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To: Members of the Executive Board

From: The Acting Secretary

Subject: **Categories of Employment—Facts, Issues, and Proposed New Framework**

Attached for consideration by the Executive Directors is a paper on facts, issues, and a proposed new framework with respect to categories of employment, which is tentatively scheduled for discussion on Friday, January 15, 1999. Issues for discussion appear on page 33.

Mr. Gollé (ext. 34018) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att. (1)

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INTERNATIONAL MONETARY FUND

Categories of Employment—Facts, Issues, and Proposed New Framework

Prepared by the Administration Department

Approved by Ulrich Baumgartner

December 3, 1998

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EXECUTIVE SUMMARY

This paper reviews issues of employment policy currently facing the Fund and proposes a framework and process for addressing them. The paper was prompted by growing concerns that certain labor practices at the Fund have increasingly deviated from established policy and from what might be considered fair employment practices, giving rise to inequities between employees who perform similar or identical functions but are subject to different terms and conditions of employment.

The paper reviews the main features of each category of employment and related budget arrangements (staff and contractual positions and vendor arrangements) and their evolution over time. The review shows that until the mid-1980s the need for additional resources was typically met through the provision of regular staff positions. In the late 1980s, additional staffing needs were met by increases in the number of contractual positions as budget policy sought to keep the number of staff positions broadly constant. With the demands on the Fund growing sharply in the early 1990s, area and functional departments received a substantial number of new staff positions and some contractual positions, while support departments substantially increased the use of vendor personnel.

The following main issues of employment policy are identified: (i) a large number of contractual employees and some vendor personnel perform the same functions as staff on an ongoing basis but under different conditions of service; (ii) benefits for contractual employees are overly complex and at times inconsistent across similar employment situations; and (iii) some vendor personnel (referred to in this paper as "indirect vendors") have a relationship with the Fund that could qualify them as employees, notwithstanding the lack of a direct contractual relationship. The paper reviews how each of these issues evolved over time.

The principal concern arising from the present employment situation is the lack of fairness found in some of the present practices and arrangements. The practice of having employees perform similar or identical functions on an ongoing basis but under very different conditions of service could be regarded as unfair. Other concerns relate to diversity, cost-effectiveness, and consistency of access to benefits. The practice of using non-staff employees for staff functions weakens the international character of the Fund and distorts the nationality distribution of its employees, as a large proportion of contractual employees and almost all vendors are U.S. nationals. The hiring of U.S. nationals also costs the Fund more than the hiring of comparable non-U.S. nationals because of the payment of gross salaries. The practice of hiring contractual employees and indirect vendors contributes to a high turnover rate of personnel which is costly to the Fund. Finally, some benefits paid to contractual employees are not well aligned with the type of employment relationship they support.

The paper reaffirms the key principles that should govern employment policy. These are: the need to attract and retain a diverse international staff who meet the highest standards of efficiency and of technical competence; the need for flexibility to be able to adapt to changes in work and skill requirements; the need to be fair, that is, using different terms and conditions

of employment only when justified by clear business reasons and providing equality of treatment of employees who perform the same work on an ongoing basis; and the need to be cost-effective.

The paper discusses the main components of a revised policy consistent with these principles. Staff appointments would be either open ended or for a limited term, with the latter category being used more often than under the current framework. Staff appointments would be used for all functions that are needed for a period of two years or more; contractual appointments would be used only for short-term employment (for periods of less than two years, with a time limit being placed on back-to-back contracts). In addition, clear principles will be developed for the outsourcing of activities.

The paper also outlines a process to deal with current inconsistencies in employment practices and to align these with the proposed revised policy. A two-stage approach is suggested. The first stage would start with the design of an outsourcing policy and include a review of functions and positions which are not consistent with the outsourcing policy and the proposed employment framework; it would conclude with a paper to the Board in the second half of FY 2000, presenting the findings and recommendations, together with estimates of the impact on the administrative budget. The second stage would focus on the implementation of the reclassifications to be undertaken no later than with the start of FY 2001, based on decisions taken by the Board at the end of the first stage.

Very tentative estimates indicate that the number of contractual positions which might need to be reclassified to staff status could be of the order of 200. It should be noted that the conversion of contractual to staff positions has no implication for the number of authorized positions, which includes both staff and contractual employees. The cost to the administrative budget of converting every 100 individuals on contract to staff appointments would be about \$2 million per year in the first few years; the cost would decline in the medium term.

It is difficult to estimate the number of vendor arrangements which might need to be reclassified before the outsourcing policy is designed. The current number of "indirect" vendor arrangements which would be reviewed is estimated at 200-300. It is likely that a number of these will be proposed for conversion to contractual or staff positions. The cost of converting a vendor arrangement into a staff appointment is estimated to be close to that of converting a contractual arrangement to a staff appointment. Savings in staff and contractual positions could also arise from the introduction of the outsourcing policy.

The last section of the paper briefly outlines issues on which Directors may want to focus their comments. The main issue for consideration of Executive Directors is the proposed employment framework. If this framework is endorsed, the staff would proceed with the first stage of the proposed two-stage implementation approach.

I. INTRODUCTION

1. This paper reviews issues of employment policy and proposes a framework and a process for addressing them. It focuses on categories of employment and their application to personnel employed at headquarters, including headquarters-based technical assistance experts; it does not deal with issues related to the employment of technical assistance experts in the field and locally hired employees in the Fund's overseas offices.
2. Categories of employment were last reviewed by the Executive Board in 1989 (EBAP/89/101, 4/13/89) when the current employment guidelines were adopted; these guidelines are presented in Attachment I. Issues of employment policy were most recently addressed by Directors in the context of the seminar on human resources issues (Human Resources in the Fund—Issues and Policies, EBAP/98/45, 5/8/98).
3. The paper was prompted by growing concerns that employment practices at the Fund have deviated from established policy and fair employment norms. A main theme of the paper is that several employment practices relating to contractual and vendor personnel at the Fund are inequitable and divisive. These practices also weaken the international character of the Fund and they are not cost-effective.
4. The paper proposes a revised employment framework which, if adopted, would be implemented in two stages. The first stage would comprise the design of an outsourcing policy and a review of functions and positions to identify those which are not consistent with the revised employment and outsourcing policies. This stage would conclude with a Board paper in the second half of FY 2000, presenting the findings of the review and making recommendations for reclassification of positions; it would include cost estimates and an assessment of other implications of the recommended actions. The second stage would focus on the implementation of the reclassifications to be undertaken no later than with the start of FY 2001.
5. The paper is structured as follows: Section II presents the main features of the Fund's employment policy; Section III reviews categories of employment at the Fund and provides facts and background. Section IV assesses the current employment framework and identifies the main issues. Section V proposes changes to the Fund's employment policy and a process to implement them. Section VI presents issues that Directors may wish to consider for the discussion of the paper.

II. EMPLOYMENT POLICY—THE BROAD PICTURE

6. Employment policy is the central pillar of an institution's human resources policy. It determines how different personnel are employed to undertake or support operations, and it establishes the framework for other human resources policies such as recruitment, compensation and benefits, development and deployment of employees, and various other

programs. To be effective, employment policy needs to be aligned with and support the objectives of the institution and embody its values.

A. Characteristics and Values

7. The objectives of the Fund embody the following (mostly implicit) characteristics and values relevant for employment policy:

- **Professionalism:** staff should be well-trained, capable, versatile, and committed to meeting the needs of the membership. Continuity in the staff and the building of institutional memory are essential components of the professionalism of staff.
- **Adaptability:** staff must be able to meet the evolving needs of the institution and to react quickly and effectively to unanticipated events and problems; and the Fund must be able to efficiently meet changes in the required mix of skills.
- **Diversity:** staff should be diverse in terms of nationality and gender distribution. This applies to all levels and functions of the organization.
- **Fairness:** employment policy should provide equality of treatment to employees who work in comparable situations.

B. The Fund's Approach to Employment Policy

The concept of a career staff

8. Since its beginning, the Fund has relied on a core of career staff to carry out its work. Several factors contributed to this choice: the importance of building expertise and institutional knowledge; the need for impartiality; the need to offer security of employment to an international staff; and the desire to foster mutual commitment and to motivate staff to give their best to the institution.

The concept of "one staff"

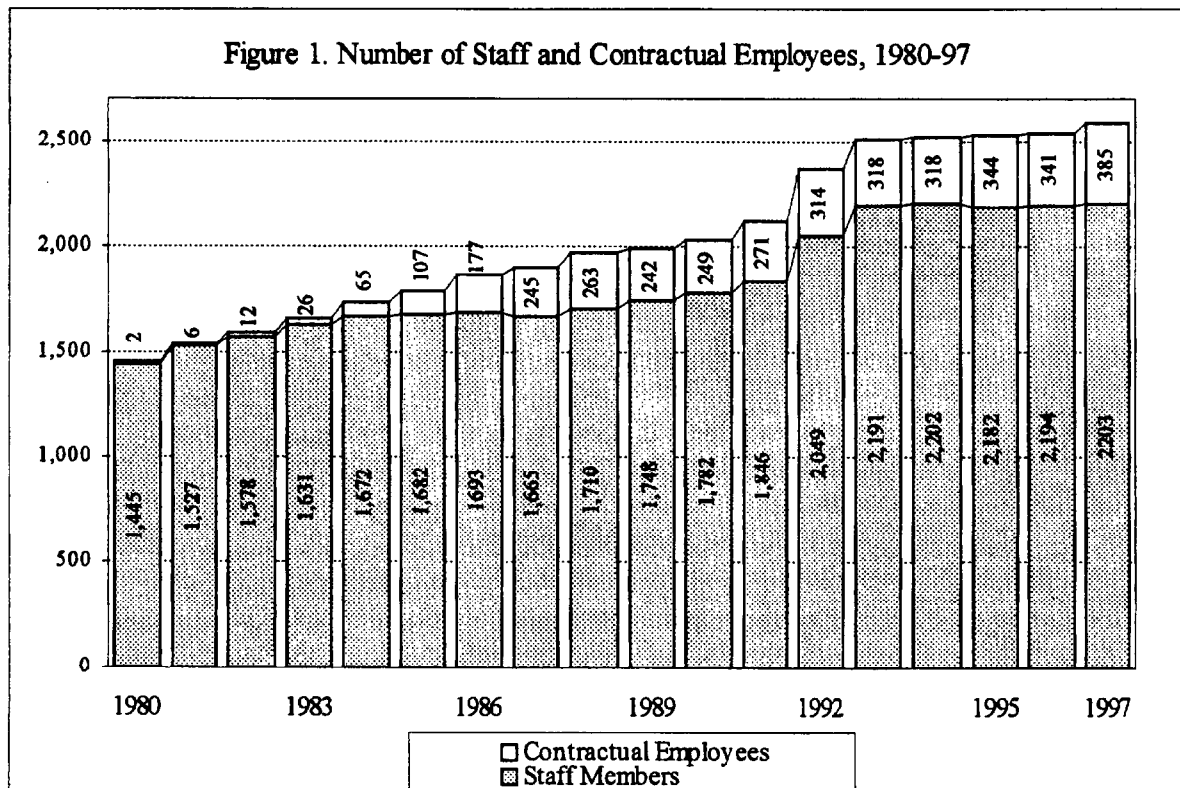
9. Building on the value of fairness, the Fund has followed a "one staff" concept, meaning that all staff are treated according to similar principles unless otherwise required by clearly defined business reasons. In practice, this has been reflected in broadly common policies applying to all functions and levels of responsibility; examples include uniform terms of employment for all staff (but not for all employees as noted below), a unified salary scale, and broadly common personnel and benefits policies for career staff.

