November 17, 1999
Approval: 11/24/99

COMMITTEE ON ADMINISTRATIVE POLICIES
Meeting 99/1

3:50 p.m., March 5, 1999

S. Fischer, Acting Chairman

Executive Directors

A.S. Alosaimi, Temporary

R.F. Cippà

K.A. Hansen

S. Pickford

Alternate Executive Directors

S. N'guiamba, Temporary

E. Rodríguez, Temporary

A. Lushin
S.K. Brownlee, Temporary

K.S. Friedman, Secretary
S. B. Caseley, Assistant

Also Present

B. Esdar

A.G. Zoccali
J. Prader
B.S. Newman

G.F. Taylor
Wei B.

N.K. Gueorguiev, Temporary
M. Takeda

IBRD: M. Bendjouya, Human Resources Department. Staff Association Committee: P. Alonso-Gamo, Chair; G.C. Tsibouris, J. Zettelmeyer. Administration Department: B.C. Stuart, Director; U. Baumgartner, Deputy Director; P.K. Craig, S. Dove, A.D. Goltz, J.P. Kennedy, C.C. Loureiro, B.R. Shannon. Legal Department: J.A. Jones, J.S. Powers. Secretary's Department: B.A. Sarr. Treasurer's Department: M.M. Nilssen. Office of the Managing Director: D.A. Citrin, F. Gaitán, M. Oka, N. Sachdev. Advisors to Executive Directors: M.H. Elhage, Luo Y., A.R. Palmason, M.R. Shojaeddini, T. Turner-Huggins. Assistants to Executive Directors: S.A. Bakhache, T.B. Belay, N.R.F. Blancher, M.S. Budington, J.C. Estrella, D. Fujii, E.O. Kornitch, W. Mañalac, M. L. Pérez dos Santos, L. Pinzani, A. Scoffier, D. Saha, R.J. Singh, R.P. Watal.

1. STAFF COMPENSATION SYSTEM—COMPARATOR MARKETS AND SHAPE OF FUND PAYLINE—REVIEW

The Committee considered a staff paper on the staff compensation system—review of the comparator markets and shape of the Fund payline (EB/CAP/99/2, 2/18/99).

The Acting Chairman recalled that at the discussion on the 1998 staff compensation review (CAP/98/1, 2/24/98), it was agreed that the staff would review two aspects of the compensation system, namely, the composition of the comparator markets to which Fund salaries were related and the shape of the Fund payline. It was intended that the proposed changes, summarized in the staff paper, would be incorporated in the 1999 staff compensation review.

The Chair of the Staff Association Committee made the following statement:

> Last April, at the time of the compensation exercise, the Board requested a review of some of the elements of the compensation system, in view of the clear misalignment of the Fund payline vis-à-vis the market, poor retention performance, and risks to our success in recruitment. As we said at the time, we believe that a rules-based system, not subject to the vagaries of political developments and pressures, best serves the Fund's interests, and that now is not the time to fundamentally change the procedure. Few among us, and certainly among you, would like to repeat the experience of the 1980s with an exercise that could last years and prove difficult and divisive. Nonetheless, there are some improvements that can be made within the existing system, and the Staff Association Committee (SAC) firmly supports this course of action. It was agreed at the Board to limit the scope of the review to certain issues, including the appropriateness of the comparators and the shape of the payline. The SAC also advocated the review of some technical aspects of the exercise.
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> In the meantime, a number of important developments have taken place: first, the human resources policy review at the Board last June, where most Directors endorsed current Fund policies, in particular having a compensation and benefits package that can attract and retain the best staff for a long-term career at the Fund; second, in December, the Bank's decision to unilaterally abandon the joint compensation and benefits system, on the basis that its objectives and needs have grown very different from ours. As I said at the informal Board meeting that was briefed about the Bank's decision, the SAC believes that, indeed, our objectives, needs, and personnel policy have diverged so much that this divorce appears justified. The Fund should follow the human resources policies that serve its interests best. I will not repeat again the arguments I made then, but they all stand. This divorce, however, also means that the weights of the different salary grades have to be changed to reflect Fund-only weights, while the comparators also have to mirror Fund skills.
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> It is in this context that we have to assess the proposals that the Administration Department (ADM) presents for your consideration today, which address all these issues. First of all, let me congratulate ADM for their excellent technical work. A lot of effort and thought have gone into this paper. There is much in it that we can accept and, although in some cases we would have advocated a different solution, such as the choice of sectoral weights, we still recognize the soundness of the arguments put forth by ADM. Nonetheless, we do find some aspects of this review disappointing.

Let me focus at this stage on three issues.

First of all, in regard to the proposed change to the shape of the payline, it is evident that the Fund payline is well below the comparator market starting with A14 and above, and that the discrepancy increases to 28 percent at the upper ranges of the B level. This review provided the opportunity to do something about it, and it does, but we find the proposed changes timid. A cursory look at the charts in this paper proves my point. ADM states that a ceiling is imposed by the salary of the Managing Director and Deputy Managing Directors, and no more can be done. We would argue that, with the review of the Managing Director's salary coming just a couple of months after the compensation exercise, the Board could adopt some kind of temporary bridging arrangement that would allow for a somewhat larger shift of the payline. Otherwise, this shift, while a step in the right direction, may turn out to be insufficient: there is still too much difference between the comparator market and Fund salaries at the upper ranges, and the problem will not go away.

I now turn to the proposals concerning lower grades. First of all, let me underscore how important it is to preserve our competitiveness at our key recruiting grade for participants in the Economist Program, A11. We thus support ADM's proposal to maintain those salaries; really, that is a minimum, given the compelling evidence that we are barely competitive in the Ph.D. market. But we are concerned by the proposed lowering of the salary range for grades A9–A10. The SAC has always said that we did not want a tilting of the payline—what the Bank is doing—for internal equity reasons. But there is more to it than that. The promotion from A8 to A9 is a key one, and for many Fund staff, A9 represents the highest grade they will ever achieve in their Fund career. A lowering of this salary range dims the prospect of rewards for many Fund staff.

