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2014 REVIEW OF STAFF COMPENSATION FOR THE WORLD BANK GROUP

June 12, 2014

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GLOSSARY

Bank Group or WBG	The World Bank Group (WBG) consists of the International Bank for Reconstruction and Development (IBRD or the Bank), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), International Development Association (IDA) and International Center for the Settlement of Investment Disputes (ICSID).
Country Office (CO) Staff	For purposes of this paper, country office staff refers to locally-recruited staff in locations outside of Washington and satellite offices (country offices, shared service offices in Chennai, India, etc.)
HRD	Human Resources Vice Presidency
Market Reference Point (MRP)	The point in the World Bank Group's salary ranges which is broadly aligned with the 75th percentile of salaries at comparable levels in the respective local labor markets.
Performance Rating System	This is the Bank Group's individual rating system based on staff contribution (ranging from a rating of 1 for 'unsatisfactory' up to a rating of 5 for 'significantly meets expectations') used as basis to allocate individual salary increases.
Performance-Based Salary Increase (PBSI)	The sum of structure adjustment and salary progression adjustment. The PBSI will be combined with the supplemental merit increase and distributed through the total merit increase (TMI) matrix based on performance and position in range.
Salary Progression Adjustment (SPA)	A component of the PBSI that would help facilitate movement or progression of staff within their respective ranges and also partially address erosion of aggregate salaries relative to market, created by continuous changes in the staffing mix.
Salary Structure or Salary Scale	The set of salary ranges established for various grade levels. At the World Bank Group, the salary structure or salary scale has 11 salary ranges from GA to GK.
Structure Adjustment	Aligns the salary scales with the increases in labor market salary levels. This refers to the weighted average percentage increase resulting from aligning the market reference points to the new market values.
Supplemental Merit Increase (SMI)	The salary increase pool allocated for top performers (with performance rating of 4 or 5). This is in addition to the PBSI.
Total Merit Increase (TMI)	The amount authorized for distribution to World Bank Group staff members, expressed as a percentage of current aggregate annual net salaries. This represents the sum of the Salary Structure Adjustment, the SPA and the SMI. TMI is distributed to staff through the merit increase matrix.

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Table of Contents

List of Tables

List of Annexes

Executive Summary

1. This paper (i) presents proposals for the 2014 review of World Bank Group (WBG) staff compensation, (ii) summarizes simplifications being introduced to the salary administration, and (iii) provides an update of the current ongoing compensation reforms.

2. Under the multi-year compensation review process approved by the Executive Board on February 8, 2011, this year's review is the result of the application of the indexation methodology for HQ and satellite offices, and comprehensive market reviews in most of the country offices.

3. Overall, the projected labor market movement indicates an average increase of the HQ salary structure equal to 2.3 percent. For country offices, comprehensive compensation reviews were performed for a vast majority of the locations in line with the agreed review process for country offices in 2014. In a few cases, indexation was applied in countries where labor markets are more stable and where full reviews were recently performed.

4. The paper is organized as follows:

   a. Section I presents the market driven structure adjustment.

   b. Section II presents the additional salary adjustments and non-salary programs respectively.

   c. Section III summarizes Management recommendations to the Board.

   d. In addition, changes introduced to simplify the salary increase administration are described in Annex 5, while Annex 6 provides an update of the work done by the various WBG-wide working groups and defines next steps.

I. 2014 Compensation Review

5. **This paper presents the results of the 2014 review of World Bank Group staff compensation.** The main objective of this paper is to seek Board approval (i) for the 2014 (FY15) structure adjustments for WBG Washington-appointed staff and country/satellite office staff, and (ii) to set aside funds for the FY15 non-salary programs.

6. **This year's (FY15) HQ compensation review is the result of the application of the indexation methodology under the multi-year review process, as approved by the Board on February 8, 2011.** As in 2013 (FY14), this year the HQ salary structure will be adjusted using published projected market pay increases. In country offices, comprehensive compensation reviews have been performed for the majority of locations.[1]

7. **The recommendations in this paper are in line with key principles agreed during the 2011 comprehensive review of the different compensation elements.** The agreed compensation guiding principles are:

- **a.** Continue to be market competitive to attract and retain global top talent
- **b.** Maintain a rules-based framework for governing decisions on salary adjustments
- **c.** Be simple and easy to understand and administer
- **d.** Remain fiscally prudent and consistent with medium- to long-term budgetary requirements
- **e.** Further differentiate rewards according to performance

Structure Adjustment and Budget Impact

8. This section presents the proposed FY15 structure adjustments in percentage terms and estimated U.S. dollar values. The structure adjustment impacts the total wage bill (this pertains to salary and salary-related benefits[2] which are estimated at US$ 1.77 billion for the Bank Group for HQ and country offices).

9. The FY15 structure adjustment for HQ is calculated using an indexation formula consisting of average market pay increases in the public and private sectors.

- **a. Washington-appointed staff**. Based on the established Board-approved indexation methodology, the July 1, 2014 structure adjustment for Grades GA-GI is equal to 2.3

[1] For fragile, volatile and very dynamic labor markets, annual comprehensive market analysis may be required or in some cases more frequent reviews may be conducted (e.g. countries where there is significant change in the local labor market due to entry or restructuring of a major industry or sector, where annual inflation has exceeded 20%, or where recent major economic changes have caused significant instability in the local market).

[2] Salary-related benefits cover such benefits as Staff Retirement Plan, insurance benefits, leaves and mobility premium. Benefits which are not impacted include extended assignment benefits and some country office-specific benefits, among others.

percent. This reflects the combined effect of (i) 1.0% public sector movement[3], and (ii) a 3.0% private sector movement.[4] Annex 1 provides the FY15 salary structure.

b. **Salary ranges for grades GJ and GK are updated by the May 2013 to May 2014 Consumer Price Index (CPI) movement for the Washington-Baltimore area in line with established Board approved methodology.** The salary ranges for grades GJ and GK are adjusted based on CPI movement. However, actual individual salary increases for staff in grades GJ and GK are subject to the same merit increase matrix applicable to staff at grades GA to GI and distributed based on performance and position in the salary range.

10. **Satellite Office staff**. The structure adjustment for Satellite Offices is calculated using an indexation formula consisting of average pay increases in the local labor market. The details pertaining to the U.S. dollar value of the FY15 structure adjustments budget impact are presented in Annex 3.

11. **Country office-appointed staff**. The structure adjustment for most country offices is determined by a comprehensive market review of the local labor market. In a few locations, indexation using the 2014 average market pay increases provided by external survey consulting firms in the respective local market was applied to determine the structure adjustment. Country-by-country structure adjustments covering 135 WBG offices (including Satellite Offices), based on the respective 2014 local labor market salary movements are provided in Annex 2. The structure adjustments will be used as input in determining the Price Adjustment Factor[5] for FY15 for IFC and MIGA, while in the case of the Bank the budget impact from the structure adjustment will be funded within the overall nominal budget envelope. The details pertaining to the U.S. dollar value of the FY15 structure adjustments budget impact are also presented in Annex 3.

12. **Structure increase percentage after adjustment for local currency depreciation.** The structure increase for IBRD country and satellite offices is 0.6% after adjustment for local currency depreciation. The total structure increase for HQ and country/satellite offices after adjustment for local currency depreciation is 2.1%.

13. **All salary increases continue to be totally performance-based.** The Washington/HQ structure adjustment will be distributed based on performance and position in the salary range of each of approximately 8,700 staff. Similar to Washington/HQ, the structure adjustments for offices outside Washington (country offices, satellite offices and shared service centers) will be distributed to approximately 5,600 staff in 135 locations based on performance and position in range.

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[3] The public sector component (1/3 weight) for Washington-appointed staff is based on 1.0% movement for the U.S. Civil Service. This follows a three-year freeze in civil service pay (other than step increases and promotion increases) started in 2011. The approved salary scale is published at www.opm.gov. The WBG indexation methodology is similar to the IMF indexation formula (although with different weights). The 2014 IMF structure increase is 2.1 %.

[4] The private sector component (2/3 weight) for Washington-appointed staff is based on the 2013 forecast from the annual salary budget surveys for a broad cross-section of U.S. companies. Sources: WorldatWork (3.1%), Aon Hewitt-McLagan (3.0%) and Towers Watson (3.0%).