The use of personnel other than career staff

10. The Fund has always had the need to supplement the career staff with other groups of personnel for specific purposes. A few staff are recruited for a limited term and are not expected to remain for a career; contractual employees are hired (at least in theory) to undertake short-term activities; and vendor personnel (at least in theory) carry out activities which the Fund has outsourced. Recourse to personnel other than staff was very limited until the early 1980s, but grew thereafter as the increase in the number of staff positions did not keep pace with work requirements associated with new activities undertaken by the Fund.

III. CATEGORIES OF EMPLOYMENT—FACTS AND BACKGROUND

11. At the end of 1997, the Fund employed 2,203 staff and 385 contractual employees (Figure 1 and Table 1); in addition, a sizable number of vendors carried out work for the Fund. Of those on contractual arrangements, only 45 had been on contract for less than six months. The number of vendors in ADM and BCS expressed on a staff-year equivalent basis is estimated at about 640 at end FY 1998 (Table 2).



12. The current employment policy is embodied in a set of employment guidelines presented in Attachment I which define how personnel resources can be acquired to support the work of the Fund. The guidelines, adopted by the Board in 1989, define three categories of employment: staff, contract, and vendor. This section presents the main features of each category of employment and their evolution over time.

A. The Three Categories of Employment

Staff

13. The 1989 employment guidelines established several conditions to justify a staff appointment. First, there must be an authorized position within the staff ceiling set in the administrative budget. Second, staff appointments are limited to positions which carry out or support the basic institutional mission of the Fund, and where (a) the basic skills required are not expected to change dramatically over the short term, and (b) there is a need for continuity among staff performing the function. Third, staff appointments apply to positions which require the incumbent to act on behalf of the Fund (e.g., to procure goods or services, to make payments) or which have designated supervisory responsibilities.

14. Staff appointments can be of finite duration (fixed-term staff) or open-ended (regular staff). Most fixed-term appointments are used as a probation to test employees who are seen as having potential for a career, with conversion to regular status depending on their performance and the staffing needs of the organization. Terms are typically for two years, but can be as long as five years for the most senior positions. Attachment II provides information on limits placed on the duration of fixed-term appointments. Fixed terms are also used for other appointments, such as staff hired on secondment from other organizations who are expected to return to their parent institution at the completion of the Fund assignment (typically for terms of two to three years).

Contractual employees

15. The employment guidelines stipulate that all positions which do not meet the conditions for staff appointments but which are needed for the efficient operation of the Fund may be filled by contractual employees or vendor personnel if this is more economical. One important condition is that contractual employees and vendor personnel should not perform the same tasks as staff members, except for temporary or peak work periods.

16. The guidelines stipulate that contractual appointments may be used for the following main purposes: for positions which support the basic institutional mission of the Fund, but in areas where the Fund does not wish to build in-house expertise or where the skills required are likely to change significantly over time, and continuity within staff performing these tasks is not critical; for positions created to meet manpower needs of uncertain duration; to provide services needed for a short period (consultants); and to carry out finite projects requiring specialized skills (e.g., building construction).

17. Contractual employees are charged against "other authorized resources" in the budget; these resources are denominated in staff-years, not in dollars. The same budget account is used to provide resources for hiring personnel for peak workload and leave replacement, and to cover payment for overtime work.

18. Contractual appointments can take several forms; they can be on a full-time, part-time, hourly, or daily basis, or on an "as-needed" or intermittent basis. Payment can be made on the basis of a salary (annual, monthly, or daily), a lump-sum payment on completion of a task (which may perhaps be performed off the Fund premises), or on a retainer basis.

19. The nationality distribution of contractual employees is more skewed towards U.S. nationals than that of staff. U.S. nationals accounted for 46 percent of contractual employees in December 1997, reflecting the fact that contractual employees are largely recruited from the local market. Countries in Europe, the Middle East, and Latin America have a relatively low representation (Table 3).

Vendor arrangements

20. Vendor arrangements involve agreements between the Fund and companies (vendors) which provide services, materials, or both to the Fund. Vendor personnel work for companies which are under contract to provide services to the Fund; they are not Fund employees.

21. There are several types of vendors. One type of vendor is hired to perform functions which have been completely outsourced (e.g., Carey Winston for building facilities services, Sodexo Marriott for food services, and Wackenhut for security guards). By and large, these are separate functions which are managed, staffed, and operated by vendor companies. In a second type of arrangement, the Fund contracts with a "temp agency" to provide office assistants for peak work and to cover for unexpected absences of staff. The agency is responsible for finding suitably qualified and trained individuals for these assignments.

22. The Fund also makes use of two other types of vendor arrangements. One type is known as a "body shop," used for specialized personnel in areas where the Fund lacks expertise and where skills are changing quickly, such as some computer or information systems specialists. The vendor company supplies the employee but it is not responsible for his or her work; it may be asked to replace an employee who does not meet the performance standards set by the Fund. The vendor employee receives salary and benefits from the vendor company. Another type is the one-person consultant company. While the above types of arrangements are acceptable for appointments of short duration (as with "temp agencies"), the vendor relationship becomes questionable and potentially problematic when the vendor employee works normal hours under the supervision of a Fund employee and on Fund premises for extended periods, which is often the case at present.

B. Supporting Personnel Programs

23. The terms of employment of staff are governed by the N-Rules, General Administrative Orders (GAOs), and other rules and regulations. Terms for contractual employees are set in their individual contracts of employment prepared by the Recruitment Division. Terms for vendor personnel are set in Agreements for Technical Services prepared by the Procurement Section of the Administrative Services Division, ADM.

24. Salaries of staff are set in accordance with the Fund's compensation policy which provides a salary range for each salary grade. Individual starting pay is set with reference to the hiring grade, education, and experience. Pay for contractual employees is set in a manner broadly similar to that for staff but the method is not as rigorous; remuneration in the specific market of hiring is also a factor in some cases. The Fund is typically not involved in the setting of compensation for individual employees of vendor companies.

25. Benefits offered to contractual employees are lower than for staff, except that long-term contractual employees designated as recruited internationally (such as headquarters-based TA experts) receive benefits which are close to those of staff. Contractual employees typically are not eligible for expatriate benefits, spouse and dependency allowances, and salary advances, and have limited entitlement to appointment and separation benefits. Another important difference relates to retirement benefits. Staff have access to the Staff Retirement Plan (SRP) whereas contractual employees do not, nor do they have access to a savings plan provided by the Fund. Instead, the Fund contributes up to 14 percent of salary towards the purchase of an annuity after each year of service for long-term TA contractual employees, and other long-term contractual employees receive a lump sum payment in lieu of pension equivalent to 5 percent of final pay per year of service at the end of their contract (a payment which, in the absence of a Fund-provided savings plan, is subject to U.S. income taxes in the year of receipt). Box 1 presents selected differences in benefits for staff and long-term contractual employees. Vendor personnel receive the benefits offered by the vendor to its employees; these often include basic medical coverage and access to some form of retirement benefit.

26. Access to career development and mobility programs is provided to staff but not to contractual or vendor personnel. One important limitation has been that contractual employees who joined the Fund after February 1992 did not have access to the vacancy list procedures (Career Opportunities) and therefore could not be considered as internal applicants for vacancies on the staff. This restriction was removed in July 1998. Procedures for performance reviews and separation of weak performers are more elaborate for staff than for contractual employees.

Box 1. Selected Differences in Benefits—Staff and Long-Term Contractual Appointees			
Benefit, Allowance or Service	Staff	Contractual Appointees	
		Long-Term (over 12 Months)	Headquarters- Based T.A. (24 Months)
Installation allowances	\$4,040 for staff member, \$2,020 for each eligible family member.	50 percent of staff entitlement.	Same as for staff.
Settling-in grant	Four weeks' salary for staff; plus four weeks' salary to cover rest of family.	No.	No.
Separation grant	Yes.	No.	No.
Spouse and child allowances	Yes.	No.	Same as for staff.
Medical Benefits Plan	Full coverage for the immediate family and for two qualifying "other dependents".	Full coverage for the immediate family.	Full coverage for the immediate family.
Pension benefits	Fund's Staff Retirement Plan (SRP).	A lump sum in lieu of pension is payable at the end of the appointment—5 percent of final annual salary for each year of service.	Fund contributes up to 14 percent of salary toward the purchase of an annuity after each year of service.
Education allowances and travel	Yes, for children of expatriate staff only.	No.	Same as for staff.
Home leave and allowances	Yes, for expatriate staff on appointments of two or more years and for their qualifying family members.	No.	Same as for staff.

27. Access to litigation procedures depends on the category of employment. Staff have access to grievance procedures and the Administrative Tribunal. These provisions are not available to contractual employees. Instead, they have access to arbitration. Vendor personnel have recourse to the full range of administrative and judicial remedies against their employing vendor, but have no access to litigation or arbitration procedures against the Fund.

C. Relative Costs of Employment Categories

28. Different categories of employment entail different costs. The cost for Grades A1-A15 staff (average of U.S. nationals and other staff) in FY 1998 was \$67,400 for salary and \$47,000 for benefits and allowances (69.7 percent of salary).¹ The average cost of benefits and allowances is substantially higher for U.S. staff than for other nationals, because the tax allowance paid to U.S. nationals to defray, at least in part, U.S. taxes, exceeds by a substantial margin the cost of expatriate allowances provided to eligible non-U.S. nationals.²

29. The average cost of a long-term contractual employee in FY 1998 was estimated at \$38,900 for salary and \$11,300 for other costs (29 percent of salary).³ The low costs compared with staff reflected mostly the lower average level of responsibility of contractual employees and lower benefits.

30. The cost of vendors varies significantly across the group depending on the functions performed. The average annual cost of a vendor supervised by ADM in FY 1998 was estimated at \$43,600 for salary and \$8,000 (18 percent of salary) for benefits (mostly on account of health benefits and FICA⁴), and \$3,100 (7 percent of salary) for overhead on account of the profit margin taken by the vendor company. These averages reflected the typically lower level of responsibility of vendor personnel but they mask large differences in pay within the group. The average cost of a vendor in BCS was about \$92,000 per year in FY 1998, reflecting the strong demand for the skills needed by BCS.

¹For purposes of comparative analysis, B-level staff are excluded because very few contractual employees perform functions at that level.

²Starting from Grade A6, a U.S. staff member (married, with two children) costs the Fund more than a non-U.S. staff member.

³To facilitate comparison with staff, the salary data for contractual employees are presented on a net of tax basis (U.S. nationals hired on contract are paid on a gross basis) and the tax equivalent is included in other costs.

⁴Federal Insurance Contributions Act (FICA).

D. Historical Perspective

The period up to the early 1980s

31. When the Fund was established, four categories of employment were used: regular, temporary, part-time, and consultant.⁵ The vast majority of Fund employees held regular staff appointments; a few staff were given temporary appointments to cover short periods of work or the time needed for new U.S. staff members to obtain the U.S. security clearance which was required at that time to join the Fund. The consultant category was used as a residual category and included a small number of diverse appointments, such as for short-term projects and those involving irregular working hours. In addition, some vendor personnel (about 300 in the early 1980s) were used to provide various services such as building services (janitors, movers, engineers, cleaners, guards, etc.), food services, and travel arrangements.

