seeking private protection for its employers. In accordance with the draft Head Quarters Agreement negotiated with the French Foreign Ministry France will grant tax exemption for IALA and its employees, but IALA will have to establish another system to ensure full social security protection for the staff. This could affect the financial situation, but it is not taken into account in this report.

I. budget

In 2014 the total budget originating from membership contributions and approved by Council was at approx. 1.8 Mio €. This sum will be used for all scenarios as reference to be met by membership contributions in order to keep the IALA Secretariat at least at the current level.

The annual membership contribution in 2014 for:

- National members was **€14,000**

- Industrial members **€5,200¹**

- Associate members **€2,730.**

In 2014 IALA had 75 national members, 112 industrial members and 54 associate members.

II. Actual income/expenses for 2014

The actual income received for 2014 was at **€1,972,483.73** with **€1,623,216.27²** from membership contributions and **€349,267.46** from others, e.g. World Wide Academy, sales of publications etc. By far the highest asset in the overall income was contributed by member contributions.

Expenses were at **€1,743,008.35** with **€1,095,397.38** for personnel costs, **€619,303.75** for operating costs and **€28,307.22** for investment costs. Personnel costs do constitute the majority of the expenses, at approx. 62 %.

Overall the consolidated surplus for 2014 was at **€287,361.64**. Surplus funds of IALA corresponding to the budget of a fiscal year are not being taken into consideration for this report as they guarantee IALA to survive about a year without any contributions.

It is noted that the budget is balanced with a small surplus. The member contributions are usually increased by approx. 3 % every year in order to deal with inflation, increases within the social security systems or slight adjustments due to changed priorities for the year ahead (e.g. IALA conference etc.). However there are no substantial savings which would enable IALA to bridge a possible larger gap in the budget due to possible fallout of member contributions.

C. Preparing for the “final phase”

The “final phase” of the change of status of IALA will be reached when IALA gained roughly as many contracting parties as national members of today or at least a solid majority of contracting parties in comparison to the number of national members today. It is likely that this will take some years to accomplish. If and how the work of the IALA Secretariat will change with the new IGO status depends on several different developments which cannot completely be predicted today. With the budget of today the Secretariat can continue to work at the current level of service. As with every organization changing and adapting permanently to the demands of the tasks is part of every-day-business and happens constantly. It is to be assumed that this will happen with IALA along the way of the change of status. The report on “A Modern and Efficient Organizational Design for IALA Secretariat” (see Annex 6) gives an overview and suggestions on how to adapt to the process of preparing the organization to the process. More studies and experts are necessary to deal with this specific issue taking into consideration outstanding decisions about the process of the change of status. Therefore this report refrains from investigating this specific issue.

¹ IMC levies are not accounted for in the budget.

² Every year some members do not pay their contributions while others who have been in debt in the years before do pay their outstanding contributions back from previous years.

D. “Final phase”

It is commonly agreed that the change of status will include a time defined in this report as “final phase” when the agreement on the International Organization for Marine Aids to Navigation (IALA) will enter into force due to the necessary number of contracting parties having signed and ratified the agreement. IALA as an international organization will be established and the IALA of today as a private association under the French Law of Associations will cease to exist. It is to be expected that for an unknown time the number of contracting parties in the new IALA will be significantly lower than the number of national members in the IALA of today. It is further assumed that it will take some time, most probably years until the IALA has near as many contracting parties as national members in the old IALA. This can affect the financial situation of IALA. Consequences need to be identified, analyzed and managed beforehand in order to guarantee a smooth and responsible transition. As a result 3 of the most likely scenarios are described and documented with numbers below. Where deemed necessary assumptions on the most likely development have been made and explained in detail. The chosen scenarios shall present an overview about possible financial implications of the status change and therefore shall give Council a good framework for making further fundamental decisions on the way to the change of status.

Reference is being made to the fiscal year of 2014.³ It is further presumed that the number of contracting parties necessary to change the status of IALA and let the agreement enter into force will be the number of council members of today’s IALA (24) as a minimum.

Furthermore it is assumed that the IALA Secretariat will keep at least the current number of staff. Independent from the status of IALA the daily work especially in terms of council, committees and day-to-day-business will continue independently from the legal status as a well-organized and functioning organization. It is however expected that with IALA becoming an IGO and the long-term perspective of an even bigger influence within the league of international organizations more adjustments to the organizational design of IALA will be necessary.

