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April 12, 2006

**Statement by Mr. Shaalan and Ms. Choueiri on the
Employment, Compensation, and Benefits Review—Proposed Decisions
(Preliminary)
Executive Board Meeting
April 14, 2006**

1. We thank the staff for a helpful report, which proposes decisions on two main elements of the Employment, Compensation, and Benefits Review (ECBR), namely the staff compensation system and the expatriate benefits. We are also grateful to the Staff Association Committee for their helpful feedback and comments at all stages of the review. We hope that this and future proposed decisions will build on the two formal Board discussions that took place on January 25 and March 3, 2006, during which Directors considered a range of reforms in the ECBR. We will turn in what follows to some concerns we have and questions for clarification by staff on the major principles underlying the revised staff compensation system and expatriate benefits.

Principal Provisions of the Revised Staff Compensation System

2. As mentioned in the staff report, the Fund's staff compensation system aims at facilitating the recruitment of staff on as wide a geographical basis as possible, subject to securing the highest standards of efficiency and technical competence. The report also provides for the operation of the compensation system under a comparator-based and rules-based system. As emphasized in our previous statements, we expect the main decisions regarding this review to be in conformity with the spirit of these objectives.

3. We have the following comments and questions regarding the comparator-based reviews for Grades A9–B2. The suggested three-year cycle provides for Fund payline adjustments to be determined in relation with an index in the two years falling between comparator full-review years, without testing for international competitiveness. We would welcome staff comments on how the potentially challenging problems of “catch up” in the comparator years—that was pointed to during the March 3, 2006 Board discussion¹—will be dealt with, so that full alignment with the comparator markets is restored in the full-review years.

¹ The Chairman's Summing-Up, Employment, Compensation, and Benefits Review, Executive Board meeting 06/21, March 3, 2006, BUFF/06/47, March 13, 2006.

4. We note that the suggestion to include the academic sector in the U.S. comparator market for Grades A11–A12 was not adopted during past discussions of comparator market sectors. This was attributable to the need to maintain international competitiveness at the Fund’s key recruitment grade, the A11 entry level grade for the Economist Program (EP). Indeed, the academic sector’s overall compensation structure is difficult to compare with that of the Fund. In addition, the sector’s pay structure usually includes various sources of income that are not accounted for in the regular payline. This means that adding this sector to the U.S. comparator market for Grades A11–A12, without accounting for these differences, might result in a decline in the A11–A12 payline. This could add to the fact that the lower grades in the Fund payline, particularly A11–A12, will bear the bulk of the reduction in the overall payline resulting from the proposed adjustment to the A9–B2 payline. We also wish to emphasize that, although EP participants normally join the Fund upon completion of their academic programs, *“experience clearly demonstrates that the Fund competes for EPs with the private financial sector, the public sector, and other international organizations, and not only academia”* as highlighted in the ECBR—Companion Paper.² In view of the above, considering adding the academic sector to the U.S. comparator market for Grades A11–A12 should take due account of the complete financial and nonfinancial benefits offered in the sector. Given the difficulty of performing such a task periodically, we have serious reservations on the suggestion to carry out studies to determine whether the academic sector should be added to the U.S. comparator market for Grades A11–A12, especially if this further weakens the Fund’s competitiveness in recruiting and retaining EPs. In fact, we do not favor the proposal.

5. With regard to the review process of the Grades A9–B2 comparator-based payline spelled out in para. 30, we would be interested in further details regarding the implementation of the first step of the process, that is, how the initial grade-by-grade benchmarks in the U.S. comparator market will be determined. Will a transparent rules-based system establish these points of reference, and will this system serve as basis for the next full-year reviews? Furthermore, we would appreciate further clarification on the approach that is envisaged to implement the second step of the process, that is, the grade-by-grade adjustment to Fund’s grades compared to the comparator market.

6. Assuming that steps 1 and 2 are performed on the basis of a rules-based transparent methodology—that is, the Fund’s payline is aligned grade-by-grade with the U.S. comparator market payline—the staff report proposes a third step consisting in adjusting the aligned Fund A9–B2 payline in accordance with international competitiveness considerations. Although we agree with the objective of step 3, we are surprised by the statement in para. 36 providing that, after adjusting the A9–B2 payline uniformly to account for international competitiveness, *“different adjustments could be made to individual grades ... if this is considered necessary for reasons of international competitiveness.”* We would be interested in learning on what basis the right level of grade-by-grade international competitiveness (in

² Employment, Compensation, and Benefits Review—Companion Paper, EBAP/06/2 Supplement, January 6, 2006.

the French and German markets) will be defined. Furthermore, on what basis will the adjustment in some Fund grades be performed? In light of the above, it seems that the implementation mechanism of the three-year staff compensation system review cycle remains largely to be determined. Unless we are presented and convinced by a transparent system that will align the Fund payline with the U.S. market and test it for international competitiveness, we would disagree with the proposed implementation of the staff compensation system three-year review cycle.

7. Turning to the Grades A9–B2 indexation-based reviews, and more specifically the use of an indexation formula, we still do not consider the index suggested for years two and three of the cycle appropriate as it is not adapted to the Fund’s comparator market. As in our previous statements, we would welcome staff comments on the rationale for choosing this particular index, given serious caveats in the methodology adopted. Moreover, the proposed index will probably not be retained in the future as para. 41 states that proposed changes to the indexation formula will be brought to the Board for approval by end-October 2006. Consequently, we strongly recommend a delay in the adoption of an indexation formula until a more appropriate index is determined, especially that the index will not be needed before the second year of the three-year cycle starting in 2006, that is, before the 2007 compensation review.

8. We appreciate the effort aimed at rendering the B3–B5 salary adjustment simpler and more transparent in comparator-based reviews by considering the following criteria: “(i) *the levels of and structural increases for Grades B1–B2*, (ii) *the relationship between Grades B3–B5 and management salaries*, and (iii) *recent developments in the recruitment and retention of senior managerial staff*,” as detailed in para. 45. In line with the decision made on March 3, 2006, we expect that, based on the above-mentioned criteria, the salary ranges for Grades B3–B5 will be reviewed and approved by Directors in comparator-based reviews.

9. On merit pay resources and administration, we note the proposal to develop merit guidelines around terciles rather than quartiles in the 2006 compensation round, in order to increase the scope for pay differentiation. We would appreciate further details regarding this proposal, including its expected impact on merit pay increase in the 2006 compensation exercise. If the impact cannot be determined at this stage, we must delay the decision on merit pay determination, especially since a more refined proposal will be brought to the Board later in the year as detailed in para. 51. In the meantime, the current merit pay provisions would continue to apply in the 2006 compensation round.

Expatriate Benefits

10. We thank the staff for articulating the changes in expatriate benefits based on the Executive Board discussion of March 3, 2006, and welcome the flexibility introduced in the new “home country expense allowance.” We note, however, that the Proposed Decisions document does not mention the agreed-upon measures aimed at exploring ways to facilitate employment opportunities for spouses/partners of expatriate staff members. In line with the

Board discussion and the Chairman's summing up,³ we would appreciate that such measures—with an envelope amounting to USD 500,000 to USD 900,000—be taken into consideration in the expatriate benefits framework.

11. We do not favor the proposed change in the travel leave period to two days for each home leave entitlement period, independently from the traveled distance, as this will negatively affect staff whose home leave destinations are not frequently serviced by airline companies.

³ BUFF/06/47.