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CONFIDENTIAL

COMMITTEE ON EXECUTIVE BOARD ADMINISTRATIVE MATTERS

Meeting 85/5
3:00 p.m., September 19, 1985

Zhang Z., Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	
M. Finaish	
A. Kafka	
	L. Leonard
	T. A. Clark
P. Pérez	
	A. S. Jayawardena

A. Wright, Secretary
B. J. Owen, Assistant

Also Present

M. K. Bush
M. Sugita
B. Goos
G. Ercel, Temporary

Administration Department: D. A. Anderson, J.-P. C. Golle. Legal Department: J. G. Evans, Jr., Deputy General Counsel. Office of the Managing Director: R. Noë, Internal Auditor. Secretary's Department: M. J. Papin. Assistant to Executive Director: M. B. Chatah.

1. REMUNERATION OF ADVISORS

The members of the Committee reconsidered the matter of remuneration of Advisors to Executive Directors on the basis of a paper prepared by the staff (EB/CAM/85/37, 8/7/85).

The Chairman recalled that, at EB/CAM/Meeting 85/4 (9/5/85), it had been agreed, with one member of the Committee dissenting, that the Committee would recommend to the Executive Board an increase of 6.7 percent in the remuneration of Advisors, with effect from July 1, 1985. In accordance with normal procedures, the World Bank's Committee on Directors' Administrative Matters had been informed of the recommendation and of the various elements considered in arriving at it. The World Bank Committee had nevertheless decided not to amend the recommendation it had previously agreed to make to its Executive Board for an increase in Advisors' remuneration of 5.85 percent.

On September 17, 1985, he had been visited by the Acting Chairman of the Bank's Committee on Directors' Administrative Matters, who had explained the reasons why he and his colleagues had not been prepared to change their recommendation, the Chairman continued. He had noted, first, that Advisors' remuneration had since 1979 been maintained at 83.7 percent of the remuneration of Alternate Executive Directors. That relationship was roughly the same as the 83.3 percent relationship between the remuneration of Alternates and Executive Directors. He had gone on to note that World Bank Committee members had not been convinced by the reasons that had persuaded the Fund's Committee on Executive Board Administrative Matters to recommend a higher percentage increase for Advisors. The Acting Chairman of the Bank's Committee had also observed that it had always been the practice to have identical remuneration for Advisors in the Bank and the Fund, a practice that was consistent with the policy whereby Executive Directors and Alternates in the two institutions had identical remuneration based on recommendations submitted to the Boards of Governors by a standing Joint Committee.

He had informed the Acting Chairman of the Bank Committee that the Fund Committee would again be meeting to consider the views of the Bank Committee, the Chairman remarked. The issue seemed to be whether the Fund Committee should maintain the position it had reached at its previous meeting and send to the Executive Board a report and recommendation for an increase of 6.7 percent or whether it should align itself with the World Bank Committee and recommend a 5.85 percent increase.

Mr. Finaish inquired whether there was any legal requirement that the salaries of Advisors should be the same in both institutions.

The Deputy General Counsel observed that, while there was no legal obligation to maintain parallelism between the Fund and the World Bank in setting salaries for Advisors, the two institutions had attempted to maintain a parallel salary structure throughout. Of course, variations existed, particularly in the area of staff benefits, but an effort was made to keep all differences to a minimum and to achieve coordination at the level of management and the Executive Board.

Mr. Leonard considered regrettable the persistence of a difference of view between the Fund and Bank Committees on the question of the remuneration of Advisors. It was understandable that the Bank Committee, in making its recommendations, would not wish to disturb the ratio between the remuneration of Advisors and Alternate Executive Directors that had been maintained since 1979. However, he himself did not regard the ratio as a sacrosanct guide for fixing the remuneration of Advisors; the ratio had been different in the past and would no doubt change in future. Many elements must be taken into consideration in determining salary levels for different positions, and to give the greatest weight among such elements to a ratio was to take too mechanistic an approach to the issue.

Members of the Committee on Executive Board Administrative Matters would recall that the Joint Committee on the Remuneration of Executive Directors and their Alternates, in its report to the Board of Governors during the summer of 1985, had made the point that the President of the World Bank and the Managing Director of the Fund had expressed the view that the number of staff with higher remuneration than Executive Directors and Alternates, after the staff pay increases of 1984 and 1985, had already reached the point where it might threaten the authority and effectiveness of the two Executive Boards, Mr. Leonard continued. The movement in the broad relative position of Executive Directors, Alternates, and Advisors vis-à-vis others with whom they were in daily contact was deserving of some attention. Unless there were good reasons for changing that position, it should be maintained at an appropriate level, preferably by incremental adjustments when the opportunity arose rather than by large changes necessitated by disparities that had become too acute. The kind of difficulties that could arise when there was too great a compression of ratios had been well illustrated recently in Britain when a large adjustment had been deemed necessary in the pay of higher-level civil servants.