Finally, it is highly regrettable that none of the technical amendments that we defended last year have been accepted by ADM. Last year we argued, both at this meeting and at the Board, that ADM is smoothing the market data, which it should not do, while it is failing to adopt the best formula to calculate the difference between the market and Fund paylines so as to effectively minimize the distance between the two, with the net result that Fund salaries are biased downward by between 2–4 percent. We presented a technical paper proving our points conclusively (SADP/98/1), which remains at Directors' disposal, and, at the time, even ADM recognized that our arguments were valid. We were then told that the process was too far advanced to make the changes for that round, as the Bank had to be on board, but that these amendments could be incorporated, possibly this year. This has not been done, even if the concern as to whether the Bank is on board is no longer relevant. I must admit that I find ADM's argument for not adopting these technical amendments—that they are too complicated and lack transparency—unconvincing, to say the least. First, the rest of the system is not particularly simple. Second, one does things because they are right, and then one finds a way to explain them. In any case, the argument put forth is somewhat condescending: I have no doubt that individuals who have minds that are able to examine the details of the new financial architecture or the HIPC Initiative can perfectly well understand the concept of the best mathematical way for minimizing the distance between two lines. ADM should definitely keep these amendments on the agenda.

> On balance, while our concerns about these three issues remain and we would like to see them addressed in the very near future, at this juncture we would not insist on tackling them, and the SAC is willing to endorse the proposals of ADM as they stand so that we can proceed quickly. As a package, ADM's proposals constitute a considerable improvement in the current system, an improvement that is urgently needed and should be implemented without further delay, certainly in this compensation round. In this manner, the review of the compensation system can fulfill its stated objective: to achieve a system that is technically sounder and makes the Fund sufficiently competitive to attract and retain the high-caliber staff it needs to fulfill its mandate and serve its member countries.

The Director of Administration explained that, as the Acting Chairman had indicated, the review had been agreed during the 1998 staff compensation review, with the objective of ensuring that Fund salaries were appropriately related—in such details as market sectors, organizations, and occupations—to the comparator markets in which the Fund competed. In view of the World Bank's recent adoption of a separate system for salary determination, the system now must be appropriate to the Fund only, not to a Fund-Bank combination. Also, the staff had examined the slope and/or shape of the Fund's payline, particularly with respect to concerns that salaries in the B grades were not competitive.

In regard to the comparator markets, the Director continued, the staff had proposed an increase in the weight given to the private financial sector, compensated for by a reduction in the weight given to the private industrial sector. The weight of the public sector would be essentially unchanged, although in fact it would increase slightly. However, within the public sector, the staff proposed to give greater weight to the Federal Reserve Board because central banks were a more important competitor for the Fund than under the former combined Fund-Bank exercise. The staff was also proposing some changes in occupational weights to align them more closely with the current occupational distribution of the staff, because some technical jobs would be excluded that previously had reflected the Bank's staffing needs; in addition, separate weights would be established for three groups of grade levels, instead of the previous uniform weights for all grades, and those weights would be applied to the data for the three market sectors.

Based on 1998 data, the changes in the details of the comparators would raise the Fund's salary structure by about 2.5 percentage points, the Director noted. However, shifting to Fund-only weights for the purposes of calculation would offset most of that change, as the Bank had had a higher proportion of staff in the middle to senior levels where salaries were particularly low relative to the market. Those would be one-time-only changes.

As to the shape of the payline, Fund salaries at the senior levels were well below market, while salaries at the A9–A10 level were above market, the Director observed. The staff proposed to address those discrepancies only partly. The staff would have preferred more substantial changes, particularly at the upper end of the salary ranges where the proposed changes closed only a small part of the gap. However, those changes were precluded by constraints set by other parts of the salary structure, in particular the ceiling set by management salaries and the need to maintain competitiveness at the key A11 grade, which was critical for recruitment of participants in the Economist Program. The salary structure appeared to be at an appropriate level in other respects; thus, the staff was seeking the Committee's endorsement of the detailed changes for incorporation in the salary review exercise that would be undertaken by the Board in April 1999.

Mr. Cippà remarked that the decision of the World Bank to develop its own staff compensation system had provided a welcome opportunity for the Fund to rethink its system. He could agree generally with the staff's proposals. The current approach, based on comparator markets, had served well in the past, allowing annual salary reviews to be conducted within an agreed, rules-based framework that obviated lengthy discussion at each review. However, some changes were required, especially with regard to the need for a steeper slope of the payline—the most important part of the staff paper.

In respect of the revised weights given to the three sectors, Mr. Cippà continued, structural changes to the system should not imply a bias toward salary increases, which appeared to be the case in the staff paper, for instance, in paragraph 31, which stated:

> More importantly, the role of the public sector as a source of staff needs to be balanced against the concern expressed by the JCC [Fund/Bank Joint Committee of Executive Directors on Staff Compensation] regarding the negative impact the relatively low public sector salaries could have on the overall market. This remains a constraint limiting the weight that should be given to this sector.

That constraint remained, limiting the weight that should be given to that sector. It would have been more appropriate to aim at a neutral effect.

On the steepening of the payline, Mr. Cippà added, the staff should clarify the basis on which grades A1–A8 were judged to be appropriate and competitive, and therefore to remain unchanged. The methodology that applied to other grades apparently did not apply to that group. Moreover, although the slope of the payline would steepen, the uniform salary percentage increase would continue to be applied. He wondered whether some flexibility would not be more appropriate in order to allow the slope of the payline to vary over time, according to the evolution of market conditions.

