

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/157

3:00 p.m., October 26, 1984

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors

Alternate Executive Directors

A. Alfidja
C. H. Dallara
J. de Groot

M. K. Bush
X. Blandin

A. Donoso
M. Finaish
H. Fujino
G. Grosche

T. Yamashita
B. Goos
S. Sornyanyontr, Temporary
L. Leonard

R. K. Joyce
A. Kafka

N. Coumbis

R. N. Malhotra

J. E. Suraisry
T. de Vries

A. R. G. Prowse
G. Salehkhau

O. Kabbaj
J. A. K. Munthali, Temporary
J. E. Rodríguez, Temporary
A. Lindá

N. Wicks
Zhang Z.

L. Van Houtven, Secretary
R. S. Laurent, Assistant

- 1. Staff Compensation System - Review Page 3
- 2. Brazil - Technical Assistance Page 9

Mr. Malhotra said that the Joint Committee should concentrate on the principal task assigned to it. It should study the system of comparators, not fringe benefits. Was the idea expressed by the Deputy Managing Director--that the results of the career streams exercise should eventually be brought together with the review of compensation--included in the draft terms of reference for the Joint Committee?

The Deputy Managing Director responded that, in his view, the terms of reference did provide a basis for discussing the outcome of the career streams exercise in the context of the review of staff remuneration for both the World Bank and the Fund.

Mr. Dallara commented that the Joint Committee, in the course of its deliberations, could conclude that either a particular allowance or the broad system of allowances merited further review. The Joint Committee should allow the Executive Board to have the benefit of the Committee's work, and the Committee should not be inhibited by its mandate in recommending a review of a particular allowance or benefit.

Mr. Kafka stated that, in practice, it would be impossible to prevent the Joint Committee from including a reference to allowances or benefits in the final report, if it felt strongly about the point. On the other hand, the Executive Board should not encourage the Joint Committee to stray from its main mandate.

The Chairman noted that if the Joint Committee felt that a certain benefit should be examined, it was well within the Committee's scope to do so.

Mr. Dallara expressed agreement with the Chairman and Mr. Kafka.

The Executive Board then agreed, after further discussion, to the establishment of the Joint Committee with the following terms of reference:

A. Objectives of the Review

1. To review those aspects of the compensation systems of the Bank and Fund that were called into question during the discussions on staff compensation in the Boards of the two institutions in June and July 1984.

2. To consider whether changes in such aspects of the compensation systems are desirable and to recommend the changes that appear appropriate in order that they may be taken into account to the maximum extent possible in the 1985 compensation review.

3. The Committee shall bear in mind in so doing (a) the importance of ensuring, with due regard to cost, the continuing ability of the two institutions to recruit and retain staff of the highest caliber appropriate to job requirements; (b) the

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Also Present

Administration Department: R. Tenconi, Director; D. A. Anderson, A. D. Goltz, J. G. Keyes, M. Rosseel. Legal Department: G. P. Nicoletopoulos, Director; R. C. Effros. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. S. Cutler, R. Noë. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, H.-S. Lee, G. E. L. Nguyen, G. W. K. Pickering, D. C. Templeman, A. Vasudevan. Assistants to Executive Directors: J. R. N. Almeida, W.-R. Bengs, J. Bulloch, M. B. Chatah, G. Ercel, C. Flamant, V. Govindarajan, N. U. Haque, G. D. Hodgson, A. K. Juusela, H. Kobayashi, S. Kolb, A. Koné, C. A. Salinas, A. J. Tregilgas, E. L. Walker.

1. STAFF COMPENSATION SYSTEM - REVIEW

The Executive Directors continued from the previous meeting (EBM/84/156, 10/26/84) their consideration of draft terms of reference for a Joint Bank/Fund Committee of Executive Directors to review the staff compensation system (EBAP/84/195, 9/17/84; and Sup. 1, 10/25/84), together with a paper prepared by the Staff Association Committee concerning certain aspects of the system (EBAP/84/210, 10/10/84).

The Chairman commented that expatriate benefits must not be confused with salaries. A comparator had to be chosen--in the present case, the United States--and the salary system had to be pitched appropriately in order to be competitive with that comparator. However, expatriate benefits were not part of the salary system: they were designed to attract foreigners to the United States, where the Fund was located, and to cover the expenses associated with expatriation. Perhaps some Executive Directors felt that some expatriate benefits might be regarded as too generous; that was open to discussion. He understood that Executive Directors wished to provide for some flexibility in the terms of reference, but it was another thing to give the proposed Joint Committee a blank check to examine matters other than compensation.

