

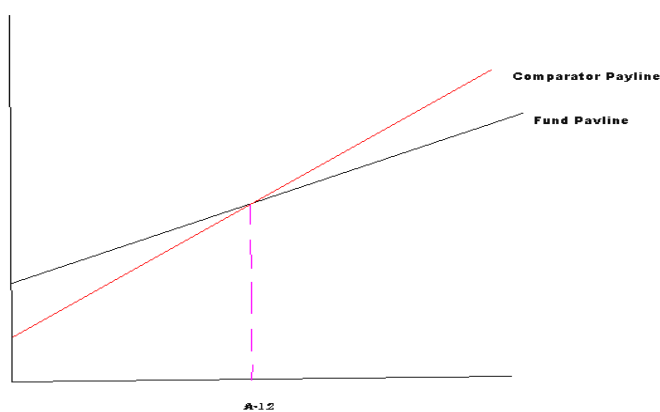
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GRAY/06/714

March 3, 2006

**Statement by Mr. Misra and Mr. Bannerji on
Statement by the Managing Director on the Review of Employment,
Compensation, and Benefits (ECBR)
(Preliminary)
Executive Board Meeting 06/21
March 3, 2006**

1. Management has submitted a note dated February 28, 2006 regarding proposed changes in the comparator market payline for determining staff compensation. The gist of the proposals are:
 - (A) Change the current weights, 40 percent each for the Public Sector and Private Financial Sector and 20 percent for the private industrial sector to 50 percent for the Public Sector, 40 percent for the Private Financial Sector and 10 percent for the Industrial sector;
 - (B) The comparator of the A1-A8 to follow the Washington-Baltimore Index;
 - (C) Using the 75th percentile for US financial sector surveyed data for Grades A9 to A12, using the mean for pitching B2 salaries, and a graduated 'pitch' for A13-A15/B1.(implying in essence, a graduated decline from the 75th percentile to the mean)
2. It is important to understand the effects of these changes. We have tried to map the changes pictorially. The base case scenario is at figure 1:



The comparator payline is taken to mean the US market payline with the current 40 percent weights on the Public Sector and Private Financial Sector, and 20 percent on the Private Industrial sector. As Directors will recall from the three rounds of informal seminars, the Fund payline is flatter than the comparator, and the cross over takes place at the A-12 range.

3. The first component of change that we consider is changing the weights to 50 percent for the Public Sector, 40 percent for the Private Industrial Sector and reducing the Private Industrial sector to 10 percent. Figure 2 tries to capture the effects:

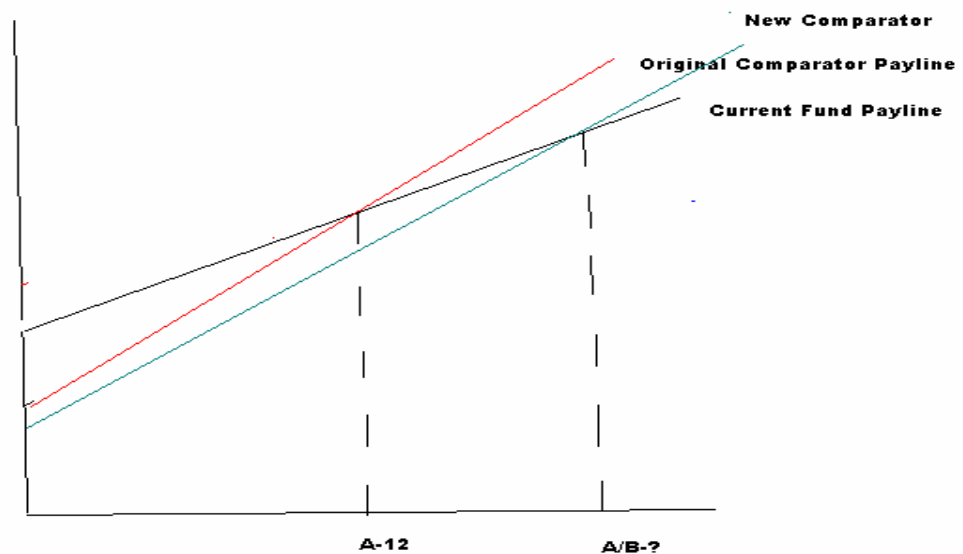


Figure 2: The effect of changing the weights in favour of the Public sector

The new comparator is necessarily *flatter* than the original comparator, and at all grades, lies below the original comparator line. Given the current Fund payline, the new comparator crosses over beyond the current A-12 range, but in the absence of more data it is impossible to determine whether it is at A13 to A15, or indeed at the B levels.