Mr. N'guiamba said that it was not easy to choose comparator markets that could serve as a reference in determining the level of the Fund salary structure, and the staff was to be commended for having developed a new compensation system that appeared to be broadly representative of the market in which the Fund competed for staff. The staff compensation system should be designed both to attract competent individuals and to prevent experienced staff members from leaving the Fund because of compensation considerations. However, to do so, one must examine recruitment and separation patterns. Table 1 showed that in 1994–98, of all Fund economists recruited, 29 percent had come from the public sector, of which 44 percent had been recruited from central banks; as to the private sector, about 11 percent had been recruited from the private financial sector, less than 1 percent from the private industrial sector, and 48 percent from academic institutions. As regards separation from the Fund, Table 2 indicated that about 26 percent of Fund economists had left to join the public sector; of those who had gone to the private sector, 39 percent had gone to the private financial sector, and none had gone to the private industrial sector. On that basis, it was not clear why, even after the joint compensation system had been abandoned, the private industrial sector was still receiving a 25 percent weight in the determination of a new comparator. To assume that both the public sector—including central banks—and the private financial sector competed with the Fund in recruitment and, hence, to maintain the weight of the public sector at 35 percent, would seem the safest course. A different picture would emerge if the proposed system were revised to take account of the lesser importance of the private industrial sector, reducing its weight, say, to 5 percent, while increasing the weight of the financial sector, including central banks, to 60 percent.

Concerning the shape of the Fund's payline, Mr. N'guiamba remarked, a table that showed the breakdown by grades of staff separation would have been helpful. The Fund's retention policy should aim primarily at preventing the departure of mid-career economists at grades 12–14, who believed that they could receive not only a higher salary but also a higher level of responsibility elsewhere. Perhaps the salary ranges for grades 12–14 should have been reviewed. However, the proposed downward adjustment in the Fund's payline at grades A9–A10 and upward adjustment at grades B1–B5 would bring it into closer alignment with the market payline.

Mr. Hansen said that he wished to raise four points. First, he had assumed that a discussion of improvements in the Fund's competitiveness probably would not include older persons in grades B4 or B5, but rather young economists in their best years who were shopping around for jobs. Second, he had noted that there had been extrapolation from the midgrades, which resulted in salaries that were much higher than in either the United States or Europe. Third, he wondered what the staff's estimate was for the total single salary increase indicated by the bullet points on page 9 of the staff paper. Finally, he would appreciate a comparison between the original and the new system of comparators so as to be able to determine the contribution that each proposal added to the overall increase. His a priori position was that those proposals should be kept within the overall salary increase of 4 percent that had been discussed at the previous Committee meeting; he would not object, however, to making adjustments to the individual proposals within that agreed increase.

Mr. Alosaimi commented that the proposed changes in market sectors, organizations, and occupations appeared reasonable. Within the public sector, it was appropriate to raise the weight of the Federal Reserve System to 50 percent, making its weight equal to that of civil service agencies, as central banks were indeed the main public sector competitors for Ph.D. graduates in economics. It was also appropriate to replace two civil service agencies whose technical and engineering positions had little relevance to the Fund with other agencies that had economic and financial functions.

Regarding the shape of the payline, especially at B1, Mr. Alosaimi added, the staff proposals went only a small way in addressing the increasing gap between the midpoints for B grades and the U.S. market. The World Bank appeared to have made a much more fundamental change in its salary structure; for grades up to A12, its salaries were now below those at the Fund, and for grades A13 and above, higher. He would appreciate staff comments on those differences.

Mr. Pickford said that he was grateful for the review of the payline and comparators, which came at an opportune time in view of the end of parallelism between the Fund and the Bank. Not being constrained by parallelism provided an opportunity for a wider review of the overall salary structure and remuneration basis for Fund staff, but he was concerned that, instead, the review had been rather piecemeal in nature. Examining certain parts without looking at others was problematic, as evidenced by the results, already categorized as somewhat upwardly biased. The review should have taken account of, for instance, the much more generous pensions and educational allowances in the Fund than in the U.S. market in comparing overall remuneration packages.

Much of his concern stemmed from the inability to allow for academic salaries, Mr. Pickford explained. Although he agreed with the staff that it was not possible to obtain perfect comparisons, it would seem feasible to be able to obtain at least some reasonable approximation. Almost 50 percent of the economists and 75 percent of the participants in the Economist Program came from academia, and to ignore that important source of comparison appeared to be a fundamental flaw.

Furthermore, little allowance appeared to have been made for retention, Mr. Pickford observed. His understanding was that the Fund lost the largest number of staff in their younger years, when they appeared to be the most marketable. However, that omission was not as serious as other problems in the review exercise, such as the increased weighting given to central banks, and the 40 percent weighting given to the private financial sector, when only about 10 percent of recruitment came from that source and only about 38 percent went there on separation from the Fund.

He was disappointed that the proposed change in the slope of the payline was not cost-neutral, Mr. Pickford said. The payline for grades A9–A10 would still be considerably higher than the U.S. market.

Mr. Lushin stated that he broadly agreed with the conclusions in the staff paper. The suggested measures were appropriate for adjusting the Fund's compensation system, following its separation from the World Bank system.

He wished to raise two technical questions, Mr. Lushin indicated. First, like Mr. Hansen, he wondered what effect the proposed measures would have on the overall wage bill in the Fund. Second, with regard to the changes in the weights within the private sector between financial and industrial institutions, the difference between 32.5 percent and 40 percent for the private financial sector did not seem large, and he wondered what the practical results were of that proposal.

The Director of Administration commented that the limited nature of the review stemmed from the basic premise that the current system was working well; hence, the purpose of the review was to address only the specific issues that were suggested during the 1998 compensation review while taking into account specific effects of the dissolution of the joint compensation system.

As to the weight given to the industrial sector, the Director continued, even when the World Bank had been involved in the compensation exercise, the weight had been high relative to any indicators of direct competition. The staff had proposed reducing the previous weight of one third to 25 percent, and was satisfied with the direction of the change. Including that sector was useful because industrial sector data were very robust and gave more substance to the comparison; moreover, including a sector that affected the markets where the Fund competed more directly gave stability in the sense that the system was less susceptible to sudden movements in particular sectors in the economy.

As to the decision not to alter the method for calculating the salaries for grades A1–A8, the Director explained, such an adjustment would have entailed a major change in the system. As indicated at length in the staff paper, salaries for those grades were compared with the market, and were in an acceptable range relative to the market.

