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

We welcome the Managing Director's Buff, which is a useful step towards bringing the review to closure. We think the Buff identifies the correct way forward in many areas. However, we regret that there still remain some issues where the proposals either go against the clearly expressed will of the majority of the Board, or are accompanied by too little information to make an informed decision.

**Employment Framework**

Although we would prefer maintaining the present 2-year probationary period, we recognize Management's concern that for some individuals, this may be too short a time to adjust to the Fund's environment. We consider Management's revised proposal of a 3-year probationary period a workable compromise and are ready to support it, but encourage Management to treat the 3-year limit as a maximum and to convert to open-ended contracts earlier in clear-cut cases, in order to minimize unnecessary uncertainty.

**Compensation System**

We think the debate on functional paylines has so far suffered from a lack of both specificity and empirical evidence to guide the discussion. Hence, we support Management's decision to initiate further studies on this issue.

On the issue of salary reviews, we welcome Management's proposal to move forward with the 3-year review cycle. We do not have a strong preference regarding the choice of a particular index, but we think that, on the basis of the evidence provided, any of the alternatives would likely work in a satisfactory manner.

In the light of the envisaged relatively long wage indexation period between the comprehensive salary rounds and the possibility of divergent wage developments, we consider it important to retain sufficient amount of Board discretion for the comprehensive reviews. We therefore support Management's proposal that strikes a fair balance between rules and discretion.

We support the proposed change in the sectoral weights of the payline and consider the resulting downward shift in the comparator payline to be of reasonable magnitude. We can also accept the linking of the A1-A8 salaries to those of international staff in the Washington-Baltimore area, with the assurances from Management to make full allowance for the special skill requirements at the Fund.

However, we fail to see the rationale for Management's intention to pursue a general steepening of the Fund's actual payline. While we support more flexible use of the Fund's compensation system, in particular in seeking to attract high-level fixed-term staff, we have yet to see the evidence (e.g. difficulties in retention) suggesting the need to increase compensation for senior staff in general. We believe the detachment of the Fund's actual payline from the market comparator has, at least in part, reflected market conditions and do not think any drastic changes are warranted. We apply the same reservations to the proposed "widening of the salary ranges and some limited steepening of the payline" for B3-B5 staff. We presume that the actual implementing decisions will be decided by the Board in the annual salary rounds, and are willing to reconsider our position on the basis of cost calculations (including costs to the SRP) and convincing evidence that such steepening is indeed in the interest of the Fund.

We note that Management no longer pursues an increase in the spouse/child allowance and recognize that this is a material change in the proposed compensation package. We are willing to accept the proposal to return to the issue on the basis of the PWC analysis, at a point where there is better information on the appropriate budget frame.

### **Expatriate Benefits**

We welcome the Management's recognition that an attractive expatriate package is essential to retaining the international diversity of the Fund's staff. Against that backdrop, and given the strong message sent by the Board in the last meeting, we are surprised and disappointed that the proposal fails to develop the Steering Committee's proposal any further.

The proposal, as it now stands, involves a tangible reduction in the overall compensation of expatriate staff. Management suggests to return to the issue of compensating for that loss in the context of the budget discussions. We cannot see any reason for postponing the discussion, other than an underlying intention to use the leverage provided by the uncomfortable realities of those discussion to extract savings. **We cannot go along with this proposal. Expatriate Benefits fall clearly within the scope of this review, and their fate should be decided in the context of this review.**

As we have stated before, we agree that a reduction of the home leave travel class is the right way to go, for a number of reasons, of which reputational risk is just one. First, using home leave travel benefit as a surrogate for a *de facto* cash allowance is non-transparent and wrong. Second, the idiosyncrasies of airline competition (or the lack thereof) make the actual targeting of the benefit largely random. These same issues persist even after moving to the full-fare economy class standard, albeit to a lesser extent.

As Messrs. Kiekens and Prader, we remain of the opinion that **the loss of the *de facto* cash benefit implicit in the present home leave travel benefit should be compensated to expatriate staff in a manner that roughly maintains the overall monetary value of the expatriate package.** In our view the aim should be a flexible and transparent system that makes efficient use of the Fund's money in attracting expatriate staff. We regret that, despite repeated requests and sufficient time to respond, the Board still has not been provided with options of how such a package could be put together. **In order to allow the process to move ahead, Management should, as soon as possible, come up with properly costed options.**

The specific proposal put forward by Messrs. Kiekens and Prader is a viable one, and we are ready to support it if it turns out to be the most realistic ground for compromise. However, we do not believe it is the most efficient use of the Fund's money. Its generosity, at the level of individuals, remains subject to the randomness of the airline market, it carries the deadweight loss of compensating airline companies, and it maintains much of the non-transparent, surrogate nature of the present system.

**Our first preference would be to compensate expatriate staff in the form of a general expatriate allowance** that could be used to meet the various costs of expatriation. This allowance, to be paid on the basis of family composition, could be used for more frequent home leave travel, but it could also be used to pay families and relatives to fly over to visit, or it could compensate for loss of spousal employment or help with pre-school expenses. We believe such a general expatriate allowance would enhance the incentive value of the package compared to earmarked benefits.

On the education allowance, we support the Managing Director's proposals.

### **Staff Retirement Plan**

We support the Managing Director's proposal to return to the proposed changes to the Staff Retirement Plan in a Pension Committee paper later this year. We look forward to proposals improving pension portability to support the goal of increased flexibility of the employment framework.