CONFIDENTIAL

COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 83/1
3:30 p.m., May 26, 1983

W.B. Dale, Acting Chairman

Executive Directors	Alternate Executive Directors
	C. H. Dallara
	T. A. Connors, Temporary
	T. Yamashita
	J. E. Suraisry
	C. P. Caranicas
A. R. G. Prowse	
	O. Kabbaj
	E. I. M. Mtei
	J. Pedersen, Temporary

A. Wright, Secretary
S. J. Fennell, Assistant

Also Present

Jaafar A.
A. S. Jayawardena

Administration Department: R. Tenconi, Director; R. M. Broadway, G. E. Gondwe, W. B. Hobbs. Secretary's Department: J. A. Kay. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, I. R. Panday.

1. COSTS INCURRED BY PARTICIPANTS IN THE EXTERNAL ASSIGNMENTS PROGRAM

The Committee considered a staff paper on costs incurred by participants in the External Assignments Program for professional and career development, including a draft decision proposed for adoption by the Executive Board (EB/CAP/82/12, 12/3/82 and EB/CAP/83/2, 3/22/83).

Mr. Yamashita, Mr. Suraisry, and Mr. Prowse stated that they could support the proposals.

Mr. Connors commented that he would prefer to see some sort of direct form of compensation rather than a salary advance that involved an interest rate subsidy. Judging from quick calculations, assuming a market rate of interest of 12 per cent per year and a salary advance of $40,000, the interest rate subsidy would be more than $35,000 over 12 years. However, it would be useful to have the staff estimate of the present discounted value of the subsidy.

The Director of the Administration Department stated that it would be difficult to determine the exact value of the interest rate subsidy since it would be dependent on future changes in the interest rate.

Mr. Mtei noted that an external assignment was beneficial to both the Fund and the host institution, and that the interest rate subsidy could be part of the price that the Fund had to pay in order to develop and train its personnel.

The Acting Chairman emphasized that the Fund staff member on external assignment had to forgo a portion of the income that he would otherwise receive in the Fund; although an interest rate subsidy was undoubtedly involved, there was also a cost to the staff member.

Mr. Kabbaj stated that he supported the proposal; however, he would like to know whether there was a ceiling on the total amount of advances or loans that a staff member could obtain from the Fund.

The Director of the Administration Department responded that although there was no overall ceiling on the indebtedness of a staff member to the Fund, the Administration Department always considered an individual's ability to repay the Fund when making a loan. At present, only one staff member had a loan from the Fund that exceeded 18 months' salary, a figure that was intended to be a general guideline for a ceiling on loans. To date, there was a perfect record with regard to repayment.

Mr. Jaafar asked on what basis the proposal to increase the loan from an advance of 6 months to one of 12 months of net salary had been made. Were the two extreme cases that were mentioned in the staff paper used as the basis for determining the new loan amount?

The staff representative from the Administration Department noted that it was not the intent to grant the maximum entitlement automatically, but that the needs of each individual would be evaluated, and an appropriate amount would be advanced.

The Director of the Administration Department stated that he did not expect that the cost of relocation incurred by the staff member would exceed half of his or her Fund salary. However, that was not the only cost that should be considered, since in most cases the staff member would likely receive a lower salary from the host institution.

Mr. Pedersen remarked that to some extent he shared Mr. Connors's view that a lump sum might be better than a salary advance. Why was the repayment period not mentioned in the proposed decision?

Mr. Caranicas remarked that the Fund had to be more and more careful about extending benefits because it was very much in the public eye. In the New York Times of May 23, 1983, the high level of Fund salaries had been mentioned, and a spokesman for the Fund had confirmed that employees could borrow house purchase money at 5 per cent and smaller amounts at 4 per cent. Those privileges were not exorbitant, but they were receiving increasing attention from the public.

During the Committee's earlier discussion (EB/CAP/82/4, 12/9/82), Mr. Caranicas recalled, the Executive Directors had decided that the proposed decision would be retroactive to January 1, 1983. In principle it was not good to use retroactivity, and he wondered whether the participants in the program had experienced great financial hardship over the previous six months.

The Acting Chairman recalled that at the Committee's earlier discussion the Directors had agreed that the proposed decision would cover the case of one particular individual who had been intending to take up an assignment under the program on January 1, 1983. In general, retroactive decisions were not desirable.

