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WORLD BANK AND IMF

Pay and Benefits Compared With Those of Other Organizations



**National Security and
International Affairs Division**

B-260170

July 17, 1995

The Honorable Mark O. Hatfield
Chairman
The Honorable Robert C. Byrd
Ranking Minority Member
Committee on Appropriations
United States Senate

The Honorable Bob Livingston
Chairman
The Honorable David R. Obey
Ranking Minority Member
Committee on Appropriations
House of Representatives

As required by section 583 of the Foreign Operations Appropriations Act for Fiscal Year 1995, we reviewed the salaries and benefits of employees of the World Bank and the International Monetary Fund, as well as the benefits provided to employees' dependents. In accordance with the law and subsequent discussions with your staff, this report

- explains the system used by the Bank and the Fund to determine pay and benefits levels,
- provides information on salaries and benefits at these institutions in comparison with those provided to employees in comparable positions in the public and private sectors in member countries and the international sector, and
- discusses the role of compensation in staff recruitment and retention.

Background

The Bank and the Fund employ more than 12,000 professional and support staff, most of whom are located in Washington, D.C.¹ The Fund employs primarily economists, while the Bank employs a broad range of professionals (e.g., engineers, health professionals, lawyers, investment and finance specialists, and economists). Staff compensation (salaries, benefits, and allowances) accounts for the largest portion of Bank and Fund administrative expenses, which are paid out of income generated by

¹Unless otherwise stated, references to the Bank apply to all members of the World Bank Group—the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency, and the International Finance Corporation. The operations of the fourth member of the Bank Group—the International Development Association—are carried out by International Bank for Reconstruction and Development staff.

the two institutions' loans and investments. While staff levels increased during the 1990s, both institutions have announced restructuring plans under which staff levels will be reduced.

Designing and implementing a compensation system for an international organization is a complex undertaking, calling for compromise among member countries on numerous technically involved and politically contentious issues. Compensation policy at the Bank and the Fund has been the subject of controversy for many years, with the United States a leading advocate for conservatism in setting pay and benefits levels. Other countries, particularly those who are underrepresented in the two institutions' workforces, support more generous compensation practices. Two joint Bank/Fund committees of Executive Directors have invested more than 6 years of effort in major systemic overhauls, the last of which resulted in adoption of the current compensation system in 1989. Nonetheless, member countries continue to have differing views on Bank and Fund compensation.

Results in Brief

The system used by the Bank and the Fund for determining compensation gives the civil service some consideration but relies most heavily on prevailing practices in large private companies in the United States, Germany, and France. To enable the two institutions to compete for the highest quality employees from all member countries, the system generates relatively high rates of pay, and benefits commensurate with average levels in the surveyed markets. Excluding salaries of highest level management, the average net-of-tax salary among Bank and Fund professionals is about \$86,000.

By design, Bank and Fund pay rates are approximately equal to the 75th percentile level (P75) for comparable positions in the U.S. market and are higher than overall European P75 levels.² However, they do not provide the desired margin over pay levels in European private sector organizations. They exceed the pay rates in the public sector in all surveyed markets, as well as in the United Nations. Other international organizations, however, provide compensation that is comparable to that provided by the Bank and the Fund. Benefits are generally commensurate with those available to employees in comparator organizations in the three surveyed countries and the international sector.

²Midpoints for Bank/Fund pay grades are set about equal to or higher than the pay of 75 percent of the employees in comparable positions in the surveyed organizations.

Overall, the Bank and the Fund are able to recruit and retain staff with only modest difficulty. Problems center on recruiting staff in certain highly paid professions and from certain high-salary member countries that are currently underrepresented in the two institutions' workforces.

System Design and Operations

The system is designed to provide competitive compensation that will permit recruitment and retention of the highest quality, multinational staff—including personnel from countries with the highest internal pay rates. Bank and Fund officials stressed the need for the highest quality employees in light of the potential economic impact of the two institutions' lending activity and policy reform recommendations.

Professional salaries are based on those provided by selected financial and industrial concerns and government agencies in the United States. Because international organization employees generally do not pay income taxes, all comparisons are on a net-of-tax basis.³ Benefits are based on separate quadrennial surveys of comparator organizations in the United States, France, and Germany. Appendix I provides information on the U.S., French, and German comparator organizations surveyed for pay- and benefits-setting purposes.

The system generates relatively high pay rates by, among other things, (1) giving private sector pay rates twice as much weight as public sector rates, (2) benchmarking pay at the P75 level among surveyed U.S. private and public sector organizations combined, and (3) attempting to maintain at least a 10-percent pay margin over the P75 level among surveyed private and public sector organizations in other high-salary markets combined. Other high-salary markets are represented in the survey by France and Germany. (This margin is intended to provide an incentive to candidates from other countries to move to the United States.) The system provides overall benefits commensurate with average levels in surveyed organizations.

Since 1990, the system has provided incremental annual increases in real pay—4 percent on average in nominal terms, compared with an average U.S. inflation rate of about 3.6 percent. In every year except 1995, increases have been greater than indicated by the U.S. market due to the desire to maintain the specified margin over the surveyed European

³That is, actual gross pay received by employees of comparator organizations is reduced to represent net pay retained after taxes. The net figures are used as the basis for generating Bank and Fund tax-free pay rates.

markets. Though some economy measures have been introduced, employee benefits remain basically unchanged.

Pay and Benefits Comparisons

In summary, Bank and Fund pay rates

- are approximately equal to P75 levels for comparable positions among all surveyed U.S. organizations;
- are slightly above P75 levels among all surveyed European organizations;
- are slightly above P75 levels for both U.S. and European comparator organizations at the lower professional grades;
- are below U.S. P75 levels at the upper grades;
- are higher than P75 levels among public sector comparator organizations in the United States and Europe; and
- do not provide the desired margin over P75 pay levels among European private sector comparator organizations.

Base pay is higher than in the international organization compensation systems we reviewed (those used by the United Nations and the Co-Ordinated Organizations).⁴ However, the latter system provides expatriate employees with premiums over base rates that elevate their total pay to Bank and Fund levels. Bank and Fund officials identified other European international organizations with comparatively high pay, such as the European Investment Bank. If pay is adjusted to include U.S. taxes and highest level management is excluded, Bank and Fund professionals earn about \$114,000 on average. Benefits for all employees are more generous than those available in the United States but less generous than among European comparator organizations.

Public and private sector organizations that employ expatriates generally provide them with various additional benefits to prevent them from experiencing a loss of real income and to compensate them for the costs of living abroad. Among these are cost-of-living allowances and expatriate premiums over normal pay. The system used by the Bank and the Fund provides neither of these. However, cost-of-living allowances are unnecessary because pay rates are based on the U.S. market, while the maintenance of at least a 10-percent margin over surveyed European markets functions as a proxy for an explicit expatriate premium. The Bank

⁴The Co-Ordinated Organizations comprise the Organization for Economic Cooperation and Development, the North Atlantic Treaty Organization, the Western European Union, the Council of Europe, the European Space Agency, and the European Center for Medium-Range Weather Forecasts. Nineteen additional European international organizations base their systems on the Co-Ordinated Organizations.

and Fund do provide two common expatriate benefits—home leave and partial reimbursement for educating children back home or in a similar environment.

Recruitment and Retention

The Bank and Fund appear to recruit and retain staff with only modest difficulty. About 21 percent of recent entry-level and 6 percent of mid-career professional job offers were rejected in 1994.⁵ Voluntary separation rates are analogous to those experienced in the U.S. government and the other international organizations we reviewed. Problems center on certain scarce or highly paid professionals (e.g., investment bankers) and citizens of particular high-paying countries, (e.g., Japan and Germany). Pay is a factor in these difficulties. However, other factors also deter expatriates, including disruption of spouse careers and cultural concerns.

Treasury Department officials noted that discussions of deficiencies in the skills possessed by the staff have been prominent in the current dialogue on reforming Bank operations. According to these officials, recruiting highly sought-after expertise in such areas as financial market development is an important element in the Bank's efforts toward reform.

Agency Comments

In commenting orally on a draft of this report, officials from the Bank, the Fund, and the U.S. Treasury Department generally concurred with the report. Their technical comments have been incorporated where appropriate. Treasury Department officials also expressed concern about providing a broader context for discussion about Bank and Fund compensation, and they provided written comments that address this concern. These comments, reproduced in their entirety in appendix II, point out that it is the borrowing countries who pay the administrative costs of the World Bank Group, and that the presence of the Bank and the Fund in the United States results in substantial economic benefits for this country.

