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COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 92/4

3:00 p.m., October 6, 1992

R. D. Erb, Acting Chairman

Executive Directors

T. C. Dawson

D. Peretz

Alternate Executive Directors

A. A. Al-Tuwaijri

J. A. Solheim

O. Kabbaj

Y. Patel, Temporary

R. Marino

N. Tabata

A. Leipold, Secretary  
M. J. Miller, Assistant

Also Present

R. L. Knight

R. K. W. Powell

A. G. Zoccali

Administration Department: C. V. Bielaski, S. L. Chung, D. S. Cutler,  
M. E. Gehringer, R. C. Kelly, B. R. Shannon. Secretary's Department:  
B. R. Hughes, M. J. Papin. Advisors to Executive Directors:  
P. Bonzom, B. R. Fuleihan, A. R. Ismael, F. A. Quirós, A. Törnqvist.  
Assistants to Executive Directors: S. B. Creane, Duan J.,  
A. Giustiniani.

1. Simplification of Benefits . . . . . Page 3
2. Fund Travel Policy . . . . . Page 18

1. SIMPLIFICATION OF BENEFITS

The Executive Directors considered a paper on the simplification of benefits (EB/CAP/92/9, 8/19/92).

The Chairman of the Staff Association made the following statement:

The general idea of simplification of the administration of benefits, as well as simplification of the benefits themselves, should be pursued. In this connection, you may recall that the Quadrennial Benefit Survey clearly showed that the Fund's benefit package was not excessive and that additional benefits were required to make sure that the Fund did not fall further behind comparator organizations. Consequently, care should be taken that simplifications do not lead to an overall decline in benefits; any reductions should be compensated for by increases in other benefits. In addition, the equity that benefits aim at providing among the staff should not be jeopardized.

Before turning to the specific questions in Section IV of the paper, we would like to underscore our position on some of the main principles raised in this paper. First, we support the principle that staff members should be able to claim benefits in their own right. Staff members should be allowed to exercise their rights to Fund benefits, regardless of where their spouse is employed. Second, we support the principle of acquired rights. Grandfathering is a must in all cases in which some staff members might find themselves with reduced or less desirable benefits.

We can support the minimizing of documentation, but we would need assurance that the possible system for controlling the use of benefits does not get cumbersome for staff members. If the control is through random spot checking, the documentation required should be reduced to a minimum and clearly defined, and the controls should be truly random and with a rather short statute of limitations. Otherwise, an administrative system that is cumbersome for the Fund might simply be replaced with an even more cumbersome administrative system at the level of individual staff members.

We can support the simplification of the eligibility of children to the question of their age. This criterion should of course not be applied to disabled children. For other benefits, we agree that the eligibility criterion should be reviewed to provide benefits adapted to the actual situation of staff members and their work situation.

We agree with the paper's conclusions regarding expatriation benefits. Home leave and education allowances should remain targeted benefits. Within this parameter, one could explore "cash

for home leave" options, as well as a streamlining of the education allowance system. If the Fund ends up moving to a "cash for home leave" system, we understand that the home leave allowance would be maintained.

In addition to these targeted benefits, the need for an expatriation allowance aimed at compensating for less tangible costs should be explored. We understand that such an allowance exists in the OECD and the EC.

Simplification of the spouse and dependency allowance is warranted. However, the involvement of the Internal Revenue Service is unacceptable, and other ways for policing should be found if spouse income continues to be a factor. We would like to reiterate that this is not really a benefit, but rather an adjustment of compensation.

We strongly support exploring the idea of flexible benefits.

Regarding appointment and repatriation benefits, we have no problems with the amalgamation of various payments to new staff into a standard allowance. However, the payment of a single amount covering repatriation and resettlement benefits could prove to be more costly than the present system. Staff members might have to spend an unreasonable amount of time arranging for shipments to their home country during their final months with the Fund. The Fund should continue to provide these services.

We agree with the description of the problems many staff members have had with the spouse travel on points benefit, and agree that spouses who use this benefit often find it a disappointment. However, it is necessary to compensate staff for the separation from spouses, family, and/or friends, and the benefit should be expanded to cover all staff, rather than being abolished. To give staff the opportunity to spend time with their family and/or friends after a heavy traveling schedule, a cash compensation, combined with leave, might be appropriate. We agree that this is one of the areas in which the eligibility criterion does not fit the purpose of the benefit. Also, staff members with family, but no official spouse, need as much time to become re-acquainted with their family and/or unofficial spouse or friends as staff members in traditional family settings. We disagree with the argument that frequent flier programs can be used as a substitute for this benefit. Is hopping on another plane the best way to be compensated for traveling?

The Chairman of the Staff Association then left the meeting.