Mr. Dallara asked what provisions there were for repayment by an employee of his salary advance, should the employee decide to leave the Fund. Second, one of the relevant factors underlying the discussion was the differential between the individual's Fund salary and his salary at the host institution. Could the staff provide information on that matter? Third, the staff paper had explained that one reason why it would be injudicious for the Fund to grant a salary supplement was that the Fund did not allow member countries to supplement the salary of its employees; it was implicit in that argument that there might be some conflict of interest. Could the staff explain the difference between an arrangement in which the staff member's salary was directly supplemented during the period of his external assignment and an arrangement whereby a staff member would receive a salary advance that would involve a clear expectation that there would be a continuing relationship between the staff member and the Fund? There was the potential for a conflict of interest whichever approach was taken.

The Director of the Administration Department responded, with regard to the provision for repayment, that the employee was requested to take out life insurance and assign the benefit of that life insurance to the Fund to cover his loan from the Fund. With respect to Mr. Dallara's second question, it would be difficult to determine an appropriate salary supplement since it would be dependent not only on the salary differential but also on the cost of living in the country concerned. It was easier to examine costs likely to be incurred by the staff member and to limit the salary advance to that additional expense. He agreed that the difference betweeen a salary supplement and a salary advance was mainly cosmetic, but a salary advance was more in line with the established policies of the Fund.

The Acting Chairman noted that the outstanding balance of the salary advance was due and payable upon the resignation or retirement of the staff member.

Mr. Dallara said that he appreciated the additional information provided by the staff; it had enhanced the Committee's ability to reach a judgment on the issues. Aside from relocation costs and from costs incurred as the result of having to rent a house, part of the burden associated with the program--in particular those costs associated with maintenance of payments to the retirement program and medical benefits--derived from the salary differential. If there were no salary differential, the staff member would have no difficulty in maintaining payments on his Fund benefits: it would seem that some rough gauge of the salary differential adjusted for cost of living was necessary to determine the extent to which the payment of Fund benefits was a burden to the staff member.

The Fund was clearly in the public eye, remarked Mr. Dallara, and therefore had to be particularly careful with regard to arrangements that involved hidden costs or benefits. It was difficult to judge the financial value of a salary advance, since it depended on interest rates over a period of time. He strongly supported the external assignments program, which had value both to the Fund and to the staff member involved. In addition, he would support arrangements that would involve clear, direct, and transparent compensation for additional costs associated with the external assignments, but he could not support the proposals put forward in the staff paper. It might be more appropriate to adopt an approach based on compensation for direct costs and a salary supplement to cover other costs that might not be so easily measured. The host institution might feel more comfortable with a salary advance rather than a supplemental approach, but the Fund was under intense criticism, and it would be difficult to support a policy that did not directly relate compensation to services rendered in a clear-cut manner.

Mr. Caranicas stated that he understood Mr. Dallara's view, but he wanted to know the extent to which Mr. Dallara wished to change the proposal; which of the three factors listed on page 1 of the staff paper did he consider most significant?

Mr. Dallara explained that he was concerned about the approach taken with respect to all three factors. With respect to factors (b) and (c), an approach that involved direct compensation for actual costs would be preferable. To calculate the compensation would not be an easy task, but it would not be much more difficult than some of the estimates that the staff would make in any case. Factor (a) was more difficult because it related to salary differential. One possible approach--which might be administratively difficult--would be for the staff to calculate the salary differential adjusted for cost of living. Such an approach might end up costing the Fund more money than the salary advance approach, but reimbursement would be more directly related to costs incurred.

Mr. Kabbaj commented that it would be difficult to calculate the costs incurred by each individual participating in the External Assignments Program.

Mr. Mtei said that in his experience it was general practice for the parent institution to continue to meeet such obligations as payments to the Staff Retirement Plan, medical insurance, and group life insurance plans. The receiving institution generally covered the cost of installation and payment of the salary to the staff member. The Fund was concerned with training and developing the staff member and also learning more about the economy of the host country; it did not appear to be a conflict of interest to supplement the salary of a staff member participating in the External Assignments Program.

Mr. Prowse noted that the present value of the interest rate subsidy would exceed the present value of the actual expenses. It was clear that the Committee unanimously supported the program. Second, the Committee would not wish any staff member to incur a financial penalty as a result of participation in the program. What, then, was the best way to compensate for losses that were incurred? Which approach would be most consistent with the practice of the Fund and the Bank in such circumstances? Was it Fund policy to provide salary advances to meet expenses of varying kinds in other Fund programs? If the Fund was to adopt an approach that related compensation to direct costs incurred, the staff would have to itemize all expenses. Estimations would be involved in order to determine the limits of acceptable expenses. If the straightforward salary advance approach was not accepted for the external assignments program, the compensation approach for all other Fund programs would have to be altered.