⁵These rates exclude information for one unit of the Bank Group—the International Finance Corporation, which employs about 11 percent of Bank Group staff. Because the Corporation's staff is concentrated in the relatively high-paying investment and finance fields, it experiences greater difficulty recruiting than other Bank Group members. For example, Corporation mid-career job offers are rejected at nearly five times the rate experienced by other Bank Group members.

Scope and Methodology

As agreed with your staff, we did not conduct original research to identify jobs in other organizations that are comparable to Bank and Fund jobs, nor did we independently verify the compensation received by individuals in such jobs. Rather, we assembled a database from several existing sources, mentioned in this section. The database enabled us to analyze Bank and Fund pay and benefits and comparable practices among the international organizations we surveyed and public and private sector comparator organizations in the United States, France, and Germany. Comparator organizations from France and Germany are referred to throughout the report as representing “European” markets.

We interviewed Bank and Fund officials at their headquarters in Washington, D.C., including several member-country Executive Directors and the two institutions’ staff associations. We received excellent cooperation in all instances. In New York, we consulted with officials of the International Civil Service Commission (an agency of the United Nations). In Paris, we consulted with officials of the Bank and the Fund; the United Nations Educational, Scientific, and Cultural Organization; the Organization for Economic Cooperation and Development; and the Co-Ordinated Organizations’ Inter-Organizations Study Section on Salaries and Prices. We also met with French government and private sector representatives to discuss compensation practices in France and Europe. We interviewed representatives of Hay Management Consultants and Hewitt Associates (the pay and benefits consultants employed by the Bank and the Fund). We employed Hay Management Consultants to conduct additional analyses of the pay data used in analyses for the Bank and Fund. We also consulted with several other private and U.S. government compensation experts.

Pay information for public and private sector comparators in the United States, France, and Germany was provided by Hay Management Consultants. Information on private and public sector comparator organizations in the United States, France, and Germany is gathered on a nationwide basis. Information on comparator organization support staff pay is gathered from the Washington, D.C., market. U.S. public sector pay information represents average levels plus 10 percent, as this is the manner in which the system used by the Bank and Fund incorporates information on this sector. Data for France and Germany is converted into U.S. dollars using the average of the nominal exchange rates and purchasing power parities between the U.S. dollar and the French and German currencies. Additional information on public sector pay was provided by the governments of the United States and France. Benefits

comparisons are drawn from data assembled by Hewitt Associates, supplemented by information from the Bank and the Fund, the other international organizations we surveyed, the governments of the United States and France, and private sector benefits experts.

We assembled pay information for the Bank and the Fund, the United Nations, and the Co-Ordinated Organizations from information provided by these organizations. This is the most recent applicable information available on pay grade midpoints for employees stationed in Washington, D.C.⁶ Pay comparisons among these three systems are made on the basis of conclusions about grade level equivalency drawn by officials of the Inter-Organizations Study Section on Salaries and Prices.

All analyses compare Bank and Fund pay to total cash compensation (including bonuses) received for comparable jobs among comparator organizations. Unless otherwise indicated, professional pay rates are calculated for married incumbents with two children, while support staff calculations are made on the basis of single incumbents. This is the approach used by the Bank and the Fund. Our primary concern was with compensation for professional employees, so we provide only limited information on support staff. We did not examine the separate pay system that is used to determine compensation for Executive Directors and their staffs, nor did we review the salaries paid to the heads of the two institutions or their immediate deputies. For these reasons and because information from all markets is not available for all Bank and Fund grades, most graphs do not include pay grades occupied by support staff, and none includes grades occupied by highest level management.

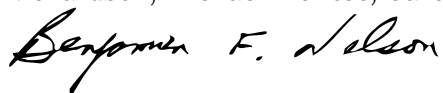
Information on recruitment and retention was obtained from sources in the Bank, the Fund, the other international organizations we reviewed, the governments of France and the United States, and various sources in the private sector.

This review was conducted from December 1994 through May 1995 in accordance with generally accepted government auditing standards.

⁶The Bank and Fund pay scale was revised in May 1995. The Co-Ordinated Organizations last revised their pay scale in January 1995. The United Nations professional pay scale was last revised in March 1995 (August 1994 for support staff).

We are sending copies of this report to the Secretary of the Treasury, the President of the World Bank, and the Managing Director of the International Monetary Fund. Copies will be made available to others upon request.

If you or your staff have any questions about this report, please call me at (202) 512-4128. Other contributors to this report include LeRoy Richardson, Michael McAtee, Caroline Vernet Harper, and Joy Labez.

A handwritten signature in black ink that reads "Benjamin F. Nelson". The signature is written in a cursive style with a large, stylized 'B' and 'N'.

Benjamin F. Nelson
Associate Director
International Affairs Issues

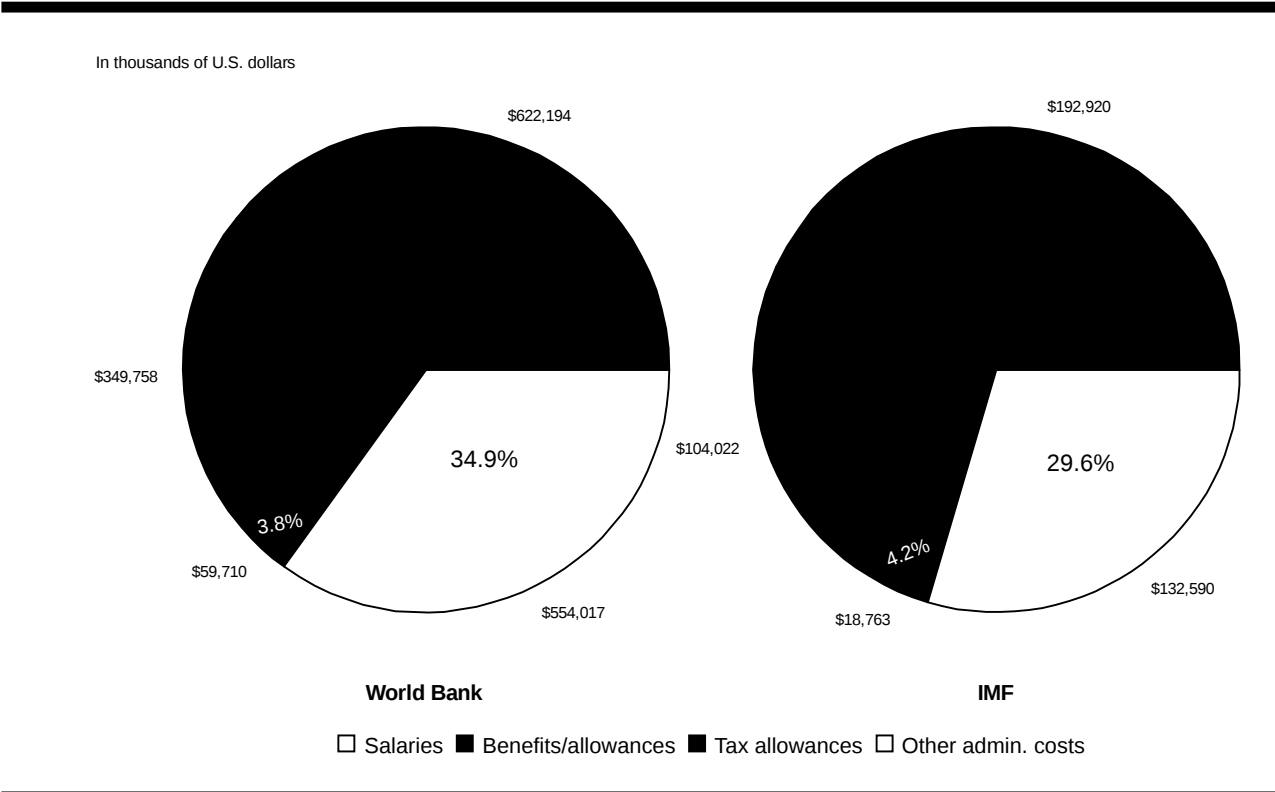
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Comparisons

GAO

Background: Fiscal Year 1994
Administrative Costs



Note: Total administrative costs were about \$1.6 billion at the Bank and about \$450 million at the Fund. Salaries include fees for consultants and Bank temporaries.

Salaries, benefits, and allowances amount to about two-thirds of Bank and Fund administrative costs, which are paid from returns on loans and investments—not member country contributions. Benefits and allowances (including retirement, health insurance, certain payments to expatriate employees, and tax allowances for Americans) equal over 60 percent of salaries. (The United States is one of few countries that requires citizens employed at international organizations to pay taxes.)

