CONFIDENTIAL

COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 82/1
3:00 p.m., January 5, 1982

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
	O. Kabbaj
	T. Yamashita
	F. A. Tourreilles, Temporary
R. K. Joyce	
G. Lovato	
	C. P. Caranicas
	S. El-Khouri
A. R. G. Prowse	
J. Sigurdsson	

A. Wright, Secretary
R. S. Franklin, Assistant

Also Present

V. Supinit
G. Winkelmann

Administration Department: R. Tenconi, Director; A. D. Goltz, J. D. Huddleston, P. D. Swain. Treasurer's Department: R. Noë. Personal Assistant to the Managing Director: N. Carter. Advisor to Executive Director: S. R. Abiad. Assistants to Executive Directors: H. Alaoui-Abdallaoui, J. A. K. Munthali, Y. Okubo, J. Reddy, A. A. Yousef.

1. SALARY STRUCTURE AND POLICIES

The Committee took up a staff paper entitled "Salary Structure and Policies" (EB/CAP/81/8, 12/17/81), which recommended the abolition of salary steps in Ranges A-I, leaving only a minimum and maximum for each range.

The Chairman remarked that the proposed change was identical to that introduced for Ranges J-M in 1977. If approved, the modification would mean that merit increases in all ranges would be expressed in percentages rather than in salary steps. The greater flexibility provided by the change would, in the view of the Administration Department and management, facilitate the pursuit of a sound and equitable salary policy and lend further support to the desired emphasis on merit. It should be noted that

the abolition of steps would not entail any additional expense to the Fund because the maximum and minimum figures in each range would be the same as those in the existing salary structure.

Mr. El-Khouri recalled that the World Bank had some years previously introduced a change in the salary structure along the lines of that now being proposed in the Fund. He wondered what objections, if any, had prevented the Fund from abolishing salary steps at all ranges at the time that the World Bank had taken the decision to do so.

On a related matter, Mr. El-Khouri noted the intention to change the performance appraisal exercise by returning to the grading system that had been in effect some years previously. He wondered whether the existing "no grade" system had turned out to be less successful than expected.

The Director of Administration replied that the Fund had adopted a salary structure similar to that of the World Bank in 1977, but only for Ranges J-M. Acting with some caution, the Fund had felt it important to gain experience with the system in the upper ranges before taking a decision about whether or not to apply it to all staff.

The existing performance appraisal exercise had not been as successful as had been expected, the Director continued, in part because it had been difficult under the system to perceive or to create a recognizable relationship between merit increases and the assessment of staff performance. It was unfortunately easy at present for departments to indicate that a staff member's performance was generally good while at the same time justifying the giving of only one or two salary steps on the basis of budget constraints. Reintroducing a rating scale that was flexibly linked to percentage increases for merit should encourage a more rational system.

Mr. Joyce stated that he had no difficulty with the proposals in the staff paper, although he would appreciate clarification of one or two technical points. On page 3 it had been suggested that the abolition of salary steps would make it easier in future to change the minima and maxima of ranges, and he wondered why that was so. He also inquired whether the Administration Department was confident that the new appraisal system, together with the abolition of salary steps, would be acceptable to the staff. Finally, he wondered whether the appraisal system made any provision for assessment of staff members' potential for assuming managerial roles, in addition to the appraisal of professional qualifications for the existing position.

The Director of Administration replied that the problem of assessing a staff member's potential had not always received appropriate attention because the annual performance reports tended to focus on the short-term aspects of performance. It was the intention to introduce, from May 1, 1982, a long-term appraisal of the staff at four-year intervals. That assessment would be conducted by the relevant department in conjunction with the Administration Department and would focus on the longer-term aspects of staff careers.

Staff reaction to the proposed system that allowed for greater fine-tuning of merit increases should be positive, the Director continued. Under the existing system, a number of staff members--particularly in Ranges A-E--who were average performers had not in fact always received the average merit increase because it had been impossible to break up salary steps to provide equivalent amounts to staff members of equal performance. Greater fine-tuning would be possible under the proposed system.