The staff representative from the Administration Department stated that from the time the paper had been issued, staff of other departments had emphasized that the benefit of spouse travel on points was more highly regarded by the staff--especially by those staff members who travelled frequently--than had been suggested in the presentation in the paper. There was thus some staff opposition to the amendment or discontinuance of that benefit.

Mr. Dawson commented that the issue of the proper definition of "official spouse" arose in the staff paper, and he understood that at present, only a spouse by way of a legal marriage satisfied that definition. While the Fund might be accused of being old-fashioned in that respect, an argument could be made that the Fund, as a public sector institution, should observe the conventions of the country in which it was headquartered, while taking into account as much as possible the laws and practices of its varied member countries.

The paper was a good overview of the possibilities for simplifying staff benefits, Mr. Dawson continued. At the same time, the paper confirmed his view that maintaining equity among personnel in an organization like the Fund was a complex undertaking. While the paper might have identified some savings in expenditures on benefits, they appeared to be minor. He would have liked to have seen estimates of the manpower savings that might have been expected as well. If the standardization or simplification of benefits would be likely to save only a few staff positions, while raising other costs, the trade-off might well not be worth it. He would appreciate more specificity about the likely staff savings, if there were any.

The test that needed to be applied to the proposals was whether or not they were valid on their own merits, quite apart from their simplifying effects and neutral impact on the administrative budget, Mr. Dawson observed. It needed to be borne in mind that the simplification of benefits should not be a surreptitious way of increasing staff benefits. If the intent was to increase the overall level of benefits, that issue should be confronted squarely instead.

Too much had been made of the documentation that was needed to support staff benefits, especially when the fact that the functions and responsibilities of any administrative office necessitated a fair amount of documentation was taken into account, Mr. Dawson concluded. Some of the suggested approaches to standardizing benefits--such as home leave--would require an audit system, with which he could agree, assuming that such a system could be well-defined and workable, with a pre-announced financial penalty and disciplinary scheme. Such a penalty scheme would be crucial were a short period for the operation of the statute of limitations to apply, as the Staff Association had suggested. The purpose, targeting, and equity of individual benefits should not be changed. The Fund needed to monitor closely the evolution of the World Bank's benefit package, with a view to maintaining broad comparability and complementarity between the two organizations, which remained desirable.

Mr. Al-Tuwaijri stated that he shared Mr. Dawson's disappointment that no estimates of manpower savings had been included in the paper. The costs and savings implied by the proposals needed to be laid out clearly, to provide a solid base for the Board's discussions. In his view, the mere shifting of the administrative burden of benefits from the Fund to the staff members concerned did not constitute a true cost savings, and the Board needed to guard against making changes of that kind.

Mr. Marino said that he agreed with the Chairman of the Staff Association that no staff member should be made worse off as a result of the simplification process. He agreed with Mr. Dawson that the simplification effort should be cost neutral, in that improvements in certain benefits and the resulting cost increases needed to be offset by reductions in expenditures on benefits administration or savings deriving from reducing oversight and policing. In his view, that could be achieved most effectively by introducing a more flexible benefits system, under which each staff member could derive the maximum potential benefit applicable to his or her own particular case.

Mr. Solheim stated that he agreed with Mr. Dawson that the manpower implications of the proposals should have been included in the staff paper. Nevertheless, the simplification proposals appeared to be useful in and of themselves, even though the actual benefit that might be derived from them was not otherwise clear.

Mr. Kabbaj said that he believed that the attempt to simplify and rationalize the benefits package had been worthwhile. The emphasis in the exercise had rightly been placed on simplification, and not on either an expansion or a contraction of benefits. He agreed with Mr. Dawson that the inclusion in the paper of some estimates of resulting manpower savings would have been useful.

Mr. Powell stated that he also agreed that some estimate of manpower savings should have been included. The costs associated with administration and documentation of benefits needed to be tolerated, as long as they were efficient and supported the proper targeting of benefits. Like Mr. Dawson and others, he hoped that any final proposals would be cost neutral. In designing its benefits package, the Fund needed to guard against diverging very much from the World Bank's benefits package, which was tending to become more and more complicated. The Fund would need to monitor the World Bank's benefits package carefully.

Ms. Patel said that she was also in agreement with the need for the simplification of benefits, but it would have been helpful if the staff could have provided some broad estimates of the net cost savings that could be expected from this exercise.

Mr. Knight made the following statement:

If one were creating this institution today, one would presumably want to make it a model of managerial efficiency, embodying the principles which its staff diligently preaches to member countries everywhere. It would thus need to have good leadership, a lean administration, a clearly defined set of objectives, and a remuneration system designed to create a dynamic, motivated, well-qualified staff.