Staffing levels and attendant costs have increased, but this upward trend has stopped. During 1990-94, Bank staff increased by 24 percent (to about 9,400), and Fund staff increased by 20 percent (to about 2,500).¹ Expansion of work in Eastern Europe and the Former Soviet Union was an important factor in staff growth. Both institutions have announced plans to retrench and restructure. The Bank has begun eliminating positions and plans to reduce the workforce by over 500 persons by 1997. The Fund eliminated about 40 positions in 1995.

¹These figures include regular permanent and fixed-term employees (staff are usually offered fixed-term appointments—often 2 years—before being offered permanent positions), long-term consultants, and Bank temporaries. Bank temporaries constitute the pool from which the Bank hires its permanent support staff. The compensation systems for long-term consultants and Bank temporaries are different from that employed for regular and fixed-term staff.

GAO **Background: History of Controversy
About Compensation System**

- Compromise system adopted in 1989 after years of controversy
- Key issues:
 - comparator organizations
 - benchmark levels
- United States, other countries continue to hold divergent views

The current compensation system was adopted in 1989 after more than a decade of controversy, including two overhauls by Bank/Fund committees of Executive Directors. It represents compromise among member countries on several technically complex and politically contentious issues. Among these are defining the universe of comparator organizations and establishing a benchmark level for pay comparisons. The United States and some other countries, like the United Kingdom, advocate conservatism in setting pay and benefits levels. Other high-salary countries, including Germany and France (with developing country support), advocate more generous practices.

GAO Compensation System Goal

- Attract a workforce that is
 - the highest quality,
 - multinational in character (including personnel from highest paying countries), and
 - professionally diverse
-

Bank and Fund officials stress the need for the highest quality staff. They point out that employees are responsible for recommending policy changes and financing projects that can have major impacts on particular countries, and that employees must be prepared to negotiate with high-ranking officials of member countries. The institutions are required by their Articles of Agreement to pay “due regard to the importance of recruiting personnel on as wide a geographical basis as possible.” This is interpreted to apply to candidates from high- as well as low-paying markets. While the Fund employs primarily economists, the Bank also employs a broad range of specialists in other fields.

GAO Pay System Design

- Pay based on U.S. market, including private and public sectors
 - Methodology generates relatively high pay rates
 - private sector emphasis
 - benchmarks at P75 level
 - 10-percent margin over European pay
-

The salary structure is derived from Hay Management Consultants' annual surveys of U.S. financial and industrial concerns and government agencies. Only large companies are included because their operations tend to be national or international in scope. They are, therefore, regarded as more appropriate points of comparison than smaller, locally focused firms. Unrelated jobs are excluded. Related jobs are graded for comparability across organizations and weighted by relevance to Bank and Fund operations. Aggregate information by level of responsibility is used to generate pay scales. Survey information covers only a portion of the complete scale. Salaries for support staff and upper management are set by extending the scale. Support staff salaries are checked against pay rates in the Washington, D.C., market. Because staff pay no income taxes, all comparisons are on a net-of-tax basis.

Several methodological elements combine to generate relatively high rates. First, private sector comparator organizations are given controlling influence through their two-thirds weighting, versus one-third for relatively low public sector rates. Both Bank/Fund joint committees of Executive Directors on compensation have agreed that the two institutions are appropriately viewed as most similar to public sector organizations like central banks and international development agencies. However, the last joint committee concluded that a heavier private sector emphasis was justified because of the declining competitiveness of U.S. public sector pay and the fact that a substantial share of recruiting is done in the private sector. Though several much larger agencies are included, the Federal Reserve Board and the Federal Reserve Bank of New York, which have relatively high pay, are assigned a 40-percent weight within the public sector.

Second, benchmarking is against the 75th percentile (P75) level of comparator pay, rather than, for example, average levels.² This means that salaries are set at equal to or higher than 75 percent of the individuals at particular levels in surveyed organizations.

Third, the system maintains an "international competitiveness margin" over other high-paying markets to provide the ability to attract candidates from those markets to work in the United States. France and Germany have been selected as representative countries. P75 pay data is generated for these markets in the same fashion as for the United States, and salaries are set at least 10 percent above these levels.

²U.S. organizations that rely on similar market surveys to set their pay rates commonly refer to comparator organizations' P75 levels as their benchmark.

GAO Benefits System Design

- All staff benefits based on U.S., French, German markets
- Benchmark at average levels
- Expatriate benefits not surveyed

Benefits are based on quadrennial surveys (conducted by Hewitt Associates) of essentially the same U.S. and European comparator organizations surveyed by Hay Management Consultants. The Bank and the Fund seek to maintain overall benefits that are commensurate with average levels among U.S. and European comparator organizations. The surveys do not cover benefits that are not made available to all employees—that is, expatriate benefits. However, Bank/Fund expatriate benefits are based on those commonly provided by other organizations with expatriate staff.

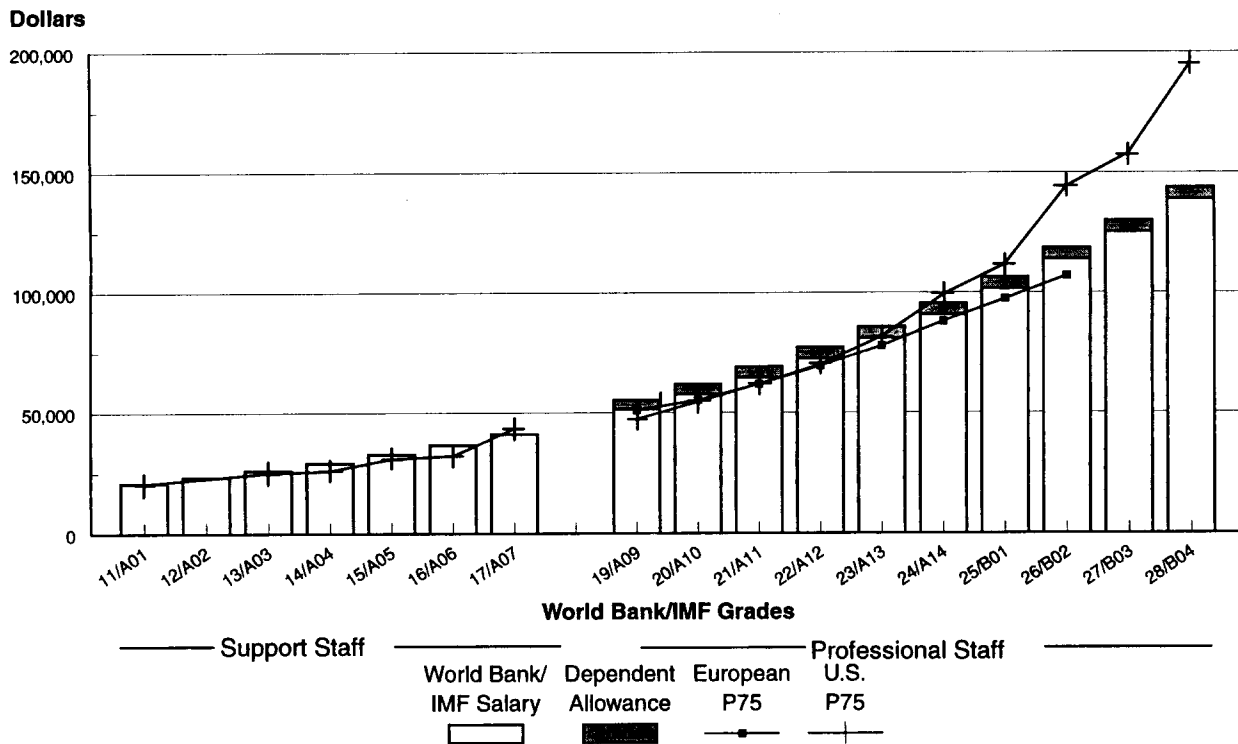
GAO Compensation Trends

- Annual pay increases since 1990 have averaged 4%
 - increases marginally above U.S. inflation (average 3.6%)
 - actual increases driven by surveyed European markets, except in 1995
 - Benefits largely unchanged
-

After an initial 15.8-percent pay increase in 1989 due to systemic changes and failure to keep pace with the market in prior years, the current system has provided small but steady increases in real pay. Since 1990, annual pay increases have averaged about 4 percent in nominal terms, compared with 3.6 percent average annual U.S. inflation. In every year except 1995, increases have been greater than indicated by the U.S. market due to the need to maintain the desired margin over surveyed European markets.³ Though some economy measures have been adopted, employee benefits at the Bank and the Fund have remained basically unchanged since 1989.

³In 1995, pay rates based on the U.S. market provided the desired margin over the combined public and private surveyed European markets, so no adjustment was necessary.

