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COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 93/2

2:30 p.m., November 23, 1993

R. D. Erb, Acting Chairman

Executive Directors

J. Bergo
J. de Groot

G. Lanciotti

L. J. Mwananshiku
D. Peretz

Alternate Executive Directors

A. A. Al-Tuwaijri

J. Prader
T. Kanada, Temporary
E. V. Kotova, Temporary

G. Torres
M. J. Mojarrad, Temporary

A. Leipold, Secretary
S. B. Caseley, Assistant

Also Present

G. F. Murphy
M. Sirat
Wei B.

Administration Department: G. F. Rea, Director; G. Archer-Davies, S. L. Chung, D. S. Cutler, E. M. Gehringer. Legal Department: J. S. Powers. Secretary's Department: C. P. Clarke, B. R. Hughes, M. J. Papin. Treasurer's Department: M. C. Ahl, J. DiMaina. Advisors To Executive Directors: R. F. Cippa, A. Mancebo, J. R. Suárez, A. Törnqvist. Assistants to Executive Directors: T. Isataev, R. K. W. Powell.

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1. EDUCATION ALLOWANCE POLICY - BACKGROUND ISSUES

The Committee members considered a paper on the Fund's policy on education allowances (EB/CAP/93/4, 10/26/93), which had been prepared at the suggestion of the Committee.

Mr. Peretz said that he welcomed the discussion. He noted that the provision of education benefits had gone beyond its "traditional rationale," the term used on page 6 of the staff paper. "Approved purpose" might have been a better description, as facilitating the return to the home country was the purpose that was originally approved when the Board sanctioned that particular benefit. He agreed with the view expressed in the staff paper on page 7 that "...it is felt that the policy serves a broader purpose by assisting the Fund to attract and retain staff from a wide range of countries. Any change in the policy will need to take both those aspects into account." He agreed even though that view did go beyond the goals formally approved by the Board. Indeed, the fact that the education benefit was being used to achieve goals that went beyond those it was originally designed to achieve and that had been formally approved by the Board might have been one reason why there had been so much contention over education benefits in the past.

If the objective of expatriate benefits was really to help with international recruitment--and he suspected that was now the primary goal--the current package of benefits was perhaps not the best way to achieve that, Mr. Peretz continued. In the light of that objective, the benefits were perhaps poorly targeted. In addition, the administration of benefits was costly; figures in the staff paper indicated that for those children studying abroad, the Fund was spending \$5,000 a year per child on travel alone. Moreover, the benefit and its cost were concentrated on relatively few staff.

If the goal really was to facilitate recruitment, the balance between compensation, on the one hand, and the benefits package, on the other, should be examined carefully, Mr. Peretz considered. He was certain that ways could be found to make the process cost neutral or even to save money, for example, by using targeted benefits to make Fund employment more attractive to expatriates from Europe rather than using increases in the general salary structure. The latter had resulted in a large number of U.S. citizens being employed at the Fund, which was costly to the Fund in terms of U.S. tax payments the Fund made on their behalf--probably exceeding the average benefits paid for an expatriate employee.

One of the problems that had been revealed in the World Bank's two-year review of eligibility for expatriate benefits had been the lack of understanding about the benefits' purposes on the part of both the staff and the World Bank Board, Mr. Peretz recalled. The Fund Board should think carefully about the purposes of all its expatriate benefits, but particularly education benefits.

Mr. Mwananshiku wondered whether the staff could provide background information on the reasons for the decision not to pay allowances for university education in the duty station country, for example, in the United States.

The staff representative from the Administration Department explained that the decision related to the targeting of benefits that Mr. Peretz had referred to earlier, that is, providing education that would facilitate, in the parents' view, the eventual return of the child to the home country. Education allowances were therefore available at the primary and secondary levels, but education at the university level was difficult to justify on that basis.

The Acting Chairman asked Mr. Peretz whether he was suggesting that expatriate benefits would vary by country or region, depending on the difficulties in recruitment.