A staff representative from the Administration Department, responding to Mr. Joyce's question about how the abolition of salary steps might make it easier for the Fund to change the minima and maxima of various ranges, noted that a study on career streams was currently under way in the Fund; that study might, for example, point to the desirability of changing the number of ranges in the salary structure. Such changes might require the compression or expansion of certain ranges, which would be easier to accomplish without salary steps. While it was too early to tell what results the study would produce, it had been felt important to mention the fact that the sorts of modifications that might come out of the study would be easier to implement in the absence of salary steps.

Mr. Sigurdsson commented that he would have no difficulty with the proposal in the staff paper on the understanding that "the abolition of steps will, of course, not entail any additional expense." However, like Mr. Joyce, he would appreciate clarification of two points. First, he wondered whether the proposed change was welcomed by the staff or the Staff Association Committee. Second, noting that the World Bank had been operating under a similar system for some time, he inquired whether the system had led to any upward drift of pay in ranges comparable to Ranges A-I in the Fund.

While a greater correspondence between performance appraisal and merit increases was desirable in theory, Mr. Sigurdsson continued, the sort of fine-tuning that the proposed scheme was intended to allow might be difficult to administer. It would be interesting to hear the Administration Department's view on whether there would be any problem ensuring uniformity across departments and operating units. When the steps had been abolished in Ranges J-M, it had been argued that performance at those ranges could be better assessed on a Fund-wide basis; it was questionable whether the same argument would stand for Ranges A-I, in which there were many service categories.

The Director of Administration commented that it was too early to tell about staff reaction to the proposal to abolish steps in Ranges A-I because instructions for performance appraisals had only recently been distributed. No doubt some might express reservations, as could be expected with any changes in policy; such a reaction was natural. It was clear that the staff had reacted quite positively to one of the proposed changes in the plan--the long-term assessment of staff performance at four-year intervals. The real test of the system and staff reaction to it would come with experience.

An effort would be made to assure some consistency in the system across departmental lines, the Director continued. In that respect, the use of the rating scale would make it possible each year to see the way departments used the system. By abolishing steps and allowing departments to give average merit increases to average performers on the basis of their rating, it should be possible to concentrate on those above or below the norm. Finally, the World Bank's experience with the system showed that it did not result in any additional expenditure or a rise in the allocation for merit increases.

Mr. Lovato stated that he too could support the proposals in the staff paper. However, he wondered whether the new system might not accentuate the problem that could be created by an arbitrary or capricious attitude on the part of those assessing the staff. Also, like Mr. Sigurdsson, he questioned whether it would be possible to compare assessments across departments, particularly if competitiveness among people in one department was different from that in another.

The Director of Administration responded that no system would be able to eliminate the problems created by a capricious or arbitrary attitude on the part of the rating supervisor. However, the proposed system could help to eliminate the inconsistency that had sometimes arisen in the past between the assessment and the merit increase and, in that respect, might encourage more realistic ratings. At the least, the Administration Department would be able to see clearly how individual departments were rating their staff and, after the first year of operation of the system, could give an indication of a Fund-wide norm for ratings. That norm might serve as a guideline for greater consistency in future performance appraisals for staff in individual departments.

The Chairman remarked that it could be argued that the proposed system would enhance the quality of performance appraisals because the link between performance assessment and merit increases would make the appraisals more meaningful. On the other hand, if supervisors were reluctant to differentiate among staff in order to avoid a confrontation, the entire concept of merit pay might be thwarted. He recalled that the system of rating used in the French Treasury had not been particularly helpful because very little differentiation had been recorded.

The Director of Administration observed that in the Fund there would be a link between the performance appraisal and the merit increase and that the departmental allocation for merit increases was limited. It was, of course, possible that all staff in a given department might be rated as average, but efforts were under way to make certain that differentiation was achieved. A series of seminars to explain the new system was being held with all supervisors; and great emphasis was being placed on the need to differentiate among staff in a rational way. Moreover, when the data for the first year were collected, it would be possible for the Administration Department to see whether supervisors were facing the responsibility of making an appropriate differentiation.