4. The second change we will map is the adoption of the Washington-Baltimore index for A1 to A8.

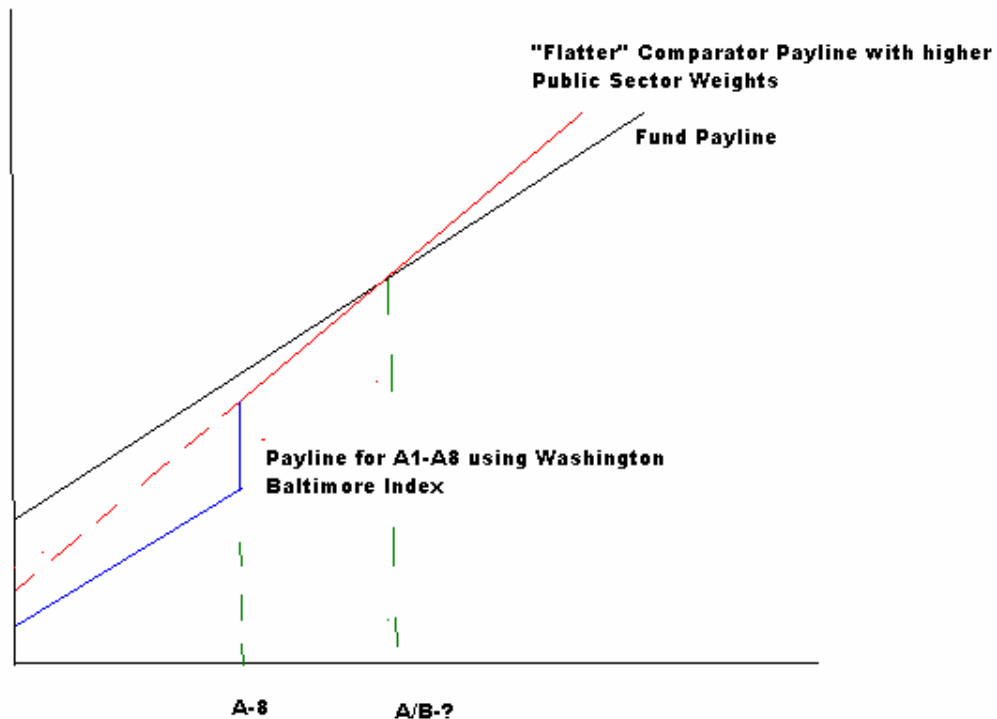


Figure 3: Adopting the Washington-Baltimore Index for A-1 to A-8

Presumably, adopting the Washington-Baltimore index would imply a lower payline for A1 to A8 categories. Superimposing this, has the effect of introducing a 'kink' in the now flatter comparator payline at the A8 level.

5. The last change we seek to depict is setting salaries at the 75th percentile for A9 to A12, adopting the mean (or average for B2) and gradually converge the A13 to B1 ranges from the 75th percentile to the mean. Figure 4 overleaf traces the final picture that the market comparator is likely to take, and the basis of "realigning" Fund paylines from A1 to B2. Upto the A12 grade, the market comparator will be the same as the one depicted in figure 3. However, from A13 upto B2, the comparator will flatten out even more, since the 75th percentile will no longer be the level that salaries are pitched at.