Mr. de Vries agreed that compensation relevant to the comparators should be examined, but that expatriate benefits were in a class by themselves.

Mr. Blandin and Mr. Alfidja also expressed agreement with the Chairman.

Mr. Dallara explained that what he had had in mind was not that the Fund could compare in any sense its ability to attract an employee from New York versus attracting one from Germany; differences in prices, exchange rates, and other factors needed to be taken into account, as well as the inconveniences involved in relocation. However, his impression of the current review of expatriate benefits was that it was not a comparative review and that it might focus on some narrower issues such as eligibility for certain benefits, including home leave.

The Director of the Administration Department responded that the practices in other organizations were taken into consideration in the review of expatriate benefits; for instance, in examining home leave benefits, management had learned that, in most of the firms used as comparators, yearly home leave was granted, and that the duration of employees' assignments abroad tended to be shorter.

The staff representative from the Administration Department recalled that, under the 1980 compensation survey, the Executive Board had asked for a review of the adequacy of expatriate benefits. The report of the working group on expatriate benefits had been completed and would be issued shortly. It was a full-scale review that not only took account of present Fund benefits but, recognizing that the status of expatriates differed, also attempted to take into account the individual characteristics of the Fund and of the comparators.

Mr. Dallara inquired whether information along the lines mentioned by the staff representative was being provided and analyzed. He did not wish to focus attention on expatriate benefits, which were among the many that he had mentioned. Neither had he intended, in mentioning any such matters, that they should necessarily be dealt with in depth in the proposed Joint Committee or that precise recommendations should be made for changes in the benefits involved. Rather, in the course of its review, the Joint Committee could take all those matters into account, as appropriate, and the Committee might recommend a further review of other allowances and benefits not currently under review. Otherwise, the terms of reference could be interpreted as saying that such matters were sacrosanct. Indeed, there did seem to be an unwillingness in certain respects to look into such questions, many of which had not been examined in a broader, fundamental sense for some time. Perhaps a separate committee could be established to conduct a review of fringe benefits, although such a review would add greatly to the task faced by the Executive Board and would be unnecessarily cumbersome at the present juncture.

Mr. Malhotra asked whether, in working out comparator salaries, the staff was taking into consideration any expatriate allowances that might exist in the comparator organizations.

The Director of the Administration Department responded that no expatriate element had been taken into account, because the comparators used in the United States dealt with the local market.

Mr. de Groote commented that there were extreme attitudes on both sides: one was that benefits and salaries were too high and that therefore the purpose of the exercise was to reduce them; the other, just as unacceptable, was that they were too low and that the purpose of the exercise was to increase them. Executive Directors should keep an open mind. If expatriate benefits were to be reviewed, it was important to look not merely at existing benefits but also at those that were lacking. For instance, the Fund did not subsidize university studies for expatriates whose children lived in the United States; there was no shop in the Fund building for nontaxable goods, as there was in the OECD; many spouses of those holding G-IV visas experienced employment problems.

Mr. Joyce agreed with the Chairman that expatriate benefits should not be taken into account. They covered only some staff members of the Fund; the compensation system dealt with every staff member. What should be done was to verify the extent to which existing benefits, other than expatriate benefits, were being taken into account by the system and also to determine whether calculations of the cost of benefits were correctly made. Only afterward could it be determined whether benefits were too high or too low or absent.

Mr. Prowse observed that, in agreeing to the inclusion of paragraph B.3(d), he had been supporting the idea that, as the Joint Committee examined the material, it might discover some elements germane to the operation of the comparator system that had been overlooked in previous

discussions or in its mandate. He favored Mr. Wicks's clarification specifying that any such other matters should be relevant to the operation of the comparator system. Similarly, he had understood paragraph B.1(c) and paragraph B.2(d) to mean that the Joint Committee would look at how benefits related to the comparator system and what benefits should be included. It was unnecessary to redefine those paragraphs to exclude expatriate benefits.

Mr. Joyce agreed with Mr. Prowse that there was no need to provide for specific exclusion of expatriate benefits in the text. A better wording for paragraph B.1(c), and also for B.2(d), would be "the extent to which and the adequacy with which the value of benefits in comparison with the market was being taken into account."

Mr. Grosche and Mr. Kafka supported the proposal made by Mr. Joyce.

Mr. Salehkhov favored the inauguration of a mechanism for coordination on compensation matters between the Bank and the Fund at Board level, as proposed by the World Bank in paragraph B.3(c). He also supported a broad geographical representation in the composition of the Committee, and could thus agree to a number of Directors from each institution higher than four. Moreover, the question of core versus noncore positions should be looked at more thoroughly by the Executive Board than it had been during the July discussions (EBM/84/107 and EBM/84/108, 7/16/84; and EBM/84/109, 7/17/84).