32. A new category of staff appointments on a fixed-term basis was created in 1969 to facilitate the recruitment of employees seconded to the Fund for periods of two or three years. Such appointees were typically on leave of absence from member country governments and central banks and were permitted to remain in the pension plan of their previous employer. Provided that they stayed with the Fund for a minimum of two years, they received the same benefits as regular staff, with the exception of the salary advance for housing. Box 2 presents selected dates and events related to employment policy.

The 1980s

33. The number of staff positions, mainly in area and some functional departments, grew steadily in the early 1980s to support increased operations related to the debt crisis. However, by 1985, the pace of new Fund operations abated, and there were only modest increases in the number of staff in the mid and late 1980s (Figures 1 and 2, and Table 1).

34. Work pressures also grew in support departments but these were not met through staff positions but through the provision of contractual appointments and, toward the end of the decade, vendor arrangements. This included, inter alia, personnel needed for the fit-out of the Phase II building project by ADM and various automation projects in BCS.⁶ Figure 2 shows the large influx of contractual employees in 1986 and 1987. While support departments were provided with these "non-regular" resources, staff positions in these departments were reduced and redeployed to other departments. The number of vendor personnel increased by about a third in the 1980s (from some 326 in FY 1984 to 426 in FY 1989 on the basis of rough estimates of staff-year equivalents).

⁵The first General Administrative Order on Employment of Staff Members, GAO 3, issued in July 1948, stipulated that the first three categories (regular, temporary, and part-time) were staff appointments and that consultants were not staff.

⁶Contractual positions were not counted under the "staff ceiling" set in the administrative budget until 1990.

Box 2. Selected Dates and Events

1948: GAO 3 on the employment of staff members establishes four types of employments: regular, temporary, part-time (all three are staff appointments) and consultant (nonstaff appointment).

1969: A category of fixed-term appointments is established for employment for a finite period for work on a full-time basis. The change is aimed at facilitating the recruitment of professional staff for a few years such as the secondment to the Fund of economists employed by member country institutions.

1983-85: The use of initial fixed-term appointments becomes standard practice for all external appointments to positions at B-level (1983) and to positions at Grades A9 and above (1985).

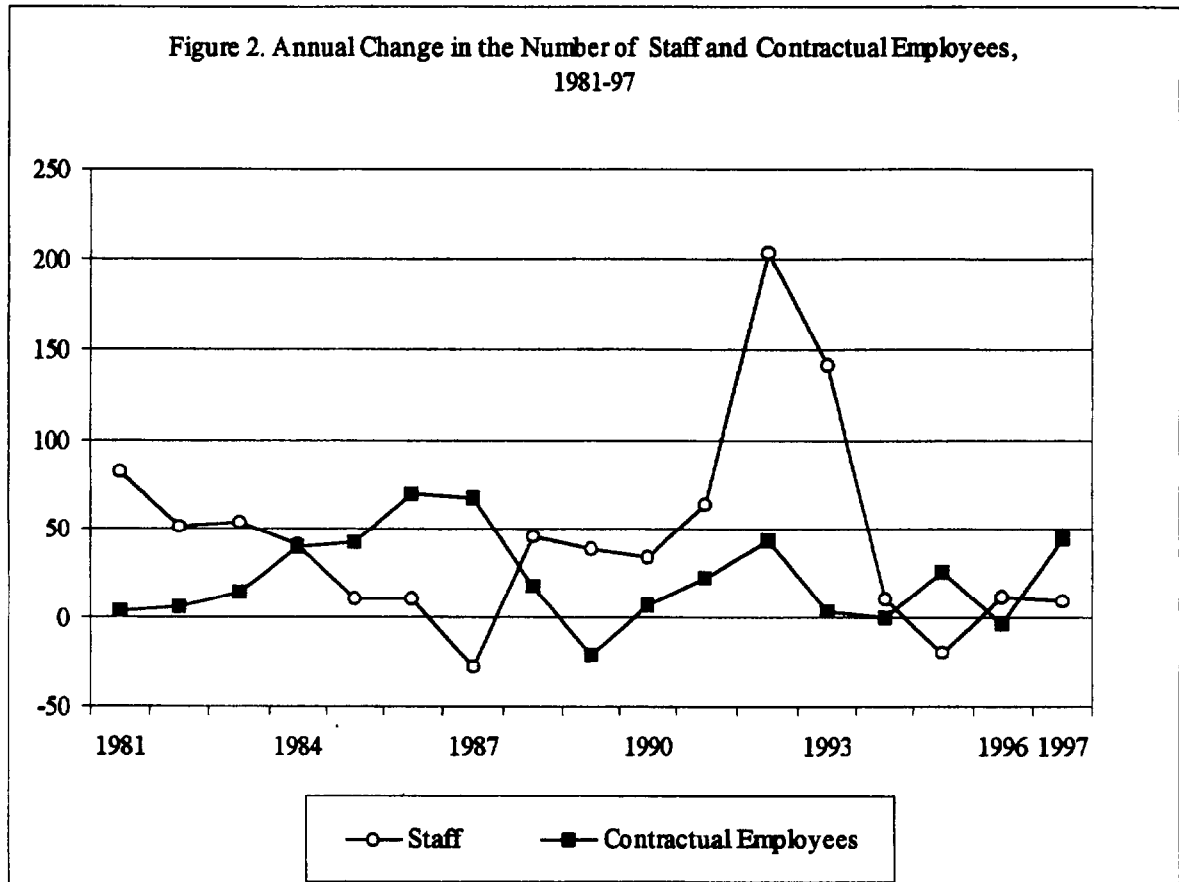
1989: Employment guidelines are developed for the allocation of functions among staff, contractual employees, and vendor personnel. These guidelines are approved by the Executive Board (EBAP/89/101, dated April 13, 1989). The Board also approves the reclassification of 19 positions occupied by contractual or vendor personnel to staff positions (EBM 89/69, 6/2/89).

1991: The use of initial fixed-term appointments becomes the standard practice for all external appointments to positions in Grades A1-A8.

1991: A four-year rule is introduced for contractual appointments; it prohibits hiring an employee on contract for consecutive periods in excess of four years.

1993: The four-year rule for contractual appointments is revoked.

1998: All contractual employees with two years of consecutive service are made eligible to apply for staff vacancies.



35. These employment practices affecting support and some functional departments led to a number of problems. By 1988 it became clear that a significant number of contractual and vendor personnel had been employed for functions which would be needed over the long term and should be performed by staff. The situation was judged to be serious enough that the classification of all positions was reviewed in 1989. Employment guidelines were drawn up, confirming the principle that contractual arrangements should be short-term in nature, and departmental employment practices were reviewed. This review led to a recommendation to the Board that 57 contractual and vendor positions be reclassified to staff status. In order to phase in the impact of the reclassification on the budget, the Board decided to convert the most pressing one-third of cases in a first phase in FY 1990 and to review other cases in a second phase over the following two-years. The Board also decided that henceforth the budget document would present a personnel budget ceiling which would include both staff and contractual positions. However, the second phase of conversion was only implemented in part (10 positions were converted to regular staff in FY 1991). The final phase was not implemented as attention shifted from concerns about categories of employment to the urgency of recruiting a large number of additional staff in area and functional departments to work on the Baltic countries, Russia, and other countries of the former Soviet Union which had joined the Fund.

The 1990s

36. To cope with the demands placed by new members, some 450 new staff positions were approved between FY 1991 and FY 1994, of which 420 were allocated to area and functional departments. Other departments were allocated only a few additional staff positions to deal with the associated increase in demand for support services and some even had to surrender staff positions in traditional activities. To enable support departments to handle the additional tasks arising from the large increase in staff in area and functional departments, they were given additional budget allocations for contractual employees and, in particular, vendors. The number of vendor personnel increased substantially in the 1990s, the majority of them working for BCS (as many contractual employees were replaced by vendor personnel) and ADM (messengers, trainers, building projects, and related activities such as space planning, etc.).

37. As greater use was made of contractual employees, their share in total Fund employees increased and their tenure at the Fund became longer (Figures 3, 4, and 5). The share of contractual employees in total Fund employment (excluding vendors) increased from nil in 1980 to 13 percent in the early 1990s. Contractual appointments were mostly short term until the late 1980s; the Contractual Manual issued in 1987 provided only for short- to medium-term contracts, the latter not exceeding 12 months, with relatively few benefits. The early 1990s saw a departure from this principle. Long-term contracts were introduced which were similar to fixed-term staff appointments—but without the full range of benefits and without the same protections that staff members enjoyed. These developments marked a significant change in Fund employment practice. Data on the distribution of contractual employees by department is provided in Tables 4 and 5.

38. An unsuccessful attempt was made in the early 1990s to limit the tenure of employees on contract to a maximum of four years. Consistent with the view endorsed by the Board in 1989 that contractual employment should remain essentially short term in nature, the Administration Department decided in early 1991 that employees should not be retained on contract for cumulative periods in excess of four years. It was felt that keeping individuals in short-term status for prolonged periods of time was not in their interests nor in that of the Fund. It was believed that the program of budgetary conversions envisaged in FY 1990 and the four-year rule would prevent the long-term employment of contractual employees. In the event, this proved unrealistic because the conversion needs remained large while actual conversions stopped after FY 1991. Furthermore, budgetary allocations to departments with many contractual employees took the form of more contractual positions. The fact was that many contractual positions were in fact needed on a long-term basis, but no staff positions were made available to accommodate that need. In light of these developments, and the concern of managers and employees, the Administration Department revoked the four-year rule in 1993.

