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GRAY/06/689

March 1, 2006

**Statement by Mr. Shaalan and Ms. Choueiri on the  
Statement by the Managing Director on the Review of Employment,  
Compensation, and Benefits (ECBR)  
(Preliminary)  
Executive Board Meeting  
March 3, 2006**

1. We thank the Managing Director for the proposals outlined in his Buff statement, which aim at bringing key elements of the Employment, Compensation, and Benefits Review to closure. We also are grateful to the Staff Association Committee for their helpful feedback on the above-mentioned proposals. Our comments will focus on major issues raised in the Managing Director's statement.

**Employment, Performance, and Careers in the Fund**

2. During the Board discussion held on January 25, a majority of Directors opposed extending the probationary fixed-term period to four years, while many Directors considered that the current two-year probationary fixed-term period should be sufficient to assess the suitability of a new recruit. This was clearly recognized in the Chairman's summing-up of February 17. We, therefore, cannot go along with the proposal aimed at extending the probation period to three years.

**Staff Compensation System**

3. We welcome the Managing Director's call for a simplified and more transparent compensation system. We would, however, oppose any mention of the Executive Board's discretion in making salary adjustments (Buff/06/31, Para. 3) as the annual compensation review system conducted since 1989 aims precisely at instituting a rules-based system based on the U.S., French and German comparator markets. Moreover, the Chairman's summing-up had clearly stated that "*Directors concurred that the long-term interest of the Fund will best be served by continuing to base compensation on predictable rules-based system that links Fund salaries to developments in the employment markets in which the Fund competes for staff*". We, therefore, cannot go along with the proposal aimed at "*incorporating the essential features of the 2005 amendment into the new compensation system*", preferring instead to maintain the current rules-based system.

4. In light of the above, we oppose the proposal aimed at setting salaries for senior managerial staff at the B3-B5 level on a discretionary basis, as this practice would constitute a complete departure from the rules-based system. We note that the proposed salary levels for B3-B5 staff for 2006 (Para. 8 in Buff/06/31, supplement 1) suggests to include “*some widening of the salary ranges and some limited steepening of the payline*”. While maintaining that B3-B5 salaries should not be set on a discretionary basis, we would appreciate Management’s clarifications on the exact impact on salaries of the proposed changes. We do recognize that there are circumstances where keen competition in specific sectors make it difficult to hire people with the necessary skills within the existing rule. Such specific cases that may warrant discretionary salary setting should be brought to the Board on a case-by-case basis so that the appropriate decision be made.

5. We, among many Directors referred to in the Chairman’s summing-up, still doubt the relevance of functional paylines for the Fund, given their administrative costs and their adverse impact on staff mobility and cohesion. However, should further cost-benefit studies on the possibility for the Fund to adopt functional paylines be conducted, they should be guided by clear principles endorsed by the Board. Moreover, they should avoid leading to a job re-grading exercise, as suggested by Ms. Jacklin and Mr. Lynch in their statement, as this had negative effects on staff morale in the past and proved to be a costly experience to the Fund.

6. We do not feel well-informed at this stage to make a decision regarding the proposal to move towards more comprehensive but less frequent comparator-based salary reviews (Buff/06/31, Para. 5), especially that it is not clear that the majority of the Board had endorsed the 3-year cycle approach. In addition, the proposed system, which remains to be refined, would question the rule-based benchmark in the 2009 comprehensive salary review, thus weakening the rules-based system. We wonder what would the impact on the salary structure be had the proposed 3-year cycle methodology been applied during the last salary review.

7. We thank Management for the supplementary note which has answered one of our questions on the impact of proposed changes in the construction of the paylines (Buff/06/31, Para. 6), on salaries, had the proposed modifications been applied during the last salary review. We are rather surprised to note that the suggested proposals (in public sector, private sector, and private industrial sector weights, as well as in the construction of the U.S. financial sector payline from the current setting at the level of the 75<sup>th</sup> percentile for all grades) will result in a significant reduction in salaries. As stated in Management’s Supplement, “*Management’s initial proposal (EBAP/06/2) involved a downward shift in the U.S. and French/German comparator paylines by 1.5 percent and 1.6 percent, respectively*”. Now we are faced with a lowering of the payline of almost double those amounts at 3.2 percent (2.6 percent and 3.5 percent in the U.S. and French/German comparator paylines, respectively). It is important to note that this adds to the proposed 1.5 percent reduction stemming from the adjustment to the spouse allowance, which has been adjourned. This would bring the total lowering in the payline by about 5 percent. Are we correct about this calculation? We would like to understand the rationale of the proposed changes, which will result in arbitrarily lowering the payline. In addition to the proposed changes, what would be

the impact of the initial proposal aimed at steepening the salary structure? We would like to see a full picture of the both the initial proposal aimed at adjusting the slope of the payline and the recent proposals in the construction of the payline,

8. On indexing staff compensation (as outlined in EBAP/06/22), we would welcome Management's comments on the rationale of choosing this particular index, given serious caveats in the methodology adopted.

### **Expatriate Benefits**

9. We welcome the Managing Director's recognition that "*the provisions of an attractive expatriate benefits package is essential to retaining the international diversity of the Fund's staff*". We recall that, as stated in the Chairman's summing-up, "*most Directors have noted that the overall size and composition of the package of expatriate benefits offered by the Fund is not overly generous in an international perspective, and considered that the overall envelope should not be reduced*". Consequently, in line with the proposal by Directors—reflected in the Chairman's summing-up—to introduce cost-neutral more frequent home leave travel, we support Messrs. Kiekens' and Prader's proposal to replace the existing business-class home leave travel by two home leave travels in a period of three years on the basis of full-fare economy class. We reiterate our position that support for spouse employment and training is not an expatriate benefit and therefore cannot compensate for reductions in expatriate benefits.

10. We agree with Messrs. Kiekens and Prader that every financial aspect of the Employment, Compensation, and Benefits Review is relevant for the budget. We, therefore, in line with the intention to bring key elements of the review to closure, cannot go along with the proposal to postpone the expatriate benefits discussion until the FY 2007 and three-year budget issues are discussed. The expatriate benefits issue cannot and should not be isolated from the rest of the Employment, Compensation, and Benefits Review package.

11. Finally, it would be very important for Management's proposals to reflect adequately the majority views of Executive Directors on various issues since it is the Executive Board, and not Management, which is the decision-making body in the Fund.