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April 19, 2006

**Statement by Mr. Wang and Mr. Xu on the
Staff Compensation—2006 Review
(Preliminary)
Executive Board Meeting 06/38
April 19, 2006**

We thank staff for the helpful 2006 compensation review paper, and the Managing Director for his statement clarifying the proposed decisions. We also welcome the report on staff recruitment and retention experience in 2005 with its useful background information on examining the effectiveness of the Fund's human resources policies.

The 2006 compensation review is the first review under the newly approved compensation system. During this transitional period, care should be taken to align past practice with the new system in a smooth and stable way. On the one hand, while the proposed decisions take account of specific factors this new compensation review faces and suggest transitional arrangements, on the other hand, they raise some questions that need further justification. In light of our following comments and concerns with regard to the potential consequences and implications of this review, we cannot fully support the proposed decisions.

1. **On the issue of the steepening of the Fund payline, although in principle it is desirable to align the Fund payline with the U.S. comparator payline, we do not support the radical approach proposed by staff.** Under staff's proposal, the proposed 2006 payline for A9-A11 will decrease by more than 5 percent over the 2005 payline, which we think is too much. In our view, a more gradual approach, say, achieving the same adjustment over a longer time horizon, may work better. In addition, with the lack of evidence for the overcompetitiveness of the Fund payline as a whole, what is the rationale for the 0.7 percent reduction of the average A9-B2 payline? Staff's comments would be appreciated.

2. **The decline of the average margin of the proposed A9-B2 payline over the French-German comparator payline from 11.5 percent in 2005 to 8 percent in 2006—a level below the 10-20 percent testing range—causes us some unease.** We note that staff concludes that considerations of international competitiveness do not provide strong justification for an upward adjustment of the payline. However, it is becoming more evident that the Fund faces stronger competition from member countries and other international institutions in recruiting and retaining staff—a point also recognized by staff. In this regard, like some other Directors, we suggest adjusting the proposed 2006 Fund payline upward to a level with the margin of 10 percent over the French-German comparator payline.

3. **The large difference in the allocation of merit pay for A1-A13 and A14-B5 will create divisiveness among staff and have a negative impact on the morale of the former group of staff.** While steepening of the Fund payline requires different salary increases for lower and higher-grade staff, the fact that A1-A13 staff will experience a much lower increase of 2.5 percent compared with A14-B5 staff, as well as compared with 2005, will inevitably raise the question of internal equity and will have a toll on morale. To be consistent with our view expressed above on the gradual steepening of the Fund payline, we would prefer a smaller salary increase difference for the two groups.

4. **The staff recruitment and retention experience in 2005 points to certain areas that require special attention and need further improvement.** According to the background report, compared to the practice in previous years, the Fund faces increasingly strong competition from other countries and sectors, as shown by the increasing number of rejections among European candidates for the 2006 EP intake and larger concentration of separations in 2005 at Grades A13-A14 from European and Asian nationals. It is also troubling to note that recruiting financial sector specialists is becoming a challenge that will affect the Fund's intention to strengthen its financial sector work. As we point out above, under such circumstances, the adequacy of international competitiveness of Fund salaries needs to be reexamined, at least for certain grades, including the entry-level of A11.

5. **Diversity is still an issue that needs to be addressed by both an improved employment policy and a competitive compensation and benefits system.** We note from the report that Asia, particularly East Asia, is still underrepresented, with China and Japan being among the 10 most underrepresented countries. While we understand addressing such a long-standing issue requires a comprehensive approach—a more targeted diversity objective, strengthened recruitment efforts and a competitive compensation and benefits system—we would like to see some concrete steps.

Finally, to make this review successful, we welcome the strengthened procedures applied to this year's review, aimed at ensuring the highest level of confidence in the data, calculations, and analysis for the review.