[5] As the budget funds both salary and non-salary costs, the price adjustment comprises four parts: (1) the salary costs of the Washington-appointed staff, (2) other Washington costs, (3) the salary costs of country office (non-Washington) staff and (4) other country office (non-Washington) costs. The composite adjustment is derived by weighting each part in proportion to the relative size of the total costs in the budget. The overall "price factor", and the resulting nominal FY15 net administrative expenditure budget, will be presented in the FY15 budget documents for IFC and MIGA. The price adjustment for salary-related components (salary costs for Washington-appointed staff and salary costs for country office/Non-Washington appointed staff) is based on external labor market compensation increases, as captured by the structure adjustment.

II. Additional Merit Increases

14. **The compensation methodology, approved by the Board on February 8, 2011, provides for two additional merit increase components: (a) salary progression adjustment, and (b) supplemental merit increase**. Both of these components are absorbed within the real budget envelope for IFC and MIGA and within the nominal budget enveloped for the Bank.[6]

15. **Washington-appointed staff.** The FY 15 Washington/HQ additional merit increase elements are as follows: the salary progression adjustment is equal to 1.4% and the supplemental merit increase is equal to 0.3%. These merit increase elements can be compared with step increases (typically tenure-based) provided by the public sector in most countries, with the difference that the WBG increases are fully performance-related.

16. **Country office-appointed staff.** The total additional merit increases in country offices are calculated by applying the same methodology used for determining the additional merit increases for Washington-appointed staff. Annex 2 provides country-by-country additional merit increase envelopes.

17. **All staff salary increases are merit-based**. No cost of living increases or automatic increases are provided. All pay increases are determined by the individual performance and position in their salary range, using the new salary administration changes described in Annex 5.

[6] Annex 4 summarizes the Board-approved methodology on these components.

III. Non-Salary Programs

18. **WBG Non-Salary Awards Programs**. Reflecting best practices in other organizations, the WBG currently has several rewards and recognition programs that address business priorities, reward top performance, and recognize extraordinary individual and team efforts. In line with previous years, Management recommends setting aside funds for non-salary awards programs. The WBG Non-Salary Awards Programs can be categorized into (a) Recognition Programs; and (b) Performance Awards.

19. **WBG Recognition Programs.** Table 1 shows the dollar breakdown of recognition programs by organization.

Table 1: WBG Recognition Programs

Type of Program	IBRD/IDA (a)	IFC (b)	MIGA (c)	Total (a+b+c)
Spot Awards (US$ '000)	610.0	160.0	4.4	774.4
VPU Team / Director's Awards (US$ '000)	1,740.0	N/A	228.0*	1,968.0
Total Recognition Programs	2,350.0	160.0	232.4	2,742.4

Note: * For MIGA, the US$228,000 total amount is a consolidated amount combining the budget of US$180,000 for the Director's Award plus US$48,000 from the former MIGA annual performance awards budget.

A summary of the WBG recognition programs is provided below. An additional description is summarized in Table 3 under paragraph 26.

a. **WBG Spot Awards.** Across the three organizational units, the proposed spot awards budgets for 2014 (FY15) will remain the same as in 2013 (Table 1).

b. **IBRD VPU Team Awards.** The proposed 2014 IBRD VPU Team Awards will be maintained at 2013 budget amount of US$ 1.74 million.

c. **MIGA EVP Team Awards and Directors' Awards.** MIGA's recognition programs consist of the following: (i) the MIGA Executive Vice President (EVP) Team Awards program that recognizes the importance of teamwork and the quality of both guarantee and non-guarantee projects. This award has no monetary component (the awarded teams would receive a commemorative plaque at a reception to be hosted by the Executive Vice President). (ii) To complement the MIGA EVP Team Awards, a Director's Awards program has been established to recognize innovative work, working across boundaries, exemplary teamwork, and sustained efforts exceeding expectations (see Table 3 for MIGA Director's Awards). In FY14, MIGA consolidated its award programs (EVP Team Award and the Annual Performance Award program) in the Director's Award.

d. **IFC Smart Lessons.** Smart Lessons is a cash recognition program for contributions to knowledge sharing in advisory services and investment operations at IFC.[7]

[7] Budget for the Smart Lessons award program is insignificant, and has not been included in Table 1.

20. **WBG Performance Awards**. The WBG Performance Awards are programs aimed at rewarding the achievement of specific targets. These include the Annual Performance Awards Program for IBRD Finance Partners, the IFC Annual and Long-Term Performance Awards Programs and the proposed WBG Performance Awards for VPUs.

21. **IBRD Annual Performance Awards Program.** The Bank provides annual performance awards to certain staff groups based on defined guidelines and eligibility requirements. The Bank's Finance Partners Group proposes to continue its annual performance award program. For 2014 (FY15), Management proposes a budget of US$ 568,000 which is in line with the awards distribution of the Finance group in FY14.

22. **IFC Annual and Long-Term Performance Awards Programs.** IFC continues to use its portfolio of integrated non-salary monetary award programs in creating a performance-based culture. The programs reward corporate projects, teams and individuals, based on outcomes and initiatives which have a significant and lasting impact for the IFC and its clients. IFC proposes a total performance awards budget of US$ 19.12 million for FY15 covering its annual and long-term performance awards.[8] The recommended FY15 budget will restore the IFC awards to the FY11 original budget as a percent of the IFC wage bill. The table below provides a historical context on the award budgets for the IFC awards programs from the FY11 to FY15.

Table 2: IFC Performance Awards Programs

Item	FY15	FY14	FY13	FY12	FY11 (Revised with 30% Cut*)	FY11 (Original)
Performance Awards (US$ '000)	19,120	15,800	12,198	10,904	11,180	14,982
Awards as a % of IFC Wage Bill	3.1%	2.6%	2.1%	2.0%	2.3%	3.0%

Note: * IFC award programs were suspended in FY09 due to the financial crisis and had a 30% reduction in FY11. Additionally, in FY11, 0.2% of IFC Wage Bill was allocated to the awards budget in lieu of the market premium program which was eliminated in FY10.

23. IFC's portfolio of award programs serves the following purposes: (i) reinforce the link between the achievement of goals and rewards; (ii) provide the necessary tools to reward various types of performance, whether at the individual, team and/or specific project level; (iii) differentiate for top performers; (iv) incentivize, recognize and reward performance over multiple time periods and performance horizon (these time periods include short-term of less than 1 year, annual, and long-term ranging from 3-8 years); (v) partially close the gap between the market pay levels and staff pay levels, specifically for investment and core finance staff. IFC's current monetary award programs include:

a. **Annual Performance Awards.** This program recognizes sustained outstanding performance at the individual or team level during the performance review year. These awards are directly linked to the annual performance rating and include a Scorecard Award component for Operations Departments that meet their Scorecard targets. For FY14, IFC also introduced a direct link between corporate results and rewards to encourage the collective delivery of organizational results (See IFC Awards Experience Leveraged across WBG below).

b. **Corporate Awards.** Awarded by the IFC Management Team, this program rewards team projects and/or initiatives with significant and lasting impact for IFC and its

[8] For details of IFC's Variable Pay Programs, please refer to the Board paper on Review of Compensation Elements of the World Bank Group, Annex F, IFC's Variable Pay Program Overview, December 1, 2010 (HRC2010-0018).

clients, and includes targeted awards that emphasize key priorities such as projects in Fragile and Conflict Affected Countries, and projects that promote WBG collaboration.

c. **Long-Term Performance Awards.** This program provides rewards at both the individual and team levels for project financial performance and development impact results. The New Business Award (performance of 5 to 8 years ago) and Portfolio Supervision Award (3 to 5 years ago) reward sustained performance over several years.

24. As IFC renews its focus on serving clients, delivering solutions, and creating greater impact by collaborating and better leveraging the resources across organizations, current programs will need to evolve further to: (i) ensure alignment with the new strategic direction, and (ii) incentivize work across organizational units to support corporate objectives and produce results. The programs are thus critical in supporting the desired culture change and are currently under redesign with these priorities in mind.