I. Scenario 1 and 1a

In scenario 1 only the contracting parties to the convention or international agreement will pay membership contributions and therefore are the only ones who will contribute to the budget regularly. It is assumed that with 24 contracting parties the quorum necessary to set the international agreement in force will be reached. As a result 24 contracting parties as a minimum will claim the status of national member. Considering IALA as an intergovernmental organization between countries and not administrations it is one possibility to only accept membership contributions or regular annual contributions by national members which have signed and ratified the international agreement according to their national procedures.

³ In order to simplify the calculations in the scenarios the Council approved budget for membership contributions in 2014 is used instead of the actual income of membership contributions which differs slightly every year due to outstanding contributions by some members.

Scenario 1

Number of contracting parties	Value of membership contribution	Total budget
24	14 000 €	336 000 €
24	75 000 €	1 800 000 €
Increase:	+ 436%	

Considering a member contribution of €14,000 with 24 contracting parties, the overall membership contribution would be €336,000, missing €1,264,000 to the budget of €1,800,000. In order to keep the amount of income from membership contributions at approx. €1,800,000 it would be necessary to raise the annual contribution for contracting parties up to approx. €75,000 an increase by approx. 436 %.⁴

Scenario 1a

Number of contracting parties	Value of membership contribution	Total budget
35	14 000 €	490 000 €
35	51 429 €	1 800 000 €
Increase:	+ 267%	

Scenario 1a resembles scenario 1, but requires 35 contracting parties to set the international agreement into force. In order to keep the income from membership contributions at approx. €1,800,000 it would be necessary to raise the annual contribution for contracting parties up to approx. €52,000, an increase by approx. 267 %.⁵

It is assumed with scenarios 1 and 1a that in later years and according to the number of countries joining the new IALA, the annual contribution can be reduced and adjusted accordingly. However no reliable assumptions can be made today on the timeframe and the amount of a reduction of the membership contribution.

II. Scenario 2 and 2a

Scenario 2 incorporates the assumption that those former national members in the “old” IALA who have not ratified the new agreement yet and become contracting parties of “new” IALA will at least temporarily stay with IALA as affiliate members in accordance with the draft Convention text article 17. In this scenario it is assumed that affiliate members pay the same membership contribution as industrial members due to the fact that they lose certain privileges, e.g. voting rights. It is further assumed that industrial and associate members will continue to pay membership contributions or annual financial contributions. Membership contributions for industrial members and associate members will stay the same as today. Again there will be 24 contracting parties necessary to put the new agreement of the IALA as an IGO into force.

⁴ With more contracting parties ratifying the agreement the membership contribution for contracting parties can be adjusted by reducing it accordingly.

⁵ With more contracting parties ratifying the agreement the membership contribution for contracting parties can be adjusted by reducing it accordingly.

Scenario 2

	Number of members	Value of membership contribution	Total budget	Voting rights
Contracting parties	24	33 541 €	804 980 €	yes
Affiliate members	51	5 200 €	265 200 €	no
Industrial members	112	5 200 €	582 400 €	no
Associate members	54	2 730 €	147 420 €	no
			<hr/> 1 800 000 €	
	Increase for the contracting parties:			+ 140%

As a result 24 contracting parties will contribute €336,000 (annual contribution of €14,000) in addition to 112 industrial members (€5,200 per year) with €582,400. In addition there will be 51 former national members (75 national members of today minus 24 contracting parties) now becoming affiliate members (€5,200 per year) until they ratify the international agreement and become contracting parties, altogether €265,200.

There have been 54 Associate members in the “old” IALA paying each €2,730 per year, altogether €147,420. In addition to the member contributions of contracting parties and the industrial members the annual budget would be at 1.331.020 €. There would be €468,980 missing to reach a budget of 1.800.000 €.

In order to cover the missing sum 24 contracting parties would need to pay €33,541 per year instead of €14,000 (increase of 140%).