Figure 3. Contractual Employees as a Percentage of Total Employees, 1980-97

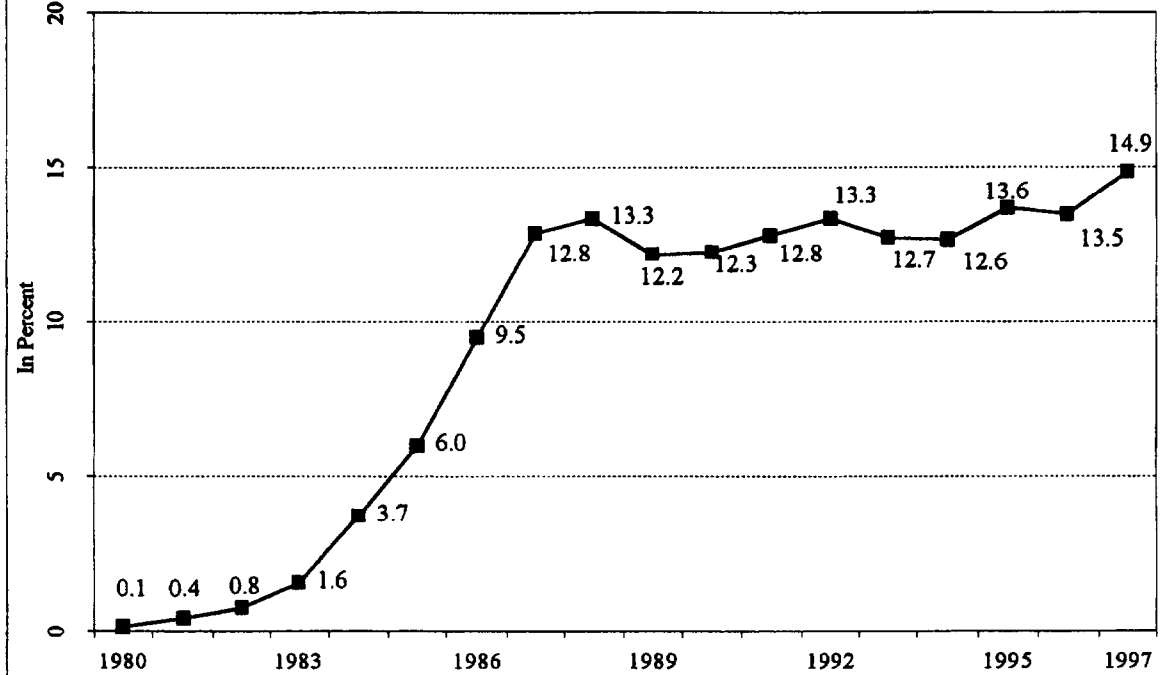
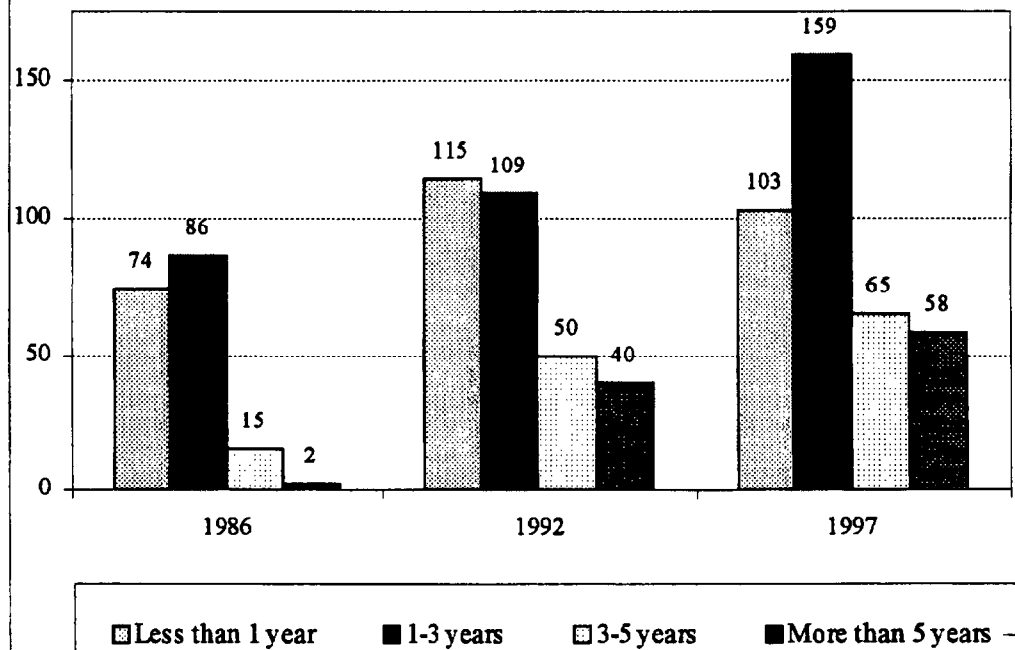
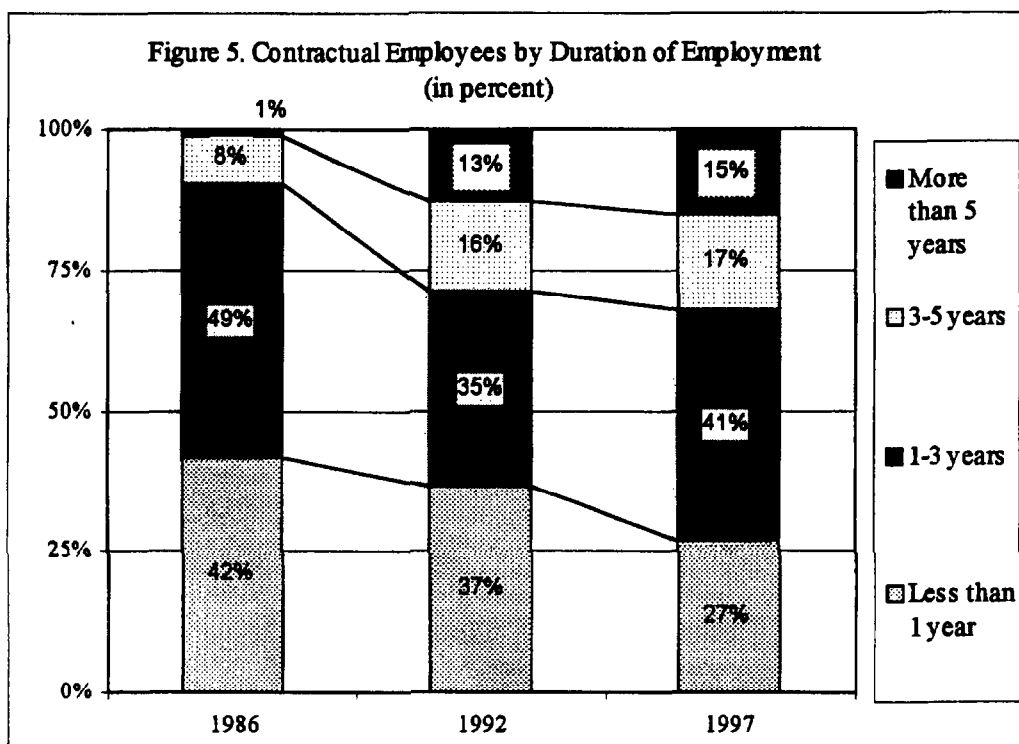


Figure 4. Contractual Employees by Duration of Employment





IV. ASSESSMENT OF EMPLOYMENT FRAMEWORK AND MAIN ISSUES

39. A central objective of the Fund's employment policy is to treat its employees equitably and in a manner consistent with the prevailing fair labor standards of its member countries. The review of the current employment framework has identified three main practices which are not congruent with the above principles: (a) many contractual employees and some vendor personnel perform the same function as staff on an ongoing basis but under different conditions of service; (b) benefits packages for contractual employees are overly complex and at times inconsistent across similar employment situations; and (c) some vendor personnel work under conditions which are tantamount to employment by the Fund.

A. Contractual and Vendor Personnel Performing Staff Work

40. The practice of having contractual employees and some vendor personnel perform the same work as staff on an ongoing basis but under different conditions of service is inefficient, divisive, and weakens the international character of the Fund. There is also a risk that this practice could become the subject of a legal challenge. The issue and its origin are presented in more detail below, followed by various considerations supporting a change in the current practice.

41. The precise number of positions filled with contractual employees performing the same work as staff on an ongoing basis has yet to be determined. To do so requires clear criteria for distinguishing between categories of employment and a careful review of individual positions. This task will be undertaken once a new employment policy framework has been put in place. ADM tentatively estimates that the number of contractual positions affected could be close to 200. Examples include assistants in a broad range of departments, officers in information, liaison, and support departments, and some economists in area and functional departments. In addition, the 200–300 indirect vendor arrangements will need to be reviewed. However, it is not meaningful to estimate now the number of vendor arrangements that might actually need to be reclassified and included under the authorized personnel ceiling before an outsourcing policy is designed. Box 3 provides examples of incongruities in current employment practices.

42. The practice of having employees other than staff perform staff functions can be traced to the type of budgetary allocation provided to departments. Given the focus on the staff ceiling even in periods of large expansion in activities, priority was given to area and functional departments in the allocation of new staff positions in the late 1980s and 1990s. Allocations to other departments were generally budgeted as contractual or dollar resources as their long-term need was initially uncertain. Over time, the need for these functions became permanent but budget allocations were typically not changed, as the budget process did not provide for periodic reviews of whether the approved allocations had remained consistent with employment guidelines. Budgetary procedures for the capital budget also contributed to the problem, as they prevent the hiring of staff to perform functions or activities financed by the capital budget. Furthermore, the program of budgetary conversions adopted in FY 1990 was only partially implemented, resulted in only a small and temporary correction of the problem, and did not include measures to prevent the problem from recurring. All these factors have contributed to the present problems.

43. The ad hoc allocation of contractual positions is reflected in an uneven mix of employees in different departments. One example relates to research assistants and research officers. While most departments have only staff members perform such functions, several functional departments have a mix of contractual and staff employees; the share of contractual employees in such positions reaches about 50 percent in MAE, RES, and TRE. Another example relates to the staffing to support the telecommunication function in ADM, BCS, and SEC. Two-thirds of employees involved in this activity in SEC are staff, compared with 16 percent in ADM and 8 percent in BCS; more than half of the personnel assigned to this function in ADM and BCS are made up of vendor personnel, while SEC has almost no vendors. Another example relates to document management services, which are provided by five units in ADM and SEC. The average mix of employees in all units is 58 percent staff, 7 percent contractual employees, and 35 percent vendor personnel. The combined share of contract and vendor personnel is 57 percent in ADM and 16 percent in SEC.⁷

⁷These examples are based on data for FY 1996.

Box 3. Examples of Incongruities in Current Employment Practices

Three out of seven Procurement Officers are contractual appointees; the remainder are staff. All do work that is virtually identical in terms of professional qualifications and job content.

Two assistants work in the same division in a TA department; even though they both perform the same functions and substitute for each other when one is on travel, one assistant is staff and the other is on contract.

The BCS team responsible for the development and support of Fund-wide economic systems consists of two staff, three contractual employees, and two vendor personnel who all perform similar functions and share the workload.

The Management Development Section of the Staff Development Division (ADM) has three personnel officers to advise Fund managers and deliver programs to strengthen managerial practices. One officer is staff, the other two are on contract. All three share the workload and substitute for each other as needed.

The Information Technology Security team in BCS is staffed by one contractual employee (team leader) and one vendor employee.

One contractual Transportation Officer works side by side with two regular staff Transportation Officers, performing virtually identical duties. All three are extensively cross-trained and fill in for each other as workloads or absences dictate.

The Chauffeur Unit comprises six chauffeurs: three staff, two vendors, and one contractual.

Two research assistants in an area department are on contract, working side-by-side with other research assistants on staff appointments.

A reviser on a contractual appointment revises the work of staff translators in BLS.

A retired senior staff was asked to be an assessor for the Management Development Center at which the managerial competencies of candidates to managerial positions are assessed. As his hiring was to be financed from the training budget which is set in dollars, the former staff member could not be hired by the Fund on contract, but had to be hired through a vendor company, which resulted in administrative complications and added costs to the Fund.

The hiring of one of the two officers responsible for the security of staff overseas had to be financed out of vendor resources, as the administrative budget did not provide a budget position for it. As the vendor employee was not considered a Fund employee, he could not qualify for a U.N. laissez passer which he needed for his own security to visit countries where there were security issues.

44. There are several problematic aspects of having contractual employees and vendor personnel perform the same tasks as staff on an ongoing basis but with very different conditions of service. First, the practice appears to be inconsistent with the employment guidelines approved by the Board in 1989. The guidelines include the following provision: "contractual appointees and vendor personnel should not perform the same tasks as staff members, unless they are retained for temporary, limited-term, or peak work assignments, or unless a determination has been made by the hiring department, in consultation with the Administration Department, that individual circumstances warrant an exception." Many contractual arrangements do not seem to be consistent with this provision.

45. Second, in the absence of a reasonable business justification, it may be considered unfair to treat differently employees who perform the same functions on an ongoing basis. The issue of fair employment policy has received much attention in member countries and is increasingly being reviewed in international organizations. There is also a risk that this practice could become the subject of a legal challenge. An adverse ruling against the Fund on this issue could result in substantial unanticipated costs and liabilities, which would have to be absorbed by the administrative budget. The World Bank has recently revamped its employment policy in large part to eliminate the practice of having contractual employees (referred to as non-regular staff at the Bank) perform staff work on an ongoing basis. Attachment III presents a summary of recent changes in the Bank's employment policy.