25. A summary of the WBG reward and recognition awards programs across the organizational units is provided in Table 3.

Table 3: WBG Reward and Recognition Programs

Org	Award Type	Program
WBG	Recognition	• **WBG Spot Awards.** Recognize and express appreciation for extraordinary efforts of short duration.
Bank/ MIGA	Recognition	• **IBRD VPU Team Awards.** Recognize outstanding team achievements demonstrating development impact, results, innovation, client focus, responsiveness, and/ or leveraging partnerships. • **MIGA EVP Awards.** Acknowledge outstanding teams that have contributed to institutional or operational results with responsiveness, innovation, client orientation and development impact. • **MIGA Director's Awards.** Reward and acknowledge outstanding, beyond the call of duty, operational work across-boundaries, exemplary teamwork, departmental or institutional contributions.
	Annual Performance	• **IBRD Performance-Based Award Program for Finance Partners.** Reward individual and team performance and recognize specific contribution to the Bank's financial results.
IFC	Annual Performance	• **Annual Performance Awards Program.** Reward individual and team performance (includes a **Scorecard Award** component linked to corporate and departmental results).
	Long-Term Performance	• **Long-Term Performance Awards.** Reward teams and individuals for long-term development impact and financial results (New Business) and exceptional results in portfolio supervision/ management (Portfolio)
	Recognition	• **Corporate Awards.** Monetary award granted by the Management Team to reward team projects and/or initiatives with **significant and lasting impact** for IFC and **its clients** • **Smart Lessons.** Recognize contributions for knowledge sharing, within IFC and the WBG

26. **IFC Awards Experience Leveraged Across WBG.** IFC's experience in linking results with incentives is also being leveraged across the World Bank Group. Specifically, IFC has utilized scorecard results as an integral component of its Annual Performance Award program. In FY14, IFC introduced a new approach to scorecards by adding a direct link between corporate performance and incentives to encourage staff to collectively deliver on corporate results and support one another across organizations. Budgets that will be available for awards payouts will be directly linked to corporate and/or scorecard results. The lessons learned from the new approach to scorecards in FY14 will be evaluated with the view of making further adjustments

in FY15, including strengthening the link with WBG Corporate Scorecard. This will inform IFC's scorecard in FY15 and beyond.

27. **WBG Performance Awards for Integrated ECR, HRD and ITS VPUs.** In October 2013, an integrated service delivery model was implemented under the new World Bank Group Integrated Services (WBGIS) organization. To better serve the WBG business needs, the integration deepened synergies across IBRD and IFC support functions, specifically in the areas of External and Corporate Relations (ECR), Human Resources (HRD), and Information and Technology Solutions (ITS).

- **a.** As part of the "one World Bank Group", and in order for these support functions to better align with the new WBG Strategy, some HR programs and practices needed to be harmonized and integrated.
- **b.** One important integration piece is the performance award program. IFC staff are eligible under this program while IBRD staff are not. Management recommends extending the IFC annual performance awards program to Bank staff in the three VPUs. In line with leveraging the IFC awards experience, introducing this for Bank staff in the integrated functions will serve as a pilot and will be aimed at increasing performance-orientation and accountability for service delivery to the business.
- **c.** The proposed budget to extend the IFC annual performance awards to Bank staff will be US$632,000. Estimated recipients would be about 420 staff across ECR, HRD and ITS, which is approximately 36% of eligible population.

IV. Summary of Recommendations

28. Management requests that the Executive Directors approve the results of the rules-based Board approved methodology. For Washington, the results were arrived at using the indexation methodology and for country offices this was a combination of indexation and comprehensive reviews.

29. This year's results continue the slowdown in the growth of salaries, in line with the objectives set by the new methodology introduced in 2011. Simultaneously, the Bank Group has articulated its human resource strategy, is undertaking an expenditure review and has introduced process and program reforms around performance management, pension, and compensation administration, among others.

30. The Executive Directors are requested to approve the proposed structure adjustment of 2.3% for Washington-appointed staff and the country-by-country structure adjustments covering 135 WBG office locations (including satellite offices) as provided in Annex 2. The total estimated World Bank Group budget impact of the structure increase(s) in Washington/ HQ and offices outside Washington is presented in Annex 3.

31. The remaining components of the total merit increase envelope (salary progression and supplemental merit increase) will be absorbed within the real budget envelope for IFC and MIGA and within the nominal budget envelope for the Bank. The Total Merit Increase (TMI) [9] envelope will be distributed based on performance and position in range.

32. Management also recommends allocating, from within its net administrative budget, the following funds for non-salary programs:

- **a.** US$ 2.742 million for the WBG FY15 recognition programs (includes the WBG spot awards, the IBRD VPU Team Awards, and MIGA Directors' Awards);
- **b.** US$ 0.568 million for the IBRD annual performance awards program; and
- **c.** US$ 19.120 million for IFC's annual performance and long-term performance awards programs.
- **d.** US$ 0.632 million for the performance awards program of the WBG integrated functions

[9] TMI is the sum of three elements: Structure Adjustment, Salary Progression Adjustment and Supplemental Merit Increase.

Annex 1: July 1, 2014 Salary Structure for Washington-Appointed Staff

33. The proposed July 1, 2014 annual net salary structure for Washington-appointed staff is shown in Table 4 below.

a. Grades GA to GI salary ranges and midpoints are adjusted based on the structure adjustment of 2.3%.

b. For grades GJ and GK, the Board-approved methodology is to adjust the minimum, midpoint and maximum levels for these grades by the May-to-May Washington-Baltimore Consumer Price Index (CPI) movement.[10] On June 17, 2014, the United States Bureau of Labor Statistics reported that the May 2013 to May 2014 Washington-Baltimore CPI was 2.2%. However, individual salary increases of GJ and GK staff are not adjusted by the CPI movement but rather are based on individual performance and position in the new range using the same merit increase matrix as for all other staff.

Table 4: July 1, 2014 Washington/HQ Salary Structure

Grade	Staff Count (#)	Minimum (US$)	Midpoint (US$)	Maximum (US$)	Salary Range Width*	Midpoint Progression**
GA	1	23,900	34,100	44,300	85%	
GB	48	30,100	43,000	55,900	86%	26%
GC	776	37,200	53,100	69,000	85%	23%
GD	671	43,900	62,700	81,500	86%	18%
GE	751	58,900	84,200	109,500	86%	34%
GF	1,607	78,300	111,900	145,500	86%	33%
GG	2,857	105,700	151,000	196,300	86%	35%
GH	1,724	144,000	205,700	267,400	86%	36%
GI	249	220,800	276,000	331,200	50%	34%
GJ	32	272,500	320,600	368,700	35%	16%
GK	7	303,000	356,500	410,000	35%	11%

* The salary range width is the percentage by which the maximum exceeds the minimum.

** Midpoint progression is the percent difference in midpoints from one grade to the next.

34. Table 5 shows the current Market Reference Points (FY14) and proposed (FY15) Midpoints based on the application of the indexation formula from Grades GA to GI of 2.3%.

[10] Historically, the salary structures of grades GJ and GK had been positioned between the midpoint of grade GI and the President's salary (by process of extrapolating upward from the midpoint of grade GI to the point below the President's salary). In line with Executive Board approval, the approach was changed from extrapolation to CPI-based approach in 2006 for GK and in 2008 for GJ. Per 2006 Review of Staff Compensation for the World Bank Group, dated May 24, 2006, R2006-0085; and 2008 Review of Staff Compensation for the World Bank Group, dated May 15, 2008, R2008-0106, the shift to a CPI-based approach to adjusting the GJ and GK salary structures was made in order to address compression at the top grade levels of the salary scale.

Table 5: Market Reference Year-on-Year Comparison – Washington/HQ

WBG Grade	Staff Count (#)	FY14 Market Reference Points (US$)	FY15 Market Reference Points (US$)	Market Movement
GA	1	33,300	34,100	2.3%
GB	48	42,000	43,000	2.3%
GC	776	51,900	53,100	2.3%
GD	671	61,300	62,700	2.3%
GE	751	82,300	84,200	2.3%
GF	1,607	109,400	111,900	2.3%
GG	2,857	147,600	151,000	2.3%
GH	1,724	201,100	205,700	2.3%
GI	249	269,800	276,000	2.3%
Total	8,684			
Staff-Weighted Average				2.3%

Annex 2: FY14 Retrospective & FY15 Recommendations-WBG Offices Outside Washington

35. This section provides a summary of the structure adjustments and additional merit increases for locations outside of Washington in FY14 and FY15 on a US$ salary-weighted basis, based on currency exchange rates as of March 31, 2014.