Mr. Peretz responded that he had been simply recognizing the fact that recruitment outside the United States was in general more difficult than recruiting in that country. He would welcome, however, the staff's comment on whether it was in fact correct that the real purpose of the educational benefit was to facilitate recruitment rather than to help with the member's eventual return to the country of origin. If so, was the benefit as well targeted to that objective as it could be, or were there improvements that could be made that would offer better cost benefits in meeting that objective?

The Director of the Administration Department said that Mr. Peretz had correctly pointed out the ambivalence in respect of the rationale for, or purpose of, the education policy. The policy had evolved over time--as described in Section II of the staff paper--and it would be difficult to find one single rationale that could justify the policy in its present form. In his view, it should be regarded as having a broad purpose of helping induce people to come to the United States from other countries, either to spend a few years or to establish a career and raise a family. Facilitating repatriation was too narrow a purpose, as parents did not focus on repatriation for their children when they were still uncertain of their own future situation. Given the broader purpose of the education allowance, he was not certain how the policy could be better targeted to achieve that purpose.

Some elements had always been questioned, the Director continued, for example, the access to private education in the United States--which it was argued should be restricted to certain foreign language schools--and the lack of assistance for university education in the United States.

He could confirm that it did cost the Fund more to reimburse taxes for a U.S. staff member than to pay expatriate benefits on average to a non-U.S. staff member, the Director of the Administration Department stated. The non-U.S. staff member did get the benefit of that payment, however,

whereas the U.S. staff member did not receive any direct benefit from the tax reimbursement.

Mr. Bergo said that the staff paper had been especially helpful to him as a newcomer to the Committee, as it explained the current and historical reasons for the policy on education allowances. Like Mr. Peretz, he felt that it could be argued that the present policy rules did not seem to fit the purposes. In his experience, if a map did not fit the terrain, one should do something about the map. He understood, however, that the map had already been redrawn several times, possibly to fit some other terrain than what it was really said to be fitting, and before redrawing it again, the terrain should be checked very carefully to see what it really looked like.

It would be a time-consuming process to try to evaluate the real purpose of the education allowance, and there appeared to be more than just one purpose that had to be served, Mr. Bergo commented. Nevertheless, even if one hesitated to open up such a complicated matter, one should try to decide what the rationale was for having an education allowance. He had been struck by the fact that some forms of education and some countries were excluded, and he would like to see the entire policy reviewed in the context of the purpose of the education allowance.

Mr. Peretz said that if the purpose of the education allowance was to aid recruitment from abroad, there was no reason for university tuition to be covered only for education outside the United States. If the purpose was to facilitate the return to the home country, the benefit should be targeted specifically to university education in the home country or in countries with similar education systems. The purpose of aiding recruitment was probably the more important. If so, then it would be necessary to ask whether payment of university tuition abroad was the best use of limited resources, and also to look beyond education benefits to other things that might be more precisely targeted at aiding recruitment.

The Director of the Administration Department observed that not only recruitment but also retention was an important objective of the education allowance. Although the education allowance policy might not have been of much consequence at the time of a staff member's recruitment, the policy could help induce the member to stay after marriage and children.

Mr. Mwananshiku commented that the central problem with the policy appeared to be that the Fund had gone into areas where it did not need to go. The Fund should offer incentives to people it recruited; where those people educated their children was their responsibility. He was not sure that changes, or better targeting as Mr. Peretz had suggested, could be accomplished; once a benefit had been offered to an employee, it was very difficult to withdraw it. Withdrawal created disincentives, and should be avoided unless there was a compensating element.

Mr. Al-Tuwaijri remarked that he understood Mr. Peretz to have said that he wanted to better target the benefit, not withdraw it, and he agreed with that. The main purpose of the education allowance was to

attract expatriates to the staff, and it was important that they be able to educate their children in whatever way they chose, either at the duty station or in another country that would prepare them for return to their home country. The policy was serving its purpose and should be kept; however, questions about it had been raised, and consideration of better targeting was warranted. The answers to some of the questions raised at the meeting, aided by a further staff paper, could lead to conclusions. One of the questions, for example, was why university education in the United States was excluded.