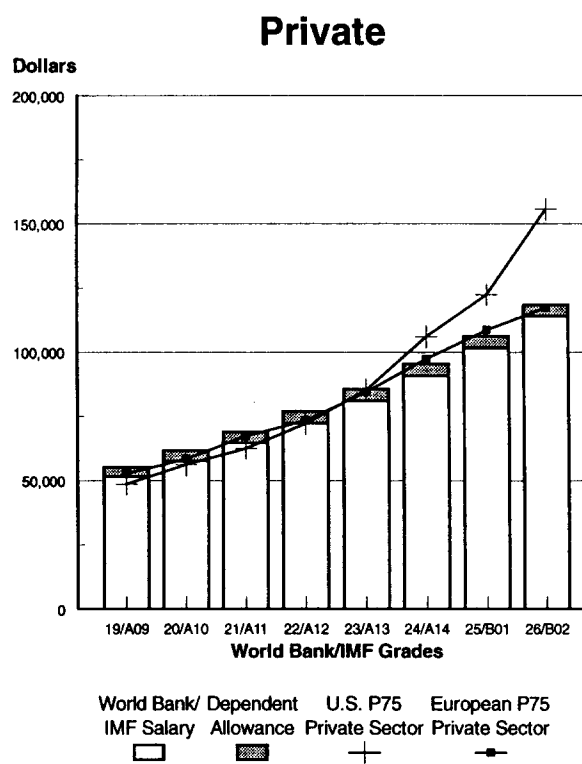
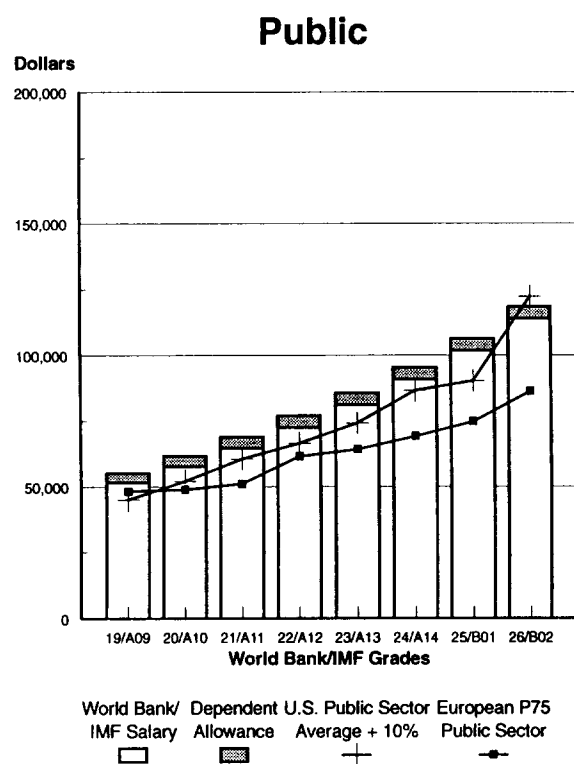
GAO 1995 Pay Compared With U.S. and European P75



Even including dependent allowances (not considered in pay-setting),⁴ the system provides an overall pay structure that is approximately equal to the U.S. P75 pay line. However, the Bank and Fund position with respect to the U.S. market varies—pay is equivalent to market rates for support staff, slightly above the market in the low- to mid-level professional grades where recruiting is concentrated, and below the market at higher levels. The Bank and the Fund’s pay is consistently higher than among European comparator organizations in the grades for which data is available.

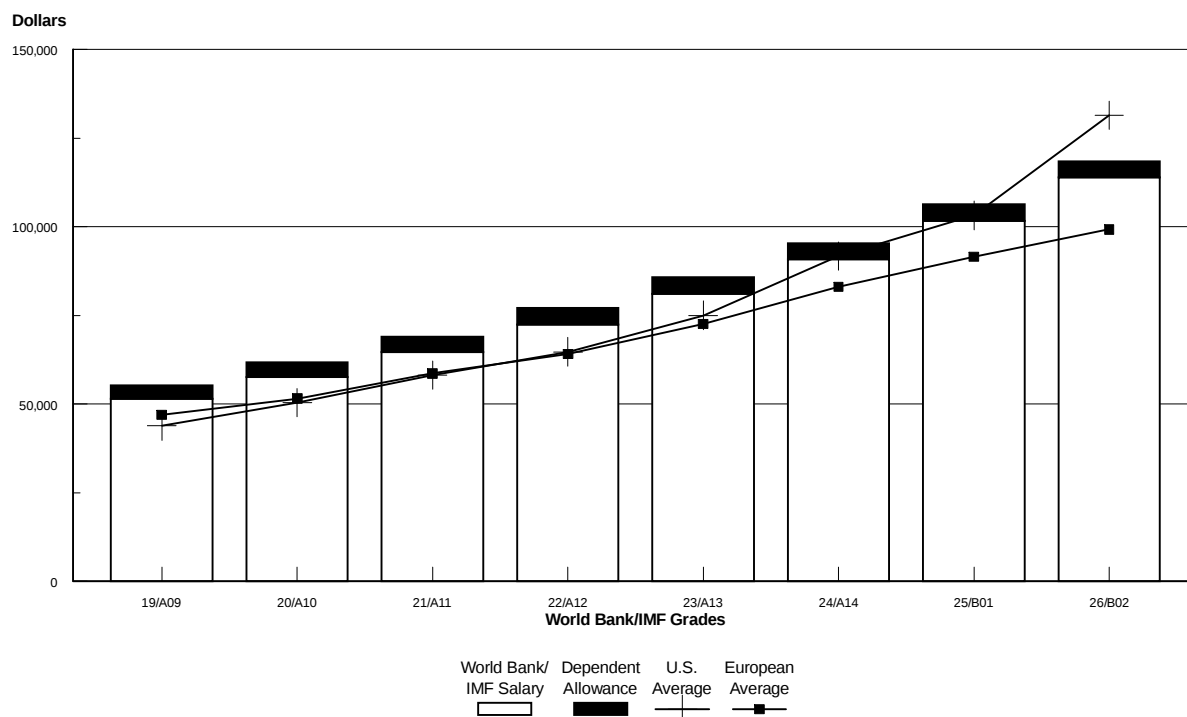
⁴Employees with dependents receive an additional 5 percent of salary up to a maximum of \$3,500, depending on spousal income, plus \$600 per dependent child. Such allowances, common in international organizations, are the functional equivalent of dependent tax exemptions.

GAO 1995 Pay Compared With Public and Private Sectors P75



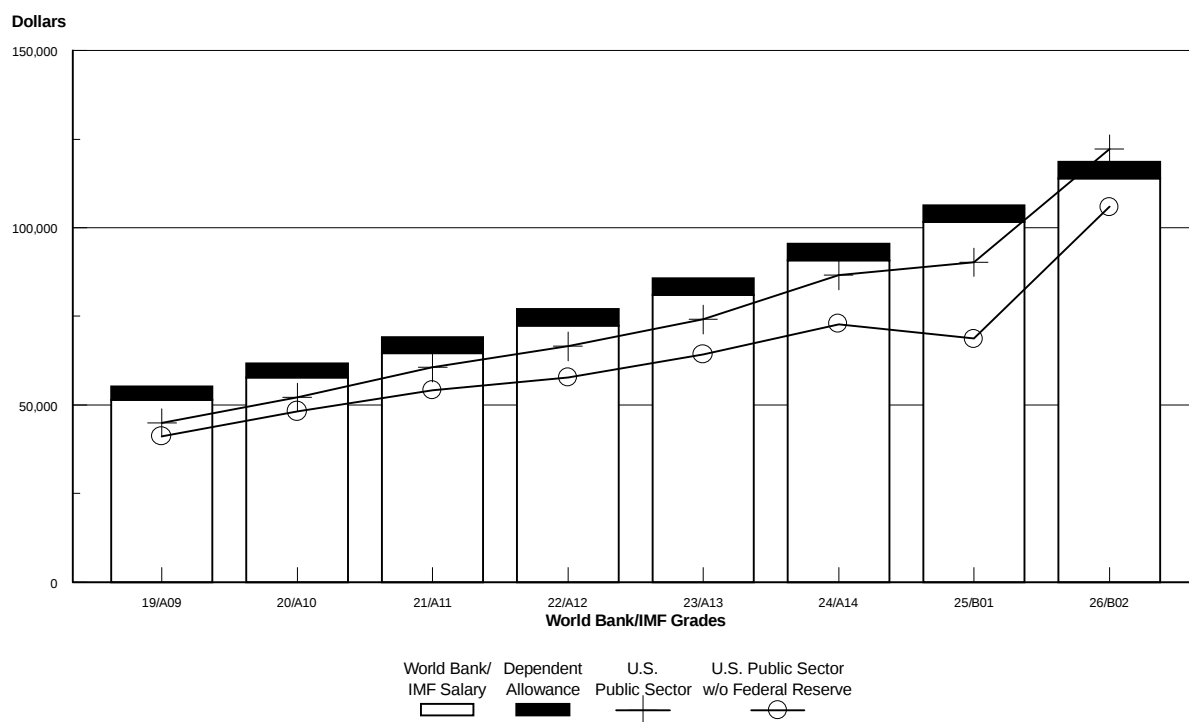
Private sector pay in both the United States and surveyed European markets has an upward influence on Bank and Fund pay, while relatively low public sector pay rates exert a downward influence. Disaggregated data shows that pay rates at the Bank and the Fund are about equal to those found among European private sector comparator organizations, and so do not provide the desired competitiveness margin for recruiting purposes. The data may also overstate the margin that is provided over European public sector pay because of incomplete information on civil service bonuses in France.