36. The FY14 and FY15 individual country office structure adjustments and additional merit increases are presented by WBG Office location in alphabetical order. The summary in Table 6 includes information for satellite offices (such as those in Western Europe, Japan and United States - New York City), all of which are based on market movements in the respective locations.

37. Inflation numbers are included as reference information to provide context for country office salary increases. WBG salary increases are not CPI-based but inflation is one of the many drivers of labor costs in the respective local markets. The inflation data presented in the following tables are largely taken from the International Monetary Fund (IMF) World Economic Outlook as of April 2014.

Table 6: FY14-FY15 Structure Adjustments and Total Merit Increases by Location

		Structure Adjustment		Additional Merit Increase		Total Merit Increase		Inflation (Reference Only)
Country	Region	FY14	FY15	FY14	FY15	FY14	FY15	FY15
Afghanistan	SAR	7.1%	11.8%	0.7%	3.7%	7.8%	15.5%	5.5%
Albania	ECA	2.1%	0.0%	1.1%	2.5%	3.2%	2.5%	2.3%
Algeria	MNA	0.2%	0.0%	1.9%	2.1%	2.1%	2.1%	4.0%
Angola	AFR	6.1%	3.1%	0.1%	2.5%	6.2%	5.6%	8.5%
Argentina	LCR	24.0%	24.6%	2.4%	4.3%	26.4%	28.9%	28.0%
Armenia	ECA	12.7%	7.6%	0.6%	4.4%	13.3%	12.0%	4.7%
Australia	EAP	3.0%	0.0%	1.4%	2.3%	4.4%	2.3%	2.5%
Austria	HQ	2.0%	3.2%	0.6%	3.7%	2.6%	6.9%	1.6%
Azerbaijan	ECA	4.4%	7.6%	2.3%	4.7%	6.7%	12.3%	3.9%
Bangladesh	SAR	12.3%	3.3%	2.4%	4.3%	14.7%	7.6%	6.7%
Belarus	ECA	4.6%	4.2%	4.2%	0.8%	8.8%	5.0%	14.9%
Belgium	HQ	3.1%	2.7%	1.5%	3.9%	4.6%	6.6%	0.9%
Benin	AFR	8.4%	0.0%	4.9%	2.2%	13.3%	2.2%	2.8%
Bhutan	SAR	0.0%	0.0%	2.1%	2.1%	2.1%	2.1%	8.8%
Bolivia	LCR	5.9%	1.6%	1.5%	7.8%	7.4%	9.4%	6.1%
Bosnia-Herzegovina	ECA	2.2%	0.0%	0.6%	2.1%	2.8%	2.1%	1.4%
Botswana	AFR	4.5%	0.0%	2.0%	5.5%	6.5%	5.5%	5.8%
Brazil	LCR	10.7%	5.6%	3.2%	3.6%	13.9%	9.2%	5.7%
Bulgaria	ECA	5.7%	1.5%	1.4%	3.8%	7.1%	5.3%	1.0%
Burkina Faso	AFR	9.3%	2.9%	1.8%	1.6%	11.1%	4.5%	2.0%
Burundi	AFR	10.2%	0.0%	3.2%	2.1%	13.4%	2.1%	5.7%
Cambodia	EAP	5.6%	0.9%	2.1%	1.2%	7.7%	2.1%	3.4%
Cameroon	AFR	8.6%	7.9%	1.0%	2.4%	9.6%	10.3%	2.5%
Central African Republic	AFR	5.7%	0.0%	0.5%	2.1%	6.2%	2.1%	6.9%

		Structure Adjustment		Additional Merit Increase		Total Merit Increase		Inflation (Reference Only)
Country	**Region**	**FY14**	**FY15**	**FY14**	**FY15**	**FY14**	**FY15**	**FY15**
Chad	AFR	17.6%	0.0%	0.2%	2.1%	17.8%	2.1%	3.9%
China – Beijing	EAP	8.9%	6.5%	2.5%	1.6%	11.4%	8.1%	3.4%
China – Chengdu	EAP	9.0%	9.4%	2.8%	3.5%	11.8%	12.9%	3.4%
Colombia	LCR	3.0%	5.0%	2.3%	2.5%	5.3%	7.5%	2.3%
Congo	AFR	8.5%	0.0%	0.9%	2.1%	9.4%	2.1%	2.8%
Cote d'Ivoire	AFR	5.8%	10.1%	1.1%	0.3%	6.9%	10.4%	6.0%
Croatia	ECA	3.1%	0.0%	2.1%	3.7%	5.2%	3.7%	-0.6%
Democratic Republic of Congo	AFR	5.1%	4.3%	0.1%	0.1%	5.2%	4.4%	6.0%
Djibouti	MNA	0.0%	8.4%	2.1%	23.8%	2.1%	32.2%	2.5%
Dominican Republic	LCR	1.3%	3.8%	5.4%	3.7%	6.7%	7.5%	2.8%
Ecuador	LCR	4.7%	4.3%	0.1%	4.5%	4.8%	8.8%	2.9%
Egypt	MNA	8.8%	0.0%	2.1%	2.8%	10.9%	2.8%	11.2%
El Salvador	LCR	4.6%	0.0%	0.1%	2.1%	4.7%	2.1%	0.6%
Ethiopia	AFR	12.6%	0.0%	2.8%	2.3%	15.4%	2.3%	8.8%
France – Marseille	HQ	0.0%	2.7%	2.1%	4.2%	2.1%	6.9%	0.6%
France – Paris	HQ	1.4%	2.7%	1.1%	2.0%	2.5%	4.7%	0.6%
FYR Macedonia	ECA	3.6%	0.0%	2.3%	3.7%	5.9%	3.7%	2.0%
Gabon	AFR	4.9%	1.8%	0.3%	3.8%	5.2%	5.6%	2.5%
Gambia	AFR	4.8%	0.0%	3.4%	2.1%	8.2%	2.1%	6.0%
Georgia	ECA	3.9%	0.0%	2.6%	2.7%	6.5%	2.7%	5.6%
Germany	HQ	0.0%	0.0%	2.1%	2.1%	2.1%	2.1%	1.0%
Ghana	AFR	12.6%	13.8%	0.7%	0.7%	13.3%	14.5%	9.8%
Guatemala	LCR	2.6%	11.9%	1.1%	1.9%	3.7%	13.8%	3.5%
Guinea	AFR	10.4%	9.2%	1.7%	1.5%	12.1%	10.7%	8.6%
Guinea-Bissau	AFR	3.5%	0.0%	2.7%	2.1%	6.2%	2.1%	2.5%
Guyana	LCR	0.0%	0.0%	2.1%	2.1%	2.1%	2.1%	1.8%
Haiti	LCR	9.8%	2.4%	2.6%	0.7%	12.4%	3.1%	3.4%
Honduras	LCR	6.7%	1.5%	3.5%	0.6%	10.2%	2.1%	5.7%
Hong Kong SAR, China	EAP	4.7%	6.0%	1.7%	5.4%	6.4%	11.4%	4.3%
India – Chennai	SAR	0.0%	4.0%	3.9%	5.0%	3.9%	9.0%	7.2%
India – New Delhi	SAR	3.4%	2.0%	4.3%	5.6%	7.7%	7.6%	7.5%
Indonesia	EAP	2.4%	0.0%	6.4%	4.2%	8.8%	4.2%	8.4%
Iraq	MNA	5.4%	7.9%	1.3%	0.1%	6.7%	8.0%	3.0%
Italy	HQ	0.7%	0.0%	1.4%	2.1%	2.1%	2.1%	0.4%
Jamaica	LCR	8.2%	7.1%	0.1%	0.1%	8.3%	7.2%	10.1%
Japan	HQ	0.0%	0.0%	3.1%	2.4%	3.1%	2.4%	1.8%
Jordan	MNA	9.0%	8.9%	5.6%	6.3%	14.6%	15.2%	2.4%
Kazakhstan	ECA	8.9%	16.9%	4.2%	2.4%	13.1%	19.3%	6.2%
Kenya	AFR	4.2%	0.0%	2.2%	4.0%	6.4%	4.0%	5.0%
Kosovo	ECA	3.5%	0.0%	0.9%	3.3%	4.4%	3.3%	1.9%
Kuwait	MNA	5.5%	6.9%	14.5%	0.1%	20.0%	7.0%	4.0%
Kyrgyz Republic	ECA	1.8%	5.3%	3.3%	0.5%	5.1%	5.8%	4.0%