Mr. Lanciotti said that he had understood that procedural matters were going to be discussed, whereas the general discussion thus far had covered much wider issues. He was aware that the education allowance was part of the whole system of benefits, but he understood Mr. Peretz to have said that it was proposed to reconsider the whole system of benefits, if not now, at least at some future date.

Mr. Peretz pointed out that there were two issues, one specific and one general: the design of the education benefits themselves, and the design of the benefits system. In relation to the first issue, the question was whether the benefits could be better targeted toward the objective of recruitment and retention of expatriate staff. That raised a further question of whether university attendance should be covered in the United States, in addition to third countries, and how much of the resulting savings on travel costs would be offset by the higher university costs. In relation to the second issue, one of the points for discussion might be how large a part education benefits would play in the benefits system. Other points for discussion might include the replacement of some of the benefits with a cash expatriate allowance, the issue of home leave travel, and the best use of the money now expended on expatriate benefits to meet the goal of recruiting and retaining overseas staff. There was a wider issue of how far the reconsideration should be pursued.

Mr. Lanciotti said that he would welcome a wider discussion on a future occasion, but he did not feel prepared to have it at the current meeting.

Mr. Peretz considered that two questions still remained to be followed up. First, if recruitment and retention were accepted as the main purpose of the education allowances, should the education allowances be redesigned in any way? Second, if recruitment and retention were accepted as the main purpose of education allowances within the overall package of expatriate benefits, should the package be examined again with a view to redesigning it to better meet that objective?

The Acting Chairman added that, provided it was agreed to hold further discussion, a third question was whether to differentiate by region or country, that is, design a special recruitment package that would include inducements to get people to leave particular cultures and home countries. Problems were encountered in recruiting a staff comprising diverse nationalities.

The Director of the Administration Department considered that the difficulty would be to produce a policy that would be clearly better than the current policy. The particular elements of the current policy appeared to be the result of a series of compromises built on an underlying broad theme; those elements could lead in a number of directions in deciding what was the reasonable minimum that needed to be offered in order to recruit and retain staff. The emphasis under the current policy on payment for primary and secondary school education rather than university education, for example, probably stemmed from recognition of the fact that younger children had to stay with their parents at the duty station whereas older children had the option of travelling to their home country--and from a pragmatic point of view, university education was more costly for the Fund. Similarly, it had probably been seen as being pragmatic to target particular types of education rather than to allot the same amount of money to everyone. Those who most needed assistance were the parents who chose to send their children to private schools; those who wanted to send their children to public schools were not incurring the same level of costs.

Finally, the third-country principle had been an extension of the home-country principle--whereby the Fund helped finance the costs of sending children back to the home country to be educated, the Director added. The third-country principle provided an option to sending the child to the home country for those families from countries where universities might be nonexistent or of a low standard, and where there was a tradition of sending children abroad to study. The extension of the home-country principle had less to do with recruitment incentives and more to do with maintaining equity among staff members from different countries.

The education policy, therefore, could be seen to have developed in stages into a pragmatic means of helping groups who seemed to be in need of assistance, the Director considered. It would be difficult for the staff to write a better plan without guidance on what principles should be applied. Without clear guidance from the Committee on what elements of the policy it should be examining or what alternatives it could be considering, the staff would be subject to pressure from various interest groups to consider adding or maintaining conflicting elements.

The three existing distinct expatriate benefits were targeted in the sense that each addressed a particular issue of concern to expatriates, the Director of the Administration Department concluded. The first benefit was the payment of transportation expenses when staff members were recruited and when they left the Fund; the second was home leave, and the payment of expenses for staff members to return home every two years for a certain minimum time; the third was the education policy, which was not as simple in the sense that a variety of education arrangements were available in the hope of covering the most common problems.

Mr. Peretz commented that he was not proposing that there should be distinctions in the compensation system between countries and regions, which would compound the problem, but the different set of costs faced by U.S. residents and those who came from abroad should be examined.