GAO 1995 Pay Compared With U.S. and European Average



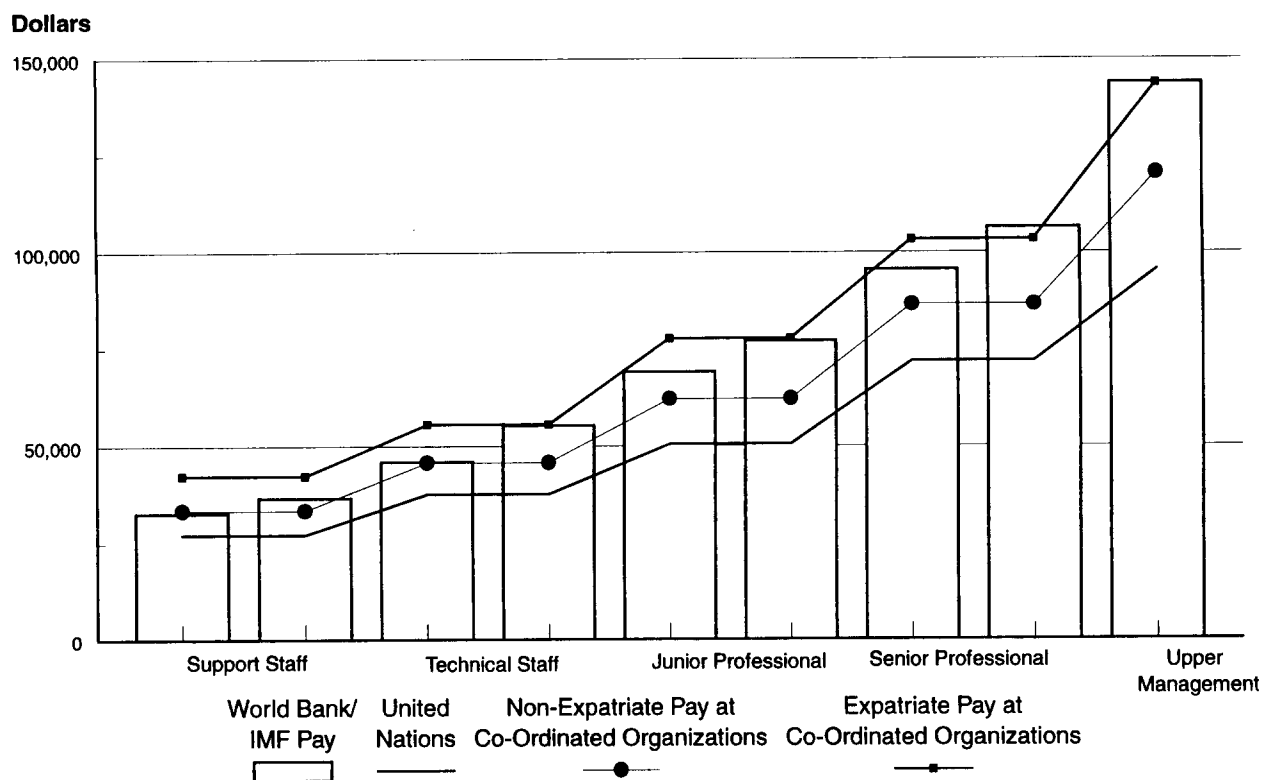
Since the Bank and the Fund benchmark their pay system to the P75 level among comparator organizations, their pay is generally higher than average levels among the surveyed organizations. P75 levels are about 12 percent higher than average levels among the European comparator organizations. The difference between P75 and average levels among U.S. comparator organizations is about 8 percent.

GAO 1995 Pay Compared With U.S. Public Sector Average



Bank and Fund pay is higher than U.S. public sector average pay, particularly when the relatively high pay rates at the Federal Reserve Board and the Federal Reserve Bank of New York are excluded from the analysis. Consistent with other tables provided in this report, this graph displays average public sector salary information plus 10 percent. A display of actual averages would show an even greater disparity between Bank and Fund pay rates and U.S. public sector pay.

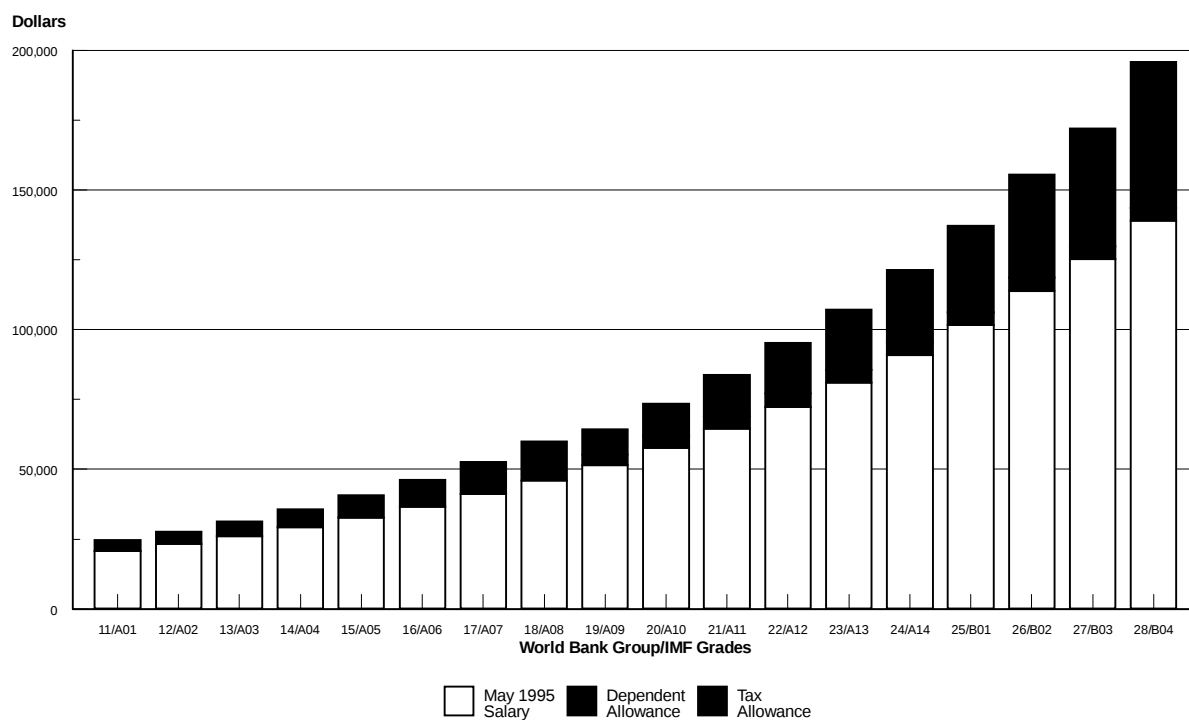
GAO 1995 Pay Compared With Select International Organizations



Bank and Fund pay is higher than base pay in the international organizations that we reviewed (the Co-Ordinated Organizations and the United Nations).⁵ However, the Co-Ordinated Organizations pay expatriate premiums (20 percent for employees with dependents) that elevate pay to Bank and Fund levels. Officials at the Bank and the Fund also pointed to other European institutions with higher pay (e.g., the European Investment Bank) as valid comparator organizations. U.N. pay rates are substantially lower because they are derived by adding a premium of at least 10 percent to U.S. government rates. The U.N. system does not take private sector practices into consideration.

⁵At each displayed level, except upper management, the Bank and Fund's system divides employees between two grades that are contained in single grades in the U.N. and Co-Ordinated Organizations systems.

GAO Pay Adjusted for Tax Allowances



Note: Dependent and tax allowances are based on a non-working spouse plus two children.