Concerning the proposed single structural adjustment versus adjustments to different parts of the payline, two aspects were involved, the Director considered. First, it was already difficult enough to reach agreement on a single structural adjustment, and discussing adjustments to each part of the payline would certainly have complicated the exercise. Second, a common structural increase avoided a highly visible differentiation among different grades.

The reasons underlying the staff's inability to do more in terms of comparing academic salaries had been explained in the staff paper, the Director said. However, the key grade at which the Fund competed for academics was A11, and the Fund closely monitored competitiveness in that area through the Economist Program. Therefore, in that area, the staff was reasonably confident that the compensation exercise was broadly appropriate. Nevertheless, there had been years when the Fund had seemed not to be competitive at that grade; for instance, during the most recent exercise, two EP positions had been left unfilled because the Fund could not find qualified candidates.

The staff representative from the Administration Department recalled that questions had been raised concerning the weight given to the public sector in the compensation system. The staff's concerns had been not to introduce a bias by limiting the public sector to a certain amount, and to ensure that no sector, including the relatively low-salaried public sector, pulled down Fund salaries to an extent that jeopardized the Fund's ability to remain competitive with the private sector. The reverse would also hold true if a greater weight were given to the private financial sector: the Fund would be compensating above the level needed to draw staff from the public sector or even from the private industrial sector. Thus, a balancing effort had emerged, with some limits imposed on each side, in each direction.

As to the possibility of keeping the Fund's payline in line with the market by varying the structural increase over time, the staff representative continued, a number of previous examinations had concluded that it would be overly divisive internally in that the potential would exist for staff in different grades to have different merit increases based on structural changes in the market. Furthermore, rather than having a single salary increase to discuss, potentially there could be 21, and it would be difficult to keep the payline in line with the market over time. Periodic adjustments, such as the one currently proposed, seemed preferable.

Regarding the total additional amount involved in the proposals as noted on page 9, the staff representative from the Administration Department concluded, the staff could provide a list of the item-by-item changes, although some overlap existed. Essentially, the change in the comparator markets would add about 2.5 percent to the initial year's structural increase, and 2 percent of that would then be taken away by the change in the weights used to calculate how far the system was from the market. The net addition would be about 0.5 percent. Total salaries on a continuing basis would be slightly under 1 percent higher after all proposals had been implemented, but the one-time increase would be noncompounding. Had the proposed changes been introduced in the 1998 salary review, the structural increase would have been 4.8 percent rather than the actual increase of 4.3 percent, and the merit pay budget would have been raised by about 3/10 of 1 percent. There would also have been an additional cost of about 0.8 percent upon the introduction of all of those changes.

Mr. Newman stated that his views were close to those of Mr. Pickford. The end of parallelism was the equivalent of an external shock that warranted, and provided an opportunity for, a fundamental reexamination to ensure that the compensation system met the Fund's needs. It had been surprising that the staff had chosen to look at only some issues, because the staff paper had outlined not only the history of the evolving compensation system, but also the close interrelationship of the various elements of the system as parts of a compromise package. One part could not be changed without implicitly affecting the overall package. Notwithstanding the fact that the Board had requested the staff to examine specific issues, the intervening dissolution of the joint compensation system suggested that a broader examination was needed.

It had been striking also that the staff had placed a great deal of emphasis on the rules-based nature of the present system, Mr. Newman considered, but, as the current exercise had demonstrated, making certain changes and not other changes could have a significant effect. The additional cost of making the changes—0.8 percent—did not appear high in itself, but against a base total average salary increase of 6 percent, as it was in 1998, it might appear somewhat different.

Although he recognized that any public institution had difficulty in assessing its comparators, and an institution such as the Fund must have a broad range, Mr. Newman continued, he agreed with Mr. Pickford that it was striking that academia played no role in the Fund's compensation exercise, as it played such a large role in the Fund's recruitment. He wondered whether the weighting pattern for the overall Fund was the correct surrogate for academia, or whether academia was more closely related to the public sector than to the private sector. Like Mr. Pickford, he questioned having the private financial sector as the largest component in the compensation system. A strong case could be made for having the private financial sector and the public sector co-equals, in view of the understandable reduction in the private industrial sector.

Changes in the slope of the payline should be cost neutral, rather than adjusting salaries at the B level but not making similar adjustments at the lower levels between the U.S. payline and the Fund, Mr. Newman considered. A fundamental issue might be whether or not that was the appropriate vehicle for making those kinds of changes. The Committee was discussing relatively briefly some rather fundamental changes in the salary system, and it would behoove the Fund, and in particular the Executive Board, to consider those issues and the broader issues in more depth before proceeding to incorporate them in the upcoming salary review.

Mr. Esdar recalled that the salary system had been frequently discussed, and he fully concurred with Mr. Newman and Mr. Pickford. Nevertheless, although the Fund's salary model was not ideal, he knew of no better one and would be reluctant to suggest a review. It would not be an effective use of scarce resources to repeat the lengthy three- to four-year process that would no doubt bring about an inevitable compromise similar to the present system. The current model was relatively simple; it followed a certain comparator market in the United States and included adjustments for markets in Europe, thereby lending objectivity to the salary picture.

The recent separation of the World Bank from the joint compensation system had made necessary a review of the comparator markets, Mr. Esdar continued, and he could go along with the staff proposals for the various sectors. One could debate at length whether the new distribution of 35 percent (public sector), 40 percent (financial sector), and 25 percent (industrial sector) was the most appropriate. One must be aware, however, of the law of diminishing returns for such an exercise. Because academia data were lacking, it might make sense to increase the public sector somewhat, but the outcome probably would not differ dramatically. If the majority thought that a slightly different weighting would improve the data, he could agree, in order to reflect the academia issue. In that regard, the tradition in continental Europe was for academia to be paid like public servants, but he was not certain whether that was the case in the United States.

The shape of the payline was still close to the shape of the European line, Mr. Esdar added, although it deviated from the United States payline, possibly reflecting the somewhat different retirement schemes in the U.S. private market as compared with Fund policy in that regard, which was closer to the European model. Rather than discuss small changes here and there, he would prefer to keep the payline the same as in the past and maintain a constant policy. If the majority thought an adjustment was necessary, he could go along, but he would discourage a full review.