On the basis of a short stay here, it would be presumptuous for me to argue the extent to which this particular bureaucracy falls short of those ideals, but the subject on today's agenda suggests a need to go back to first principles.

I would thus suggest to the Committee that it adopt as general guidelines the following principles. First, staff remuneration should be paid as far as possible in the form of cash, leaving the individual staff members to decide how they want to spend it--that is, let them choose their own range of benefits.

Second, the Fund should reduce to an absolute minimum the benefits other than cash that it supplies and administers directly. For example, it is hard to see why an institution like the Fund needs to be involved with services that are readily purchased in the marketplace, such as life insurance, medical insurance, and education. Almost the only special requirement that arises naturally for this organization is the need to transport staff and households to and from Washington on appointment and resettlement, and those items can be covered by one-off expenditures on a standardized basis.

Third, the Fund should continue the process of moving away from the hierarchical departmental structures which inevitably leave many people with senior status who have passed their most productive phase simply waiting for retirement, while others below them are eager but frustrated. The most useful solution to this problem is to bite the bullet and pay those people to retire. The associated need is, increasingly--and as soon as possible, exclusively--to put professional staff on term contracts, which provide the incentives for them to perform, and which provide the organization with flexibility to make changes if they do not perform. One might easily find that this apparently drastic solution, which would be expensive in the short run, could pay dividends in unexpected ways. It could succeed in lifting both performance and morale; it could also lead to a discovery that, in many areas, the Fund has more staff than it needs. Certainly the small army of people administering the benefit rules could usefully be reduced. Those changes could, in turn, have positive implications for the staff accommodation problem that is still unresolved.

My objective in saying this is simply to urge the Board and the management to move further and faster in a direction which I believe is necessary, and in which I think they are already heading. I would simply suggest that the particular issues before the Committee now should be addressed with the aim of taking the Fund out of areas of administration in which it need not be involved.

The administration of staff benefits could be thought of as being akin to running an exchange control system. The rules that are devised from time to time are understandably regarded as a challenge to those who want to see how far they can be pushed. That, in turn, creates a new challenge for the administrators to close the loopholes. That process will inevitably continue until it is clear that the Fund is determined to move out of administering such issues by paying fully competitive salaries and letting the staff decide how they spend them.

This process cannot expect to win universal applause from the present beneficiaries, but the Fund is not in the business of recommending soft options to its member countries, because it knows that such solutions will not work. My proposal is simply that the Fund apply the same philosophy to its own domestic affairs.

The Acting Chairman suggested that Directors address the questions raised in the staff paper about expatriate benefits.

Mr. Dawson said that his chair would strongly agree with the staff suggestion not to move to nontargeted cash payments for various kinds of expatriate benefits. He could support a change in the home leave policy along the lines of what had been adopted in the World Bank. With regard to the education allowance, his chair would strongly oppose providing a cash payment to all expatriates with children, which would not be in the spirit of the education policy. The range of educational institutions attended by the children of expatriate staff was very large and varied, and the different situations could not be accommodated by a standardized allowance system. The staff should continue to search for ways to streamline the system.

Mr. Peretz observed that the cash option for home leave had been welcomed in the World Bank, and there was a case for introducing it in the Fund. He would prefer the Bank and the Fund to maintain parallel systems for home leave, if possible. He had noted that the Fund believed that the Bank's menu of options was too difficult and costly to administer with a small number of staff, but, with closer cooperation between the two institutions, the administration of home leave might be unified, and money thereby saved on administration costs. The education allowance policy should be left largely as it was, but a review of it needed to be carried out at some stage, to examine whether or not the targeting of the allowances was linked to the agreed objectives of the allowances.

Mr. Kabbaj stated that the present targeting of home leave benefits remained appropriate, but he would be prepared to consider cash for home leave along the lines of the World Bank's practice. He agreed with Mr. Dawson that the education allowance should remain as it was at present.

Mr. Marino stated that he would favor a single cash payment for home leave. The staff had emphasized the fact that the staff would need to prove that the cash had been spent on traveling to the home country, and that the use of frequent flier coupons should not be allowed in that context. He did not understand the reasons behind such a proscription. If it were to be assumed that the staff might seek the cheapest airfare, then use of a frequent flier coupon would be entirely appropriate, in his view, and that possibility should not be excluded. He shared the view of the staff and other speakers that the current education allowance system seemed to be working well as it was.

Mr. Tabata said that he supported the staff's proposal to introduce a cash option for home leave. He supported maintaining the basic framework of the present education allowance system, while continuing to work on its streamlining.

Mr. Solheim said that he could agree with the proposal to introduce a cash option for home leave. The question of streamlining the education allowance system should be pursued. He agreed with the current general targeting of benefits, however.