The Acting Chairman suggested that when Mr. Peretz had referred in his opening statement to the two criteria for designing a framework-- compensation, on the one hand, and benefits, on the other--he had in effect raised a third criterion--the distinct set of costs faced by staff recruited from abroad, which could be further broken down into how best to address those costs and how best to improve the package to enhance recruitment prospects. That third criterion would entail a much broader study, but any review of education allowances would itself open up further questions because the effects of a change in policy might be different for different staff members, unless, of course, the review were simplified by a decision that whatever was being considered would apply only to new staff and not to current staff. The terms of reference for the next staff paper would have to be very precise, and, after both the Committee and the Executive Board had been given a chance to review them, they would have to be explained clearly to the staff; it would not be desirable to keep such a study secret. Mr. Peretz had raised two possibilities: to redesign the education allowance system to make it more useful as a way of attracting expatriate staff; to decide what benefits would be included in a system with that objective.

Mr. Peretz said that he would prefer to elicit the staff's reaction, both as to the need to examine the two issues that had been raised and the best method of so doing, before taking a decision at the current meeting on whether or not to pursue them. He was mindful of the Chairman's point about the effects on staff generally of carrying out studies without preparing the ground carefully.

The Director of the Administration Department commented that in all likelihood the Executive Board would be unwilling to allocate more money for expatriate benefits at a time of budgetary consolidation, and that implied there could be only a redistribution of existing money. He was not sure, therefore, what the ultimate gain would be of a further review. The only other element of expatriate life that was commented on frequently and therefore might be the subject of Fund assistance--in the form of compensation or otherwise--was the perceived difficulty that expatriate spouses had in gaining employment in the United States. A comprehensive study of that issue had never been undertaken, however, so it was not known how the Fund's position compared with that of other international organizations.

The staff representative from the Administration Department added that the World Bank had recently undertaken a thorough study of work and family issues, and had produced a Work/Family Agenda, that included providing enhanced spouse employment services. The Fund also recognized that the question of spouse employment was a major area of concern, and it was about to expand its own service with regard to spouse employment through a joint service with the World Bank. The World Bank had already set up a program, and the Fund would be essentially buying the services of the World Bank to provide that service to spouses of the Fund's staff.

Mr. Peretz said that he welcomed that initiative, because spouse employment was one of the biggest barriers to recruitment in Europe of professionals, most of whom between the ages of 30 and 50 had spouses who were also professionals. Similar initiatives need not cost a great deal--if anything--in terms of cash payment, yet to give spouses help in finding employment was probably one of the most valuable steps that the Fund could take to attract European staff. Indeed, that had been one of the elements he had had in mind when he spoke of designing a policy targeted at attracting expatriate staff. He had also said that he was sure better targeting could be achieved in a way that was cost neutral, and that applied to all benefits. He had not been thinking in terms of proposals that had any additional cost.

The Acting Chairman said that the Committee would return to a discussion of the matter at a future date, after the staff had had an opportunity for further reflection.

2. EDUCATION ALLOWANCE POLICY - SIMPLIFICATION OF ADMINISTRATIVE PROCEDURES; AND ANNUAL REVIEW OF CEILINGS

The Committee members considered a staff paper on simplification of the administrative procedures for education allowances and on proposed ceilings for the 1993/94 academic year (EB/CAP/93/5, 10/25/93).

Mr. Peretz said that simplification appeared to be reasonable in principle; in fact, there was probably a need to rethink the whole system with that objective in mind. Notwithstanding that statement, he was concerned about parallelism with the World Bank. The Fund was setting up a form of simplification that the World Bank had explicitly said it did not wish to establish. Even if he were convinced of the need to increase the benefits by between 7.6 and 9.2 percent, as proposed, he would oppose the supplementary budget request of \$120,000, coming on top of the 20 percent increase in that item that had been agreed and incorporated in the original budget. Even if the extra \$120,000 were needed--and he was not convinced of that--the money could be found within the budgeted item amount to pay for it, for example, by requiring student travel to become APEX travel, which would probably save more than \$120,000.

