

# **WORLD TRADE ORGANIZATION**

RESTRICTED

**WT/BFA/W/80**

10 October 2002

(02-5487)

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**Committee on Budget, Finance and Administration**

## **NOTE BY THE SECRETARIAT**

Pursuant to Staff Regulation 6.2, the WTO salary scale and its method of adjustment are subject to review every three years. In order to facilitate this review, a survey has been undertaken by a joint Secretariat working group assisted by an outside expert with extensive experience in international compensation and benefit comparisons. The attached report is submitted for the consideration of the Committee on Budget, Finance and Administration.

# **SURVEY OF SALARIES AND ALLOWANCES**

**2002**



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## EXECUTIVE SUMMARY

1. As provided for under Staff Regulation 6.2, a salary survey was carried out for the World Trade Organization (WTO) with an effective date of July 2002. The comparators included in the survey were:

European Union (EU),  
International Monetary Fund (IMF),  
Organization for Economic Co-operation and Development (OECD) and  
United Nations (UN).

2. Grade level equivalences were established between WTO grades and those of the comparators, which are set out in paragraph 2.2. WTO grades 3, 6, 9 and 12 were used to compare salary levels.

3. Section 3 of this report describes in detail the calculations undertaken to arrive at a result, including the method chosen to convert to a common base salaries that are expressed in different currencies and applicable to different locations. The result of midpoint comparison of the comparators' salary scales with those of WTO is given in the Annex to this report and shows that the WTO salary scale lags behind the comparator group by 10.7 per cent on a weighted average basis. The lag, however, is not uniform and the largest difference appears at the managerial grades.

4. It is proposed that the current WTO salary scale midpoints be increased in a uniform manner by 10.7 per cent as stated in paragraph 4.1. The actual increase to be awarded to staff will, however, be less than the increase to the midpoints of the salary scale. It is proposed that the increase awarded to staff should reflect the trend of the market disclosed in this survey and should, therefore, be differentiated by grade. The proposed amounts are shown in paragraph 4.6.

5. Allowances were also examined and the calculations outlined in Section 5 show that the spouse allowance paid by WTO should increase from CHF 5,686 to CHF 5,976 per annum, while the dependent child's allowance and the secondary dependant's allowance should increase from levels of CHF 3883 and CHF 1308 to CHF 4,752 and 2,112, respectively. The allowance for the first dependent child of a staff member with no spouse should increase from CHF 9569 to CHF 10,776.

6. A review of the rental subsidy indicates that, at the present time, it appears to be fulfilling the limited purpose for which it was established.

7. The final section of the report deals with the salary adjustment process as currently defined in Staff Regulation 6.2. In paragraphs 6.3 and 6.4 of the report, proposals are made for an improved salary adjustment formula for the future.

## I. INTRODUCTION

1.1. The development of a salary survey requires an organization to adopt a logical methodology so that the resulting comparator data are both statistically relevant and meaningful to the institution. There are five distinct steps of definition, analysis and interpretation that should be followed to make a salary survey reliable:

Definition of the market,  
Choice of comparators to be surveyed,  
Choice of functions or grades to be compared,  
Data collection and analysis,  
Establishing a relationship to the chosen market,

1.2. Definition of the market: The WTO is an intergovernmental organization that competes for staff primarily with other international institutions, in particular for key technical functions, such as economists, lawyers and translators. Accordingly, it is proposed that WTO compare itself to a group of international organizations. At the same time, it is essential for the WTO to respect long-term relationships with civil service pay structures in a number of Members. In order that the survey be representative of competitive salaries in different Members, and to avoid bias towards one country's pay levels, only one organization was from any given Member. The data has also been analysed to take account of national government salaries. The results are reported on in Section 3 - Results of Salary Comparison.

1.3. Choice of comparators: In a salary survey, comparators are normally chosen for their relevance, their business line and size. Organizations which are well established and which have stable salary systems are generally favoured. A comparator group was chosen consisting of international organizations with which WTO competes directly for staff. The comparators chosen for the salary survey were:

European Union - headquartered in Belgium;  
International Monetary Fund - located in the USA;  
Organization for Economic Co-operation and Development - headquartered in France; and  
United Nations – using its Swiss-based salary scales.

1.4. Choice of functions and grades: Each organization in the comparator group has a formal job classification system and there are known equivalencies of grade between organizations which have been built up over time and which are used in several organizations. These grade equivalencies are taken as the basis for comparing salary scales. The grade equivalencies were confirmed through analysis of three independent studies and the results are reported upon in Section 2 – Grading Equivalence.