		Structure Adjustment		Additional Merit Increase		Total Merit Increase		Inflation (Reference Only)
Country	**Region**	**FY14**	**FY15**	**FY14**	**FY15**	**FY14**	**FY15**	**FY15**
Lao	EAP	8.0%	0.0%	1.3%	3.0%	9.3%	3.0%	6.7%
Lebanon	MNA	5.2%	3.7%	3.5%	0.2%	8.7%	3.9%	2.0%
Lesotho	AFR	4.3%	0.0%	0.1%	4.0%	4.4%	4.0%	6.2%
Liberia	AFR	7.1%	0.0%	0.8%	3.6%	7.9%	3.6%	6.6%
Libya	MNA	0.0%	5.9%	0.0%	0.1%	0.0%	6.0%	6.3%
Madagascar	AFR	10.9%	9.8%	0.1%	0.1%	11.0%	9.9%	7.3%
Malawi	AFR	30.4%	13.6%	0.1%	0.1%	30.5%	13.7%	15.1%
Maldives	SAR	0.0%	4.7%	11.0%	0.1%	11.0%	4.8%	4.4%
Mali	AFR	9.4%	0.0%	2.1%	5.2%	11.5%	5.2%	3.9%
Mauritania	AFR	4.7%	5.6%	0.9%	0.6%	5.6%	6.2%	5.2%
Mauritius	AFR	1.2%	10.1%	3.1%	0.1%	4.3%	10.2%	4.7%
Mexico	LCR	6.6%	5.0%	3.9%	3.9%	10.5%	8.9%	4.6%
Moldova	ECA	9.2%	0.0%	3.7%	2.7%	12.9%	2.7%	5.1%
Mongolia	EAP	13.7%	0.0%	1.4%	3.5%	15.1%	3.5%	7.5%
Montenegro	ECA	1.3%	0.0%	7.0%	6.1%	8.3%	6.1%	2.5%
Morocco	MNA	7.1%	0.0%	0.6%	2.2%	7.7%	2.2%	2.5%
Mozambique	AFR	8.1%	4.6%	1.1%	0.2%	9.2%	4.8%	5.6%
Myanmar	EAP	1.3%	0.0%	0.8%	2.1%	2.1%	2.1%	5.3%
Nepal	SAR	6.9%	11.6%	1.1%	2.6%	8.0%	14.2%	7.0%
New Zealand	EAP	0.0%	0.0%	2.1%	2.1%	2.1%	2.1%	2.2%
Nicaragua	LCR	9.6%	3.0%	1.9%	1.6%	11.5%	4.6%	5.1%
Niger	AFR	2.5%	2.7%	2.6%	1.3%	5.1%	4.0%	2.7%
Nigeria	AFR	4.9%	3.6%	1.7%	1.1%	6.6%	4.7%	8.2%
Pakistan	SAR	8.1%	12.6%	2.0%	2.2%	10.1%	14.8%	9.0%
Panama	LCR	1.5%	3.0%	0.6%	3.1%	2.1%	6.1%	3.4%
Papua New Guinea	EAP	11.8%	0.8%	0.1%	1.5%	11.9%	2.3%	6.0%
Paraguay	LCR	1.2%	4.1%	1.8%	4.9%	3.0%	9.0%	5.5%
Peru	LCR	5.3%	4.5%	2.1%	2.2%	7.4%	6.7%	3.7%
Philippines	EAP	2.4%	0.0%	4.4%	3.7%	6.8%	3.7%	4.1%
Poland	ECA	5.1%	0.0%	1.4%	2.4%	6.5%	2.4%	0.7%
Romania	ECA	7.6%	0.0%	1.6%	2.6%	9.2%	2.6%	1.1%
Russian Federation	ECA	8.2%	5.0%	3.9%	1.3%	12.1%	6.3%	7.2%
Rwanda	AFR	4.5%	2.8%	0.1%	1.3%	4.6%	4.1%	6.8%
Samoa	EAP	0.0%	0.0%	2.1%	2.1%	2.1%	2.1%	3.0%
Saudi Arabia	MNA	2.1%	5.9%	4.5%	5.3%	6.6%	11.2%	3.2%
Senegal	AFR	5.0%	4.4%	3.2%	0.2%	8.2%	4.6%	1.6%
Serbia	ECA	10.8%	0.0%	2.0%	2.1%	12.8%	2.1%	4.0%
Sierra Leone	AFR	11.2%	12.8%	2.1%	3.0%	13.3%	15.8%	7.7%
Singapore	EAP	1.2%	1.4%	2.9%	0.8%	4.1%	2.2%	1.6%
Solomon Islands	EAP	4.1%	1.5%	3.1%	5.5%	7.2%	7.0%	4.8%
South Africa	AFR	6.8%	10.0%	2.4%	1.3%	9.2%	11.3%	5.8%
South Korea	EAP	3.0%	0.0%	3.4%	15.4%	6.4%	15.4%	3.0%
South Sudan	AFR	17.5%	0.0%	0.1%	2.1%	17.6%	2.1%	11.2%
Sri Lanka	SAR	7.9%	7.9%	1.8%	2.9%	9.7%	10.8%	6.4%
Sudan	AFR	31.1%	29.8%	0.4%	6.1%	31.5%	35.9%	27.4%

		Structure Adjustment		Additional Merit Increase		Total Merit Increase		Inflation (Reference Only)
Country	**Region**	**FY14**	**FY15**	**FY14**	**FY15**	**FY14**	**FY15**	**FY15**
Switzerland	HQ	0.0%	2.3%	2.1%	10.4%	2.1%	12.7%	0.0%
Tajikistan	ECA	9.6%	20.2%	1.1%	0.7%	10.7%	20.9%	5.3%
Tanzania	AFR	11.6%	10.1%	0.5%	3.7%	12.1%	13.8%	5.8%
Thailand	EAP	1.2%	0.0%	3.0%	2.9%	4.2%	2.9%	2.2%
Timor-Leste	EAP	8.2%	3.3%	0.8%	2.8%	9.0%	6.1%	9.4%
Togo	AFR	4.1%	5.3%	0.9%	0.1%	5.0%	5.4%	3.1%
Trinidad and Tobago	LCR	0.0%	6.4%	2.1%	0.1%	2.1%	6.5%	4.4%
Tunisia	MNA	10.2%	7.8%	1.4%	0.2%	11.6%	8.0%	5.0%
Turkey – Ankara	ECA	8.6%	11.7%	0.7%	2.3%	9.3%	14.0%	7.5%
Turkey – Istanbul	ECA	8.4%	7.0%	6.2%	4.7%	14.6%	11.7%	7.5%
Turkmenistan	ECA	4.7%	0.0%	5.1%	11.4%	9.8%	11.4%	6.0%
Uganda	AFR	12.9%	0.0%	2.7%	2.3%	15.6%	2.3%	4.9%
Ukraine	ECA	11.6%	0.0%	0.8%	2.6%	12.4%	2.6%	9.0%
United Arab Emirates	MNA	5.2%	0.0%	1.1%	4.7%	6.3%	4.7%	2.5%
United Kingdom	HQ	3.0%	3.2%	0.7%	2.2%	3.7%	5.4%	1.7%
United States – New York	HQ	2.0%	2.3%	1.4%	1.7%	3.4%	4.0%	1.9%
Uruguay	LCR	11.8%	4.9%	0.9%	0.4%	12.7%	5.3%	9.8%
Uzbekistan	ECA	5.3%	0.0%	0.6%	2.4%	5.9%	2.4%	11.5%
Vanuatu	EAP	4.0%	2.6%	3.6%	8.5%	7.6%	11.1%	2.4%
Vietnam	EAP	12.2%	2.7%	1.8%	4.7%	14.0%	7.4%	5.5%
West Bank and Gaza	MNA	2.4%	4.6%	3.4%	0.8%	5.8%	5.4%	2.0%
Yemen	MNA	10.1%	0.0%	0.4%	3.2%	10.5%	3.2%	9.8%
Zambia	AFR	8.8%	6.4%	0.3%	1.6%	9.1%	8.0%	7.3%
Zimbabwe	AFR	11.5%	4.1%	0.1%	0.1%	11.6%	4.2%	3.3%

Annex 3: WBG Budget Impact of FY15 Structure Adjustments for Washington & Country Offices

38. The table below provides the World Bank Group budget impact of the structure increase(s) in Washington/HQ and offices outside Washington.