Mr. Sigurdsson inquired whether there was any chance that moving to a system in which appraisals were related to merit increases would create friction among staff members or between staff members and supervisors, particularly if the system encouraged performance appraisals that were quite different from those that had been given in the past.

The Director of Administration responded that it was unlikely that supervisors would abruptly change their assessment of staff members. Besides, the average performer had been described as someone slightly above average, which should help to prevent damage to the egos of staff appraised as average.

Mr. Lovato said that he continued to have difficulty seeing how the system would be consistent across departmental lines. If a large number of staff members in one department were better performers or more promotable than any staff members in another department, how could the former be assured of appropriate merit increases by comparison with the latter?

The Director of Administration observed that no system would meet the concern expressed by Mr. Lovato. The only way to solve the problem was to assure a smooth functioning of the mobility scheme. It was to be hoped that the long-term appraisal he had mentioned earlier would provide the basis for mobility that would spread high performers more evenly throughout the Fund.

Mr. Prowse welcomed the three objectives behind the proposed change in the current salary scale; "to improve the performance appraisal process and to provide for a closer link between performance and the award of merit increments" and to see to it "that the size of the staff member's merit increase will be closely tied to the performance rating." His comments would be directed toward ensuring that what was proposed was the best way of achieving those objectives. First, he endorsed the points made by Mr. Joyce, Mr. Sigurdsson, and others regarding the attitude of the Staff Association to the proposals. He wondered, in that connection, whether it was planned to have any further consultation with the staff before the changes were implemented. It was his understanding that the staff was generally unhappy with the present system of performance appraisal and might therefore welcome a change, but he wanted to be certain that the 1981 Committee on Performance Appraisal, Salary Structure and Policy--on which two Staff Association members had sat--had been unanimous in its recommendations so that the report could be said to have the support of the Staff Association representatives on the Committee.

Second, he was concerned about how consistency would be achieved between departments in the operation of the new performance appraisal system, Mr. Prowse continued. It might have been interesting if the proposal to abolish the salary steps in Ranges A-I had been accompanied by papers concerning other proposed changes in the system, including options relating to the setting of salaries in Executive Directors' offices. He would also have been interested in seeing some reference to the experience of the World Bank with the system.

His own feeling was that the large number of steps--25--in the present structure was probably sufficient to provide for appropriate differentiation among staff members, Mr. Prowse remarked, and he wondered whether the objective of relating the appraisal of performance to the award of merit increases might not have been achieved within the present system. Finally, he inquired what effect the proposed change would have on the progress of staff through the salary grades.

The Director of Administration noted that the Staff Association had actively participated in the preparation of the report of the 1981 Committee on Performance Appraisal, Salary Structure and Policy. It had had no objection to the abolition of steps in Ranges A-I. In the circumstances, he expected no difficulty on the part of the Staff Association Committee with the proposals.

The consistency in performance appraisals across departments was difficult to measure, the Director commented. Some departments, perhaps because of their character, tended to assess most of their staff close to the average, while others showed a greater degree of differentiation among staff.

Based on the experience of the World Bank with the system, it could be expected that the abolition of steps would represent a simplification of the process by which departments translated their overall allocation into merit increases for individual staff members, the Director commented. Under the existing system the process was difficult because the allocation in dollar terms had to be translated into steps, and situations arose in which departments exceeded or fell below their allocation at the end of the process and thus had to begin again. Under the proposed system the merit increases would be in percentage terms rather than in terms of steps, which would allow for greater fine-tuning. The Bank's system was somewhat different in that it was possible to transfer a portion of the allocation from one department to another department within the same vice presidency. Moreover, the Bank did not have as rigid a ceiling as the Fund was proposing on merit increases for certain ratings.