1.5. Data collection and analysis: The data collected from the comparators were in the form of salary scales applicable to their respective locations. These data were converted to a common Geneva base, as will be described in Section 3 - Results of Salary Comparison.

1.6. Establishing a relationship to the market: In Section 4 of this report - Interpretation of the Results – an analysis is given of the data in terms of the WTO salary structure and proposals are made for establishing a relationship between WTO salary scales and those of the comparator group.

## II. GRADING EQUIVALENCE

2.1. Three independent checks were made to verify the accepted grade relationships used for comparisons between international organizations. The first check was to examine the results of a comparison undertaken by Danish consultants of three organizations: EU, UN and NATO. NATO, being a Co-ordinated Organization, has an equivalent grade structure to that of OECD, one of the comparators chosen for this study. The second check was made using the grade equivalencies of a Bank for International Settlements (BIS)/IMF/OECD survey, undertaken in 2001, by matching WTO jobs in the economist, legal and human resources streams to BIS survey job descriptions. The final check was undertaken by a job evaluation specialist with knowledge of the Washington-based international financial institutions. This evaluation matched mainstream professional positions in WTO with those in Washington.

2.2. The results of the three studies confirm the grade equivalencies used in this study, as tabulated below. As can be seen, in a number of cases there are so called “split matches” to WTO grades. When a split match occurs, the figures used for the calculations are the averages of the relevant midpoints of the grades included in the split match. WTO salaries were compared to the comparators’ salary scales at four key grades to establish an overall salary relationship to the comparator group. These were:

Grade 3	The entry level for a secretary,
Grade 6	The crossover grade at the top support level and entry professional jobs,
Grade 9	The full career professional level, and
Grade 12	Senior Division Directors.

**Table of grade equivalencies used in WTO salary comparisons**

WTO	UN	IMF	OECD	EU
DDG	DDG	DMD	DSG	A1
ADG	ADG	B5	A7	A2
12	D2	B4	A6/A7	A2/A3
11	D1	B3/B2	A6/A5	A3
10	P5	B1/A15/A14	A5/A4	A4/A5
9	P4	A14/A13	A4	A5
8	P3	A12/A11	A3	A6
7	P2/GS7	A10	A2/B6	A7
6	P1/GS6	A9	A1/B5	A8/B1
5	GS5	A8/A7	B5/B4	B2/B3
4	GS4	A6/A5	B4	B3/B4
3	GS3	A4	B3	B5
2	GS2	A3/A2	B2	B6
1	GS1	A1	B1	

### III. RESULTS OF SALARY COMPARISON

3.1. When time, currency and location differences exist, data have to be brought to a common baseline. With the exception of EU, all the comparator salary scales have recently been updated to a point in time close to the survey reference date (July 2002). When scales are out of date, as compared to the survey reference date, it is normal practice to date-adjust the data to reflect any known, anticipated increases. EU expects a normal cost-of-living adjustment to be granted in December of this year, backdated to July 1st. In this survey, EU salaries have been increased by two per cent, the amount by which their scales are expected to increase. EU salaries are also normally expressed on a gross basis and they were brought to a net-of-tax level by application of internal EU staff taxation rates.

3.2. Several options exist for converting the salary data to a Geneva base. A common theme of these options is that they all use combinations of exchange rates and cost-of-living data. The Boards of the World Bank and IMF, in 1986, made a detailed study of the options available and concluded that the most suitable conversion factor for salary data was a 50/50 weighting of Parity of Purchasing Power (PPP) and one-year averages of nominal exchange rates (NER). PPP provides an accurate reflection of the domestic purchasing power of salaries based on historical data. There are a number of PPP indices available for use on an international basis. The need, however, is for an index which is transitive and consistent. Transitivity implies that, for example, US/French comparisons and US/Swiss comparisons would lead to equally valid French/Swiss comparisons. Consistency implies that there would be no bias in the database developed for each country so that data can be directly compared with similar data from a different country. The PPP index developed by the International Comparison Project, a project of IBRD and UN and used by OECD and EU is felt to be the most appropriate index.