Table 7: FY14 WBG Budget Impact of Structure Adjustment

World Bank Group Budget Impact of Proposed FY15 Structure Adjustment (s) for HQ and Offices Outside of Washington

	Item		IBRD	IFC	MIGA	TOTAL
a	HQ Salary and Salary Related Benefits (US$ millions)		$ 1,171.0	$ 305.9	$ 28.7	$ 1,505.6
b	HQ Structure Increase (%)		2.3%	2.3%	2.3%	2.3%
c	HQ Structure Increase (US$ millions)	(a x b)	$ 26.9	$ 7.0	$ 0.7	$ 34.6
d	CO Salary and Salary Related Benefits (US$ millions)		$ 173.3	$ 87.9		$ 261.3
e	CO Structure Increase (US$ millions) before local currency depreciation*		$ 7.1	$ 4.1		$ 11.2
f	CO local currency depreciation (US$ millions)		$ 6.0	$ 4.2		$ 10.2
g	CO Structure Increase (US$ millions) after local currency depreciation	(e - f); (h x d)	$ 1.1	$ (0.1)		$ 0.9
h	CO Structure Increase (%) after adjustment for local currency depreciation	(g / d)	0.6%	-0.2%		0.3%
i	Total Salary and Salary Related Benefits (US$ millions)	(a + d)	$ 1,344.3	$ 393.9	$ 28.7	$ 1,766.9
j	Total Structure Increase (US$ millions) before adjustment for local currency depreciation	(c + e)	$ 34.1	$ 11.1	$ 0.7	$ 45.8
k	Total Structure Increase (US$ millions) after adjustment for local currency depreciation	(c + g)	$ 28.1	$ 6.9	$ 0.7	$ 35.6
l	Total Structure Increase (%) HQ and COs before local currency depreciation	(j / i)	2.5%	2.8%	2.3%	2.6%
m	Total Structure Increase (%) HQ and COs after local currency depreciation	(k / i)	2.1%	1.7%	2.3%	2.0%
	* Average Structure Adjustment for Country Offices	(e / d)	4.1%	4.6%		4.3%

Notes: The table above does not present budget data for MIGA CO staff, as MIGA has very few staff stationed in offices outside Washington. For IBRD, 15% of the price increase will be funded by reimbursables.

Annex 4: Additional Compensation Elements: Calculation Methodology

Salary Progression Adjustment Methodology

39. The SPA represents the difference between the weighted average salaries versus the aggregate market reference points. The table below shows the 5-year trend 2009-2013 (FY10-FY14) of the weighted average salary gap versus the aggregate market reference points, which is the basis for the FY14 salary progression adjustment (SPA) for Washington-appointed staff.

40. Based on the Board-approved methodology, a five-year rolling average (determined based on confirmed staff with greater than one year time in grade) serves as input for the salary progression adjustments. The rolling average approach helps to address competitiveness gaps between WBG salaries and the market that may occur over time as a result of "payroll not being equal to pay line". In addition, the use of a five-year average on a rolling basis has a "smoothing" effect that will gradually address salary erosion against market.

41. The SPA (or a similar element) is common among IFIs to allow progression of staff salaries within their salary ranges and to help address salary erosion that reflects the ongoing changes in the staffing skills and mix. For FY15 (2014), the salary progression adjustment for Washington-appointed staff is 1.4%, based on the 5-year average aggregate salaries (of confirmed staff with more than one year of service in the same grade) relative to market reference points over the same period, as established by the Board-approved methodology.

42. Similar to the step increases in the public sector, the SPA provides for progression within the salary ranges, with the difference that the Bank Group's SPA is distributed solely based on performance.

Table 8: Salary Progression Adjustment

Year	Salary Gap with the MRP (Full Actual)	Salary Gap with the MRP (Using staff with greater than one year time-in-grade)	Percentage Point Difference
2009	2.2%	0.8%	1.4%
2010	1.9%	0.7%	1.2%
2011	2.4%	1.1%	1.3%
2012	3.3%	1.8%	1.5%
2013	3.9%	2.4%	1.5%
5-year Average	2.7%	1.4%	1.3%

Supplemental Merit Increase Methodology

43. The Supplemental Merit Increase (SMI) envelope is determined using a rules-based measurable methodology (subject to this year's calculated maximum of 1.3% as per Board-approved methodology).

44. The SMI envelope is determined based on the salary gap of staff with performance rating of 4 or 5 relative to the market reference points of their grade salary range (performance rating refers to SRI or Salary Review Increase rating which is based on relative contribution against peers). This approach differs from the pre-FY12 methodology that measured the salary gap for all staff, regardless of performance. The SMI envelope is determined using ratings based on the previous year's performance and aggregate salaries of high performing staff.

45. For 2014, the supplemental merit increase pool for Washington-appointed staff is 0.3%. Each country office's supplemental merit increase pool is determined following a formula that is similar to Washington's SMI pool calculation. This is estimated at 25% (0.33% divided by 1.3%) of the respective country office salary gap with the aggregate market reference points. Annex 2 shows the country-by-country results, applying the SMI approach to each country office (as reflected in the Additional Merit Increase data).

46. As presented in Annex 5, with the newly introduced simplified administrative changes, the SMI and the SPA elements will be put together with the structure adjustment to form one single merit pool, or Total Merit Increase, to be distributed to all eligible staff based on performance and position in salary range.

Reviewing the WBG Total Compensation Strategy

47. Management would like to review the Total Compensation Strategy in relation to the new business model and WBG operational objectives. Management will assess further opportunities for improved alignment between the pay, performance and business objectives, and will come back to the Board at a later time to further expand on the direction of the Total Compensation Strategy.

Annex 5: Salary Administration Changes

48. In previous compensation reviews, Management committed to continuously improve delivery and administration of salary increases to staff and, where feasible, streamline and simplify processes to ensure a competitive and up-to-date rules-based system. The salary administration changes presented in this paper are in line with those objectives and do not affect the structure increase or the additional merit increase components.

49. The key objectives of the salary administration changes are: (i) to deliver salary increases to WBG staff around the world in a simple, consistent, transparent and efficient manner while maintaining a cost-neutral environment; (ii) to put in place one WBG salary administration program that globally aligns and streamlines annual salary increase processes and timing of salary increase payments in HQ and country offices; (iii) to align with external salary administration best practices (IFIs, IOs, private sectors); and (iv) to fully recognize and better reward staff based on performance.

50. In line with this commitment and objectives, the following salary administration changes have been endorsed by Management and will be implemented in FY15:

Salary range design

- **a.** Introduce equidistant relationship of the minimum and maximum to the midpoint of the salary range (symmetry) across all grades of the Washington and country/satellite office salary scales;
- **b.** Change from three to four salary zones for all WBG salary scales in Washington and all offices globally.

Individual merit increase distribution

- **c.** Simplify the merit increase administration by combining the Structure Adjustment and the two additional merit increase elements, the SPA and SMI, to form one single envelope for merit distribution - the Total Merit Increase (TMI);
- **d.** Introduce a single distinct merit increase percent for each performance rating and salary zone category in the merit increase matrix;
- **e.** Recognize the performance for staff whose salary exceeds the maximum of their ranges by introducing a non-pensionable merit lump sum payment in lieu of the minimum increase.

Salary Range Design

Symmetry

51. **Introducing symmetry of salary ranges would allow more consistent and targeted salary policies.** In other global organizations, the minimum and the maximum of each salary range are typically equidistant to the MRP. Such logical and reasonable relationship among the minimum, maximum, and the MRP allows better salary administration. It also facilitates a consistent and balanced merit increase policy administration for new hires, staff on board as they progress through the range, and staff who are near or at the maximum of their respective ranges.

