

**FOR
AGENDA**

EBAP/07/60
Correction 1

CONFIDENTIAL

April 24, 2007

To: Members of the Executive Board
From: The Secretary
Subject: **Staff Compensation—2007 Review**

The attached corrections to EBAP/07/60 (4/19/07) have been provided by the staff:

Typographical Errors

Page 8, Table 1, stub A1–A8, Col. Total Midpoints: for “3,947,670” read “39,497,670”

Page 15, Draft Decision, Para. c: document reference number “EBAP/07/60” added.

Questions may be referred to Ms. Brookbank (ext. 36764) and Mr. Vicini (ext. 34474) in HRD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (2)

Other Distribution:
Department Heads

taking into account actual and projected shifts in staffing across grades (EBAP/06/38, paragraph 51).

12. **A comparatio methodology is an integral part of this process.** As explained in the recent paper on indexation and merit pay (EBAP/07/37), the merit pay budget consists of two components: (i) a structure adjustment that aligns the midpoints of the Fund's salary ranges with the indicated level of compensation in the comparator markets; plus (ii) a comparatio adjustment that ensures that actual staff salaries are aligned, on average, with the range midpoints and, through them, the indicated level of comparator pay (Box 2). The comparatio adjustment and the resulting merit pay budget are the method by which the Fund provides resources needed for staff salaries to progress, based on performance, within salary ranges.⁷

Box 2. Maintaining Competitive Staff Salaries

The structure adjustment and comparatio adjustment work in tandem to maintain staff salaries at competitive levels relative to the Fund's comparator markets:

- The **structure increase** adjusts the Fund's payline (i.e., the midpoints of its salary ranges) to the level indicated by the comparator markets. The size of the structure increase is based on a full comparator review every three years and on the indexation formula in the intervening years.
- The **comparatio** is an indicator of the extent to which actual salaries are above, below, or in line with the intended market levels. The comparatio measures the ratio between average staff salaries and the Fund's salary range midpoints, with the midpoints representing the target level of salaries in the comparator markets. A comparatio of 100 indicates that average salaries are equal to the average of the range midpoints.
- The **comparatio adjustment** ensures that average actual salaries remain broadly competitive and provides resources for in-range, performance-based salary progression. In the absence of a comparatio adjustment, average salaries that are set at the average of the midpoints (i.e., comparatio = 100) at a point in time would fall below the average of the midpoints over time (comparatio < 100), pulling average salaries below indicated market levels. Over time, the level of the comparatio typically falls as a result of the normal dynamics of staff turnover: as staff separate during the year, the comparatio will tend to decline as departing staff are replaced (through external recruitment or internal promotion) by staff with salaries lower in the range. The comparatio is therefore a technical mechanism to offset the decline in average salaries relative to the average of the midpoints during the year. All else being equal, maintaining a comparatio of 100 from year to year would indicate that average staff salaries are growing in line with the rate of increase in the salary structure.
- The **merit pay budget** is normally determined as the sum of the structure increase and the comparatio adjustment. The entire amount is distributed to staff on the basis of performance.

⁷ The comparatio adjustment is thus broadly comparable to step increases that allow in-grade salary progression in traditional civil service systems. In the Fund, however, these increases are based on merit rather than service.

13. A technical revision is proposed to the method for calculating the comparatio.

Reflecting a technical change recommended in EBAP/07/37, the comparatio would be calculated as a simple ratio of total actual salaries to total notional salaries based on salary midpoints. In these calculations, actual salaries and the salary midpoints would be those projected (salaries) or in place (midpoints) before the structure is adjusted on May 1. The draft decision in Section V provides for Executive Board approval of the revised method for calculating the comparatio as part of the determination of the merit budget.

14. The immediate impact of the revised method is expected to be modest. In previous years, the comparatio was calculated based on an average, weighted by the number of staff in each grade, of the percentage differences between actual salaries and salary range midpoints at each grade. The new method places more weight on salaries at the upper end of the salary structure. As senior staff salaries tend to be positioned above the salary range midpoint, the new method generates a slightly larger comparatio and therefore a slightly lower comparatio adjustment. Table 1 shows that the projected end-April 2007 comparatio for grades A1–B5 is 99.3 using the new method and 99.2 under the previous method.

Table 1. Projected Comparatio as of April 30, 2007

Grades	Total Payroll	Total Midpoints	Comparatio	
			Old Method	New Method
	(In U.S. dollars)		(In percent)	
A1–A8	39,474,340	39,497,670	99.6	99.9
A9–B5	270,847,760	273,086,110	99.1	99.2
A1–B5	310,322,100	312,583,780	99.2	99.3

15. The comparatio is thus projected to decline in FY 2007. As shown in Table 2, the comparatio for grades A1–B5 is projected to have fallen from 100.5 to 99.3 over the course of the financial year.⁸ The comparatio exceeded 100 on May 1, 2006 as a result of the ECCR-based adjustments to the Fund's payline and the supplementary 2.0 percent merit allocation for grades A14–B5.⁹ This indicates a decline in the comparatio of 1.2 percentage points, and, for the reasons set forth below, would call for a more modest comparatio adjustment of 0.7 percent to restore the comparatio to 100. Over the past 15 years, the comparatio adjustment has averaged 1.8 percent a year.

⁸ The comparatio calculations are based on the revised calculation method formally proposed in this paper.

⁹ The supplementary allocation reflected an upward shift in the A14–B5 payline (EBAP/06/44, 4/5/06).

DRAFT DECISION

It is recommended that the Executive Board approve the following draft decision:

- a. With respect to the 2007 compensation exercise, the salary structure for Grades A1–A8 shall be adjusted on the same basis as the salary structure for Grades A9–B5.
- b. The salary structure for Grades A1–B5 shall be increased by 3.3 percent with effect from May 1, 2007, as indicated in the salary ranges provided in the Attachment.
- c. The Executive Board approves the proposals regarding the determination of the merit pay budget set out in paragraphs 12–13 of EBAP/07/60.

Attachment: Proposed Salary Structure, May 1, 2007
(In U.S. Dollars)

Grade	Minimum	Midpoint	Maximum
A1	25,940	32,430	38,920
A2	29,040	36,300	43,560
A3	32,510	40,640	48,770
A4	36,420	45,530	54,640
A5	40,830	51,040	61,250
A6	45,660	57,080	68,500
A7	51,180	63,980	76,780
A8	57,340	71,680	86,020
A9	58,340	72,930	87,520
A10	66,940	83,670	100,400
A11	76,380	95,480	114,580
A12	87,680	109,600	131,520
A13	99,910	124,890	149,870
A14	116,190	145,240	174,290
A15/B1	132,300	165,380	198,460
B2	154,570	189,350	224,130
B3	183,630	211,180	238,730
B4	211,470	240,760	270,050
B5	246,020	277,270	308,520