Mr. Mwananshiku commented that, like Mr. Peretz, he basically supported the staff proposal. He would, however, urge the staff to look at savings in other areas as a means of finding the \$120,000, which was a considerable amount of money.

Mr. Al-Tuwaijri stated that he supported the proposed recommendation for simplifying the procedure.

Mr. Bergo remarked that he could support the proposals for simplifying the procedure, but, like others, he would prefer that the amount of \$120,000 be found elsewhere.

Mr. Torres said that he supported the simplification and welcomed the consequent reduction in the administrative burden, and he welcomed the proposals.

The Director of the Administration Department commented that there would be no more than a marginal difference between the way the World Bank would continue to calculate the education allowance and the method the Fund would follow in future. The Fund's aim was to minimize the administrative overload of the present system by simply avoiding the need to make an adjustment more than once a year; the World Bank was a much larger organization and perhaps was not quite so concerned about that aspect. There did not seem to be any concern on the part of the World Bank that the Fund would have somewhat different ways of calculating the benefit or the amount of the adjustment each year; the World Bank did not wish to change, but its decision was not based on any objection to the Fund's method in terms of principle.

The staff paper served two purposes, the Director explained. First, it contained a proposal for a simplified system of calculating and administering the amount of education payments. Second, it proposed an annual adjustment to the ceilings for the current year to reflect changes in expenditures in the market--that in the past had relied on the basis of a survey--and to meet the general policy of covering 75 percent of the eligible costs for about 90 percent of the staff--as in the past.

He was unclear about the positions of several members of the Committee regarding the proposed adjustment in the ceilings for the 1993-94 academic year, the Director of the Administration Department said. If they supported the proposals, but were asking that the money be found somewhere else, the administrative budget was the only source of funds available, and the offsetting savings would have to be found there.

The Acting Chairman said that his understanding was that those speakers did not want to see the current budget ceiling raised to absorb the additional cost of \$120,000. If that were the case, Directors would be receiving shortly a paper reporting on the current status of the FY 1994 budget year that would show there was sufficient room to absorb the small increase. A reallocation within the budget would be all that was required, and the reallocation was not a major amount.

Mr. Peretz said that he welcomed the assurance that the World Bank and Fund figures would not be allowed to diverge to any large extent, but he hoped that the Committee would be kept informed of the amount of the divergence in future so that it could address any worrisome divergence. The 7.6-9.2 percent proposed increase seemed to be extremely high given the rate of inflation, but if the \$120,000 could be found within the budget, he would support it, albeit reluctantly.

The Acting Chairman said that he would ask the Committee Secretary to prepare a report and recommendation for submission to the Executive Board for approval on a lapse of time basis. 1/

3. ELIGIBILITY FOR EXPATRIATE BENEFITS - REVIEW OF BASIS

The Acting Chairman informed the Committee that the issue of eligibility for expatriate benefits that had been developing for some time would shortly have to be brought to the Committee and the Executive Board.

The Director of the Administration Department added that present eligibility for expatriate benefits was essentially based on visa status, that is, staff who were either U.S. citizens or who held permanent resident or resident alien visas were not eligible for expatriate benefits, nor were their families, regardless of their visa status. That policy had been in effect for a few years, following a joint discussion between the Boards of the World Bank and the Fund; prior to that, the policy in the Fund had been based entirely on nationality, regardless of permanent resident status.

There was a growing demand, the Director continued, by non-U.S. nationals who had joined the Fund since the change in policy, and who were not eligible for expatriate benefits because they held permanent resident or resident alien visas, for the institution to change its policy back to the nationality test, and their cause had been taken up by the Staff Association Committee. The same movement in the Bank had led to the issue being brought before a Committee of the Bank Board that appeared to be sympathetic to the views of that particular staff group. The Committee, however, had been concerned that any change should be cost neutral for the institution, because a change would expand the group of people eligible for expatriate benefits and increase to that extent the cost to the World Bank of the benefits program. The cost would not be as great in the Fund because there were fewer people involved.