The staff proposal was in many ways the simplest and most easily applied arrangement, Mr. Prowse went on. It was not certain that it would be less costly to adopt the approach suggested by Mr. Dallara. An interest-free subsidy was by no means covert; it was something that could probably be calculated, though with some difficulty.

The Director of the Administration Department responded that under Individual Study Program II, which was similar to the External Assignments Program, salary advances were used to help defray the kinds of costs mentioned in the staff paper. He emphasized that, from an administrative point of view, it was simpler to use a salary advance, as opposed to direct compensation, to defray such costs. For example, in determining the appropriate amount of direct compensation with respect to the needs of staff members, a number of factors needed to be taken into account. In some countries, for instance, the host institution might provide housing and a car, even though the salary paid to the staff member was quite low. In such a case, it may be inappropriate to use the salary differential as the only basis for determining the appropriate level at which to compensate the staff member. In addition, the cost of living would likely differ at each location, which further complicated the picture. In that light, the salary advance entitlement seemed to be a more pragmatic way of defraying the cost associated with external assignments.

Mr. Dallara commented that, since the external assignments program was of mutual benefit to the Fund and the country concerned, it might be worth inquiring into the possibilty of host country coverage of certain costs associated with the program, in particular those costs associated with relocation. Second, direct compensation for costs incurred would be more difficult from an administrative point of view. However, given that the maximum amount of salary advance would not always be granted and that the amount provided would be keyed to estimated costs, there would have to be some judgment on the part of the staff in any case. It was a question of how finely tuned the judgments needed to be.

The Acting Chairman noted that the Committee was dealing with two distinct problems: one was an income problem, and the other was a cash-flow problem.

Mr. Prowse remarked that it was not easy to calculate the interest rate subsidy. It was difficult to establish which was the most costly approach, and it was therefore important to determine which approach was most consistent with the Fund's established practice. The staff proposal was most consistent; if it was changed in the External Assignments Program, the Committee would have to review the approach in other cases. He therefore continued to support the staff recommendation.

Mr. Suraisry said that although he sympathized with Mr. Dallara's view, the staff recommendation was consistent with other programs and was also more easily administered. However, perhaps the staff could prepare another report to compare the costs of each approach.

The Acting Chairman remarked that, as Mr. Prowse had said, it would be difficult to calculate the costs with any certainty.

Mr. Caranicas inquired how the costs of the External Assignments Program compared with the costs incurred by resident representatives.

The Acting Chairman responded that for of a resident representative, costs associated with relocation, in addition to certain salary supplements, were covered by the Fund. There was no doubt that the stationing of a staff member as a resident representative was considerably more expensive than the relocation of a staff member under the External Assignments Program. The two were not really comparable because a resident representative had the full Fund salary in addition to the benefits, while under the External Assignments Program the individual was serving without Fund pay at a salary that was usually considerably lower than the staff salary.

Mr. Dallara commented that the financial markets were able to calculate the estimated value of a particular financial instrument with a particular maturity. In that case, it should be possible to obtain crude indications of the comparable costs of the two approaches to compensation.

The Director of the Adminstration Department explained that the host institution was expected to cover as much of the cost incurred by the staff member as possible. However, it was not always possible for the institution to do so. Some institutions--Ministries of Finance in particular--did not have policies that allowed payments for such costs.

Mr. Yamashita remarked that exact compensation based on direct expenses incurred by the staff member was desirable. However, in view of the various difficulties that were summarized in the paper, he would suppport the staff proposal. He assumed that the 12-month salary advance was an upper limit and was subject to evidence that the total amount was needed.

Mr. Mtei stated that the External Assignments Program should be treated in the same way as the study program without pay. He therefore supported the staff proposal.

Mr. Caranicas asked whether in the past any staff member had requested only four or five months' salary rather than the six months that might be available. With regard to Mr. Suraisry's request, perhaps a decision should be taken; but, at the same time, the staff could provide the Committee with a paper comparing the relative costs and benefits of the different approaches to compensation under the External Assignments Program.

