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March 1, 2006

Statement by Mr. Misra and Mr. Bannerji on Statement by the Managing Director on the Review of Employment, Compensation, and Benefits (Preliminary) Executive Board Meeting March 3, 2006

We have gone through the Managing Director's Buff statement on the ECBR. We are deeply disturbed by the trend that this ECBR exercise is taking. First and foremost, an inordinately long time was taken in issuing the summing up statement, after clear-cut majorities emerged during the Board discussions on 25th January on many issues. Clearly, this gave ample scope for 'gentle persuasion' if not outright arm twisting and horse-trading, so that majority views – unpopular with some – could be made to converge with the minority. In this, we are afraid, management has clearly abetted the process. Like Mr.Shaalan we also abhor the phenomenon of summing ups that do not reflect the Board's views. We agree that this is a most dangerous trend and needs to be clamped down upon.

2. On the specifics, we see no reason to depart from our views expressed in the earlier gray. We would reiterate – least our silence is taken for consent – the follows issues:

(a) We do **not** support linking the A1-AB pay lines to the local Baltimore and Washington market. Nor can we support the implied contention that future recruitments be limited to this market alone.A number of this category of staff work in the offices of Executive Directors.It is essential that some of them should be well versed in the functioning of Finance Ministries and Central Banks in their constituencies.It is therefore important that the catchment of staff not be restricted to the Washington market alone.Nor should such staff be denied the benefits of expatriate benefits if they are chosen from destinations other than the USA.

(b) We would still prefer an integrated pay line from A1-B5 based on the French-German comparator, with a margin for competitiveness. We cannot support the change in weightages proposed in the Buff. We also oppose any discretion in making salary adjustments (Buff/06/31, para 3) just as we are in total opposition to any discretionary basis in setting salaries for senior management at the B3-B5 level. Such a move, together with three year contracts, would totally undermine staff's impartiality of views and independent thinking. However, we note that given the Fund's pay scales, it may be difficult to attract suitable personnel at the B-3 to B-5 levels. **We would extend limited support to the view that in select cases, the management brings up**

proposals for higher salaries before the Executive Board, which could consider them on merits.

(c) We have also seen the note of Management circulated on 28th February spelling out the rationale for changing the weightages in favour of the public sector insofar as drawing up the comparator payline is concerned.We also take note of the fact that the US financial sector payline has been redrawn to facilitate the setting of A-9 toA-12 salaries at the level of the 75th percentile of that market.At the same time for A-13 to B-1, the average(or mean) of the financial sector will be used for pitching the Fund paylines.The rationale for the same is not clear except as an attempt to further 'flatten' the comparator US and French-German markets.At the same time, there is little concrete data on the effect these changes would have on actual salary structures in the Fund.We do **not** support either the change in weights, nor indeed in departing from the established practice of using the 75th percentile uniformly for determining Fund paylines.

(d) We are amazed that despite an overwhelming majority of the Board deciding that probations should not exceed two years, a new option of three years has been suggested. We cannot support this.

(e) On the general issue of expatriate benefits and home leave, we would support the overall envelope remaining intact. While going along with the proposed change to full fare economy from the current executive class, we would support an increase in the frequency of home leave entitlement from the current practice of once in three years, to twice, as suggested by Messers Kiekens and Prader.Any savings thereafter should be channelized to a more liberal home leave allowance, so as to enforce strict cost neutrality We explicitly reject the suggestion that the 'savings' be utilized for 'promoting spouse employment', since this is an option with unknown, indeterminate outcome and we view this as a pure red herring rather than a concrete proposal.

(f) From the overview paper circulated on 6th January, we find that the level of savings by limiting total education allowance to 50 per cent of staff members' net salary is likely to be US $0.02 million!! We, therefore, see no reason for going along with this suggestion.

3. We agree with Messrs. Kiekens and Prader, as well as Mr. Shaalan and Ms. Choueiri that all aspects of the ECBR have a bearing on the budget. We see no reason at all, why the issue of expatriate benefits should be postponed till the FY 07 budget is discussed. Surely, as the overview paper brings out, if the sum total of preserving the level of expatriate benefits as well as education allowance, is a mere $8.15 million, we do not see this as a critical aspects of the Fund's budget.

4. Lastly we sincerely hope that decisions reached by the Executive Board are summed up without delay genuinely reflecting the majority views without obfuscation, and implemented forthwith. We would also like to see these decisions taken forward quickly with no scope for any further 'backroom maneuvering' by some of the constituents.