52. **Currently, the Washington MRPs are positioned closer to the minimum of zone 2[11] instead of being positioned in the middle of each grade salary range.** In fact, the minimum of the salary ranges are at 77% of the MRP and the maximum, at 140% of the MRP. As background, the 1999 compensation reform collapsed the WBG 20-grade system to the current 11-broad banded grades. This resulted in an asymmetrical HQ salary scale in order to accommodate staff salaries at the higher end of the collapsed grade.

53. **Best compensation practice in the private sector and International Financial Institutions (IFIs) is to have salary ranges with reasonable and equidistant relationships among the minima, maxima and the market reference points (MRP) and to identify the MRP as midpoints.** The newly established midpoints (which will continue to be established at the WBG market target position[12]) are the pivotal elements that will be used to determine the width of each range, with the minima of the ranges set at 70% of the midpoints, and the maxima of the ranges set at 130% of the midpoints. These improvements will align the HQ scale with the current salary scale design in country offices, will follow standard compensation principles and will align with best practices. While the HQ salary ranges (minimum and maximum) may be adjusted, there will be no reduction in individual staff salaries. Salaries of staff that are now above the maximum will remain fixed until such time that they fall within range once again. As explained further in paragraph 62 below, staff at the maximum of their salary range will nonetheless be entitled to receive a non-pensionable lump sum merit payment, in recognition of their performance. Salaries of staff below the new minimum will be adjusted to the minimum if the salary increase is not sufficient to bring the salary to the minimum of the range.

Four Zone Salary Ranges

54. **The current three zone design causes some unintended effects in the merit policy.** Under the current design, staff whose salaries are in the Zone 2, positioned at 2% below the current MRP and 19% above the MRP, with the same SRI level, are entitled to receive the same increase in terms of salary percent. Such design reduces the effectiveness of the merit increase policy for staff in salary zone 2 (35 percent of staff last year). While the merit increase policy's key objective is to ensure that staff's salaries over a certain period of time converge towards the MRPs[13], the effect of the three zones design broadens the gap between salaries of staff below and above the MRP.

55. **The change from three to four salary zones will allow better positioning and management of staff salaries within the salary ranges.** The 4-zone system, with two zones from the minimum salary to the midpoint and two zones from the midpoint to the maximum salary, will allow faster salary progression for staff whose salary is below the market or midpoint, and will slow down the acceleration for those whose salary is above market. It will also improve the perception of the internal market for pay, to include the entire range around the midpoint.

[11] Currently, the salary ranges for Washington/HQ and offices outside Washington are divided into 3 zones.
[12] Per Board-approved methodology, the competitive positioning of the Bank Group's HQ pay line is aligned with the 75th percentile of salaries in private sector organizations and with the average of salaries in the public sector plus 10%.
[13] The MRP is the WBG target salary at each grade.

Individual Merit Increase Distribution

One Merit Pool

56. **The Structure Adjustment and the additional merit increase envelopes (SPA and SMI) will be combined into a single merit increase pool, called Total Merit Increase or TMI**.[14] The combination of the three elements will generate a single pool for the merit increase matrix and will greatly simplify the merit increase administration. This change will result in the same salary increase impact for top performers with less administrative effort. It will also largely improve transparency and staff understanding on how salary increases are calculated and communicated.

Simpler Merit Matrix

57. **The new methodology consists of developing a merit matrix with a single salary increase percent for each SRI rating and salary zone.** For more transparency and consistency across the WBG, the merit increase matrix[15], will change from a range of merit increases, to a single or targeted merit increase percentage for each performance and salary zone category. This approach will also increase comparability of performance ratings and annual salary increases across the institution. [16]

58. **Managers will continue to manage the performance review process and determine individual staff performance ratings.** Each year, Management will determine the WBG wide performance rating distribution based on the institution's strategic objectives. Each Vice Presidency or country office will receive their allocation of top performance ratings instead of the merit budget. This will shift managerial focus from managing increase pools, to managing performance assessments. Each VPU will have to submit final performance ratings proposals within the established guidelines.

59. **Management will determine every year the degree of differentiation of the merit matrices[17].** Based on Management guidelines and performance ratings input received by the various VPUs, the Compensation team will develop the merit matrices that will ensure an efficient distribution of the allocated resources to achieve an optimal merit increase strategy. This change will ensure that staff with the same performance rating and salary zone receive the same salary increase percentage, regardless of the department where they work, ensuring comparability and a consistent merit policy across the institution. The single merit increase percentage will streamline the salary administration process, and will significantly increase efficiencies by reducing the time spent by managers, HR and other supporting resources.

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[14] Board-approved methodology to calculate the Structure Adjustment, SPA and SMI pools will remain unchanged.

[15] It is the tool commonly used among compensation practitioners that establishes the percentage salary increases based on the principle that staff with lower salary level and higher performance rating receive higher percentage increase and vice-versa.

[16] The IMF adopts a merit matrix with single unified merit increase for each performance rating and salary zone.

[17] Annually, performance is differentiated under the merit review process. Over the last six years, 60% of staff received increases below the Total Merit Increase envelope, and only 40% received higher. Staff members do not automatically receive the structure adjustment, nor do they receive step increases.

Performance Recognition

60. **Staff with salaries that exceed the maximum of their salary ranges will receive full recognition of their performance through non-pensionable lump sum merit payments.** Currently, staff who are paid at or above the maximum of the salary range, receive the minimum increase in the merit increase matrix even if the new salaries will exceed the maximum of the range. Because their total increase is limited by the minimum increase, they might not benefit from the entire performance award that they may otherwise have been entitled to receive. Under the new salary administration process, staff with salaries that are near, at or above the maximum of their respective ranges will be fully recognized for their performance through the payment of non-pensionable merit lump sum amounts for any amount over the grade maximum. The introduction of lump sum merit payments further reinforces the HR policy that caps staff salary at the maximum of the ranges.

61. **The introduction of lump sum merit payments will allow staff with salaries near but below the maximum of their ranges to receive the full award commensurate to their performance rating and salary zone.** Staff with salaries that are near but below the maximum will receive the full award delivered through a combination of a salary increase and a lump sum merit amount as follows: (a) a salary increase which takes their salary to the maximum of their range; and (b) any excess to be paid as a non-pensionable lump sum. The payment of non-pensionable lump sum amounts for staff near, at, or above the maximum of their ranges is in line with market practice.

Summary

62. **Overall, the new global salary administration process will provide productivity gains and administrative savings.** The new business process will provide avoided costs in estimated total time spent and associated salary costs per year that would have been incurred by WBG managers, HR Staff, SRI coordinators, and HR Operations in Chennai under the previous process. The estimated time and savings add up to about 5 to 6 staff years at a total of about US$ 800,000 to 1,000,000 per year. The previous salary increase in Washington and country offices took more than 30 weeks to be completed. Under the new system, the salary increase process will be cut by 2/3 of the time previously required whereby global performance ratings and salary increases will be gathered and processed within a reasonable time period. The new business process is aligned with best practices among progressive employers in the private sector and also among other IFIs.

Annex 6: Compensation Programs – Reforms Update

63. This Annex provides an update of the on-going efforts initiated during FY14 by WBG Management to evaluate, develop and implement key compensation reforms. These reforms, as indicated in last year compensation review paper, represent important milestones for the achievement of the institution's strategic business objectives resulting from the new WBG business model.

Strategic Objectives

64. As part of implementing the new WBG strategy, Management identified several compensation programs in the context of broader HR reforms, including a package of additional measures, to achieve greater efficiencies and better support the business. As described further below, some of the measures have been or are in the process of being implemented.

- **Extend the scarce skills premium (SSP) to Washington/HQ and satellite office staff.** Previously offered to individuals with critical and scarce skills in country offices, the extension of the SSP to Washington and satellite offices provides the business with an individual-based compensation tool to attract and/or retain staff at key senior managerial or highly technical positions.

- **Create Within-Grade Progression process.** Introduce a mechanism within the current broad grades that recognizes professional growth through in-grade progression or expansion of promotional opportunities within the broad grades. This process would not have any impact on salary, its positioning or progression.