Mr. Al-Tuwaijri stated that he agreed with the staff that it would be preferable to keep the current targeted benefits system. A cash option for home leave, under which a standard payment would be made, should be explored, but the extent to which staff members would be expected to certify that the home leave had been taken should be kept to a minimum. A certification by the staff that the trip had not been financed by sources other than the cash provided by the Fund for that purpose seemed unnecessary, and such a requirement might prove cumbersome to staff when making travel arrangements. Moreover, since cash was fungible, such a requirement would be unenforceable in practice. A clarification of the criteria that determined the eligibility of family members for home leave was also needed. At present, the system allowed some flexibility with regard to changing the composition of the family through birth or marriage, by allowing eligibility to be determined at any point within the entitlement period. Under the new proposal of specifying a single fixed date for determining home leave eligibility, a child's date of birth might have important consequences for determining whether or not he or she would be entitled to travel on home leave with the parents at a certain time. He would prefer a streamlined version of the existing system of educational allowances.

Ms. Patel said that the two targeted expatriate benefits should be maintained, and a cash payment option introduced with regard to home leave. She was of the same view as that expressed by Mr. Peretz regarding the education allowance.



The Acting Chairman recommended that the question of simplifying the eligibility criteria for benefits be addressed next.

Mr. Dawson commented that he was attracted to the idea of adopting a simple age test as the criterion for determining eligibility for certain benefits, although he was uncertain about precisely what age should be decided. He would appreciate some assessment of the gains and trade-offs that might be involved. He recalled that eligibility for certain benefits for children was phased out after the ages of between 18 and 24 under the present system. He could not support replacing an age of 24 for the current phased approach to benefits ineligibility, because of the increased costs that that would entail, but in principle, education allowances should be phased out at the age of 21 or 22, in order to allow for the payment of college education costs.

He was not sympathetic to the idea of requiring that benefits be exercised within a particular time limit, beyond which no extensions--and to which no exceptions--would be granted, Mr. Dawson remarked. The record showed that it was very difficult not to make exceptions to a rule, regardless of how generous that rule might be. The present system, which was fairly strict, was well known. It was preferable to have clear and firm rules that were clearly understood; it would be unwise to try to broaden the rules in the expectation that no requests for exceptions would be forthcoming.

Mr. Peretz said that he was attracted by the idea of applying a simple age rule in principle, but, like Mr. Dawson, he was concerned that it should at least be cost neutral. His more general worry was that, in the process of trying to simplify things, there was always great pressure to make sure that no one lost, and the result was that somebody gained and nobody lost--which was not cost neutral. He therefore wondered whether such changes could be introduced while observing the principle of cost neutrality.

Regarding the time limit for claims, while he preferred rules that were clear, fair, and strictly adhered to, he took Mr. Dawson's point that the present rules--to which there were exceptions--were well understood, and there was an advantage in that. He could support either position, accordingly.

The staff representative from the Administration Department stated that it might be helpful to look into the types of benefits to which time limits applied. The rule for the repatriation benefit, for example, was that it should be applied for within 90 days of separation, but the exceptions were routinely granted, if there were a good reason, provided the time period from the date of separation was no longer than one year. The staff would prefer to have a hard rule of one year, with no possibility of exceptions, instead of giving exceptions for any reasonable cause. Another time-determined issue was how soon after arrival in the Fund certain benefits that were available to new staff members could be claimed, because new staff members were not always immediately aware of--or informed of--those bene-

fits. In that connection, it would be better to set the time limit for eligibility for those benefits at six months after appointment, with no exceptions, than to maintain it at three months, with many exceptions being requested and granted.

The staff could not be certain that setting a particular age as the criterion for the determination of children's benefits would be cost neutral when compared with the current system, the staff representative pointed out. The staff had had in mind maintaining the age limit at 24, in line with the agreement that had been reached in the Committee and the Board some time previously. The staff wished to remove from the area of dispute primarily those children who were earning money on their own, and in that regard, the staff had to make judgments based on the size of the salary, whether or not the children were U.S. residents and/or living in the family home, and their marital status. There was the possibility of a great many permutations of those criteria, and hard and fast rules that took those variations into account were therefore difficult to make. Therefore, applying an age limit would eliminate the judgments that the staff would have to make, and, in the staff's view, the direct costs would only increase marginally.

The staff would recommend excluding the use of frequent flier coupons for travel in conjunction with home leave because that form of advantage was not necessarily available to the staff in general, and staff members who used those means to finance their travel to their home country would have an advantage that was not available necessarily to all staff who were receiving home leave benefits--for example, those staff members who did not travel in their jobs and therefore did not accumulate mileage bonuses. If it were allowed, it would constitute in effect another form of Fund financing for home leave. Nevertheless, the issue might be examined further.

