

EBAP/84/120  
Supplement 1

CONFIDENTIAL

June 8, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Submission to the Board of Governors of the Report  
of the Standing Joint Committee on the Remuneration  
of Executive Directors and their Alternates

There is attached for information a copy of the Report to the Boards of Governors of the Fund and the Bank by the Joint Committee on the Remuneration of Executive Directors and their Alternates dated May 29, 1984.

As directed, the Secretary dispatched the Report to the Board of Governors for a vote without meeting on the draft Resolution proposed therein; the text of the letter of transmittal dated June 8, 1984, is also attached. The period for receiving the votes of Governors will begin on Friday, June 15, 1984, and will end on Monday, July 16, 1984.

Att: (2)



INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C. 20431

CABLE ADDRESS  
INTERFUND

June 8, 1984

Sir:

The standing Joint Committee on the Remuneration of Executive Directors and their Alternates has adopted a Report and recommendations to be submitted to the Board of Governors. At the request of the Joint Committee, I am transmitting its Report and recommendations herewith. The Joint Committee neither discussed with, nor disclosed to, Executive Directors its Report and recommendations prior to their transmittal to the Governors.

The Board of Governors has been requested to vote without meeting, pursuant to Section 13 of the By-Laws of the Fund, on the Resolution attached to the Report. The Executive Board has decided, pursuant to Section 13 (d) of the By-Laws, that no Governor shall vote on the Resolution until June 15, 1984.

To be valid, votes on the Resolution must be cast by Governors or Alternate Governors, and must be received at the seat of the Fund on or after Friday, June 15, 1984, but not later than Monday, July 16, 1984. Votes received before June 15, 1984 or after 6:00 p.m., Washington time, on July 16, 1984 will not be counted.

It would be appreciated if you would transmit the Report to the Governor of the Fund representing your country with the request that he vote on the Resolution attached to the Report. No particular form of vote is required so long as the Fund receives a clear indication as to whether the Governor approves or disapproves the proposed Resolution; such communication should be signed by the Governor or Alternate Governor or there should be a clear indication that he has given instructions that his vote be transmitted by the sender.

Very truly yours,

Leo Van Houtven  
Secretary

Enclosure

May 29, 1984

Report to the Boards of Governors of the Bank and  
the Fund by the Joint Committee on the Remuneration  
of Executive Directors and Their Alternates

1. Pursuant to Section 13(e) of the By-Laws of the Bank and Section 14(e) of the By-Laws of the Fund, the undersigned were appointed to the 1984 Joint Committee on the Remuneration of Executive Directors and Their Alternates.
2. The Joint Committee met in Washington, D.C. on January 12 and 13, 1984 and in Tokyo in the period May 26 to 29, 1984. The Committee was provided with background material by the Fund and the Bank and it also held discussions with the Managing Director of the Fund, with the President of the World Bank, and with some Executive Directors and Alternates. In addition, the Committee studied the views that have been expressed in previous years by Governors of the Fund and the Bank on the question of Executive Board remuneration. The same firm of consultants that had assisted previous Committees since 1977, Hewitt Associates, was retained; the consultants' terms of reference are attached as Annex I.
3. The Committee carried out a thorough re-examination of the principles, concepts, and methods which have been applied in the past in determining the remuneration and benefits of Executive Directors and their Alternates. In that re-examination weight was given to the views expressed by the Managing Director of the Fund and the President of the World Bank. Both Mr. de Larosière and Mr. Clausen emphasized the crucial importance to the effectiveness of the two Organizations, particularly in view of the complex challenges facing them in today's uncertain world environment, of having Executive Directors and Alternates of the highest caliber who are able not only to make major contributions to policy formulation and decision making in the Fund and the Bank, but also to assist in the making of policies and decisions in the member countries that elected or appointed them. The Committee agreed that it is essential that the Fund and the Bank be able to attract first-class, senior officials to the posts of Executive Director and Alternate. The level of remuneration is by no means the only consideration influencing either individuals of the necessary qualifications and standing or their governments in decisions about service on the Executive Boards. Nevertheless, the remuneration of Executive Directors and Alternates is an important indication of their standing. If their pay is not perceived either as equitable in relation to their responsibilities and the possible disadvantages associated with their positions or as sufficiently attractive relative to the compensation for senior policymaking positions elsewhere, there could be serious consequences for the two Organizations. The Committee noted also that, for elected Executive Directors in particular, the attractiveness of service on the Executive Boards may be affected by not only its short-term

nature, but also the fact that there may not be any linkage with, or any assurance of, a further career in their home country; pay is one means of compensating for these factors.