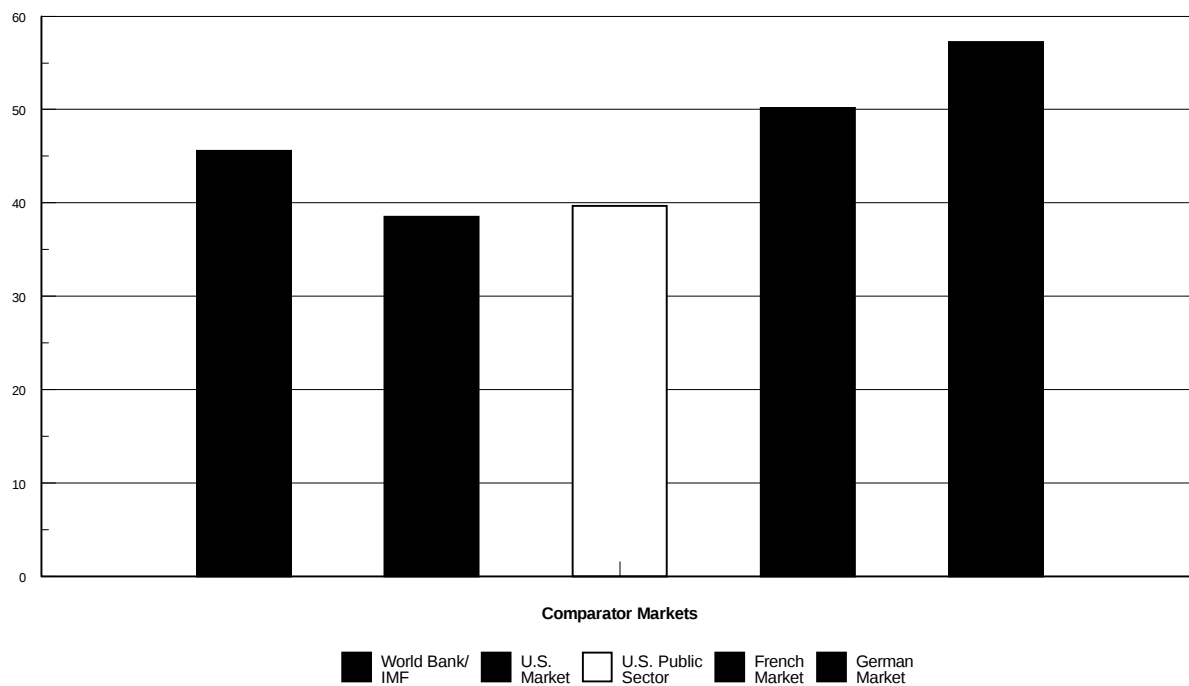
Adjusting pay rates to represent the income that U.S. taxpayers would have to earn to realize equivalent net earnings provides a clearer point of reference. Excluding highest level management, the average tax-free salary among professional employees at the Bank and the Fund is about \$86,000, which provides a before-tax equivalent income of about \$114,000. The midpoint of the pay scale for grade 21/A11, the normal entry level for professional employees,⁶ provides a before-tax equivalent of nearly \$84,000. The equivalent figures for all grades above this level are higher than \$95,000—e.g., \$121,500 for the most commonly held grade (24/A14).⁷

⁶“Entry level” positions are normally filled by recent recipients of advanced degrees (often doctorates) with some work experience.

⁷Newly hired professional staff generally receive salaries about 6.2 percent below the midpoint for their grade at the Bank and about 8.4 percent below the midpoint at the Fund.

GAO Benefits Commensurate With Comparator Markets

As Percentage of Salary



According to Hewitt Associates, benefits received by Bank and Fund employees are more valuable than among U.S. comparator organizations but less valuable than among European comparator organizations. Bank and Fund employees earning \$80,000 obtain benefits worth about 45 percent of pay, compared with 39 percent in the United States, 50 percent in France, and 57 percent in Germany. At this level, employer-provided benefits in the U.S. public sector are about 1 percentage point higher than in the overall U.S. market. Because public

sector employees generally contribute more toward their own benefits, the difference is about 4 percentage points if employee contributions are included. These comparisons include employer- and government-provided benefits. When provided, retirement, health care, death and disability benefits, workers' compensation, separation grants, time off with pay, loan subsidies, and miscellaneous benefits like company cars are included. Not included are benefits paid by the employees themselves and others that are difficult to quantify. Day care, for example, may be fully paid by employees themselves. On-site parking, among others, is difficult to value.

Employer-provided pensions at the Bank and the Fund are 1- to 8.5-percent lower than those in the three comparator markets.⁸ However, employees make higher-than-average contributions to their pension fund—7 percent of pensionable gross salary. As in other international organizations, pensions are based on a calculated gross salary because pension income is taxed. A Bank or Fund net salary of \$80,000 is assumed to be equivalent to a pensionable gross salary of \$126,000. Retirement at this level after the maximum credited service of 35 years may result in a (taxable) pension of \$92,000. Departing employees are also provided separation grants—provided in some countries but not in the United States. Some Bank and Fund officials regard this as equivalent to the employer-funded portion of a 401(k) plan. Health care is more generous than among U.S. and French organizations but less so than in Germany. Leave policies are more generous than in the United States and less so than in Europe. As in other public and private international organizations, moving expenses are paid upon appointment and separation, and additional assistance is provided to cover other relocation costs for new employees. Employees may also avail themselves of low- or no-interest loans.⁹ Such loans are rare in this country, but common in the French and German financial sectors.

⁸This does not include Bank and Fund payment of the employer portion of U.S. Social Security taxes on behalf of American employees. The institutions do not pay into national systems on behalf of expatriate employees.

⁹Low-interest loans are made available for specific purposes like tuition assistance and the initial purchase of a home at the duty station. Short-term emergency loans are available with no interest.

GAO Cost of Major Benefits and Allowances in Fiscal Year 1994

Benefit/allowance	Employee eligibility	Average cost per recipient employee	Employees receiving benefit
Dependent allowance	All	\$3,152	7,553
Medical insurance	All	4,263	11,016
Retirement plan	All	16,271	9,319
Separation grant	All	28,469	249
Resettlement travel	All	11,312	627
Resettlement grant	All	4,956	580
Tax allowance	U.S.	29,273	2,574
Home leave	Expatriate	9,186	3,156
Education grant	Expatriate	9,713	2,439
Education travel	Expatriate	3,832	789

Of the benefits provided to all employees, the retirement plan represents the single greatest expense. In fiscal year 1994, retirement costs were valued at over \$16,000 per employee, with participation mandatory for regular employees. Separation grants averaged about \$28,500 for each departing employee. Costs associated with relocating new and departing staff averaged about \$16,300 per employee. Tax allowances, provided to U.S. employees, averaged over \$29,000 per employee in fiscal year 1994.¹⁰ Participating expatriate employees received an average of about \$9,000 for home leave and about \$13,500 for their children's education.

International organizations, public or private, generally provide extra expatriate benefits to (1) prevent a loss of real income or living standards and (2) compensate for the monetary and psychological costs of living abroad. Cost-of-living and housing allowances are common in the first category. The second includes payments for moving expenses, home leave, and continuing children's education at home or in a similar system (e.g., local private schools aimed at expatriates). The U.S. State Department provides all of these benefits to its staff stationed overseas. Many private and some public organizations also provide expatriate premiums—typically 15 percent of base salary.

The Bank and the Fund do not provide explicit cost-of-living and housing allowances. They are not necessary because pay is based on the U.S. market, where employers have already taken these factors into consideration in setting pay. Expatriate premiums are not provided in the interest of internal equity. The international competitiveness margin maintained by the Bank and the Fund accomplishes the same purpose.

The Bank and the Fund provide two benefits specifically for expatriates. These are payments for (1) expenses incurred in home leave and (2) a portion of the cost of educating employees' children through university. These two benefits are common among other organizations. The Bank and Fund believe that these benefits help to maintain employee cultural links with their home countries and that this contributes to maintaining the international character of the workforce.¹¹

¹⁰U.S. staff are required by law to pay federal and state income taxes and social security taxes in the same manner as self-employed taxpayers. Bank and Fund tax allowances compensate U.S. employees for these costs, so that U.S. staff receive about the same net pay as expatriates.

¹¹Many staff are U.S. permanent resident aliens. Since 1985, new staff in this status have not been eligible for expatriate benefits, but those on board at that time were permitted to maintain their eligibility.