The World Bank Committee had examined alternatives but had found it difficult to reach a consensus, the Director noted. Recently, however, the Executive Board of the World Bank had decided by a slim majority to move to a different method for determining eligibility for expatriate benefits, modeled after the approach favored by INTELSAT, a small international organization in Washington. One of the elements of the approach was still to proceed on the basis that eligibility be determined by visa status--that is, those with permanent resident visas would still be ineligible; however, it would be possible for a staff member to give up that visa status and obtain a G-4 visa--the normal visa held by most foreign staff--and thus acquire eligibility for expatriate benefits. The other element of the INTELSAT approach was that even though the staff member became eligible to receive expatriate benefits, the benefits would not be extended to the whole

1/ The report and recommendation were subsequently circulated in EBAP/93/79 (12/2/93) for approval on December 6, 1993.

family if the spouse was either a U.S. national or held a permanent resident visa. For example, only half the cost of home leave would be paid by the institution.

The World Bank Board had taken a decision in principle but, before implementing it, had asked the President of the World Bank to ascertain whether the Fund would be prepared to make a similar change, the Director stated. In the event, the President of the World Bank had written to the Managing Director of the Fund to ask what the position of the Fund Board would be on the matter. The Fund staff had now to prepare a paper on the issue. Before doing so, however, the staff would presumably bring the matter to the Committee on Administrative Policies for discussion of the following options: a move to the INTELSAT option; a retention of the current basis--visa status--for determining eligibility for expatriate benefits; and a return to the former, more liberal policy of determining eligibility based on nationality, with the attendant cost implications.

The staff would prefer to put forward a somewhat neutral paper, the Director of the Administration Department concluded, except that it could not be neutral on the INTELSAT policy as it did not care for that policy; it could present, however, the pros and cons for either the nationality or visa test. The staff slightly favored the nationality test on the basis of its being easier to administer, but choosing that option in a period of budget consolidation would present difficulties because it would increase costs. Preliminary discussions with the Staff Association and senior managers revealed little support for the INTELSAT option, with possibly some preference for the nationality option, but there had been differing views. Mr. Peretz would perhaps have more knowledge of what was taking place in the World Bank Board.

Mr. Peretz said that he was vice-chairman of the World Bank Board Committee that had dealt with the matter. He wished to point out that, in fact, the World Bank Board had stopped short of making a decision, as it was divided almost equally between those who wanted the status quo (49.6 percent) and those who wanted to move to the so-called modified INTELSAT option (50.4 percent). A large number of Directors had attached considerable weight to maintaining parallelism with the Fund on the issue, given the similar compensation systems. It was feared that if the two institutions had different policies, both would come under continuing challenge for further change. One of the arguments against change was that it set up expectations that there would be even further changes, and every change required a grandfathering of the set of staff who had benefited under the previous system, thereby creating yet another new category of staff. Indeed, for those who had opposed it, that had been one of the arguments against moving to the modified INTELSAT system. When the matter came before the Committee on Administrative Policies, the Committee should bear in mind the great weight attached to parallelism by its World Bank colleagues. Furthermore, the Staff Association at the World Bank had supported the INTELSAT option not because it was their preferred option but because it was the least costly when weighed against all the other options. They had supported it as a compromise; he himself had opposed it. The paper being

prepared by the Fund should, in addition to identifying the options, show the costs of each. On behalf of his World Bank colleagues, he wished to urge the staff to complete the paper quickly, as the issue had been in discussion at the World Bank for some time, and the World Bank could not move until it knew what the Fund wished to do.

Mr. Lanciotti said that he welcomed the staff paper because he understood that the question entailed problems of equality of treatment and potential discrimination, and the paper would allow the Committee to carefully consider the question. Neither the principle of neutrality nor the principle of parallelism should prevent the Committee from reaching a solution that was equitable, even at some cost.

The Acting Chairman said that the discussion had served to alert the Committee members to the issue and to the forthcoming staff paper. The Committee would meet again to discuss the paper.

The Committee adjourned at 3:50 p.m.

APPROVED: April 21, 1994