4. The Committee recognized the difficulties of setting uniform pay levels for Executive Directors and Alternates; given the wide differences in their backgrounds and responsibilities, it is inevitable that some individuals in the group will find any basis of comparison less than fully satisfactory. However, in the Committee's judgment, the system that has been developed in recent years has proved appropriate and no workable improvements in it, or suitable alternatives to it, have been identified. Thus, the principal basis for determining Executive Directors' remuneration should continue to be comparison with Economic and Financial Ministers in selected embassies. But account should also be taken of organizational structures and of the salaries paid to the senior staff in the Fund and the Bank; and of trends in consumer prices.

5. With regard to the scope of the survey of comparator positions and procedures for conducting it, the Committee considered whether the survey sample might be enlarged or improved in other ways. The nine positions identified by the 1982 and 1983 Committees, namely, those in the Washington D.C. embassies of Australia, Canada, France, Germany, Japan, Netherlands, Norway and the United Kingdom, together with that of a U.S. Economic Minister in a location assumed to have a cost of living equivalent to that of Washington, D.C., were again found by the consultants to have functions and responsibilities sufficiently similar to those of Executive Directors to make them a valid basis for comparison. In the judgment of the consultants, notwithstanding the relatively small size of the survey sample, it constitutes a reliable and continuing basis of comparison. The Committee agreed with these findings and reaffirmed the policy guideline for conducting the survey that was defined by the 1982 Committee and endorsed by the 1983 Committee

6. The Committee examined whether the comparison with Economic and Financial Ministers should continue to be on the basis of direct remuneration (i.e. salary and cash allowances net of tax) or whether it would be more appropriate to use total remuneration (i.e. including non-cash benefits). 1/ The Committee concluded that conceptual difficulties

1/ Comparisons in the survey of Economic and Financial Minister positions were, as in previous years, based on the assumption that the incumbents are married with two dependent children. On that basis, the current total net direct remuneration of Executive Directors and Alternates is comprised as follows:

	<u>Executive Directors</u>	<u>Alternates</u>
Salary	\$ 73,600	\$ 61,600
Supplemental Allowance	8,500	6,800
	<u>\$ 82,100</u>	<u>\$ 68,400</u>
Spouse Allowance	\$ 3,000	\$ 3,000
Dependency Allowance	840	840
Total Direct Remuneration	<u>\$ 85,940</u>	<u>\$ 72,240</u>

made total remuneration an unsatisfactory basis for comparison, but the value of Executive Directors' total benefits, relative to those of Economic and Financial Ministers, was one of several factors taken into account by the Committee in making its recommendations.

7. The Committee reaffirmed the view, endorsed by their predecessors, that since the authority and standing of Executive Directors and their Alternates would be diminished if their pay were exceeded by that of more than a moderate number of staff, the salaries of members of the Executive Boards should take account of the levels set for the staff. It is, however, important that no automatic link should be established, for two reasons. First, to do so might conflict with the main principles for settling the pay of the two groups; and secondly, because an automatic link would put the Executive Boards in the position of indirectly deciding their own salaries when they set the salary structure of the staff. It follows that the number of staff with higher pay than Executive Directors may fluctuate from time to time.

8. The Committee also examined the relationship between the remuneration of Executive Directors and that of Alternates (net of spouse and dependency allowances) which has been steady at approximately 83 per cent since 1980. The Committee considered that this relationship was appropriate and should be maintained.

9. In July 1974 Executive Directors and Alternates did not receive a salary increase, but a supplemental allowance was instituted "to reflect the unique housing and representation costs and other unusual expenses associated with the temporary nature" of their assignments and their location in Washington, D.C. Since then, this part of the remuneration of Executive Directors and Alternates has been non-pensionable. Several previous Committees have reviewed the desirability of incorporating the allowance into salary and thereby making it pensionable. The Committee gave considerable thought to the arguments presented for this step, including the argument that it would bring the treatment of the direct remuneration of Executive Directors and Alternates into line with that of the staff. However, the Committee concluded that in the present international economic climate, it would not be advisable to recommend any further benefit for Executive Directors other than those proposed in paragraph 10 below.