46. Generally, distinctions in treatment among employees are considered legitimate if there is a substantive reason relating either to the work or business of the organization or to the circumstances of the individual. Budgetary constraints or numerical ceilings on categories of employment or other insubstantial reasons for differential treatment among employees are not ordinarily considered adequate justification.

47. The practice of having employees other than staff perform staff-like functions weakens the international character of the Fund, and is not cost-efficient. As shown in Section III, the practice of recruiting contractual employees for periods that are meant to be temporary results in the hiring of mostly U.S. nationals whose cost to the Fund is significantly larger than that of expatriate employees since U.S. nationals are paid on a gross basis. If the positions were filled with staff members, greater efforts could be made to seek candidates from diverse backgrounds. The practice also contributes to high turnover of contractual employees, which results in additional costs to the Fund (cost of finding, hiring, and training the new employee). A recent survey of the impact of turnover in U.S. companies shows that the cost of replacing an employee ranges from 50 to 200 percent of annual salary.⁸

48. This practice is also divisive and has negative consequences for morale. Both staff and contractual employees resent the difference in treatment, as reflected in the strong views

⁸The annual turnover rate for contractual employees with one or more years of service at the Fund has fluctuated within a range of 32 to 43 percent in the period 1988-96.

expressed in the 1992 Attitude Survey of Fund staff. The practice undermines morale, commitment, and continuity in assignments. It could also undermine the quality of work or service provided.

49. The Ombudsperson has expressed grave concerns about the same employment issues. In her 1995 and 1996 reports, she recommended that the Fund develop a coherent and equitable policy for contractual employees and vendor personnel. She expressed concern about the "large group of contractual employees who are, for all practical purposes, employees of the Fund filling a permanent need" and the fact that the Fund was "actually a co-employer or joint employer with the vendor employers." She also noted that the employment guidelines were not applied uniformly throughout the Fund.⁹ She summarized the main issues as being ones of equity and fairness, noting that "the lack of job security for contractual employees kept on one-year contracts year after year is counterproductive," and emphasising that "the absence of a retirement plan for long-term contractual employees that shelters retirement contributions from U.S. taxes is a serious oversight."¹⁰

B. Some Contractual Benefits are Overly Complex and Misaligned

50. The benefits attached to contracts are not uniform for similar situations. Different definitions of short- and long-term apply to contracts for technical assistance (TA) and other contracts, the cutoff period being six months for the former and one year for the latter. Some benefits are not applied consistently even when they support contracts of similar durations; for example an annual retirement indemnity equivalent to 14 percent of salary is provided to long-term TA assignments, while a 5 percent indemnity per year of service is paid at the end of the contract to other long-term contractual employees. In addition, contractual employees are not given the opportunity to invest the proceeds of the indemnity in a savings plan; if such a plan were made available by the Fund to its contractual employees (as is common practice in the U.S.), it would shelter the income from current tax obligations. Another example is that access to a range of expatriate benefits has been ad hoc for contractual employees recruited internationally on multiyear contracts.

51. The origin of these different sets of benefits lies in attempts to deal with various specific situations one at a time. As the use and type of contracts increased, various ad hoc changes were made to benefits to facilitate the recruitment process; for example, the retirement indemnity for TA experts was set to correspond to the targeted level of the Fund contribution to the retirement plan for staff.

52. The differences in benefits raise issues of fairness, are difficult to justify and unnecessarily complicate their administration. Some benefits are not well-aligned with the type of contract they

⁹Sixteenth Annual Report of the Ombudsperson, December 11, 1995; pages 9, 10, and 13.

¹⁰Seventeenth Annual Report of the Ombudsperson, December 13, 1996; page 13.

seek to support (e.g., lack of access to some expatriate benefits in multiyear contracts of internationally recruited employees). Contractual employees resent differences in access to benefits and at times have the impression that eligibility to some benefits is discretionary. Finally, the absence of a savings plan prevents contractual employees from deferring the tax on the retirement indemnity and, as a result, they bear the full burden of taxation on this income in the year of receipt.

C. Some Vendor Personnel do not meet the Vendor Test

53. Many vendor personnel (some 200–300) working at the Fund could be deemed to have a de facto employment relationship with the Fund. A number of vendor personnel who work for the Fund are actually supervised by Fund staff on an ongoing basis, and work on site with Fund-provided equipment and resources; these vendor personnel are considered to be “indirect” vendor personnel in the sense that they only indirectly report to the parent vendor and in fact report to the Fund for much of their work. This type of relationship could be regarded as co-employment between the Fund and the vendor firm, as the individual is nominally employed by the firm but is assigned to work for the Fund and is essentially under its control.

54. Such relationships are problematic for several reasons. First, they are typically inefficient from a cost standpoint, in that the Fund must pay the administrative costs associated with having a nominal employer in place for indirect vendor personnel, while assuming the supervisory and other responsibilities of an employer. Second, the practice is not cost-effective because indirect vendor personnel must be U.S. nationals or permanent resident visa holders (in order to lawfully engage in employment in the U.S.), and their cost to the Fund is typically higher than that of expatriate personnel. Finally, there are issues of fairness with respect to indirect vendor personnel, who, although they have no formal relationship with the Fund and no channels of legal recourse against it, nevertheless may regard the Fund as their de facto employer.

55. The type of budgetary allocation provided to departments is the main reason for the increased recourse to indirect vendor personnel. Dollar resources allocated to departments can only be used to purchase goods or services or to hire vendor personnel; these resources cannot be used to hire personnel on contract. While the budget procedure works well when a function is actually outsourced, it creates a problem when an indirect vendor employee is hired, because the hiring department has to go through a vendor arrangement. The 1989 employment guidelines have also contributed to the problem as they do not make it explicit that vendor arrangements should apply only to functions which are fully outsourced and where the Fund does not manage the day-to-day work of vendor personnel.

56. In sum, the Fund faces a number of problems with respect to employment policy and practices: (i) existing employment guidelines are not sufficiently specific with regard to defining temporary requirements and vendor arrangements; (ii) budgetary allocations, hiring practices and work assignments have not always been consistent with employment guidelines; and (iii) the approach to contractual benefits has been ad hoc.

V. PROPOSED CHANGES TO EMPLOYMENT POLICY

57. This section proposes a revised framework for employment policy at the Fund and outlines a process to implement these changes in stages.

A. A Revised Framework

Key principles

58. Consistent with the values presented in Section II, the following key principles should underpin the Fund's employment policy:

- it should attract and retain an international staff who meet the "highest standards of efficiency and of technical competence,"¹¹ i.e., a staff that is professional, diverse, and adaptable;
- it should be flexible to enable the Fund to adapt to changing work requirements, to changes in the skill mix needed, and to developments in labor markets;
- it should be fair, i.e., it should use different categories of employment based on clear business reasons and it should provide equality of treatment to employees who perform comparable work on an ongoing basis;
- it should be cost-effective.

59. Some of the above principles imply that trade-offs have to be made in designing employment policy. The challenge, then, is to balance the various principles, such as adaptability to meet changing work requirements versus continuity of staff. However, the one objective where there should be no trade-off is fairness.

60. First, the employment framework should continue to provide for open-ended appointments as the principal form of employment. The Fund needs a career staff to provide a skill base of sufficient quality and depth to ensure continuity and independence of its work and to allow a flexible and rapid response to members' needs. Attracting and motivating a high quality staff and fostering commitment and dedication to the jobs they hold, requires that the institution makes a clear commitment to its staff. High performance employers recognize that commitment must be mutual. The fact that highly trained professionals have become more mobile than in the past does not mean that open-ended employment has become less valued; rather, these professionals pay more attention than they did before to job content, opportunities for skill and career development, and compensation packages. However, job security remains important to

¹¹Article XII, Section 4(d) of the Articles of Agreement.

attract and retain a high quality staff, especially for an institution that seeks to employ mid-career professionals and requires their relocation.

61. Offering the job security of an open-ended appointment does not and should not mean a job guarantee. As Directors noted in the recent seminar on human resources issues, employment policy should offer the possibility of a career to those who perform well and are willing to develop their skills. Importance attaches therefore to effective performance management, strong training programs, and appropriate career development. Equally important is an effective separation policy that permits the termination of employment of those whose performance falls short of required standards. These policies help attain a balance between the need for continuity of staff and the need to adapt to changing skill requirements.

62. Second, there is also a need for staff who are not hired on open-ended appointments. A number of functions need to be undertaken by staff employed for a limited period, because, for example, the function is not needed for the long term or the skills required are expected to change significantly, or because the employee is seconded to the Fund for a fixed duration and is expected to return to his previous employer at the end of the Fund assignment. Such limited term appointments are used very infrequently under the current framework (mostly for secondments). Also, under the current framework, contractual appointments are used for functions needed for several years but not necessarily for the long term. It would be more appropriate to use limited-term staff appointments in these situations (the distinction from other staff appointments should be the length of the employment relationship and not other conditions of service).

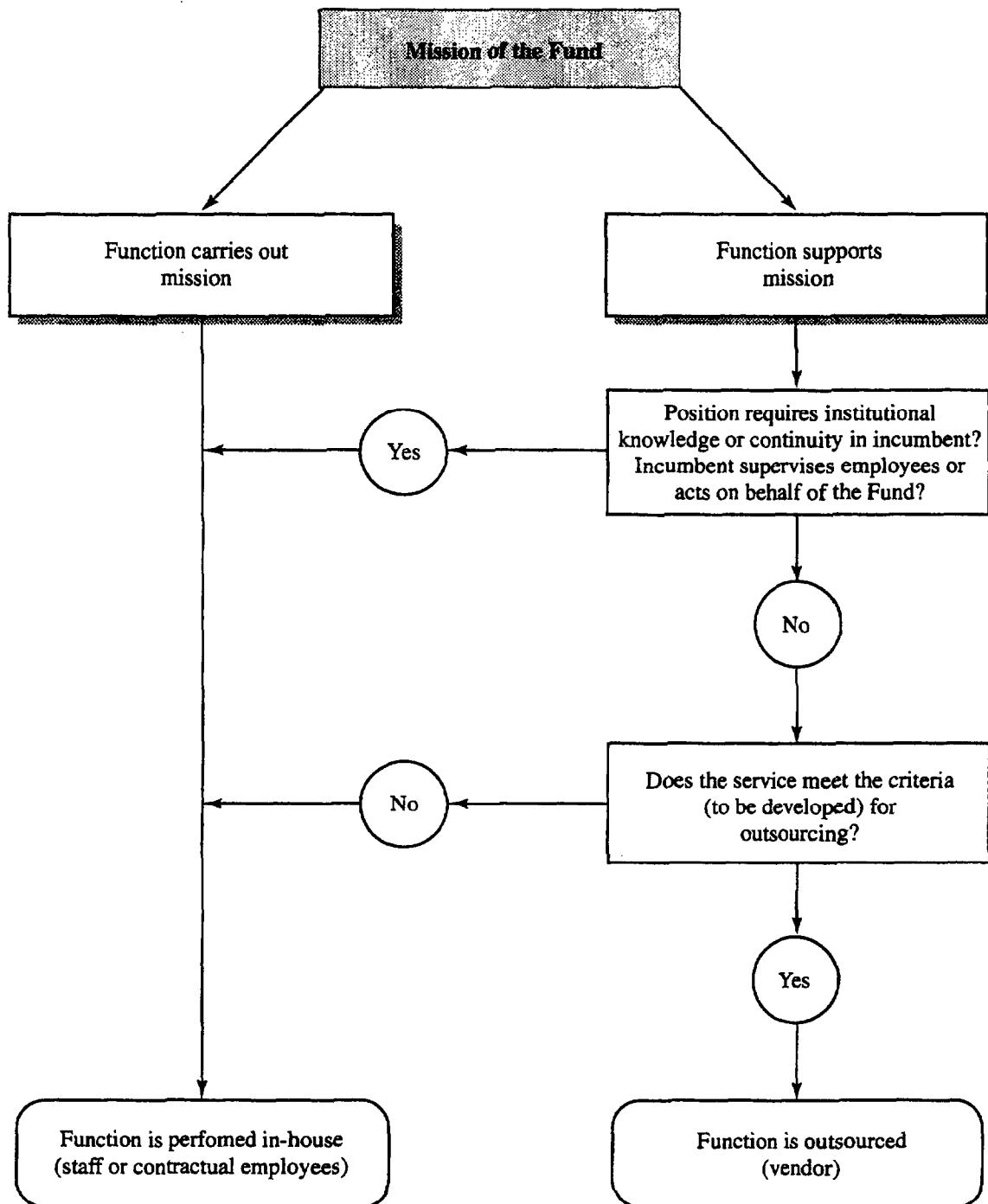
63. Third, employment policy also needs to recognize that there are situations where the Fund's business needs make it appropriate and necessary to hire employees on short-term contractual arrangements. These cases involve, for example, functions which are needed for a short or limited period.