Scenario 2a

	Number of members	Value of membership contribution	Total budget	Voting rights
Contracting parties	35	24 634 €	862 180 €	yes
Affiliate members	40	5 200 €	208 000 €	no
Industrial members	112	5 200 €	582 400 €	no
Associate members	54	2 730 €	147 420 €	no
			<hr/> 1 800 000 €	
	Increase for the contracting parties:			+ 76%

Scenario 2a resembles scenario 2, but requires 35 contracting parties to set the international agreement into force. In order to keep the income from membership contributions at approx. €1,800,000 it would be necessary to raise the annual contribution for contracting parties up to approx. €25,000, an increase by approx. 76 %.⁶

III. Scenario 3

In Scenario 3 it is assumed that there will be 24 contracting parties paying an annual contribution of €14,000 similar as today, €336,000 altogether. 112 industrial member contribute with €5,200 each per annum, altogether €582,400 and 54 associate members contribute €2,730 annually, €147,420 altogether. The former 51 national members who have not ratified the international agreement yet and thus have not become contracting party to the international agreement, now affiliate members will continue to pay the same membership contribu-

⁶ With more contracting parties ratifying the agreement the membership contribution for contracting parties can be adjusted by reducing it accordingly.

tion as before, €14,000 per year. The status of their membership could be affiliate member or some new member category that will be especially created for the “final phase” aiming for former national members who would like to become contracting parties.

As a result the approx. 51 former national members would contribute €14,000 each per year, altogether around €714,000. Therefore the budget of €1,800,000 would roughly be reached.

Considering a possible development that there will be national members who will not want to become a member of IALA as an IGO, new members will join and/or some industrial/associate members will not join, new companies and institutions will join it seems a realistic assumption that slight bumps in the budget over a short period of time could be managed by using surplus funds or slight temporary adjustments to the budget.

Scenario 3

	Number of members	Value of membership contribution	Total budget	Voting rights
Contracting parties	24	14 000 €	336 000 €	yes
Affiliate members	51	14 000 €	714 000 €	no
Industrial members	112	5 200 €	582 400 €	no
Associate members	54	2 730 €	147 420 €	no
			<hr/> 1 779 820 €	
	Increase for the contracting parties:	+ 0%		

E. Conclusions

As the decision about the status change has already been made by the General Assembly at the last IALA Conference in A Coruna/ Spain in 2014 it is the task of the change of status working group to find ways to make the change happen and secure the position of the Secretariat to keep alive IALA's work during this time. During the transition phase the work of IALA will not stop. The committees and working groups will continue to work, have their regular meetings, council will have their sessions twice a year and of all of this has to be organized. In addition to this all of the other tasks in the Secretariat will continue. Therefore it seems unlikely that a reduction of the Secretariat will become an option. As a result it seems necessary to rely on a budget at least comparable to the budget of today.

Considering the different scenarios it becomes obvious that specific strategic decisions are necessary to secure a stable and financially responsible change of status. The calculation is based on the expenditure need. If a budget of approx. €2,000,000, including €1,800,000 of membership contributions, is necessary to keep the management of IALA at the necessary current minimum level, there are two main strategic options on how to proceed:

1. “only contracting parties carry the burden”
2. “status quo budget with balanced contributions”

Option 1 refers to scenario 1 and 1a. Considering the new status of IALA as an IGO it could be legally binding or decided strategically that only contracting parties are allowed to make regularly financial contributions to the budget. In order to keep the part of the budget fi-

nanced by member contributions at the minimum of approx. €1,800,000, the annual contributions of a contracting party need to be at around €75,000 with 24 contracting parties and €52,000 with 35 contracting parties. In later years and according to the number of countries joining the new IALA, the annual contribution can be reduced and adjusted accordingly. This development will depend on how fast other countries ratify the international agreement and join the IALA as an IGO and if the current Secretariat will be sufficiently equipped to deal with the future work of an IGO or if adjustments in the management of IALA will be deemed necessary as a result. However this option would mean an increase of the financial contributions by more than 400 % with 24 contracting parties and nearly 300% with 35 contracting parties.

Another approach to manage the status change – as foreseen in the draft Convention text article 17 - is to keep the financial contributions to IALA evenly distributed between contracting parties and industrial, associate and affiliate participants. In this case it might be possible to keep contributions at least at a level comparable to today. In this case scenarios 2 and 3 can apply. Again a decision between those two scenarios is based on strategic reasons only depending if and how those countries should be treated who have been a national member of the old IALA, but have not ratified the international agreement yet.

Next steps:

- (1) legal expertise from international expert if IGO can accept annual and regular financial contributions from others than contracting parties in general
- (2) if no deal with scenario 1 or 1a or despite yes make a political decision for scenario 1 or 1a
- (3) if yes decide between scenarios 2/2a and 3 based on political/ strategical reasons
- (4) if desired rethink the contribution systems based on membership category, e.g. tonnage system keeping in mind the budget necessary to keep IALA alive