3.3. The nominal, or market, exchange rate is both readily ascertainable and simple to use, as well as being the most common conversion method considered by either staff or potential recruits. However, NER is not a particularly sensitive reflection of the domestic purchasing power of one currency vis-à-vis another. First, there are short-term fluctuations that do not reflect the underlying economic variables and, second, developments in domestic prices are likely to lag behind exchange rates. Although a PPP index might be preferred as providing a better comparison of living standards, there are problems of timeliness. Analysis shows that PPP follows the five-year average of exchange rates more closely than the one-year average. On the other hand, NER are more up-to-date and better reflect current perceptions, but give too much weight to short-term fluctuations. Thus, using a 50/50 combination of PPP and one-year average NER gives a degree of recognition of current trends and at the same time counteracts some of the lag resulting from the use of PPP alone.

3.4. Data were, therefore, converted to a common base of Geneva by using the 50/50 mix of PPP/NER. PPP data were only valid for June 2001. To bring this data up-to-date and yet to maintain compatibility with the UN system of Post Adjustment, which has a built-in four-month lag when applied to UN Geneva salaries, PPP data were date-adjusted to March 2002. The PPP and NER data were:

Country	PPP	PPP underlying exchange rate	One-year average NER
Belgium (base)	1.000	1.000	1.112
France	1.149	1.000	1.112
Switzerland <sup>1</sup>	2.071	1.519	1.643
USA	1.211	.8512	1.000

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<sup>1</sup> PPP data for Switzerland were based on the city of Geneva.

3.5 Both OECD and EU pay their international staff an expatriation allowance over and above the base salary payment. This is a percentage of salary in each case, 14 per cent for OECD and 16 percent for EU. These percentages have been added into the net matching salaries. The other two comparators have base pay systems that include some allowance for an expatriation margin.

3.6. To derive an overall increase for WTO, a weighted average across grades has been calculated. For this purpose the grade-level results were weighted by the number of WTO staff covered by each representative grade. WTO grades were grouped as follows:

- Grade 3 – covers grades 1, 2, 3 and 4
- Grade 6 – covers grades 5, 6 and 7
- Grade 9 – covers grades 8, 9 and 10
- Grade 12 – covers grades 11, 12, ADG and DDG

3.7. A test was made of the relationship between the salaries of the comparator group and those of national public sectors. UN follows the US Federal Civil Service (USFCS) plus a margin of 15 per cent (normally). OECD and EU both use the average civil service salaries of a group of their member states adjusted by PPP. IMF, in its comparator calculations, gives a 60 per cent weighting to the US public sector, including the Federal Reserve Board. As OECD calculates its pay structure from an average of the civil service salaries of its European members states, increasing the OECD weight in the salary comparison would give greater emphasis to average government pay in Europe in determining the WTO salary structure. The impact of an increase of 50 per cent in the OECD weight was calculated and is shown in Table 3 of the Annex to this report – but it did not materially alter the overall weighted average. As all the comparators already include some national public sector element in their own comparison, increasing the weight of the national public sector does not have any impact as, in aggregate, comparator salaries reflect national public sector values, with a margin added for expatriation.

3.8. The results of the survey and the consequent PPP/NER calculations, compared to conversion using NER and Post Adjustment, are to be found in the Annex to this report.

#### **IV. INTERPRETATION OF THE RESULTS**

4.1. The results of the comparison indicate that the midpoints of the comparators' pay scales are, on a weighted average basis, 10.7 per cent above the midpoints of the WTO's current salary scale (Annex, Table 3, column 1). It is proposed that the current midpoints of the WTO salary scale be increased in a uniform manner by 10.7 per cent. The difference between the WTO salary scale and the comparators' weighted averages increases fairly uniformly, from grade 3, which is basically at the level of the market, to grade 12, which is almost 30 per cent under the market.

4.2. A traditional step-in-grade salary system provides control over the maximum salaries payable to staff. In such a system, salary ranges are narrow and steps have a small value. Staff can progress up the grade range and reach the top step of their grade in due course. Organizations that have moved from step-in-grade to performance-based salary systems (IMF, IBRD, the Regional Development Banks, etc.) have all retained some form of midpoint control of salaries. In such systems, the midpoint of a grade range is considered to be the desirable average salary level for fully performing staff members. The annual salary increase is aimed at maintaining a defined relationship between average staff salaries and the salary scale midpoints. This relationship is known as the comparison, which is the target percentage by which average staff salaries fall below or rise above the midpoints.