64. Finally, there should be an outsourcing policy which establishes the principles and criteria to be applied when consideration is given to the outsourcing of a function or activity to an external service provider.

Revised employment framework

65. The proposed approach is the following: functions which the Fund has determined should be performed in-house are undertaken by Fund employees either on staff or contractual appointments (Figure 6). Functions are always performed in-house when they carry out the basic mission of the Fund, or when they support the mission and one or more of the following conditions are met: there is a need for institutional knowledge or continuity in assignments; or the incumbent supervises other Fund employees or has been delegated authority to act on behalf of the Fund (e.g., procuring goods or services or making payments for the Fund). These conditions are similar to the ones under the existing employment guidelines. If the above conditions are not met, a determination needs to be made whether the service meets the criteria for outsourcing found in the Fund's outsourcing policy (to be developed).

Figure 6. Functions Performed in-House and Outsourced



66. All employment relationships between the Fund and its employees take the form of either a staff or a contractual appointment. Functions that are needed for two years or more would be performed by employees on staff appointments. Functions which are expected to be performed for less than two years would be performed by contractual employees (Figure 7). Contractual appointments are used only for short-term employment, and can be extended if needed to a maximum cumulative period of four years. Extensions beyond two years require the approval of the Director of Administration. Arrangements for the delivery of services and functions that the Fund has determined should be outsourced take the form of vendor arrangements; these are defined in the context of an outsourcing policy and do not form part of the employment policy.

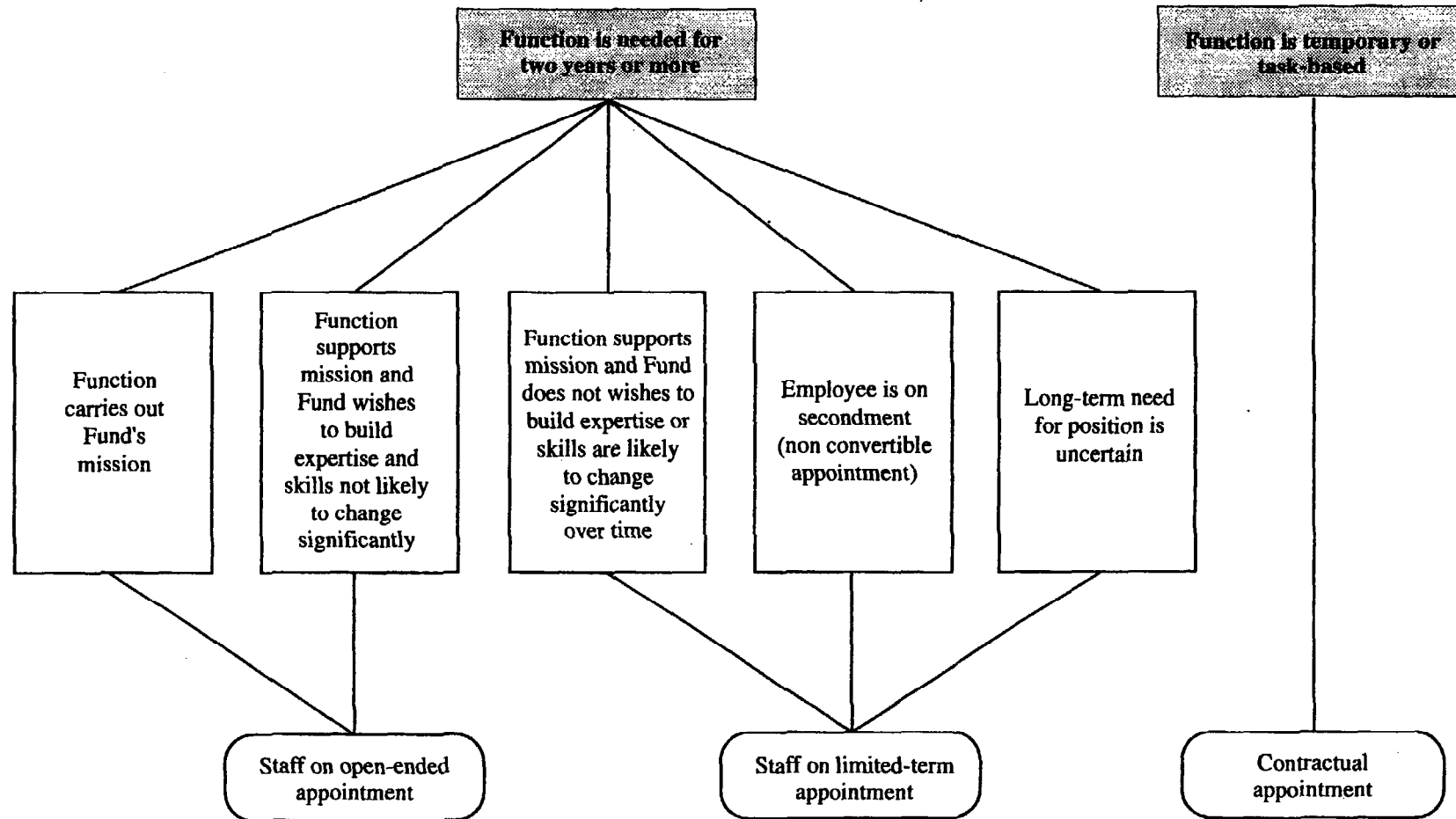
67. Staff are either on open-ended (career) or limited-term appointment. Open-ended appointments apply to employees hired: (i) to perform functions which carry out the mission of the Fund (positions directly involved in consultation and negotiation with member countries and those which perform other key ongoing functions essential to the basic operation of the Fund), and (ii) to perform functions which support the mission of the Fund and for which the Fund wishes to build expertise and the skills are not likely to change significantly over a few years. Staff on open-ended appointments are initially hired on a fixed-term appointment to test their suitability for career employment.

68. The revised framework allows more scope for hiring staff for purposes other than a career at the Fund. Such staff are hired on limited-term appointments in the following cases:

- Even though the function supports the mission of the Fund, the Fund does not wish to build expertise in the function, or the skills needed for the function are likely to change significantly over a few years, or the long-term need for the position is not certain. In such cases, the person is on a fixed-term staff appointment with no expectation of conversion to an open-ended appointment in the position (conversion of the incumbent could be envisaged if the employee moved to another position where open-ended appointments can be considered).
- The employee is on secondment from another institution or government agency, and there is no expectation or possibility of conversion in this or any other position at the Fund unless specifically agreed between all the parties. The employee is hired on a non-convertible fixed-term staff appointment.

69. Contractual appointments are used mostly for short-term assignments (less than two years). Examples include functions needed for only a relatively short period (consultant, advisor functions) and finite projects (less than two years) requiring specialized skills not otherwise available or needed on the Fund staff. Each contract would specify the particular project or task for which the employee was hired. Such appointments could be renewed when justified, but no employee could remain on a contractual appointment for cumulative periods of more than four years. Extensions beyond two years would be exceptional, and require the approval of the Director of Administration. The limits described above would not apply to certain positions that are not considered as contractual employment with the Fund (e.g., Ombudsperson, Chairperson of Grievance Committee, Legal Services Consultant), as the incumbents do not act under the direction or control of the Fund and are expected to be independent and neutral in the performance of their duties.

Figure 7. Proposed Categories of Employment



70. The proposed framework may need to be applied flexibly to headquarters-based TA experts. There are situations where, even if the TA function is expected to be performed for two years or more, there are clear advantages to hiring the expert on a contract rather than as limited term staff; such situations include, for example, the case of experts who command a high premium in the market (e.g., bank supervision) and who would be difficult to place in the Fund's current salary and grade structure without creating distortions with staff. Also, most headquarters-based TA experts are called upon to travel extensively during their Fund appointment, and, if some of them are appointed as fixed-term staff, it should be made clear that the intention to limit to 50 days per year the number of days traveled by staff would not apply to these experts.

71. The above considerations imply that there could not be a uniform, one-size-fits-all approach to the appointment of long-term headquarters-based TA experts. It is envisaged that most such experts would be appointed on limited terms as staff, while some would be hired on long-term contracts when such an approach is justified.

72. Benefits and other personnel policies would be defined for different categories of Fund employees based on clear business reasons, such as duration of employment, place of recruitment, and tax status. The establishment of a tax-deferred savings plan for contractual employees is currently under consideration.

73. Vendor arrangements are not part of the employment policy. They apply to services or functions which have been outsourced by the Fund to an external vendor company. Some vendor arrangements involve a complete, continuing service (food and travel services, security), or a complete service for a fixed duration (external audit, architectural services); others provide personnel on an ongoing, as-needed basis (such as temporary secretarial agencies). The management and administration of vendor personnel should be the sole responsibility of the vendor company.

74. Outsourcing a function or a service is a complex decision with potential risks. A first consideration is whether the function or activity is critical to the work of the Fund. If it is, it should be performed by Fund employees. If it is not critical, the decision of whether to retain in-house the function or to outsource it should take into account whether the Fund should be an expert in the function and whether this can be done in a cost-effective and reliable way in the short and the long term. Outsourcing implies that the Fund becomes more dependent on the external service provider. The potential cost of having to return in-house a function previously outsourced would need to be considered. Finally, the human resources impact related to the loss of employment inherent in the reassignment of jobs needs to be taken into account. These are important issues which will need to be addressed.

75. The above employment framework applied to vendor arrangements implies that the Fund would no longer hire "indirect" vendor personnel, as these do not meet the test of a true vendor arrangement, and that such vendor arrangements would no longer be part of the employment policy of the Fund.

76. The main differences between the current and the revised framework are presented in Box 4.

77. The revised framework would need to be supported by measures to correct current problems and mechanisms to prevent the problems of the past from recurring in the future. Such steps are described in the next section, as part of the implementation issues.