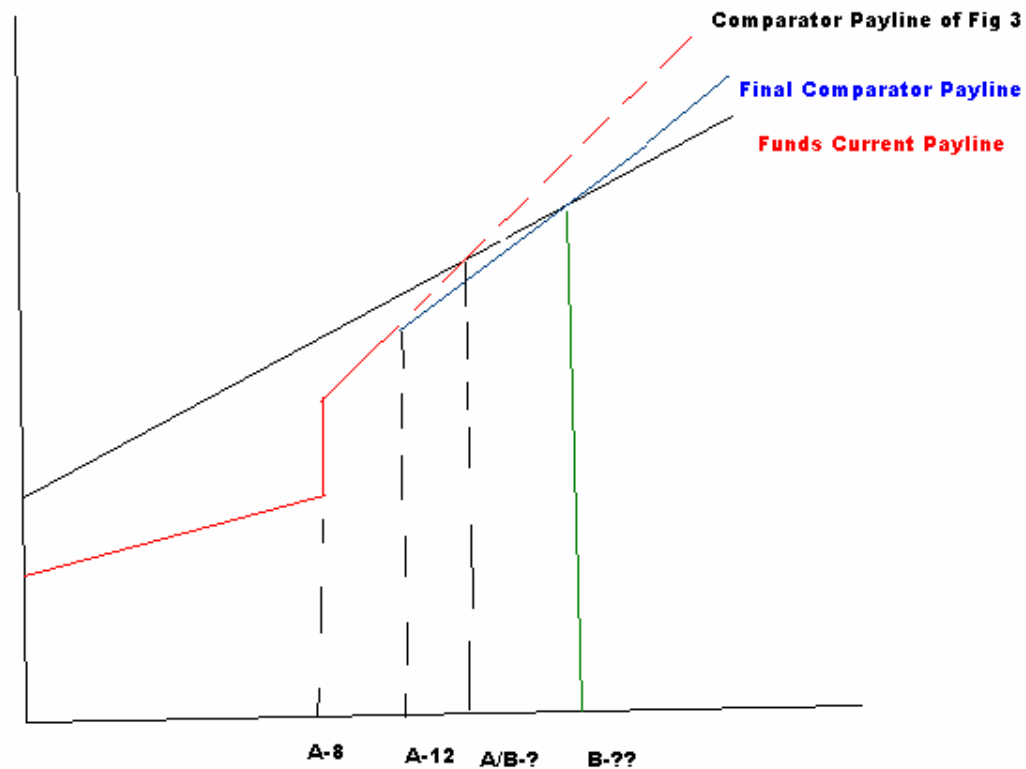


Figure 4: Tapering the setting levels of salaries from A13 to B2 from 75th percentile to the mean

The cross over with the Funds current payline will now presumably be beyond even the earlier level, A/B ? and could be at B??.

6. For the purposes of analysis, it is not necessary to carry out the same exercise for the French-German comparator since the general principles will remain the same. Yet important questions arise out of this:

Firstly, is the change in weights from the current levels justified? **Regarding 50 percent weight on the public sector in effect gives one member country-the USA- a 50% say in determining Fund salaries, since the US government, of course, determines the US public sector wages. Does this not change the character of the IMF as an international organization?**

Secondly, the changes which have the effect of further flattening the comparator from the A12 to the B2 level appears quite arbitrary, aimed it would appear to limit any possible increases to A13 –B2 levels. Specifically, regarding the decreasing pitch of the financial sector, our understanding is that the Fund already uses the 75th percentile in for base salaries,

but the *average*-not the 75th percentile-of bonuses on the ground that that Fund staff do not face the same degree of uncertainty as private financial sector employees. **It is unclear from the buff, whether the pitching would be the average of salaries or the average of salaries plus bonuses.**

Thirdly, using the Washington-Baltimore index from A1 to A8 would entail even a greater reduction in compensation to this category, than if the current comparator is used. **If the idea is to limit recruitment in this category to only the local market, the IMF could indeed end up in paying more than they do, given the wide difference between the average cost of expatriate benefits and the reimbursement of taxes and contributions to local US citizens.** Moreover no details have been provided on the proposed A1-A8 index, or the slope of that payline. How are Directors expected to have an informed opinion about this?

7. What is important however, is that while the management paper has given some idea on how the comparator paylines will be adjusted, it gives no clear-cut views on *how* The Funds payline is to be aligned to the new comparator/s. For the purposes of argument let us consider Table 1 in the Management's paper of February 28th. We reproduce the relevant data items below:

	A9	A10	A11	A12	A13	A14	A15/B1	B2	Weighted Average
Fund Payline	74,310	85,460	98,160	109,920	123,120	137,900	155,850	176,110	
US Comp (prop)	62,619	74,069	83,770	98,634	112,616	137,913	167,811	201,115	-2.6
Proposed F/G	63,300	71,010	81,740	92,910	106,090	120,700	139,960	160,680	-3.5
F/G with 10 percent	69,600	78,110	89,914	102,201	116,699	132,770	153,956	176,648	

(I) If the US comparator market is the proposed line that the Fund will follow, will it be a grade by grade adjustment or a general 2.6 percent downward revision along all grades of the Fund payline? If it is a grade by grade adjustment as rows 2 and 3 show, it is easy to discern that the crossover will be at A-14 level. Staff categories in A15 to B-2 get an increase in compensation. **Please note that at the entry level under the EP program, that is the A11 level, the starting compensation will be \$15,000 less than at present.** Would this be conducive in attracting the best talent? (presumably this is still an objective of the ECBR)

(II) If the graded adjustments are by 2.6 percentage points all down the line, **the "correction" in aligning the Fund's paylines doesn't happen, and grades A14 to B2 remain below the comparator.**

(III) Then again take the corrected French-German comparator and add an uniform 10 percentage points for competitiveness. Till A13, adopting this payline for the Fund would

mean that the cross over would be at B-2 level only. From A 9 to A 13, the adjusted French-German comparator is more generous than the proposed US comparator.

Clearly, Management must come up with concrete views on how exactly they intend to align the Fund's payline. It cannot be left to any arbitrary picking and choosing between disparate alternatives.

8. The paper on indexation relies on a time series based on 11 annual observations (!!)giving very little confidence in the reliability of the index in tracking Fund salaries. Indexing for two years in a row can yield unwelcome surprises for both the staff and the Board when a full market survey is undertaken.

9. We do believe that these are serious issues that need to be resolved before going ahead on the compensation issue.