4.3. Thus, using a low comparatio, it is projected that average salaries fall below the mid-point by a defined percentage (e.g. comparatio of 90); using exact midpoint control it is projected that average salaries equal the mid-point (e.g. comparatio of 100); while an organization with recruitment and retention difficulties in certain professions may let the salaries in those jobs rise to levels in excess of midpoints, projecting that average salaries rise above the mid-point (e.g. comparatio of 105).

4.4. It should be stressed that the increase in the level of salary scale mid-points does not have to translate into an equivalent increase in salaries for staff. In 1988, when IBRD, IDB and IMF adopted new market-driven pay scales the salary scale was increased by around fifteen per cent, yet but staff salary awards were lower. A similar approach could be considered for WTO, so that a more competitive pay positioning can be obtained for recruitment purposes without passing on the full budget impact to Members.

4.5. The result of the salary comparison does, however, highlight one problem that will have to be faced. The lag in pay at senior levels is considerably greater than at lower levels. This is not surprising. First, the UN pay system, from which the present WTO scales are derived, is very restrictive at the managerial grades. While most international organizations accept that management salaries are subject to a degree of compression, due to the level of pay established for executive heads and for political reasons, the extent to which this is apparent is much less in most of the comparators. This finding reflects the reality of the markets and of public sector pay trends. Managerial salaries have generally moved ahead of other salaries (albeit within the context of mature performance pay systems). Furthermore, local staff salaries have been traditionally set at the 75th percentile of local private sector pay while pay of higher-level staff has been based on the 50th percentile plus an expatriation percentage.

4.6. If, as proposed, the salary scales were to be increased at the midpoints in a uniform manner by 10.7 per cent, the comparatio of staff salaries to the new midpoints would be 92.0 on a weighted average basis. This indicates that an increase of 8 per cent would be needed to bring average staff salaries to the level of the proposed salary scale midpoints (i.e. a comparatio of 100).

4.7. Taking account of the differences between comparator salaries and WTO current salaries at higher grades, it is proposed to increase staff salaries by the following amounts:

Grades 1 – 4 inclusive	5.4 per cent
Grades 5 – 7 inclusive	7.4 per cent
Grades 8 – DDG inclusive	9.4 per cent

This would result in a weighted average increase of 8.0 per cent, which would bring staff salaries to the target level of 8 per cent indicated by strict midpoint control. It would also go some way to addressing the pay gap at senior staff levels.

4.8. The salary scales that would be needed to accommodate the proposed uniform increase of 10.7 per cent in the salary scales midpoints and differential staff increases by grade will be presented to the Committee, for its approval, once it has had time to consider this proposal.

## V. ALLOWANCES

5.1. Spouse Allowance: Grade 9 in WTO has been taken as the single point of calculation for reviewing dependency allowances. The tax pass-through value of a dependent spouse has been calculated at a gross salary level of CHF 175,801-176,400 which is the tax bracket most closely approximating the gross-up of the WTO net salary at the mid-point of Grade 9 (net salary CHF 132,741, gross CHF 176,275). At the stated gross salary, a single tax payer would be taxed at a rate of 24.7 per cent while a married person with no children would be taxed at a rate of 21.75 per cent. This 2.95 per cent difference plus the pass-through value of pre-tax allowances/tax rebates is the amount that should be taken into account in calculating the WTO spouse allowance. This amounts to a tax allowance of CHF 5,976 per annum. The present level of the allowance is CHF 5,686.

5.2. Dependent Child's Allowance: As in the case of the spouse allowance, Grade 9 in WTO was taken as the single point of calculation. All calculations have been based on a family unit with a dependent spouse and two dependent children. The results were then averaged to produce an amount for one child. Two elements make up the dependent child's allowance, the pass-through value of tax allowances and the actual level of social security payments made in the Canton of Geneva for dependent children. The calculated tax pass-through value is CHF 2,248 per annum. This is calculated by application of pre tax allowances and from a difference in tax rates between the "with spouse" rate of 21.75 per cent and that for – a spouse and two children of 19.2 per cent, or 1.275 per cent per child. In the Canton of Geneva the levels of social security payments are:

At the time of birth:	CHF 1000.
From age 0 to 14 years:	CHF 2,400 p.a.
From age 15 - 18 years:	CHF 2,640 p.a.

If payments are averaged out over the 18-year period of dependency they amount to CHF 2,504 p.a. The calculated child's allowance is thus CHF 4,752 compared to the present level of CHF 3,913.