Box 4. Main Differences Between Current and Proposed Framework	
Current Framework	Proposed Framework
Offers almost no room for appointments other than as career staff or contractual employees; main exception is for secondments.	Offers scope for limited-term staff appointments for functions which are to be carried out for a finite period.
Criteria to determine if a function should be undertaken by staff or contractual employees are not well defined.	Guidelines specify that any function to be performed in-house and needed for two years or more should be carried out by staff.
Lacks a mechanism to ensure periodically that budget allocations remain consistent over time with the employment guidelines.	Budget allocations will be reviewed every two years to ensure that they remain consistent with the employment guidelines.
Contractual arrangement are supposed to be for short-term purposes only, but the concept of short term is not defined.	Contracts are used for short-term periods only (less than two years); an employee cannot remain on contract for a period beyond four cumulative years.
Contracts are used for functions needed for several years but not the long term.	
Benefits for contractual employees are overly complex and at times inconsistent across similar situations; no savings plan is available to contractual employees.	Benefits will be reviewed to ensure that same benefits apply to identical contractual situations; savings plan is under consideration.
Guidelines for vendor arrangements are too general; they may give rise to situations of co-employment.	Guidelines for vendors will be defined in an outsourcing policy to be developed; it will seek to avoid situations of co-employment.

B. Proposed Process and Implementation Issues

78. A two-stage process is proposed to implement the revised employment framework. The first stage would involve a review of positions and functions which are not consistent with the

proposed employment framework and an assessment of the implications of reclassifying positions; the second stage would focus on the selection of candidates for positions earmarked for reclassification.

Review of positions and budgetary allocations

79. The first stage would start with the design of an outsourcing policy and include a review of functions and positions which are not consistent with the outsourcing policy and the revised principles set out above. These reviews, which would include cases where staff perform functions which should be carried out by other types of arrangements (contract or vendor), would be undertaken by ADM in close consultation with OBP and departments concerned. They would take account of ongoing initiatives to review functions and streamline activities.

80. The design of an outsourcing policy will be undertaken by an interdepartmental working group which will define the criteria and procedures for outsourcing, followed by a review of indirect vendor arrangements and other employment situations which would warrant application of the outsourcing policy. This review of indirect vendors could result in the conclusion that some arrangements should be handled in the form of staff or contractual appointments and others in the form of true vendor arrangements.

81. After full information has been obtained on the cases where a reclassification of position is warranted, an assessment will be made of the budgetary cost or savings associated with the reclassifications. The reclassification could affect the administrative budget in several ways. One impact would be on the total dollar cost of the budget. Preliminary estimates suggest that the initial annual costs for converting every 100 individuals on contract to staff appointments would amount to about \$2 million.¹² A detailed cost analysis, based on the extent of proposed conversions, will be provided in a Board paper concluding the first implementation stage. Most of the increased cost would be on account of access to benefits, particularly to the Staff Retirement Plan and, to a lesser extent, the Medical Benefits Plan (for post-retirement medical expenses) by employees converted from contractual to staff status. Savings would be achieved over time on account of a lower turnover rate and the broadening of recruitment to include non-U.S. staff. Another impact could be on the total number of authorized positions (staff and contractual positions) set in the administrative budget. The conversion of some indirect vendor arrangements into staff or contractual positions would increase the total number of authorized positions. The conversion of long-term contractual positions into staff positions would not affect the number of authorized positions which already include both staff and contractual positions. Savings in staff and contractual positions could also result from the introduction of the outsourcing policy.

¹²The cost of converting a vendor arrangement into a staff appointment is expected to be close to that of converting a contractual arrangement into a staff appointment. Conversions of a vendor arrangement into a contractual arrangement would generally be cost neutral; in some cases they could result in cost savings.

82. The results of the above reviews and other findings of the first stage would be presented to the Board in time for consideration in the context of or before the FY 2001 administrative budget. The estimated cost of a reclassification program would be an important element in the decision of how quickly it can be implemented. If the cost were to be large, consideration could be given to phasing in the process. Any additional transition issues that might be identified would be considered at that time.

83. Measures will need to be designed to avoid problems of misclassification from arising again in the future. Such measures would include:

- annual budget allocations, hiring practices, and work assignments that are consistent with the employment policy.
- periodic reviews of staff and contractual positions to ensure that they remain consistent with the employment guidelines over time; such reviews would ensure that reclassifications are made when it becomes clear that a function is no longer needed for the long term, or that temporary needs have become permanent; such systematic reviews could be conducted at two year intervals.
- the budget allocation of staff positions which are needed for a limited period would lapse at the end of the specified period; staff appointed into such positions would have a limited-term appointment.
- the implementation of the four-year rule for contractual appointments, as defined above.

84. Vendor arrangements would be defined more tightly than at present in the context of an outsourcing policy. The purpose of the outsourcing policy would be to establish principles and procedures to help departments make sound decisions about when to outsource an activity and use vendor personnel. This policy would embody the principle that vendor arrangements are used only for truly outsourced functions, i.e., functions where the Fund has determined that an external provider will undertake to deliver an output (service or material) and will have full responsibility for the work process, methods, and selection and management of inputs required to fulfill the function.

Filling of reclassified positions and transitional issues

85. The second stage, which is to start no later than with the beginning of FY 2001 (May 2000), would focus on identifying people to fill the reclassified positions and, as needed, to implement new vendor arrangements. The process of filling the reclassified positions will be based on the following considerations. First, the process should result in the best person being selected for the position. This implies that consideration be given to a broad range of candidates from within the Fund and, where appropriate, from the outside market. Second, the process should be cost-effective. Thus, an external search effort, which could be lengthy and costly, might not be indicated, if the incumbent is a specialist who has performed the function for several years to the

full satisfaction of the department concerned and has acquired considerable expertise and institutional knowledge. After all, many individuals find themselves in a contractual rather than a staff position because of past budget ceilings and not because of a lack of qualification for the job. And third, correcting past inequities should not result in new ones: therefore, incumbents will not be denied conversion because of nationality. The details of the selection approach to be adopted will be determined following the completion of the reclassification of positions in the first stage.

86. Given the current proportion of U.S. nationals on contract, the above approach may result in the selection of a large number of U.S. nationals for the reclassified positions. Would this mean that the diversity of the Fund would suffer? It would not, as the true diversity of Fund employees after reclassification would not be significantly different from that prior to the reclassification. However, the indicators used to date to measure diversity would most likely show a deterioration, as they measure the nationality distribution of staff rather than total Fund employees (staff and contractual personnel). Progress in increasing the diversity of staff will be made over time, as the reclassified positions become vacant in the future.

Other measures to align personnel policies to the revised framework

87. Compensation and benefits policies for contractuels will be reviewed and simplified and made consistent with the proposed employment policy. Establishing a savings plan for contractual employees would be expected to result in only minimal costs to set up and administer the plan. An outsourcing policy will be developed by a working group representing departments concerned.

VI. ISSUES FOR DISCUSSION

88. This section identifies issues that Executive Directors may wish to consider for discussion.

89. Do Directors share the assessment of current employment practices (Section IV) and the concerns regarding the lack of fairness resulting from some of the current employment practices and arrangements?

90. What are the views of Directors on the key principles that should best guide employment policy and the proposed employment framework?

91. What are the views of Directors on the two-stage approach proposed to implement the revised employment framework? The first stage would involve presenting proposals for a reclassification of positions to the Executive Board (with estimates of budget costs and savings). The recommendations would then be implemented in a second stage.

Table 1. Number of Fund Employees, 1981-1997
(excluding Offices of Executive Directors)
as of December 31

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Staff members	1,527	1,578	1,631	1,672	1,682	1,693	1,665	1,710	1,748	1,782	1,846	2,049	2,191	2,202	2,182	2,194	2,203
A1-A8	647	654	661	673	671	653	643	639	644	646	670	716	759	744	720	711	703
A9-A15	685	715	754	781	795	821	812	844	871	901	930	1,064	1,138	1,161	1,167	1,184	1,188
B1-B5	195	209	216	218	216	219	210	227	233	235	246	269	294	297	295	299	312
Contractual employees	6	12	26	65	107	177	245	263	242	249	271	314	318	318	344	341	385
Less than 6 months	1	0	4	17	24	29	48	34	28	27	41	50	37	49	42	39	45
6 months or more	5	12	22	48	83	148	197	229	214	222	230	264	281	269	302	302	340
Staff and contractals	1,533	1,590	1,657	1,737	1,789	1,870	1,910	1,973	1,990	2,031	2,117	2,363	2,509	2,520	2,526	2,535	2,588
Change over the Previous Year																	
Staff	82	51	53	41	10	11	-28	45	38	34	64	203	142	11	-20	12	9
Contractuals	4	6	14	39	42	70	68	18	-21	7	22	43	4	0	26	-3	44
Total (Staff and Contractual)	86	57	67	80	52	81	40	63	17	41	86	246	146	11	6	9	53

Source: Administration Department

Note: The above data on the number of employees does not match exactly the budget data on authorized staffing. Data on employees reflect the situation on a given date whereas budget data indicate resources available over a period of one year; another factor is that some budget resources are used to hire technical assistance experts in field assignments and temporaries (through agencies) who are not included in the data or the number of employees.

Table 2. Number of Vendor Personnel in ADM and BCS 1/
(as of end of fiscal year)

	Vendor Personnel		
	ADM	BCS	Total
FY 1984	256	70	326
FY 1989	370	56	426
FY 1994	447	150	597
FY 1998	454	185	639

Source: Administration Department

1/ In 1998, there were only three full-time vendor arrangements outside ADM and BCS; these related to arrangements previously managed by BCS and which were transferred to RES.

**Table 3. Nationality Distribution of Contractual Employees
as of December 1997**

Region	Contractual Employees		Financial Quota
Country	(number)	(percent)	(percent)
Africa	27	7.0	4.5
Asia	59	15.3	16.5
China	(8)	(2.1)	
India	(18)	(4.7)	
Philippines	(10)	(2.6)	
Other	(23)	(6.0)	
Europe	64	16.6	40.7
France	(10)	(2.6)	
Russia	(7)	(1.8)	
United Kingdom	(11)	(2.9)	
Other	(36)	(9.4)	
Middle East	14	3.6	9.2
Western Hemisphere	221	57.4	29.1
Canada	(10)	(2.6)	
United States	(175)	(45.5)	
Peru	(9)	(2.3)	
Other	(27)	(7.0)	
Total	385	100	100

Source: Administration Department

Table 4. Distribution of Contractual Employees by Department, Selected Years
(as of December 31)

	1981	1985	1988	1990	1992	1995	1997
ADM	3	30	66	60	72	73	79
BCS 1/	0	44	108	99	80	74	79
BLS	1	7	12	11	29	33	42
EXR	0	2	9	10	5	13	11
FAD	0	2	6	7	19	18	20
LEG	0	2	5	3	5	11	7
MAE	0	0	3	6	15	29	32
SSG 2/	0	0	0	0	15	14	18
STA	0	0	0	0	13	9	17
TRE	0	1	11	14	15	13	16
Other	2	19	43	39	46	57	64
Total	6	107	263	249	314	344	385
ADM & BCS	3	74	174	159	152	147	158
ADM & BCS as a percentage of total	50	69	66	64	48	43	41

Source: Administration Department

1/ BCS was established in 1982.

2/ Support Group secretarial staff.