GAO Recruitment and Retention

- Overall, staff recruited and retained with only modest difficulty
 - Problems in recruiting
 - some specialties
 - some nationalities
 - Pay a factor, but other considerations also important for expatriates
-

Although we found no accepted standards in this area, the organizations appear to recruit and retain staff with only modest difficulty. Professional job offer rejection rates in 1994 were about 21 percent at entry level and about 6 percent at mid-career levels.¹² Bank and Fund officials point out that rejections for mid-career hires understate recruiting difficulties, however, because those who are not interested often withdraw before receiving offers. Excluding retirements, voluntary separations average just over 2 percent, which is in line with experience in the U.S. government and the international organizations we reviewed.

Recruitment and retention difficulties center on certain scarce or highly paid professionals (e.g., investment bankers and environmental economists) and candidates from some other countries (e.g., Germany and Japan). Bank and Fund officials commented that recruitment is complicated by the institutions' attempting to find individuals who possess specific educational backgrounds and skills, developing country experience, and English language ability while also addressing national diversity and gender recruitment goals.

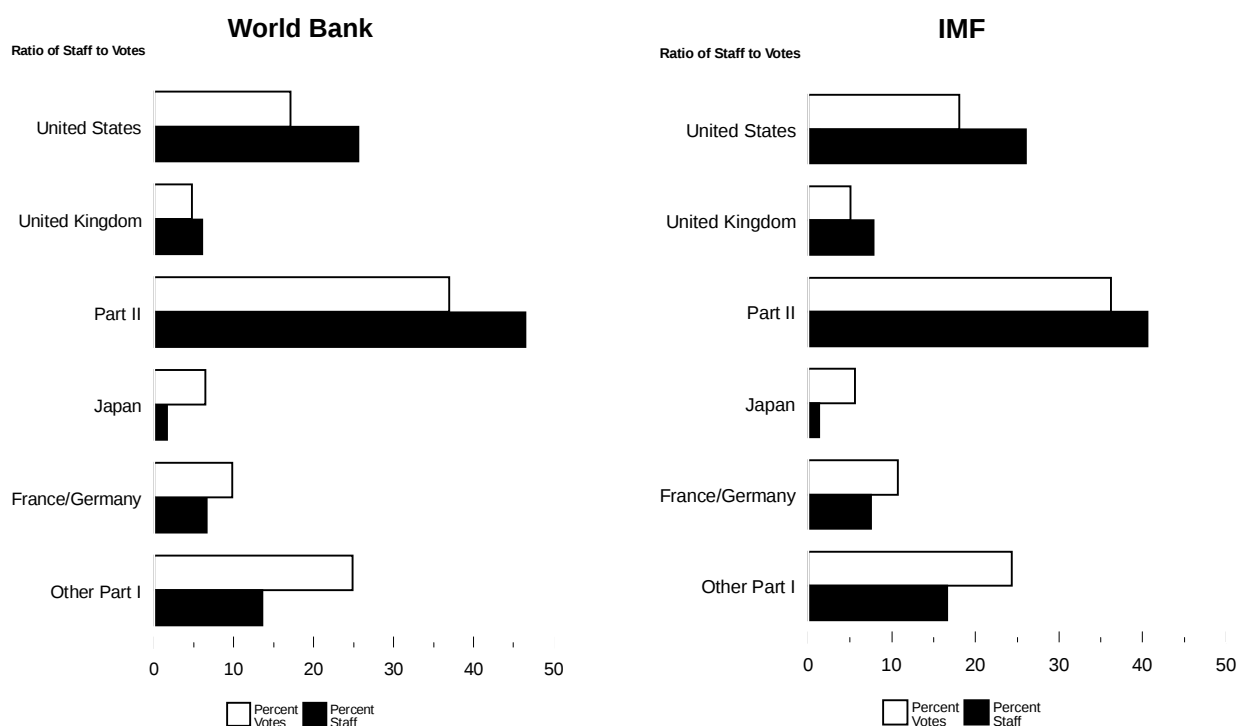
Pay is a factor in recruiting difficulties. About 13 percent of Bank offers in recent months were increased above normal levels to convince candidates to accept positions. Offers at the International Finance Corporation (mainly investment officers) were rejected at three times the overall Bank rate. European, Japanese, and private sector candidates often view pay as inadequate.

The following factors, among others, are also cited as deterrents, particularly for expatriate candidates: disrupted spouse careers, removal from established career tracks,¹³ inferior benefits compared with those available at home, removing children from the home culture, and the perceived danger of living in Washington. The joint committee that conducted the last overall systemic review recommended that consideration be given to a system of additional incentives to attract staff with critical skills, but no action has been taken due to concern that such a system would be difficult to administer fairly.

¹²These rates exclude information for one unit of the Bank Group—the International Finance Corporation. The Corporation experiences much higher rejection rates than other Bank Group members because its staff is concentrated in the relatively high-paying investment and finance fields.

¹³Concern about disrupting established careers is elevated by limited promotion potential for mid-career employees and by the increasing use of term appointments. This is more of a concern at the Bank than at the Fund because the Bank recruits a higher percentage of its employees at the mid-career level.

GAO Comparison of Staff Nationality and Voting Power (Selected Countries)



Note: Part I countries are the United States, the United Kingdom, Japan, France, Germany, Canada, Italy, Australia, Austria, Belgium, Denmark, Finland, Iceland, Ireland, Kuwait, Liechtenstein, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Russia, South Africa, Spain, Sweden, Switzerland, and the United Arab Emirates. Part II includes all other member countries.

There are no official staffing quotas by country at the Bank and the Fund. However, voting power, which is allocated according to each member's financial support for the two institutions, is used as a rough indicator of appropriate staffing levels by country. While the United States, the United Kingdom, and developing countries in general are overrepresented in relation to their voting power in the two institutions, Japan, Germany, France and other relatively high-salary countries are underrepresented. Some Bank and Fund officials commented that reductions in Bank and Fund compensation would exacerbate existing difficulties in recruiting from these countries.

Comparator Organizations

Professional Staff Salaries

The Bank and Fund 1995 professional salary scale is based on information gathered by Hay Management Consultants from the following organizations:

United States

Financial Sector

Nineteen commercial banks and diversified financial companies with assets over \$5 billion:

- 1 American Express
- 2 Bank of America
- 3 Bank of Boston
- 4 Bankers Trust
- 5 Bay Banks
- 6 Boston Company
- 7 Chase Manhattan Bank
- 8 Chemical Bank
- 9 Citibank, NA
- 10 Comerica (Manufacturers National Bank of Detroit)
- 11 Continental Bank
- 12 Corestates
- 13 First Chicago
- 14 First Interstate Bank of California
- 15 National Bank of Detroit
- 16 NationsBank
- 17 Royal Bank of Canada
- 18 State Street Bank & Trust
- 19 Wells Fargo Bank

Appendix I
Comparator Organizations

**Industrial
Sector**

Seventy-one industrial companies with annual revenues over \$1 billion:

<u>Company</u>	<u>Primary Business</u>
1 Air Products	Industrial chemicals
2 Alcoa	Metal production
3 Amerada Hess	Natural gas
4 Amoco	Petroleum and chemical
5 ARMCO	Metal production
6 Armstrong World Industries	Building products
7 Ashland Oil	Oil production
8 BASF	Agricultural chemicals
9 Bell Helicopter	Aircraft production
10 Bell South	Telecommunications
11 BOC	Industrial gases
12 Borg Warner	Industrial engineering
13 BP America	Oil/gas
14 Cargill	Agricultural products
15 Caterpillar	Construction machinery
16 Central Soya	Commodity operations
17 Chevron	Petroleum and oil
18 Ciba Geigy	Pharmaceutical
19 Consolidated Freightways	Transportation
20 Cooper Industries	Electronic products
21 CSX	Transportation
22 Diamond Shamrock	Oil refining
23 Dow	Chemical products
24 Eaton	Electronics
25 Engelhard	Chemicals/metal
26 Firestone	Tires
27 General Electric	General engineering
28 General Signal	Instrumentation manufacturing
29 Goldkist	Agricultural commodities
30 Goodrich	Tires
31 Goodyear	Tires
32 GTE	Telecommunications
33 Heinz	Food production
34 Hoechst Celanese	Chemical production
35 Hormel	Food production
36 ICI Americas	Chemical production
37 International Paper	Paper products
38 Johnson (S.C.) & Son	Personal care
39 Kellogg	Food production
40 Kimberly Clark	Paper products
41 McGraw Hill	Publishing
42 Mead	Paper products
43 Merck	Pharmaceutical
44 Miles	Chemical production
45 Murphy Oil	Natural resources
46 Norfolk Southern	Transportation

(continued)