5.3. Secondary Dependant's allowance: The secondary dependant's allowance is calculated in a similar manner as the child allowance but using married plus one child tax rates. No allowances are paid by the Canton of Geneva. Thus, the calculated secondary dependant's allowance is CHF 2,112 p.a.

5.4. First dependant of a single staff member: The allowance for the first dependent child of a staff member who has no spouse, calculated using the same methodology, is CHF 10,776 p.a.

5.5. Rental subsidy: With the exception of UN, none of the chosen comparators has a universal rental support scheme. UN is also the lowest paying comparator. Only OECD has some form of limited rental support but it is restricted to the lowest professional grade (which has two steps only) and support grades. The other comparators do not have rental schemes because their base pay levels are sufficiently adequate at their headquarters, that staff members do not need additional support to meet their short- to medium-term housing costs.

5.6. Rent "thresholds" are 22 per cent (dependency rate) and 25 per cent (single rate). This means that it is expected staff will pay up to 22 per cent or 25 per cent of salary on rent. Above that threshold, a staff member may be eligible for rental subsidy to cover 80 per cent of the excess above the threshold. Qualifying WTO staff members do not in general receive large amounts. Only 29 staff (7 per cent of the total number of staff) qualify for rental subsidies. With two exceptions, all are between grades 6 and 11. This group of staff receive, on average, a payment of 4.4 per cent of salary as rental subsidies, the highest payment being 12.5 per cent of salary and the lowest 0.7 per cent of salary.

5.7. This review of the rental subsidy scheme, under the present rules, indicates that it appears to be fulfilling the specific purpose for which it was established..

## **VI. THE SALARY ADJUSTMENT PROCESS**

6.1. A good salary adjustment system provides a conservative yet responsive way to adjust salaries in periods between major salary surveys. Ideally, such a system should provide no surprises and should be relatively simple to understand and operate. In the 1960s and 1970s the preferred adjustment mechanism was usually cost-of-living (COLA) based but COLA systems went out of fashion in the mid 1980s when high inflation in many countries produced salary increases which moved considerably ahead of real pay levels. As a result the tendency in recent years has been to follow some form of market pay indicator. In times of low inflation pay increases, though usually small, also tend to be real increases when adjusted for inflation whereas in times of high inflation pay increases generally lag behind inflation.

6.2. WTO uses a complex formulation for moving salaries on an interim basis in which the movement of the Swiss COLA is compared to the movements of civil service pay in five countries (France, Germany, Japan, UK and US). The five-country index is made up from current OECD data for three countries, Japanese government data, which is two years old and USFCS data, which is also two years old. In the short-term the five-country aggregate drives the amount awarded but in the longer term the increase can be no greater than the Swiss COLA. However, because the data span two different years, the five-country index will not respond to or reflect current global economic conditions. To all intents and purposes this means that WTO follows the Swiss COLA.

6.3. A mechanism for interim adjustments which is both transparent and meaningful would be to apply, in a conservative manner, the actual year-on-year movements of pay in the comparator group. Thus for example WTO could adjust its pay by 80 per cent of the movement of its comparators. In a stable economic environment this would almost certainly mean that at the three-year salary review there might be some small adjustment but that it would be unlikely to be significant.

## ANNEX

Table 1

Salary data obtained from comparators, including expatriation allowances

Organization	WTO (CHF)	EU (€)	IMF (\$)	OECD (€)	UN (CHF)
WTO Grade					
3	67,352	40,139	39,020	40,574	69,288
6	88,048	60,913	65,320	50,736	82,195
9	132,741	79,580	114,705	100,017	133,196
12	175,705	111,055	196,780	137,106	176,231

Table 2

Salary data brought to a common base using 50/50 NER/PPP (CHF)

Organization	WTO	EU	IMF	OECD	UN
WTO Grade					
3	67,352	70,085	62,796	65,545	69,288
6	88,048	106,358	105,121	81,961	82,195
9	132,741	138,952	184,597	161,572	133,196
12	175,705	193,909	316,683	221,489	176,231

Table 3

Percentage difference by grade, all comparators combined

Calculation	Comparator group using NER/PPP conversion	Group with OECD weight increased by 50%	Comparator group using NER and UN Post Adjustment
WTO Grade			
3	(0.6)	(0.9)	3.2
6	6.7	5.1	9.8
9	16.5	17.0	21.6
12	29.2	28.9	33.9
Weighted avg.	10.7	10.4	14.9
Simple avg.	12.9	12.6	17.1