Mr. Dawson said that he had some sympathy for allowing staff members to use their frequent flier coupons for home leave travel, simply because money was fungible. He had been astonished to discover that the rule for the use of the repatriation benefits was 90 days from the date of separation. Implementing a 6-month rule for repatriation, with no possibility of exceptions, might be entertained, in his view, provided that there would be no danger of violating the relevant U.S. visa requirements and burdening the Fund with the official legal problems that would arise in consequence.

Mr. Solheim stated that setting age as the criterion for the eligibility of children for various benefits would simplify benefits administration and would be less controversial vis-à-vis the staff, although it might also cause marginal increases in allowances. He also agreed with the staff paper on the usefulness of setting generous time limits on the use of benefits, but with the understanding that no exceptions would be granted.

Mr. Al-Tuwaijri said that he could support the staff's recommendations on the determination of benefit eligibility for children. A more generous time limit with respect to the use of benefits would also appear to be reasonable, but he wondered whether the Fund and the staff would be able to

enforce a policy of no exceptions, especially in unusual situations. In his view, the door should be left open to taking into consideration the circumstances of the individual case in extreme situations.

Mr. Marino remarked that he would favor a simple age test for the determination of eligibility for children's benefits, but he would appreciate more information on what the costs of that change might be. It seemed reasonable to increase the time limits applying to the use of benefits, but to have absolutely no exceptions to the rule.

Mr. Tabata said that he supported a simple age test for the determination of eligibility for children's benefits. With regard to the extension of the time limits on the use of benefits, he recalled that the staff representative from the Administration Department had said that the time limit on the use of expatriate benefits should be extended from 90 days to one year--which he saw as too long.

The staff representative from the Administration Department stated that under the present repatriation rules, use of the repatriation allowance was permitted, under exceptional circumstances, for a period of up to one year following separation from the Fund, notwithstanding the fact that the formal rule was that the repatriation benefit should be used within 90 days of separation. That understanding underpinned the staff's recommendation that a new, more generous, rule should have a time limit of one year, on a standard basis. Occasionally, the staff received requests for exceptions to the time limit of even longer than one year--because of problems in selling a house, for example. An intermediate period between 90 days and one year, however, might also be contemplated, but it needed to be borne in mind that the shorter the period, the greater the likelihood that exceptions would need to be made to a policy that supposedly was to have no exceptions, as some Directors had observed.

Mr. Knight remarked that he wondered why the Fund had assigned a time period within which the repatriation entitlements were supposed to be used. Perhaps the Fund should merely pay the entitlement upon separation, and not concern itself with when or how a former staff member left the country, which was an issue of emigration.

The staff representative from the Administration Department replied that the Fund provided the repatriation entitlement only if the staff member actually returned to his home country after separation; if the staff member remained in the United States--for whatever reason--a repatriation allowance was not paid.

Mr. Knight observed that repatriation was not a matter with which the Fund should concern itself. Repatriation costs should be borne by the Fund at the time that repatriation took place, in his view; the problem could then be disposed of.

Mr. Kabbaj commented that the issue of the time period for payment of the repatriation allowance needed to be examined more carefully. Perhaps the staff could prepare a more detailed paper on the matter, with some additional background. More generally with respect to the time limits, perhaps more detail could be provided about the staff's actual experience so far. A decision not to allow any exceptions to be made to the time period might have terrible financial consequences for particular staff members. The Committee should recognize that, while the general direction of the changes to the policy on time limits that the staff might contemplate had been agreed, the final decisions would be reserved pending further discussion.

Mr. Peretz said that he would want to see overall cost estimates of the proposed change. He would also like to know whether or not administrative costs would be reduced. Mr. Knight's proposition should also not be ruled out even though it might increase costs, because certain staff who did not receive the repatriation allowance at present would receive it under the new system. Any extra cost that would be attached to applying a simple age rule for the determination of eligibility for children's benefits should also be explained. Moreover, if that change meant a net increase in cost, he would oppose the entire package, unless offsetting savings could be identified in another part of the package.

Mr. Zoccali stated that he shared the proposal put forth by Mr. Peretz. The cost of buy-outs and grandfathering also needed to be factored in, and would be useful information in setting the administrative budget. Indeed, it would be poor practice to try to agree on an administrative budget without having some idea beforehand of such costs.

The Acting Chairman requested Directors to address the issues related to the coordination of benefits between the Fund and the World Bank.

Mr. Dawson stated that he supported the coordination of Fund benefits with the benefits of the World Bank. He recalled that some years ago, the World Bank had surveyed the nationality distribution of Fund/Bank and Bank/Bank couples. He could support the claiming of benefits in their own right for each spouse in cases in which the staff members were not of the same nationality, but he wished to continue with the present system if the staff members were of the same nationality.