With respect to Mr. Prowse's preference for having all papers on proposed changes in hand before any decision was taken, the Director remarked that some proposals were dependent upon others. For example, if the Executive Board did not approve the abolition of steps in Ranges A-I, there would be no need to present a similar paper covering Assistants to Executive Directors to the Committee on Executive Board Administrative Matters.

Mr. Kabbaj indicated his support for the proposal in EB/CAP/81/8 on the assumption that it would indeed provide greater flexibility in the salary system, that it would not entail changes in the total cost of salaries, and that it would bring the Fund system more into line with that used in the World Bank. In that connection, he wondered whether there were any other aspects of personnel management calling for greater harmonization between the two organizations. Finally, like Mr. Sigurdsson and Mr. Prowse, he was interested in the reaction of the Staff Association to the proposed change; he hoped there would be no unnecessary confrontation when the proposed system was implemented.

The Director of Administration commented that, despite efforts to achieve parallelism between the Fund and the Bank, there remained many differences, albeit minor ones, and he would hesitate to catalogue them all. In the Pension Plans alone, which were scheduled to be reviewed in cooperation with the World Bank, the task of drawing up the differences between the two plans for the purpose of the review was a difficult one. He had already mentioned some of the differences between the Fund and the World Bank with respect to the salary system and, while those were not serious, the Bank was giving consideration to increasing the proportion of the merit increase in the overall salary increase. However, that matter was something on which the Fund had not yet been consulted.

Mr. Joyce observed that the basic problem arising out of the new performance appraisal system and the proposed changes in the salary structure was one of ensuring consistency. It was to be hoped that individual staff members within a department would be treated fairly, and one safeguard of equitable treatment was the requirement that the staff member signify that he or she had been consulted about the appraisal and agreed with it. Consistency on an interdepartmental basis was perhaps more difficult to achieve. As he understood it, it was not the intention to insist that departments follow a curve system for rating staff members; rather, appropriate differentiation was dependent upon the recognition by the supervisor and the staff member that merit increases within percentage bands would be provided to those given certain ratings. It was only to be hoped that the relationship between ratings and merit increases would lead to realistic appraisals in all departments and would therefore ensure interdepartmental consistency.

Mr. El-Khouri stated that he had no difficulty supporting the proposal, which appeared to be an improvement over the present system. However, a maximum effort should be made to explain to the staff that the proposed changes were being implemented to improve the smooth functioning of the system and not to reduce merit awards.

Mr. Tourreilles stated that he also could support the proposed change.

The Chairman considered that the proposal to abolish steps in Ranges A-I was not nearly as important as the changes in the performance appraisal system as a whole. In that connection, he recalled the indication by the Director of Administration that the World Bank was considering shifting to a system under which merit increases would represent a larger proportion of overall salary adjustments than at present. The idea was sufficiently important to justify some discussion with the World Bank on the matter because it had wide implications for annual salary adjustments. While he would be desirous to see the World Bank and the Fund move in parallel directions on such an important matter, he was not sure that the Fund would be well advised to follow the course that the World Bank was considering, particularly since no experience had yet been gained with the relationship between performance appraisal and merit increases in the Fund. He would keep in touch with the World Bank and discuss the matter with the appropriate officials well in advance of any decision. He had, personally, strong doubts on the advisability of increasing sharply the merit proportion of overall salary adjustments.

Mr. Yamashita commented that he had no difficulty supporting the abolition of steps in Ranges A-I.

Mr. Winkelmann remarked that he too could accept the proposal although, like Mr. Prowse, he found it difficult to see that any greater flexibility was needed than could be provided by the existing structure. The real problem was to ensure that whatever system was chosen was uniformly applied throughout the Fund.

The Chairman observed that the Committee appeared to agree with the recommendation in EB/CAP/81/8 to abolish salary steps in Ranges A-I. The Committee's views would be reflected in the draft report of the Committee to the Executive Board, which would be circulated to Committee members for their comments.

The Committee, having concluded its discussion, adjourned at 4:15 p.m.

APPROVED: May 28, 1982