Mr. Gueorguiev said that he welcomed most of the proposed changes. However, he wished to mention two issues that had not been raised thus far. First, in regard to the composition of the comparator market, international organizations surprisingly had not been included. With the departure of the World Bank from the joint compensation system, it seemed inappropriate not to account for the large share of recruitment and separation vis-à-vis the World Bank. He would propose a modest weight for international organizations in the overall scheme, for financial year 2001, if feasible. Alternatively, he could go along with including the World Bank as the major international organization in the private financial sector, which would increase the weight somewhat in that sector. Concerning sectoral weights, he supported previous speakers who had said that the private industrial sector was considerably overweighted in the salary structure. Decreasing its weight could provide the bulk of the required shift if international organizations were to be included. Although he would have preferred to see academia data included, he accepted the staff's reservations on that point, in view of the difficulties involved in comparison and in the data collection process.

Second, in regard to the methodology for calculating the structural increase, Mr. Gueorguiev continued, the staff paper was clear that the mean squared error method in percentage terms was technically superior; thus, no compelling reason seemed to exist for not adopting that method. As to difficulty in understanding the method, anyone requiring technical help would have ample access to such resources.

Mr. Prader said that his position was similar to that of Mr. Esdar. He did not favor a comprehensive review. The Committee should keep within the mandate outlined at the 1998 staff compensation review—namely, to limit its examination to the issues of the comparator market and the payline.

The public sector weighting should be increased slightly, Mr. Prader considered, because, for all practical purposes, Fund staff members behaved more like civil servants. The Fund could not have it both ways—the salaries of investment banks but not the risks.

Mr. Takeda said that he broadly supported the staff's proposals. As Mr. Newman had said, some deeper issues might exist, but each of the proposed changes seemed more or less mutually consistent, and, therefore, he did not favor a more fundamental reassessment or repetition of the entire review exercise.

The Director of Administration, in response to a comment by the Acting Chairman, said that it was possible to change the weights without changing the shape of the payline.

To put the discussion in context, the Director continued, the current exercise was not intended to be a major review of the system. The staff had been asked a year previously to look at two detailed aspects—the comparator market that was being used, and the slope of the payline. At that time, the staff had known that separation from the World Bank system was imminent. When the new salary system of the World Bank had been reviewed by the Board several months previously, the Board had expressed general support for the Fund's continuing with its system.

As to the shape of the payline, the Director explained, in recent years there had been a serious problem in the upper part of the B grades—although not in the past year, which might explain why less interest had been expressed in the problem than a year previously. Staff in grades B3 and B4 clearly had marketable skills. The staff had tried to change the slope of the payline as much as possible, given the constraints and the basic structure of the system that had been agreed with so much difficulty.

Mr. Hansen wondered what the separation rate was for B4–B5 compared with, for instance, A13–A14.

The Deputy Director of Administration said that the highest separation rate in the Fund was in the ranges A13–A15, which comprised senior seasoned economists. The reasons for separation that emerged clearly in exit interviews were not only current salary, but also the expectation of earnings during a career in an institution such as the Fund. In any organization, it was primarily those who had been with the organization for a few years who were more ready to separate, which had some relevance for B-level salaries. Also, over the past few years, the Fund had experienced a somewhat higher rate of voluntary separation from the B levels—although still small in absolute terms—than had been the case formerly, mainly persons going to the private financial sector. In 1998, the total separation rate for economists had been 8.3 percent, a substantial increase over the traditional separation rate of about 5 percent.

Mr. Pickford noted that the staff paper's information on staff recruitment and retention experience was from 1997, and it was therefore difficult to determine whether separation had clearly risen since then. The increase shown for 1997 was not relevant, as conditions in outside financial markets during that period had probably been at a cyclical high. In addition, he would be interested in information on turnover rates in comparable institutions, as the average voluntary turnover of about 3 percent over the past four years for A9–B5 staff did not seem high. He would be interested also in seeing some analysis of the results of exit interviews, if such a summary were produced. There might be a variety of reasons for voluntary separations, not just pay or, indeed, expectations of pay.

The Deputy Director of Administration responded that an update of the March 1998 paper on retention experience was forthcoming and would show a further increase in the separation rate in 1998, stemming from a number of factors, including early retirements. The results of exit interviews were discussed in the broader context in the paper currently before the Committee, as well as in the 1998 paper on the human resources strategy. As indicated in the paper before the Committee, issues other than salary, such as the work environment, were factors in the higher separation rate, but the triggering factor was the growing differential on the salary side. The work environment had not changed a great deal over the past few years, but the Fund's salaries vis-à-vis the market had changed.

Comparable turnover rates in other institutions were difficult to obtain because the Fund could not be compared with the private sector, the Deputy Director said. In comparing it with other international organizations, differences in the employment policy of those organizations must be taken into account, such as a larger component of secondments and other shorter-term employment relationships. If compared with the public sector civil service, the Fund's turnover rates were presumably higher.

Mr. Pickford observed that he was not certain that the only thing that had changed over the past few years was relative pay.

The Acting Chairman noted that the workload had certainly increased.

To summarize the sense of the meeting thus far, the Acting Chairman stated, Directors recognized that the staff had responded to their request that it examine particular aspects of the compensation system, and Directors agreed with the basic approach outlined in the staff paper. However, some Directors seemed to lean toward increasing the weight of the public sector and decreasing the weights of the private financial and industrial sectors. Two or three Directors considered that the shape of the payline should be changed. As to the request to include a modest weight for international organizations, it might be preferable to distinguish between what could be accomplished by the time of the next salary exercise and what might be done over time.