Mr. Peretz said that applying the present policy with respect to the coordination of the benefits of Fund/Bank couples was difficult, but there must be only a limited number of such cases. Perhaps the policy could rely on self-policing, as the staff members would be aware of the policy, would realize that they could be audited, and therefore they would be likely to behave themselves, in his view.

Mr. Marino said that he agreed with Mr. Peretz. The purpose of the exercise was to simplify benefits, and the policy on coordination of benefits cried out for that. Nevertheless, benefits might be increased for

certain staff members, and he would like to know what would be the additional cost.

The staff representative from the Administration Department acknowledged that the implementation of the new policy with respect to the coordination of benefits was likely to be expensive. Were benefits not to be coordinated between the Fund and the Bank, and if the Fund were instead to allow members of Fund/Fund and Fund/Bank couples to exercise their benefits in their own right, the cost of home leave--in particular--for both institutions would increase. However, the argument was often made that a staff member should not be penalized because his or her spouse worked in the Fund instead of in an embassy or another organization, and the administration was recommending the change in policy chiefly because of that argument.

Mr. Kabbaj stated that he favored maintaining the present system of coordination of benefits.

The Acting Chairman suggested that Directors address next the proposed changes in spouse and dependency allowances.

Mr. Dawson commented that spouse income should not be eliminated as a factor in the calculation of spouse and dependency allowances. He was attracted by the idea of having the allowances calculated on the basis of spouse income for the previous, rather than the current, year. He was of two minds about the suggestion to require that the staff provide a certification of spouse income level in place of documentation of spouse income. Moreover, if the allowances were calculated on the basis of spouse income in the previous year, much of the administration and policing that was undertaken at present could be done away with, in his view. In that way, the staff could prepare the documentation of spouse income for the Fund, and the end-of-year tax forms, at the same time.

Mr. Peretz stated that some form of simplification of the spouse and dependency allowances seemed warranted. He could support moving to either a system of paying the allowances on the basis of spouse income for the prior year, or to a system of certification by the staff--rather than documentary proof--of the level of spouse income.

Mr. Kabbaj said that he agreed with Mr. Peretz.

Mr. Al-Tuwaijri observed that the possibility of eliminating spouse income as a factor in the calculation of spouse and dependency allowances could be explored. He was against reducing the maximum allowance payable. He wondered what the savings in administrative costs resulting from such a change in the system might be.

The staff representative from the Administration Department stated that the staff had not yet calculated the likely level of administrative savings that would result, but they would be considerable, and the staff viewed that change as a major step forward. Under the current system, a retroactive

adjustment to the allowances was made once information on the final spouse income for the year was received, which was time consuming and complicated. The principal savings in that regard would be reaped in the Administration Expenditures Division of the Treasurer's Department.

Mr. Solheim stated that he saw no strong justification for the spouse and dependency allowances, and in his view, they should be replaced with some other form of staff support. If the allowances had to be retained, however, he would support calculating them on the basis of spouse income for the prior--rather than the current--year.

Ms. Patel said that she agreed with Mr. Solheim.

Mr. Dawson said that he agreed that the benefit was a bit archaic. Perhaps the Staff Association could agree to its being reviewed in the context of a reassessment of the overall compensation package. That notwithstanding, if the system were to be continued, it should be simplified along the lines of what Mr. Solheim had suggested--payment based on the prior year's income.

Mr. Knight said that he agreed with Mr. Solheim and Mr. Dawson. The logical solution was to get rid of an archaic piece of administration. The ultimate solution was to pay the staff a competitive salary.

Mr. Marino said that he favored paying the allowances on the basis of spouse income for the prior year. He wondered whether reducing the allowance payable on the basis of each \$1,000 in spouse income would serve to lower the administrative costs compared with the current system--under which the threshold for receiving the full allowance was spouse income of \$30,000 per year.

The staff representative from the Administration Department noted that the spouse and dependency allowance was not, strictly speaking, a benefit, but rather, a tax equivalency allowance--as it was called in the World Bank--to take into account the effect of the personal and dependent exemptions in the U.S. tax code that applied to the gross salary equivalents of net Fund salaries. The principle was firmly rooted in the compensation system. Nevertheless, the staff would be happy to see the system disposed of, and perhaps that issue could be pursued with the staff of the World Bank as well.

Mr. Peretz commented that it appeared that the Fund was trying to replicate what the tax authorities did--to give some benefit to certain people. There were tax benefits for spouses in most countries, and in terms of the Fund's overall compensation package and its recruitment objectives, it was entirely fair. Another effect of the system was to keep down the overall cost of the staff compensation package, because if the spouse and dependency allowances were added into the total compensation package, some staff would end up being overpaid. One approach--that of Mr. Knight--would be to do away with supplementary benefits altogether and improve basic com-

pensation, but the total cost to the Fund would then be greater than the cost of the present arrangements.