The danger to which the two heads of institutions had referred in putting their views to the Joint Committee had eased as a result of the most recent decision by the Board of Governors on the remuneration of Executive Directors and Alternates, Mr. Leonard remarked. However, the danger had not been removed. An opportunity for a further small easement existed in the settling of the remuneration of Advisors; that opportunity existed in specific form in the third option presented to the Committee on page 2 of EB/CAM/85/37 (8/7/85). His preference was for the Committee to adopt that option, which would involve only a small change in the relationship between the pay of Advisors and Alternate Executive Directors, a change of the same order that had occurred in the past. He had hoped that the World Bank Committee would have seen the problem and the solution as he had done; as it had not, the result could be a situation in which Bank and Fund remuneration of Advisors could differ. Such a difference would not be desirable and should not be allowed to happen, especially for the sake of what were in fact small amounts in absolute terms. In the circumstances, if the World Bank Committee could not see its way to go along with Option 3 (equivalent to a 6.43 percent increase for Advisors), the Fund Committee would in his view have to make a sacrifice and go along with a 5.85 percent increase in order to avoid a choice that would break the parallel salary structure.

The Chairman observed that all indications suggested that the Bank Committee was not willing to reconsider its position.

Mr. Clark stated that he had little to add to his remarks at the previous meeting when he had identified three factors that his authorities felt were important. The first was the general atmosphere of budgetary restraint, a necessity recognized by all. The second was the fact that Advisors were not Fund staff members. They were required to leave the staff before becoming Advisors and, in so doing, took up the terms and conditions of service of Executive Directors. In that respect, he had some difficulty with the idea of looking at the increase in staff pay as a consideration in determining the remuneration of Advisors. The third point was that, as a practical matter, it was important to avoid a disparity between the pay of Advisors in the two institutions.

Certainly the pay differentials between staff and Executive Directors raised questions, Mr. Clark continued. It was possible that staff remuneration was too high or that Executive Directors' pay was too low; whatever the case, it was not appropriate to resolve the problem indirectly by raising the remuneration of Advisors. In sum, he saw no reason to deviate from the formula that had been applied in the past and would thus go along with an increase of 5.85 percent, which would maintain the percentage relationship between the remuneration of Advisors and Alternate Executive Directors that had existed since 1979.

Mr. Pêrez stated that he could support Mr. Leonard's proposal for recommending a 6.43 percent increase or go along with Mr. Kafka's earlier proposal for a 6.7 percent increase. He could not support the proposal that was being recommended by the World Bank Committee.

Mr. Jayawardena noted that, given the position of the World Bank Committee, any recommendation by the Fund Committee for a higher increase would have to be based on strong arguments and would have to be reasonably assured of finding acceptance in the Executive Board.

Mr. Finaish commented that his position had not changed from the one he had outlined on September 5, 1985. While he could go along with Option 3 as outlined by Mr. Leonard, his preference was for a 6.7 percent increase for Advisors.

Mr. Kafka stated that he would be reluctant to align the decision of the Fund Committee with that of the Bank without some movement by both sides toward compromise. For the Fund to "give in" to the Bank's position could establish an unfortunate precedent. In the circumstances, before asking the Committee to arrive at a recommendation on the matter at hand, the Chairman should perhaps consult again with his counterpart in the World Bank with a view to persuading the Bank Committee to be less adamant. If there were to be no sign of movement, however, he himself was quite prepared to propose to the Executive Board a higher increase in remuneration for Advisors than the Bank was prepared to offer.

Ms. Bush remarked that, while not a member of the Committee, she felt it important to outline the views of her chair on the issue at hand. In the interests of holding down costs in the Fund, and in accordance with the well-known concern of the United States about the level of salaries and benefits in the institution in general, she would have preferred that the Committee put forth lower increases than those presented in EB/CAM/85/37.

While she felt that that would have been the more prudent course of action for the Committee, she would have to reserve her position on whether the U.S. chair would support any increase for Advisors when recommendations were made to the Board.

Mr. Goos supported the arguments of Mr. Clark for maintaining the existing relationship between the remuneration of Advisors and that of Alternates.