- **Introduce a variable pay program for IBRD staff.** Aimed at increasing performance-orientation and accountability among staff, this program will be the foundation for measuring and rewarding short term (annual) achievement of business unit and individual objectives;

- **Explore the feasibility of introducing functional pay for Investment and Core Financial Management Staff.** A comprehensive review of the Bank Group's total compensation mix (base salary and variable pay components) to examine the alignment of pay and reward on a functional basis "vis-à-vis" the external market for particular functional or businesses areas within the World Bank Group.

- **Implement the Multidimensional Competitiveness Index (MCI) as an innovative methodology to assess overall organizational competitiveness.** Provide a thorough and robust assessment of competitiveness and attractiveness of the WBG's employment value proposition throughout the staff member's life cycle – from attracting candidates, to engaging staff, and finally to retaining high performing staff.

Scarce Skills Premium for Washington/HQ and Satellite Offices

65. On February 1, 2014, the Scarce Skills Premium (SSP) was made available to Washington and Satellite Offices[18]. With the key objective of supporting business needs, the SSP tool will mitigate challenges in attracting or retaining individuals in mission-critical roles needed for delivering specific, strategic business results and key business priorities.

66. In order to address the need for the most critical skills within the WBG, the SSP would apply to planned or current Open-Ended and Term appointments at highly technical, key managerial or executive positions and individuals at GH and above. The target for key individuals that may potentially receive the SSP is estimated not to exceed 5% of the eligible population.

67. The standard SSP percentage will fall within the range of 25% to 30% of annual net salary (to be disbursed quarterly). The premium is non-pensionable payment for a defined period, and subject to annual review.

68. Following the Accountability and Decision-Making (ADM) governance framework, the business case for each request will be reviewed, including the eligibility of the position, grade level, critical skills needed, and other requirements. The request to pay SSP can be initiated by the immediate supervisor but depending on the grade, the approvals will be made by either the VP (or Director designate) or Managing Director, with the concurrence of the HRDVP. While the business case to pay SSP will originate from the business, the review process will be market data driven and will be undertaken by an external and independent HR firm/provider. The SSP and all related costs (e.g. the cost of review) will be charged back to the requesting unit. The SSP utilization will be monitored by HR.

Within Grade Progression

69. Within-grade progression is the selective splitting of a grade into two tiers to provide opportunities for greater staff recognition and clearer career paths. This initiative stems from recommendations by the People and Talent Working Group and approved by the Senior Management Team. A working group led by HR and with representation from IBRD, IFC and MIGA drafted the shared set of core Bank/IFC competencies and vetted these with the Bank's Competencies Steering Group, IFC Managers, WBG and IFC People Leadership Committees and Staff Association.

70. Once competencies have been identified and finalized, job profiles reviewed and reworked, an assessment tool will be made available in time for the new performance cycle. Training is being provided by Hay Group and the Within Grade Team on new job content and the Within Grade framework and process. It is important to note that within grade progression would have no impact on salary and neither would a salary range be split in two levels.

[18] The Scarce Skill Premium (SSP) was previously designed for use in Country Offices only. It is an individual-based non-pensionable premium that could be paid when the required skills are demonstrably in short supply in the local or regional market and non-national staff must be recruited from within or outside the duty station country. The Scarce Skills Premium may be defined as follows: (a) a percentage of the Market Reference Point (MRP) of a selected grade prevailing as of the start of eligibility; or (b) a percentage of the staff member's net salary as of the start of the eligibility. They are paid for a defined period, and subject to periodic review. These guidelines generally apply to locally-recruited staff in country offices that hold Local Regular, Open-Ended and Term appointments at Grade F and above. Under exceptional circumstances and with the approval of the relevant IBRD Regional Vice President or IFC Regional Director, these guidelines may apply for scarce positions in Grade E. The extension of the program limits it to Grade H and above only in Washington and Satellite Offices.

71. Managers' nominations will be reviewed by Management teams during the management review meetings, and those confirmed will be progressed as part of the performance process.

72. The framework for progression requires that staff:

- Be performing the job duties and accountabilities required for their job, including any additional requirements for tier 2
- Be meeting or exceeding the competencies required for their job, including any tier 2 requirements; and
- Have sustained strong performance

73. Through better defined career milestones, Within-grade Progression will provide improved career development opportunities and recognition.

74. Phase I implementation includes the integrated VPUs - ECR, HRD, and ITS - and will synchronize the practice with IFC. Initially, HRD will implement within grade progression in Grades GG and GH, and ITS and ECR will implement in Grades GF to GH in FY15. Other grades may be considered in the future if recognizable distinctions in career milestones are established. Phase II will commence once the global practices are in place.

IBRD and MIGA Variable Pay Plan

75. In FY14, Management began work around designing a variable pay program for IBRD. With the goals to motivate, incentivize and influence behaviors towards the achievement of business objectives, the planned IBRD variable pay program needs to be re-thought and re-focused to consider changes in the WBG business direction and delivery of overall business results.

76. With the strategic realignment of the business model to a Global Practices (GPs) and Cross-Cutting Solutions Areas (CCSAs) model, where the overarching goal is to “become the best development solutions provider by growing, supporting and deploying global expertise for effective client delivery”, it is critical to ensure that the incentives that will be designed will motivate and reward collaboration of the 14 global practices and 5 areas of cross-cutting solutions, across regions and countries around the world.

77. Under the “Incentives for Collaboration, Knowledge and Results” task force, a self-reinforcing incentive program at the unit, team, and individual levels is being proposed to ensure the demonstration of desired behaviors and delivery of results in the teams, as much as 5,500 individuals across all levels that will make up the GP/CCSA organization. This incentive system will build on staff intrinsic motivation to collaborate, share knowledge and focus on results, through management accountability, professional development, performance assessment and rewards and recognition. In the proposal, “incentives” would not be limited to monetary and non-monetary awards but rather, “incentives” would aim to promote a stronger collaborative, knowledge-based and results driven culture through a set of mechanisms, metrics and rewards that would fall within a wider context (e.g., leadership accountability, talent and performance management, policies and procedures, resource management).

78. As performance measures and metrics become more defined and robust, the intent is to build on the initial incentive program developed by the task force, and explore the introduction of greater financial rewards through a variable pay program that would promote the desired behaviors with a view to delivering effective solutions to clients’ development.

79. In addition, under the "one World Bank Group", the integrated VPUs of External and Corporate Relations, Human Resources and Information and Technology Solutions, and leveraging the IFC awards experience, the introduction of variable pay for Bank staff in the integrated VPUs will serve as a pilot, and be aimed at increasing performance-orientation and accountability for service delivery to the business.

Functional Pay Lines for Investment and Core Finance Staff

80. In FY14, Management initiated a review of the Bank Group's total compensation mix (base salary and variable pay components) to determine if separate pay policies or programs would be needed for certain functional areas. The study is ongoing and depending on the results of the study, a functional pay program may be initially introduced on a pilot basis for Investment and Core Finance functions. Any plan to introduce a pilot will be considered in FY16.

81. As background, this study intends to review and address issues related to certain functional areas (such as those for Investment and Core Finance positions both in the U.S. and other markets) that are known to have market salary levels higher than those of other functions, thus leading to recruiting and retention challenges in these areas. The Washington/ HQ and Country Office salary scales are currently designed to reflect the local labor market to accommodate a broad range of skill sets and functional areas. As a result, the WBG salary scales may be comparatively low for Investment and Core Finance jobs.

Multidimensional Competitiveness Index

82. Last year, Management introduced the concept of a Multidimensional Competitiveness Index (MCI). The MCI was envisioned to assess the WBG's Employment Value Proposition (EVP) throughout the staff member's life cycle at the Bank Group. A variety of qualitative and quantitative tools would be used to establish and validate the employment 'deal'. The architecture for the multidimensional index was developed, but transformed by the need to have real employee survey data sooner. The Employee Engagement Survey was then developed and administered to serve that need. As the WBG EVP's focus moves from compensation and benefits to a broader view of the total WBG employment experience, future HRD reports to the Board on strategic staffing will include discussions of elements of the WBG EVP. The goal remains – for the Bank Group to be the employer of choice in development, by offering a unique and fully rewarding employment experience.