Mr. Knight commented that, having had personal experience of a bureaucracy that had been through a similar process of rationalizing benefits on a smaller scale, he could say with confidence that the process could result in a sharp reduction in the cost of administration and a more efficient compensation system. The number and placement of staff had also been assessed in that process.

Mr. Dawson said that, in principle, he could agree with Mr. Knight. The methodology under which the effect of the tax system was supposedly taken into account in the determination of Fund salaries and benefits was convoluted and frustrating, whether for the payment of tax allowances or spouse and dependency allowances, in his view. Unlike Mr. Peretz, he was not certain that folding the spouse and dependency allowances directly into a more broadly based overall compensation plan would necessarily cost the Fund any more, given the number and degree of complication of the other factors that intruded, and which might offset the cost. That notwithstanding, if the object of the discussion was the simplification of benefits, the present was not the time to take up those issues; they should be taken up instead in the context of a discussion on compensation.

The Acting Chairman suggested that Directors turn to the issue of flexible Fund benefits.

Mr. Dawson said that while it was hard to be against the concept of flexible benefits, such a system violated the principle of cost neutrality. He could not identify the revenue flows that would be needed to pay for a flexible benefits system--other than from the folding of the separation allowance into some kind of capital accumulation plan. The Fund needed to keep in mind the possibility of moving to flexible benefits, and the World Bank was doing work in that area. However, a close monitoring by the Fund of the Bank's work should not be a priority.

Mr. Solheim commented that he was skeptical about flexible benefits, as such a system would be administratively complicated--thereby going against the main purpose of the current exercise. From that point of view, they should not be pursued further.

Mr. Peretz said that he agreed with Mr. Dawson and Mr. Solheim, but he believed that it would be important to monitor the Bank's work in the area of flexible benefits, because if the Bank adopted such a system, there would be pressure on the Fund to do so as well. The institutions should make such a change only in tandem, if only in order to simplify, share, and reduce the cost of administration.

The Acting Chairman said that Directors might address the issue of changes in appointment and separation benefits.

Mr. Dawson observed that while there might be some justification for the simplification of appointment and separation benefits, he believed that to burden the staff with the responsibility of making their own moving, travel, and shipping arrangements in connection with appointment and separation would be unwarranted. Moreover, the Fund's transportation office was efficient in making such arrangements already. A wide variety of associated expenses might usefully be simplified, however.

Mr. Al-Tuwaijri said that, while he could go along with the staff's proposals in general, he agreed with Mr. Dawson that it would be a particular burden for staff members separating from the Fund to have to deal with the details of moving and shipping. Moreover, he wondered if the Fund would save very much money by shifting those responsibilities onto the staff.

Mr. Peretz commented that it would seem that the Fund would have a comparative advantage over the staff in making arrangements for the shipment of goods, if only in terms of being able to negotiate bulk deals with shippers. Also, there must be large variations in the quantity and character of goods shipped and in the distance shipped, and he believed that any attempt to simplify the procedures would turn out to be expensive in the end. He was therefore against a radical simplification of procedures in that area.

Mr. Marino stated that he disagreed with Messrs. Dawson and Peretz. In his view, the individual staff member often had a more accurate sense of the best way to handle the shipping arrangements, in the light of experience in the home country which the Fund quite unavoidably could not have. Allowing the Fund to look after such personal affairs could not be particularly cost effective. While the Fund might be able to provide general guidance on shipping procedures, he was confident that economists of the calibre that the Fund hired would do a better job in making personal, tailored shipping arrangements for themselves than could the Fund. The option of a cash allowance in lieu of the shipment of goods by the Fund might also be considered, in the light of the tendency for staff members to ship abroad goods of little value only in order to come up to the maximum weight allowance.

Mr. Kabbaj said that he was in agreement with Mr. Dawson and Mr. Peretz.

Mr. Solheim stated that he strongly preferred maintaining the present system. Mr. Marino's proposal might complicate the procedure, in his view.

The Acting Chairman suggested that speakers turn to the question of spouse travel on points.

Mr. Peretz said that the benefit could be abolished.

Mr. Dawson said that if the system were not retained in its current shape, some version of it should probably be kept in any case. He recalled that the staff representative from the Administration Department had stressed that staff in departments with heavy travel requirements valued



the benefit quite highly, and in that connection, the benefit might be re-defined, but not eliminated. For example, some thought might be given to extending the benefit to children of staff--in particular, to single-parent families--as well. He understood that the spouse travel policy was generally well used in the World Bank, and in that sense, the Fund might need to maintain parallelism.