Mr. Sugita also supported the arguments made by Mr. Clark.

Mr. Alfidja agreed with those who felt that the Fund Committee should not change its position in the face of a refusal by the Bank to compromise. Like Mr. Kafka, he hoped that the Chairman would consult again with the Acting Chairman of the World Bank Committee with a view to reaching agreement on a recommended increase for Advisors.

Mr. Clark agreed with those who felt that the recommendation by the World Bank Committee should not define the recommendation of the Fund Committee. However, the case for a lower figure was a strong one and could stand on its own merits. He was not arguing that the Fund Committee should adopt the lowest of the three options presented in EB/CAM/85/37 simply because that was the path taken by the World Bank, although the Bank's position was certainly an important point to be considered. That being said, his own argument for a lower increase rested on the importance attached by his authorities to the fact that Advisors were in many respects closer to Executive Directors than to staff in terms of the conditions of service applying to them. In that respect, the comparison with staff salaries was not particularly relevant.

The Chairman observed that a number of Committee members seemed to be encouraging him to consult again with the Acting Chairman of the Bank's Committee on Directors' Administrative Matters, to indicate to him that the preference of the Fund Committee was for a somewhat higher increase than that proposed in the Bank, and to express the hope that a way could be found to narrow the gap.

Mr. Clark expressed the hope that the Chairman would make it clear in the course of his discussion with his counterpart in the World Bank that some nonmembers of the Fund Committee held rather different views from the majority view in the Committee itself.

Mr. Goos remarked that the call for a further consultation with the Acting Chairman of the World Bank Committee was unlikely to result in a change in a recommendation of that Committee. If the Fund Committee were then to change its recommendation to be consistent with that of the Bank, the very fact that the Fund's Committee Chairman had pleaded with the Bank's Committee to change its position would add weight to the view that the Bank was leading and the Fund was following. To avoid such an impression, he recommended that the Fund Committee reconsider its earlier recommendation on the strength of the arguments put forward by Mr. Clark.

Mr. Alfidja agreed that further consultations with the World Bank might not prove fruitful; in the circumstances, the Committee should make its recommendation to the Executive Board, which would then accept or reject the recommendation as it saw fit.

Mr. Jayawardena remarked that he, too, felt that it would be awkward for the Chairman to approach the World Bank Committee again and ask its members to reconsider its position on the remuneration of Advisors; it sounded as if that Committee was firm in its views. As there appeared to be a majority of opinion in the Fund Committee in favor of an increase of 6.43 percent, that figure should be the recommendation of the Committee to the Executive Board, which could then decide whether to approve that increase or some other amount.

Mr. Pérez, Mr. Kafka, and Mr. Alfidja agreed that the recommendation of the Committee should be sent to the Executive Board for decision.

Ms. Bush remarked that, while she could not say that in the Executive Board her chair would support an increase for Advisors of 5.85 percent, she could say with certainty that it would not be in a position to support an increase of 6.43 percent.

Mr. Goos indicated that his chair, too, would be unable to support any increase higher than that granted to Executive Directors and Alternates. Also, it would be unfortunate if the recommendation of the Committee prompted a Board discussion on the remuneration of Advisors that reopened the issues that had been debated in the Board discussions on staff compensation. It would be preferable if the Committee on Executive Board Administrative Matters could agree to recommend an increase for Advisors that was likely to be accepted in the Executive Board.

Mr. Clark suggested that it might help if Committee members took some additional time to think further about the arguments that had been put forward before coming to a firm agreement on their recommendation.

Mr. Kafka observed that, since any adjustments to the remuneration of Advisors would be made retroactive, there should be no harm in waiting until after the Annual Meetings before making a recommendation to the Executive Board.

The Committee Secretary commented that normal practice was for a draft report reflecting the views of the Committee to be circulated to members for their comments. The period allowed for comment should give Committee members an opportunity to reflect not only on the text but also on their individual positions. The Committee could then meet again at some point to discuss the draft.

On the basis of a further brief discussion on the timing of the next meeting of the Committee and the circulation of a draft report, it was agreed that the Committee on Executive Board Administrative Matters would hold a further discussion, after the Annual Meetings in Seoul, on the matter of the remuneration of Advisors. A draft report reflecting the different views of the Committee would be circulated to the Committee after the Annual Meetings.

The Committee concluded for the time being its discussion of the remuneration of Advisors to Executive Directors and adjourned at 3:55 p.m.

APPROVED: June 3, 1986