The Director of Administration commented that one of the key objectives of the meeting had been to obtain guidance from the Committee on the issues of weighting for the upcoming salary exercise. The adoption of different weights for variables from those that had been presented in the paper could be carried out, and adjustments made to give more weight to the public sector and less weight to the industrial sector. However, the staff continued to have conceptual concerns about including international organizations, because those organizations determined their salaries on the basis of either decisions made in capitals or a similar exercise to that conducted by the Fund. Notwithstanding the change in the relationship between the Fund and the World Bank, a risk existed of leapfrogging or looking in the mirror when carrying out that type of exercise. In any event, the staff could consider some conceptual issues, but it would not be possible to gather information for international organizations with a view to including them in the upcoming exercise.

The staff representative from the Administration Department recalled that, in starting the current review, the staff had considered the best means of dealing with the academic sector. The staff had been advised by consultants—as on previous occasions—that it would be impossible to obtain solid data for university professors that would fit into the Fund's survey. As indicated in the paper, much of academics' pay was related to consulting activities, research, and publications, and therefore was not channeled through the universities. With a Herculean effort, it might be possible to obtain from universities one-time access to individuals' pay, but it would be impossible on a continuing year-to-year basis to obtain access to information that was not available institutionally and that would capture the same market from year to year, in order to fold that into the compensation system formulas.

The alternative of examining starting salaries, where income from consulting, research, and publications did not play as large a part, had been applied to the current exercise, the staff representative went on, and that could be repeated periodically, because it provided a useful cross-check against the A11 entry salaries for Economist Program participants. However, much of the information was not consistent survey information. Rather, it was based on feedback to university placement officers, or on limited information that universities indicated about ranges of offering salaries to Ph.D. graduates for positions on their faculty, and not all bonus information was made available. For recruitment purposes, such information was useful, but not particularly applicable as regards the formal structure of a salary survey or the formal effort of adjusting the salary structure.

Mr. Esdar remarked that he would agree with the staff representative regarding the importance of the academic sector for recruitment, but not for retention. As to the question of weights, he wondered what the outcome would be of a 5 percent weight shift from the public sector to the private industrial sector.

The staff representative from the Administration Department responded that reducing or increasing the weight of the private industrial sector had little impact. Modeling now, based on the previous year's data, showed that a shift in the weight of the private financial sector from 33 percent to 40 percent reduced pay in overall markets by less than 1 percent; an increase in the weight of the public sector had only slightly more impact than that of the private financial sector, still less than 1 percent. A decrease in the weight of the private industrial sector was essentially neutral. Thus, taking into account sector weights only, the result was a slight positive net change in the structural increases. While the public sector would generally pull down the overall level, the private financial sector would raise it slightly; thus, they were largely offsetting. Changes in occupation structure in order to give appropriate focus to the core operational jobs—economic, legal, and managerial—had a greater importance in shifting the balance of the market than the sectors per se.

Mr. Taylor wondered what the net result would be of moving 5 percent from the private financial sector to the public sector.

The staff representative from the Administration Department responded that, based on the previous year's figures, the impact would be quite limited.

Mr. Prader commented that even if the impact were limited, it was important to present a realistic profile of the composition of Fund staff. Directors had to convince their constituencies of the merits of a salary increase, not always easily, with some actually preferring not to vote. Directors had always supported the staff, but it was essential that they be given something fairly reasonable to present to member countries.

Mr. Taylor said that he would appreciate it if the staff could prepare quickly some documentation that reflected the free-hand analysis of the discussion. He would also appreciate some updated and more finely tuned data on retention and separation, as well as any other information that would not involve another major survey but would help the Committee in its work.

Mr. Pickford recalled that the Acting Chairman's interpretation of the sense of the meeting seemed to be that no clear message had emerged. Although Directors might not have been clear enough, they had apparently expressed reservations about the method for changing the slope of the payline, which had not produced a cost-neutral result, as well as concerns about the particular parts of the slope.

The Acting Chairman noted that the slope of the payline and cost neutrality were two separate issues. Increasing or decreasing the slope could achieve cost neutrality.

Mr. Pickford said that he was not certain that they were separate issues. The way in which the slope had been changed was not cost neutral, which was not consistent with the longer-term objectives of salary reviews. For example, a lack of cost neutrality resulted from choosing to increase the portions of the slope where a problem was perceived in terms of falling behind the market, and choosing not to reduce the slope in portions where the payline was above the market. Costs went up, but that could be resolved by changing the overall slope of the line in order to achieve a cost-neutral solution, while approximating more closely to the market.

Mr. Newman commented that apparently the slope of the payline would be altered to achieve a particular result: at the high end, the slope would be increased to reduce by a specified amount the discrepancy between the U.S. payline and the B-level salaries—5 to 7 percent out of a discrepancy of about 17 percent. On the lower end, the slope had been constrained to keep the reduction to 2½ percent, which would go only a small part of the way toward fully offsetting the gap. Thus, the effort had been made to reach the desired slope, and in the process no consistent methodology had been employed.

The Acting Chairman considered that if the weights were changed in the direction Directors had suggested, a set of weights could certainly be found that was cost neutral, but probably the slope of the payline would not be much different. If, as the staff representative from the Administration Department had said, an increased weight for the public sector would reduce the average somewhat, relative to the rather steep change in the slope it would probably leave the slope, if not identical, only slightly changed, and then the cost issues could be dealt with if necessary.

The staff representative from the Administration Department pointed out that the cost-neutrality issue was difficult because a fairly modest increase in the payline of the 300–400 staff at the high, B-level salary ranges would require the reduction in the payline at grades 9–10 to be substantial. Moreover, fewer staff comprised those grades and, even if support staff levels—grades 7–8—were included, the number would equal approximately the number of staff in grades B1–B2. Grades 3, 4, and 5 would bear the burden of cost neutrality. In brief, large reductions in the lower levels of the salary ranges would be necessary to achieve true cost neutrality.

The Acting Chairman stated that to avoid a repetition of the current discussion centering on sensitivities, the staff paper for the coming compensation review could include different assumptions about the weights, roughly in the range discussed, of about 5 percent.

Mr. Cippà wondered whether the Chairman's suggestion was to modify the methodology to achieve cost neutrality.

The Acting Chairman responded that he was suggesting that the compensation paper serve as a pre-study, so to speak, presenting the results of alternative calculations as a basis for taking a decision on the compensation review.