Table 5. Distribution of Contractual Employees by Department
(as of December 31, 1997)

	Professional	Support	Total
Area Departments	10	9	19
AFR	1	1	2
APD	2	2	4
EU1	1	2	3
EU2	1	1	2
MED	4	1	5
WHD	1	2	3
Functional Departments	55	57	112
FAD	15	5	20
INS	3	4	7
LEG	5	2	7
MAE	17	15	32
PDR	1	2	3
RES	4	6	10
STA	10	7	17
TRE	-	16	16
Other Departments	147	107	254
ADM	34	45	79
BCS	65	14	79
BLS	24	18	42
EXR	5	6	11
JVI	5	-	5
OIA	7	-	7
OMD	1	-	1
SEC	-	3	3
SSG 1/	-	18	18
Other 2/	6	3	9
Total	212	173	385

Source: Administration Department

1/ Support Group secretarial staff

2/ Includes, inter alia, Investment Office, Administrative Tribunal, Grievance Committee

EMPLOYMENT GUIDELINES¹³

Staff appointments

92. Staff appointments are made only to positions authorized within the staff ceiling of the Fund's administrative budget. They may be "regular" appointments, which are of an indefinite tenure, or "fixed-term" appointments, which are for periods of between two and five years and which may not be converted to regular status. As a basic principle, the majority of positions within the Fund should be filled through staff appointments. The following types of positions normally should be incorporated within the staff ceiling and encumbered only by staff members:

- Positions which carry out the basic institutional mission of the Fund. These would include (i) positions directly involved in consultation, negotiation, or other official contacts with member countries and (ii) positions which perform other key ongoing functions essential to the basic operation of the Fund.
- Positions which support the basic institutional mission of the Fund, and in which (i) the basic skills required will not change dramatically over a short period of time, and (ii) there is a need for continuity among staff performing these tasks.
- Positions in which the incumbent is required to act on behalf of or encumber the Fund (for example, to authorize procurement of goods or services, or approve leave, payments, travel, etc.), or to serve as a representative or delegate of the Fund.
- Positions with designated supervisory responsibilities for staff or contractual/vendor appointees. In a few cases (for example, EDP specialists and building engineers) practicality dictates that contractual/vendor appointees should supervise their own personnel. Normally, this would not extend beyond the first level of supervision, however, and only in exceptional circumstances would a staff member be supervised by a contractual/vendor appointee.

Contractual appointments and vendor contracts

93. All other positions which do not fit within the guidelines for staff appointments, but which are required to perform services needed for the efficient operation of the Fund, or to meet work load requirements of a temporary or uncertain duration, may be filled by contractual appointees or vendor personnel if this is more economical or efficient than employing staff. Contractual appointees and vendor personnel should not perform the same

¹³These guidelines were issued as Attachment 2 to EBAP/89/101 (4/13/89), Categories of — Employment in the Fund.

tasks as staff members, unless they are retained for temporary, limited-term, or peak work period assignments, or unless a determination has been made by the hiring department, in consultation with the Administration Department, that individual circumstances warrant an exception. The choice as between a contractual appointment and a vendor contract will depend on several considerations, including the job or service to be performed, the degree of control and supervision desired over the contractor, cost-effectiveness, and administrative convenience. Some broad guidelines on the use of contractual appointees and examples of the types of functions performed by vendor employees are outlined below.

Contractual appointments

94. Contractual appointments are made for varying terms which normally do not extend beyond the end of the Fund's financial year, but which may be renewed at the beginning of the following financial year, subject to the appropriation of necessary budget funds. Authorization for contractual appointments to extend beyond the end of the financial year, however, may be granted by the Administration Department where circumstances warrant and where there is every expectation that budgetary provision will continue to be made for the duration of the appointment.¹⁴ Appointments are made on the basis of a contract between the individual appointee and the Fund. However, contractual appointees are not staff members, and their remuneration, benefits and conditions of service are specified in their contracts rather than in the standard rules and administrative orders governing staff.

95. Examples of types of positions which would normally be filled by contractual appointees include:

- Positions which support the basic institutional mission of the Fund, and in which (i) the Fund has little or no expertise, or the skills required are likely to change dramatically over time, and (ii) continuity within the staff performing these tasks is not critical to their effective performance.
- Positions in which services are needed for only a relatively short period of time. These may be consultant or advisory functions in the main operational departments or support functions in the service departments of the Fund, and may carry out tasks normally assigned to staff.
- Positions which carry out finite, short-term projects requiring specialized skills which staff may not possess, or for which the Fund has no permanent or continuing need.

¹⁴This provision was introduced in 1993.

- Positions which, although long-term in nature, require that the incumbent not be a staff member (for example, the Ombudsman and the Grievance Committee Chairperson).
- Positions created to meet manpower needs—in particular, those generated by new activities or increases in the volume of existing activities—which it is uncertain will be sustained.

Vendor contracts

96. Vendor contracts involve agreements between the Fund and companies (vendors) that provide services, materials, or both to the Fund. Many of these vendor contracts provide a complete, continuing service to the Fund, supplying the necessary management, technical expertise, and personnel; examples include the food, security, engineering and parking services, and the Fund's travel agents. Some vendors provide a complete service for a fixed duration; examples include the audit assistance provided to the External Audit Committee, architectural services, or furniture design and installation. Others provide varying numbers of personnel on an ongoing, as-needed basis, as for example, temporary secretary agencies. The level of supervision of these activities by Fund staff varies. A major benefit of vendor arrangements is the contract guarantee to maintain the quality and level of personnel necessary to perform the service concerned. This is particularly important in the case of services requiring periodic changes in manning levels.

LIMITS ON THE DURATION OF FIXED-TERM APPOINTMENTS

97. The Fund's standard recruitment policy is to offer **potential career staff** a two-year fixed-term appointment.¹⁵ Performance is carefully monitored over the first 18 months, at which point a decision is taken whether or not to offer a regular appointment at the end of the term. If there is still uncertainty about the staff member's performance and/or potential after 18 months, the appointment can be extended for one year, with the conversion decision made at the 30-month point. A further extension for a fourth year is possible, but is discouraged on the grounds that the department should by that time have had ample time to reach an informed decision.

98. Exceptions to the above policy are made for the appointment of senior staff and Research Assistants/Officers. Senior staff (B level) are usually given an initial three-year fixed-term appointment. Research Assistants/Officers are hired for a limited term, but conversion to regular appointment may be made if the hiring department so determines. Such staff are hired initially on a two-year appointment. Subject to good performance, the appointment is renewed, typically, for another three years. If after five years' service the hiring department is prepared to offer a regular appointment, the Fund will convert the appointment to regular status. If the department is not prepared to recommend the conversion, the RA/ROs must leave no later than the eighth anniversary.

99. Staff hired for a **limited term with no expectation of conversion** to regular status are appointed for a two or three-year term. If such employees are on secondment from another organization, any extension would be considered only in consultation with the organization which seconded the employee to the Fund. The total length of such appointments (including any extension) would normally not exceed five years.

¹⁵Occasionally recruits are offered a three-year fixed-term appointment if this is in the Fund's interest.

CHANGES IN EMPLOYMENT POLICY AT THE WORLD BANK

100. The World Bank has adopted a new human resources strategy and employment policy. The strategy addresses the following employment-related concerns: first, as the Bank sought to increase its presence in the field, measures had to be taken to manage staff in all locations under a common set of principles, both at headquarters and in local offices; employment conditions for national staff employed in local offices differed substantially from those at headquarters. Second, the Bank had become more "contingent," by default rather than by design. The share of non-regular staff had tripled in the past ten years to 27 percent of the workforce (compared with 14 percent at the Fund), and turnover among non-regular staff has been high. This category of staff has been characterized as second class, with arbitrary benefits regimes. The increasing number of non-regular staff has undermined the effort at building knowledge and at maintaining continuity on assignments. Third, benefit policies are fragmented and do not meet the needs of a mobile workforce; local staff need to have a similar package of benefits as those provided for headquarters' staff, and benefits need to be more portable.

101. The new policy, which was approved by the World Bank Board in April 1998, will move away from the system of regular staff, fixed-terms, and long-term consultants to one with two employment categories, career (or open-ended) employment and term appointments. The policy will provide greater equity as all staff will have access to a comparable set of social benefits. The majority of Bank staff will be on open-ended appointments. Term contracts will be used for time-bound assignments and apply to appointments of no less than one year renewable up to a maximum of four years with the same benefits as staff on open-ended appointments. Consultants, contractors, and temporary help will continue to be hired for specific tasks and projects as needed for periodic assignments of up to 190 days during any 12-month period; payment will be on a daily fee or lump sum basis, with no benefits. The current category of non-regular staff will be phased out by December 2000, with current non-regular staff either being selected to fill regular staff vacancies, or being hired under another employment category, or having separated from the Bank.

102. Box 5 summarizes the main elements of the revised employment framework at the Bank and the proposed framework at the Fund.

Box 5. Revised Employment Framework—Comparison of World Bank and Fund

Bank	Fund
<p>Why the revised framework?</p> <ul style="list-style-type: none"> • Need to facilitate and expand recruitment in field offices under common conditions of employment for all local recruits at HQ and in the field. • Need to correct the excessive reliance on contractual employees who accounted for 27 percent of manpower in late 1997 and which resulted in discontinuity in client relations and loss of institutional memory and commitment. • Need to adapt the framework to a mobile workforce and to attract employees for a few years. 	<p>Why the proposed framework?</p> <ul style="list-style-type: none"> • Concern that many employees perform the same functions under different conditions of employment, this practice is not fair; also, it is not efficient and it weakens the international character of the Fund. <p><i>Summary: both the Fund and the Bank want to reduce reliance on contractual employees; in addition, the Bank wants to develop local recruitment and to facilitate the hiring of a number of staff for a few years (typically mid-career).</i></p>
<p>Staff under revised framework</p>	<p>Staff under proposed framework</p>
<ul style="list-style-type: none"> • Majority of staff are hired on open-ended appointments, with an initial probation period of up to two years. 	<ul style="list-style-type: none"> • Majority of staff will be on open-ended appointments, with the initial appointment on a fixed term basis (2–3 years).
<ul style="list-style-type: none"> • Term contracts are used for special tasks and time-bound assignments requiring skills that the Bank does not need to retain in the long term; these contracts carry no promise of career employment. 	<ul style="list-style-type: none"> • Limited term appointments used for (i) functions needed for two years or more and where long term need is uncertain or where Fund does not need to build expertise, and (ii) secondments under non-convertible appointments.
<ul style="list-style-type: none"> • Duration of term contracts: from 1 year to a maximum of 4 years. 	<ul style="list-style-type: none"> • Duration of limited term appointments: current guidelines will continue to apply (maximum is typically 5 years; can go up to 8 years in special cases such as Research Assistants/Research Officers).
<ul style="list-style-type: none"> • Benefits for term contracts are the same as for staff. <p><i>Summary: Term contracts at the Bank are similar to limited term appointments at the Fund, but are subject to tighter time limits (4 years versus 5/8).</i></p>	<ul style="list-style-type: none"> • Benefits for limited term appointments are the same as for staff.
<p>Consultants/contracts</p>	<p>Consultants/contracts</p>
<p>Used for up to 190 days in any 12 month period; paid on a fee basis or lump sum; no benefits.</p> <p><i>Summary: the use of contracts is much more restrictive at the Bank than at the Fund.</i></p>	<p>Used for up to 2 years; can be extended to a maximum cumulative period of four years; with some benefits.</p>