The Deputy Managing Director observed that the topic of core versus noncore positions would be best dealt with in the context of the career streams exercise.

Mr. Dallara agreed with Mr. de Groote that Executive Directors should enter into the exercise without any preconceived notions about whether salaries were too high or too low. Mr. Joyce's suggestion addressed the concerns that he had expressed, but he would like clarification on two points. First, if the Committee determined that certain benefits or allowances merited further review, would it be within the Committee's mandate to recommend such a review without necessarily attempting to reach a conclusion by itself on the proper level of a particular allowance? If not, would it be desirable to undertake a separate comprehensive study of fringe benefits and possibly to form a committee to examine them?

Mr. Kafka remarked that the cost of the benefits should be examined by the Joint Committee; subsequently, the Board could decide what other steps could be taken.

Mr. Joyce suggested that, once it had been established that all fringe benefits were being taken into account, any examination of the richness or poverty of those benefits would entail a change in the compensation mix. If fringe benefits were reduced, an offsetting increase in direct payments would occur, thus altering the appearance of the compensation system.

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3. The Committee shall bear in mind in so doing (a) the importance of ensuring, with due regard to cost, the continuing ability of the two institutions to recruit and retain staff of the highest caliber appropriate to job requirements; (b) the

international character of the staff; and (c) the need for the compensation system to recognize more clearly individual performance and ability.

B. Specific Issues to be Reviewed

1. Higher-Level (J-Q/F-M) Staff

The basic principle is that staff compensation should be set in relation to that of selected U.S. public and private sector comparators, provided that such U.S. market is internationally competitive. The issues to be reviewed are:

- (a) the practice of adjusting U.S. civil service pay data to take account of deviations from the rest of the U.S. market;
- (b) the practice of setting Bank/Fund compensation at a 10 percent quality premium above the chosen market;
- (c) the extent to which and the adequacy with which the value of benefits in comparison with the market is being taken into account;
- (d) the sample of countries and the criteria to be used to test the international competitiveness of the U.S. market.

2. Support-Level (A-I/A-E) Staff

The basic principle is that staff compensation should be set in relation to that of selected comparators in the Washington Metropolitan Area. The issues to be reviewed are:

- (a) the appropriateness of the market, e.g., should it be expanded to include international organizations and comparators outside the Washington area;
- (b) the practice of adjusting U.S. civil service pay data to take account of deviations from the rest of the U.S. market;
- (c) the practice of setting Bank/Fund compensation at a 10 percent quality premium above the chosen market;
- (d) the extent to which and the adequacy with which the value of benefits in comparison with the market is being taken into account.

3. Matters of General Application

The issues to be reviewed are:

- (a) the compatibility of the systems of merit increases with the comparator principle;
- (b) the operation of the mechanism for netting down comparator gross compensation in the light of changes in the U.S. tax code since 1980;
- (c) the mechanism for coordination on compensation matters between Bank and Fund at Board level;
- (d) other issues identified by the Committee as relevant to the operation of the comparability system.

The Executive Board also agreed that the Joint Committee would consist of four Executive Directors from the Fund and four Executive Directors from the World Bank. In response to the observation of the Chairman that any Executive Director had the right to participate in any meeting of the Joint Committee, Mr. Kafka noted that the Committee that he had chaired had not had an attendance problem because it had been expected that nonmembers of the Committee would not avail themselves of their right to attend. Documents of the Joint Committee would be sent to all Executive Directors, and an Executive Secretary from outside both institutions would be appointed. The decision of the Fund's Executive Board was, however, conditional upon approval by the World Bank's Executive Directors, to whom the text of the terms of reference was to be transmitted. 1/

1/ The composition of the Joint Bank/Fund Committee of Executive Directors on Staff Compensation, as set forth in EBAP/84/195, Supplement 3 (11/21/84), was approved by a lapse-of-time decision on November 27, 1984 and recorded in the minutes of EBM/84/170 (11/28/84).

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/84/156 (10/26/84) and EBM/84/157 (10/26/84).

2. BRAZIL - TECHNICAL ASSISTANCE

In response to a request from the Brazilian authorities for technical assistance, the Executive Board approves the proposal set forth in EBD/84/275 (10/23/84).

Adopted October 26, 1984

APPROVED: March 29, 1985

JOSEPH W. LANG, JR.
Acting Secretary