Mr. Esdar agreed that such a paper would be helpful. He wondered whether the calculations could illustrate the outcome of distributing to grades B3–B5 the saving under grades A9–A10.

The Acting Chairman remarked that he would prefer not to propose that variation.

Mr. Newman said that he was not certain about the relationship of the weighting to the slope of the payline, which seemed to be two totally separate issues. As Mr. Esdar had suggested, it appeared that the payline must be adjusted in order to achieve cost neutrality, but changing the weighting would not achieve that goal.

The Director of Administration concurred with Mr. Newman. From two perspectives the issue of adjusting the slope of the payline to achieve cost neutrality was difficult. First, as the staff representative had mentioned, the number of people in the salary levels A9–A10 would be bearing a substantial burden even for the relatively limited adjustments that were being made in the upper grades. Second, the structure of the payline had to be borne in mind. A substantial reduction in grades A9–A10 would probably take five or six years of salary increases to absorb, and would wreak havoc with the relationship between those ranges and salaries in lower ranges.

The Acting Chairman concluded that the 1999 staff compensation review paper should contain alternative assumptions on the weights and the slope of the payline.

2. ANNUAL LEAVE POLICY—REVISION

The Committee considered a staff paper on revision of the annual leave policy (EB/CAP/99/3, 2/19/99).

The Chairman noted that the staff paper had initially been circulated for lapse of time consideration.

Mr. Newman said that his chair had requested the discussion because it was concerned that the proposal created an incentive for staff members to accumulate annual leave to be later used as pre-retirement leave, in effect allowing them to cash out at their highest salary. If the objective of the proposal was to force the staff to take annual leave and managers to manage in a way that would permit them to do so, the proposal appeared to be going in the wrong direction. He recognized that, from time to time, staff in many departments were unable to use annual leave in the time frame permitted by the current rules, but a system that treated all staff in the same manner would be providing a potential windfall to some. A better method might exist to deal with those particular cases where, owing to the pressures of the moment, the staff risked losing leave in one year without being able to shift it over to the next year.

The Chair of the Staff Association Committee commented that the starting premise should be that the staff would like to take as much leave as it could. The current system was problematic because it did not have incentives to make it possible for staff members to take the leave to which they were entitled, and it did not have incentives for supervisors to grant that leave. The staff paid the price of the current bad system. In the end, all departments had problems of lost leave, not just a few departments, because rising pressure in one department caused resources to be moved there, leaving other departments short-staffed.

The Staff Association Committee had discussed the proposed changes thoroughly with the Administration Department, and the new proposed system had been discussed Fund-wide, the Chair of the Staff Association Committee explained. Basically, the staff was satisfied with the new system; it had better incentives, and its three weeks of mandatory leave meant that, at a minimum, every single staff member would take three weeks of leave a year, which was not happening at present. Moreover, if the system failed, the staff would not bear the cost, which might be termed the shadow price. Currently, the staff lost leave, and the institution benefited from years of free staff time. Moreover, no financial incentive existed to accumulate leave beyond the 60 days that could be cashed out. Staff members had not taken long holidays toward the end of their career under the current system, and there was no reason to think that that should happen in the future.

Finally, an essential element of the proposed system was that supervisors would be responsible for managing leave and would be held accountable for staff members' taking leave, the Chair of the Staff Association Committee noted. As long as the root problem of excess workload existed, however, no leave system was going to allow staff members to take all their leave. That problem could be solved in two ways: the Executive Board could provide the needed additional resources; and it could prioritize its requests for work to be done by the staff. Those solutions would go much further toward the objective of having staff members take their leave than would tinkering with the proposed system.

The Deputy Director of Administration said that it had been proposed to raise the 60-day limit because the staff considered it the main issue. That 60-day limit had a long and torturous history in the Fund, and in the past 20 years or so—since the debt crisis—it had not worked. The Fund's response to occasional global crises required extra effort by the staff, and ad hoc measures had had to be introduced to allow the carryover of excess leave or the rescheduling of leave on an exceptional basis. Such measures had been introduced not only in the early 1980s, but also in 1986, 1991, 1993, 1995, and 1998. Essentially, all those measures had postponed the day of reckoning without resolving the essential problem. The pressure had mounted in 1997 and 1998; in May 1998, over 400 staff members had had excess leave. On May 1, 1999, ad hoc exceptional measures would again have had to be implemented to accommodate those people. Making exemptions for close to one fourth of the staff suggested that the rule was at fault; hence, the proposed change in the context of a broader revision of the leave system.

Three criteria had governed the proposed revisions: the staff should take leave; more flexibility than hitherto should be allowed; and ad hoc measures and the need for exemptions characteristic of the past 20 years should be eliminated, the Deputy Director explained. Every staff member would have to take an absolute minimum of 15 days of leave which, if not taken, would be irretrievably lost and could not be rolled over into sick leave. Fifteen days seemed to be a realistic number, as the average leave used in the Fund was somewhat over 20 days; furthermore, medical experts had recommended that amount. The proposal also addressed the concern about the rapid buildup by staff of the 60-day limit; the proposed 15-day minimum precluded taking no leave and, therefore, a much longer period than hitherto would be required to accumulate 60 days.

Concerning flexibility, it had been deemed important to maintain the 60-day cash-out limit upon retirement but to provide the opportunity to take leave in a year other than the year in which it was accrued, the Deputy Director said. Specifically, leave could be used between staff assignments or between mobility assignments in the Fund. Failing everything else, it could be taken at the end of a career or used as additional service credit for pension, although that would come at a heavy discount.

To avoid ad hoc measures for excess leave over 60 days, the staff could postpone using that leave for one to three years, until the next assignment, or roll it over into an additional credit for pension purposes, the Deputy Director stated. In any event, the pressure to provide exemptions would be eliminated, because in all circumstances the staff could get something for the leave not taken in the year in which it had been accrued.