After further discussion, the Acting Chairman suggested that, since the majority of members of the Committee was prepared to go along with the staff proposal, it should be adopted with the understanding that a further review would take place after six months or a year. The report to the Executive Board from the Committee should touch on the matters that had been discussed; in particular, that the upper limit of the salary advance was not automatic, that staff members were expected to present a justification for the salary advance, and that the Administration Department would take into account nonsalary benefits provided by the host institution in making its decision on the amount needed by the staff member. He noted that all members of the Committee strongly endorsed the Extended Assignments Program, and that it was the view that staff members should not be expected to undergo undue financial hardship in order to participate in the Program.

Mr. Caranicas asked whether a decision that the terms should be less favorable would also be retroactive if after another review in six months or a year, the Committee decided it had been too liberal in the treatment of salary advances.

The Acting Chairman responded that it was a general legal principle that retroactivity applied only for terms that were improved.

Mr. Suraisry, Mr. Kabbaj, and Mr. Prowse indicated support for the Acting Chairman's proposal.

Mr. Kabbaj recalled that at the previous discussion of the External Assignments Program he had raised the question whether any staff member would be going on an external assignment at that time. The Committee had agreed that a staff member who would be leaving on assignment on January 1, 1983 should be covered.

The Director of Administration recalled that there was no question of retroactivity; during the December 1982 discussion, it had been explained that a decision was needed because a staff member was taking up an assignment on January 1, 1983. It had been agreed that that staff member should benefit from any decision reached by the Committee.

After further discussion, it was decided that the proposal should be reviewed after six months.

The Committee members accepted the proposal by the Acting Chairman, and approved the proposed decision, as amended, for transmittal to the Executive Board.

2. PREBUDGET DISCUSSION - REFERENCE TO THE COMMITTEE

Mr. Prowse said that he wished to draw the attention of the Committee members to the minutes of Committee meeting 82/4 (12/9/83). On page 7 of the minutes, the Acting Chairman had stated that he would look at the matter that had been raised by Mr. Prowse concerning the terms of reference of the Committee in connection with the prebudget discussion. The Acting Chairman had suggested that it might be possible to arrange for a procedural discussion at the next meeting of the Committee. Since that time, there had been a discussion of the budget in the Executive Board. He had not then raised his proposal regarding reference to the Committee since he had understood that the staff would be looking at the matter and that the Committee on Administrative Policies would be discussing it.

The Acting Chairman commented that he had thought that Mr. Prowse's comments at the time of the budget discussion concerning the terms of reference of the Committee had ended the matter for the time being. Mr. Prowse was certainly free to raise the matter again.

Mr. Prowse remarked that a number of members of the Committee had indicated sympathy with his proposal that the Committee might usefully have an opportunity to look at the formulation of the Administrative Budget. If the Committee was not to pursue that issue, it was inevitable that discussion in the Executive Board on the Administrative Budget would be more detailed in future, something that he would consider a disadvantage.

Mr. Dallara commented that while he could support the idea of some further inquiry into the possibility of Committee attention to budget matters, he had not made up his mind on the substance of the question involved.

Mr. Kabbaj said that he had expressed interest in the suggestion by Mr. Prowse based on his experience in the World Bank, where discussion of the budget in a committee permitted a much shorter and less technical discussion in the Executive Board.

The Acting Chairman stated that he would ask the staff to prepare some material on the terms of reference of the Committee and whether or not they would include consideration of budget matters.

3. TRAVEL BY EXECUTIVE DIRECTORS

Mr. Mtei noted that Section 14 of the By-Laws provided that Executive Directors might not designate temporary Alternates for more than thirty working days in twelve months. The requirement for continued presence by Executive Directors had been introduced when the Fund had first been established because at that time there had been fixed exchange rates, and any change by a member country in its exchange rate had had to be approved by the Executive Board; the Executive Board had, therefore, been in more or less continuous session. In the recent past, a number of Governors from his constituency had indicated that they would like to see the Executive Director or the Alternate in the member country more frequently. Representing 17 countries was an arduous task, and it was difficult for both Director and Alternate not to be away for more than 30 working days in one year. Could the staff look into the background of those regulations, and could the Executive Board review the rules, giving consideration to those Directors who represented a large number of countries?

The Acting Chairman commmented that the staff and the Secretary's Department were familiar with the problem. However, discussion of the matter would fit more appropriately in the Committee on Administrative Matters, relating to Executive Directors and their offices, than in the Committee on Administrative Policies. Mr. Mtei's observations would be passed on to the Secretary.

The meeting was adjourned at 5:10 p.m.

APPROVED: October 11, 1983