Mr. Al-Tuwaijri stated that he favored a restructuring of the scheme so that it might be used more effectively. To do otherwise would constitute a reduction in benefits, rather than only a saving in administrative costs. He did not believe that frequent flier arrangements could act as a substitute for the spouse travel policy, as--appropriately enough--frequent flier bonuses were earned only by flying frequently, whereas spouse points were earned on the basis of the number of days spent outside the duty station on official business.

Mr. Dawson remarked that perhaps one way of making Fund business travel less onerous on Fund staff families would be to allow the staff member to make more frequent telephone calls home. At present, he understood that a flat allowance was given for telephone calls, rather than an authorization to make a specific number.

Ms. Patel said that she favored redefining the policy, or else abolishing it.

Mr. Kabbaj stated that the system should be maintained, but he would welcome any simplification of it that would also make it more effective.

Mr. Marino said that he would also favor abolishing the system, but he would like to know how those staff members who had built up points for staff travel were to be compensated for the discontinuation of the policy.

Mr. Solheim said that he agreed with Mr. Marino that the system should be abolished. The savings from discontinuing it could be employed elsewhere to improve other elements of the benefits package.

Mr. Dawson said that perhaps the savings could be used to offset any increases in costs resulting from a flexible benefits plan, if the latter were adopted.

Mr. Peretz commented that he was attracted by the idea of allowing an increase in the number of telephone calls in recompense for abolishing the spouse travel on points system. In some ways, allowing more telephone calls would be a better compensation for people who travelled frequently on Fund business than was the spouse travel on points system.

The Acting Chairman recommended that speakers turn to the issue of documentation and policing of benefits.

The staff representative from the Administration Department, in replying to a question from Mr. Tabata, said that it was difficult to estimate how many staff positions might be eliminated by moving in the direction of a more self-policing benefits administration system. The documentation requirements took up a large proportion of the time of the benefits administrators, and the paperwork was often burdensome for the staff to prepare and to retain as well. If the documentation requirements could be changed in the way the staff had recommended in the paper, a great deal of pressure on the staff would be alleviated, and it might be possible to eliminate one staff position.

Mr. Dawson said that he would like to have a better sense of what the trade-offs might be, and more detailed estimates of the manpower and financial implications of the proposed changes. He was assured that such detail was possible; for example, the staff had been able to identify exactly how many man-years would be saved in adopting the changes in the billing procedures for use of the executive dining room.

Mr. Knight stated that the very fact that so much time was required to extricate the details of the administration of the Fund's benefits indicated, in his view, that much more was at stake than the employment of a few clerks. The system of benefits administration was a quagmire, and surely a more effective and efficient system could be found to replace it.

The staff representative from the Administration Department replied that he agreed that the greatest costs were incurred not at the lower end of the spectrum, but at the higher end--in the form of the amount of time spent by the Committee, the Board, and the management in discussing and coming to decisions on the Fund's benefits system. Any form of simplification that could cut down on that type of involvement would be desirable.

The Acting Chairman said that the staff would reflect on and take into account what had been said in the meeting, and would prepare a further paper on the various proposals.

Mr. Peretz said that he would hope that the paper would attach costs to the various options in each case. A range of possibilities should be explored, and the related costs and savings delineated clearly.

Mr. Solheim said that he agreed with Mr. Peretz. At the same time, it was useful, in and of itself, to streamline procedures and make them more sensible, even if costs were not immediately reduced in that way.

The Acting Chairman concluded that streamlining was an important objective. The benefits system should be made more transparent and easier to administer, which should lead to reducing the number of disputed cases. He realized that staff of the Administration Department was often put into difficult situations when it was forced into rejecting applications for certain benefits, especially when the personal situations of individual staff members had to be examined. Tensions within the staff were often

exacerbated as well. The more the system could be generalized and separated from personal situations, the better it would be for the institution.

2. FUND TRAVEL POLICY

Mr. Peretz stated that the World Bank had introduced a new travel policy with effect from January 1, 1993, following a recommendation from a committee of the Bank's Executive Board. That committee had expressed the hope in making that recommendation that the Fund would consider similar changes in travel policy at the same time. Many World Bank staff members would feel more content with the change if they believed that similar changes would be made in the Fund, and there had been some interest in encouraging the Fund to consider a similar change in its travel policy.

The Acting Chairman said that he had been approached during the Annual Meetings by the Chairman of the World Bank's Committee on Executive Board Services on that subject. He would review the material that had been provided to him at that time and convey his views to the Bank.

Mr. Dawson said that he would be interested in such a change in the Fund's travel policy. His chair had been on record for a number of years as being in favor of a policy along the lines of what the World Bank had adopted for travel both of staff and of Executive Directors. The Committee should have an opportunity to examine the issue.

The meeting was adjourned at 4.30 p.m.

APPROVED: March 19, 1993