Clearly, the proposed system would be better than the current one, the Deputy Director added, and, furthermore, it stressed accountability. Managers should be held accountable for ensuring, to their fullest extent, that staff members take leave, but he also agreed with the Staff Association Committee that it was ultimately a balance between the demands on the staff and the resources available. It had come as no surprise that the 60-day limit had broken down since the early 1980s.

Mr. Takeda recalled that the Chair of the Staff Association Committee had referred to a shadow price, and he was interested in what type of shadow price could be introduced under the revised system. A cost to the institution was indicated, but unless that cost was keenly felt by the supervisor, the supervisor had no incentive to allow the staff to take leave and, in fact, might feel less at fault because the staff being supervised would be compensated eventually by the Fund. It was not a matter of fiddling with such things as the 60-day limit but rather of giving the supervisor an incentive.

The Deputy Director of Administration responded that, under the proposed system, the staff must, for the first time, take a minimum of 15 days' leave, which supervisors must allocate, and the incentive to do so for supervisors was to avoid a black mark on their own performance record in respect of their managerial capacity. Beyond that, Administration would undertake ongoing monitoring of the amount of leave that staff in the various departments were taking.

Mr. Cippà stated that he strongly endorsed the proposal to make 15 days of annual leave a requirement, which should be an absolute minimum to which supervisors should be encouraged to adhere. He wondered whether the proposal to take extended leave between reassignments was envisaged as being on a voluntary basis.

The Deputy Director of Administration responded that his department would certainly propose to staff members that they take their excess leave at the time they changed assignments or moved from one department to another on mobility.

Ms. Brownlee commented that she strongly supported the 15-day minimum leave and shared Mr. Cippà's concern about trying to encourage the staff and supervisors to follow the procedure. However, the proposal to establish a Staff Emergency Leave Account to which each year's forfeited annual leave would be credited seemed to anticipate that the staff would not be taking the obligatory 15-day leave.

She shared fully Mr. Newman's objections to the proposal's removal of the 60-day carryover, Ms. Brownlee stated, on the grounds that it did not provide incentives for staff or supervisors to take leave. The 60-day limit was already excessive, and management and staff should not be responding to extreme demands by not taking leave. The U.K. Treasury, for example, had a maximum carryover of 10 days, and the Bank of England had none. The Fund had to field missions, creating problems with which the Treasury did not have to contend, but the 60-day limit was not appropriate.

Mr. Alosaimi stated that he agreed that it was important to encourage staff members to use their leave, and, therefore, he supported the proposed minimum usage requirement of 15 days a year. Furthermore, if a staff member had accumulated 60 days, that minimum should be increased to 20 or 25 days.

Mr. Esdar considered that it was the responsibility of management to find a solution, and that the Committee was in danger of micro managing. The proposed revision of the annual leave policy was acceptable.

Mr. Lushin commented that he could go along with the proposal. The proposed system had addressed the issue of the staff's having to pay the price of the problems with the current system, and it had broad support among the staff. However, it was impossible to find an ideal system, and the experience with the new one should be reviewed in about a year, specifically with regard to the accumulation of more than 60 days of annual leave. At that time, the seriousness of the possible problem with accumulated leave could be better gauged.

Mr. Zoccali stated that he supported the proposal, because the system had broken down and must be fixed. He also agreed with Mr. Lushin's suggestion of a review; as the staff had noted, the cost of the proposal could not be currently estimated with precision. For budgetary projections, however, an estimate would be necessary now of the cost of the central pool to cover leave replacement for any portion of absence in excess of 30 days.

Mr. Hansen said that he agreed with Mr. Lushin. The staff should not have to bear the costs of the current system by forfeiting leave; at the same time, he understood the point made by Mr. Newman. Perhaps a presumption could be established that the leave account must be cleared upon a staff member's moving from one department to another. To avoid excessive cashing in at the end of a staff member's career, perhaps accumulated leave could be geared to a specific period. One could imagine a system whereby, for instance, leave could be credited to one's account as a senior economist; later on, if one became, say, a Deputy Director, leave accrued during that period would be credited.

Mr. Newman said that his concern was not so much that the staff would have an incentive to accumulate leave, as presumably they would wish to use their leave, but rather that the proposal would remove the incentive for managers to manage so that the staff could actually take leave—in their knowledge that the staff would be able to cash out, in a sense, at the end.

The Acting Chairman said that he understood Mr. Newman's concern, but another consideration was that the current system had no such provision, and in a number of cases—especially in the Asia and Pacific Department and the Monetary and Exchange Affairs Department during the Asian crisis—staff members had agreed to cancel their planned leave. He knew of no other way to set incentives. In his experience, during any crisis the staff had had to bear the burden, and that would always be the case. Those demands arose from the institution, and managers were being pushed to the limit; if a mission had to be fielded, their solution was to ask the staff to postpone their leave.

Mr. Newman commented that his principal objection was to a system in which accumulated leave was totally uncapped. He could accept a system with a longer period to recoup, say, five years instead of one year.

The Deputy Director of Administration noted that during the four-year period 1995–99, the staff had been given an opportunity to work off their excess leave, but little progress had been made. The balance had been reduced somewhat, but, as of May 1, 1998, approximately 400 people had leave well in excess of 60 days.

The Acting Chairman considered that an incentive of some type should be established as, clearly, the system penalized those who were in high demand, and in bureaucracies such as the Fund, an inability to differentiate salaries was inherent

In concluding the discussion, the Acting Chairman said that Mr. Lushin's proposal, supported by Mr. Alosaimi, could be accepted, that is, to allow the system to be implemented forthwith and review the results after three years. In addition, taking leave between assignments to reduce accumulated leave should be strongly emphasized, and the 15-day minimum made effective, with the understanding that if not taken, that leave would be lost. For the review in three years, the statistics on the number of staff who did not take their 15 days should prove interesting. He would ask the Committee Secretary to prepare a report and recommendation on the proposed revision of the annual leave policy for submission to the Executive Board for approval on a lapse of time basis.[1]

The meeting was adjourned at 5:50 p.m.

APPROVAL: November 24, 1999

[1]The report and recommendation were subsequently circulated in EBAP/99/44 (4/16/99) for approval on April 22, 1999