#### Recommendations

10. Taking account of all the factors enumerated above, the Committee puts forward the following recommendations:

(a) an increase effective July 1, 1984, in the salaries of Executive Directors of \$3,300 to \$76,900 per annum, and an increase in the non-pensionable supplemental allowance of \$400 to \$8,900 per annum.

(b) an increase effective July 1, 1984, in the salaries of Alternates of \$2,800 to \$64,400 per annum and an increase in

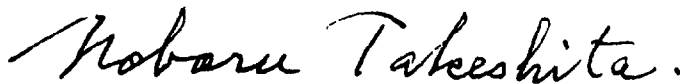
the non-pensionable supplemental allowance of \$300 to \$7,100 per annum.

If the above recommendations are implemented, the net remuneration of Executive Directors would stand slightly above the level established last year in relation to the net remuneration of Economic and Financial Ministers. This can be justified on the ground that at the time of the consultants' survey the allowances of some Ministers had not been adjusted to reflect the upward movement of the U.S. dollar. The proposed Executive Board remuneration would, on the other hand, be somewhat lower in real terms than that set last year. In relation to staff pay, it was not possible for the Committee to make a judgment of the effect of its recommendations as the 1984 staff compensation review had not been completed when they met. However, on the basis of the information made available to them, the Committee would not expect the number of staff in either the Fund or the Bank with pay above that of Executive Board members to increase significantly.

11. Draft resolutions covering the above recommendations are attached as Annex II, and we recommend that they be adopted by the Boards of Governors of the Fund and the Bank.

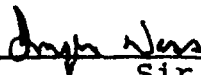
12. Finally, with regard to the frequency with which the remuneration of Executive Directors and Alternates is reviewed, the Committee agreed with previous Committees that as long as volatile international economic conditions continue to cause rapid changes in relative levels of remuneration, it is necessary to examine the situation every year. However, except in unusual circumstances, full-scale reviews of the issues and concepts should only be necessary every second year when regular elections of Executive Directors are scheduled to be held. In connection with the reference in paragraph 10 to the effects of exchange rate fluctuations, the Committee suggests that future Committees should examine whether a methodology can be developed to minimize the effects on the survey results of sharp movements in exchange rates.

13. The Joint Committee has directed the Secretary of the Fund and the Secretary of the Bank to transmit this report to the Boards of Governors of the Fund and the Bank, respectively, for a vote without meeting in accordance with Sections 13 and 14(e) of the By-Laws of the Fund and Sections 12 and 13(e) of the By-Laws of the Bank.



H. E. Noboru Takeshita, Chairman

Hon. Jorge Cauas Lama 1/



Sir Douglas Wass

1/ The text of the report and recommendations was cabled to Mr. Cauas and he confirmed his agreement by cable.

**Terms of Reference for Consultants to the Joint Committee on the Remuneration of Executive Directors and Their Alternates**

In order to assist the Joint Committee on the Remuneration of Executive Directors and Their Alternates in formulating its recommendations, the consultants should:

Survey the remuneration, together with those benefits included in the consultants' 1983 report, provided to Economic and Financial Ministers in the nine positions identified by the 1983 Joint Committee as having functions and responsibilities most similar to those of Executive Directors. Those positions are (a) the Economic and Financial Ministers in the Washington, D.C. embassies of Australia, Canada, France, Germany, Japan, The Netherlands, Norway and the United Kingdom; (b) a U.S. Economic Minister in a location assumed to have a cost of living comparable to that of Washington, D.C.

The consultants should report to the Joint Committee not later than the first half of April 1984.

INTERNATIONAL MONETARY FUND

DRAFT RESOLUTION

Direct Remuneration of Executive  
Directors and their Alternates

RESOLVED:

THAT, effective July 1, 1984, the annual rates of remuneration of Executive Directors of the Fund and their Alternates pursuant to Section 14(e) of the By-Laws shall be as follows:

- (i) As salary, \$76,900 per year for Executive Directors and \$64,400 per year for their Alternates;
- (ii) As supplemental allowance (for expenses, including housing and entertainment expenses, except those specified in Section 14(f) of the By-Laws), \$8,900 per year for Executive Directors and \$7,100 per year for their Alternates.