Appendix I
Comparator Organizations

**Industrial
Sector**

47	Occidental Chemical	Chemical production
48	Owens-Corning Fiberglass	Fiberglass production
49	Pacific Telesis	Telecommunications
50	Peabody Holding	Engineering
51	Pennsylvania Power & Light	Power utility
52	Pepsico-Corporate	Food production
53	Philip Morris	Tobacco and food production
54	Pitney Bowes	Business equipment
55	PPG Industries	Glass/resins
56	Quaker Oats	Food products
57	Rockwell International	Aerospace/electronics
58	Scott Paper	Paper products
59	Sea Land (CSX)	Shipping containers
60	Sears	Merchandising
61	Southern New England Telephone	Telecommunications
62	Staley	Food production
63	Tenneco	Oil/natural gas
64	Texas Utilities	Power utility
65	Timken	Roller bearings
66	Union Pacific	Transportation
67	USG	Building products
68	USX	Petroleum and steel
69	Valero Energy	Natural gas
70	Whitman	Food production
71	Zenith	Electronics

Appendix I
Comparator Organizations

**Public
Sector**

Federal Civil Service:

Six U.S. agencies covering General Schedule and Senior Executive Service positions:

- 1 U.S. Agency for International Development
- 2 U.S. Department of Labor
- 3 U.S. Department of Energy
- 4 U.S. Department of Commerce
- 5 U.S. Department of Agriculture
- 6 U.S. Department of the Treasury

Federal Reserve System:

Professional and senior management positions from:

- 1 The Federal Reserve Board (Washington, D.C.)
 - 2 The Federal Reserve Bank of New York
-

France

**Financial
Sector**

Twelve financial institutions:

- 1 AXA
 - 2 Caisse Centrale des Banques Populaires
 - 3 Caisse Nationale Du Crédit Agricole
 - 4 Compagnie Bancaire
 - 5 Crédit Lyonnais
 - 6 Crédit Mutuel
 - 7 Fédération Nationale du Crédit Agricole
 - 8 GAN
 - 9 Groupe CIC
 - 10 Réseau des Banques Populaires
 - 11 Société Générale
 - 12 UAP
-

Appendix I
Comparator Organizations

**Industrial
Sector**

Thirty-three industrial companies:

- 1 Aérospatiale
- 2 Air Liquide
- 3 Airbus Industries
- 4 Arjomari Prioux
- 5 Bergerart Monnoyeur
- 6 B.P. Group
- 7 B.S.N. Group
- 8 Ciba Geigy
- 9 DMC
- 10 Elf
- 11 General Medical System
- 12 Hutchinson
- 13 IBM
- 14 ICI
- 15 Lafarge Copée
- 16 Merlin Gerin
- 17 Pechiney
- 18 Peugeot
- 19 Philips
- 20 Rhone Merieux
- 21 Rhone Poulenc
- 22 Roussel Uclaf
- 23 SAGEM
- 24 Saint Gobain
- 25 Sanofi Santé
- 26 SAT
- 27 Shell
- 28 Snecma
- 29 Sopad Nestlé
- 30 Spie Batignolles
- 31 Thomson
- 32 Total (Group)
- 33 Wagon Lits

Public Sector

- 1 Banque de France
 - 2 Ministère de l'Economie
 - 3 Caisse Française de Développement
-

Germany

**Financial
Sector**

Twenty financial institutions:

- 1 Bank für Gemeinwirtschaft AG
 - 2 Banque Paribas (Deutschland) OHG
 - 3 Barclays Bank PLC
 - 4 Barmer Ersatzkasse
 - 5 Bayerische Landesbank Girozentrale
 - 6 Bayerische Vereinsbank AG
 - 7 Berliner Handels - Frankfurter Bank KGaA
 - 8 Canadian Imperial Bank of Commerce (Deutschland) AG
 - 9 Commerzbank AG
 - 10 Credit Lyonnais SA and Co (Deutschland) OHG
 - 11 Deutscher Ring Lebensversicherungs AG
 - 12 Dresdner Bank AG
 - 13 Equity and Law Lebensversicherungs AG
 - 14 Frankfurter Sparkasse
 - 15 IKB Deutsche Industriebank AG
 - 16 Kölnische Rückversicherungs-Gesellschaft AG
 - 17 Münchener Rückversicherungs-Gesellschaft AG
 - 18 The Royal Bank of Canada AG
 - 19 Société Générale - Elsassische Bank & Co.
 - 20 Westdeutsche Landesbank AG
-

**Industrial
Sector**

Twenty-five industrial companies:

- 1 Akzo Unternehmensbereich Fasern und Polymere Enka AG
- 2 Appollinaris & Schweppes GmbH & Co.
- 3 Beiersdorf AG
- 4 Chemische Fabrieken Grünau GmbH
- 5 Continental AG
- 6 Datev e. G.
- 7 Deutsche BP AG
- 8 Eckes AG
- 9 Henkel
- 10 Hoogovens Alu Werk Koblenz
- 11 Hoogovens Aluminum Profiltechnik
- 12 ICI
- 13 Kraft Jacobs Suchard Deutschland
- 14 Lucas Automotive GmbH
- 15 Martin Brinkmann AG
- 16 Mathes & Weber GmbH
- 17 Pirelli Reifenwerke
- 18 Porsche AG
- 19 Quelle Schickedanz AG & Co.
- 20 Schmalbach Lubeca AG
- 21 Solvay Deutschland GmbH
- 22 Uniroyal Englebert Reifen
- 23 Veba Oel AG
- 24 Vorwerk & Co. Elektrowerke
- 25 Zeneca

Public Sector

- 1 Bundesministerium der Finanzen
 - 2 Deutsche Bundesbank
 - 3 Kreditanstalt für Wiederaufbau
-

Support Staff Salaries

The Bank and Fund 1995 support staff salary scale was created by downward extension of the professional salary scale. However, Hay Management Consultants gathered information on the following organizations for comparative purposes:

**Washington, D.C.,
Metropolitan Area**

**Private
Sector**

Twenty-two private sector organizations:

- 1 The Acacia Group
- 2 American Bankers Association
- 3 American Chemical Society
- 4 American Gas Association
- 5 American Petroleum Institute
- 6 Arnold & Porter
- 7 Arthur Andersen & Company
- 8 Blue Cross/Blue Shield of the National Capital Area
- 9 Chamber of Commerce of the United States
- 10 Covington and Burling
- 11 Crestar Bank
- 12 DynCorp
- 13 GEICO
- 14 Jones, Day, Reavis & Pogue
- 15 Marriott Corporation
- 16 MCI
- 17 Mobil
- 18 Morgan, Lewis & Bockius
- 19 Potomac Electric Power Company
- 20 Price Waterhouse
- 21 Student Loan Marketing Association
- 22 Wilmer, Cutler & Pickering

Public Sector

Federal Civil Service:

Six U.S. agencies:

- 1 U.S. Agency for International Development
- 2 U.S. Department of Labor
- 3 U.S. Department of Energy
- 4 U.S. Department of Commerce
- 5 U.S. Department of Agriculture
- 6 U.S. Department of the Treasury

Federal Reserve System:

- 1 The Federal Reserve Board (Washington, D.C.)
-

Benefits

For the quadrennial benefits survey issued in 1994, the Bank and Fund furnished Hewitt Associates a list of the comparators included in the 1993 salary survey. To the extent possible, Hewitt analyzed data on benefits available to the employees from the comparators used in that survey. Of the 1993 salary survey comparators, the benefits survey covered the following: (a) for the United States, 3 public sector organizations, 15 financial institutions, and 56 industrial companies; (b) for France, 3 public sector organizations, 6 financial institutions, and 10 industrial companies; and (c) for Germany, 3 public sector organizations, 6 financial institutions, and 7 industrial companies.

Comments From the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 22, 1995

Mr. Benjamin F. Nelson
Associate Director
International Affairs Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Nelson:

Thank you for the opportunity that you arranged last week to provide oral comments on your report on World Bank and International Monetary Fund staff compensation. As Treasury's representative stated at that time, the report provides a fair and accurate presentation on those aspects of the issue that lie within the scope of your work.

Treasury believes, however, that some additional points should be made in order to provide a more complete context for discussion of this subject in the U.S. Congress and elsewhere. I therefore request that you include the attached written comments in the report, in addition to taking into consideration Treasury's earlier oral comments.

Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Lionel C. Johnson".

Lionel C. Johnson
Deputy Assistant Secretary
International Development, Debt
and Environment Policy

**TREASURY DEPARTMENT COMMENTS ON GAO STUDY OF IMF AND WORLD BANK
GROUP STAFF SALARIES AND BENEFITS**

The Treasury Department compliments the staff of the General Accounting Office for its fair, accurate, and timely study of staff salaries and benefits at the International Monetary Fund and the World Bank Group.

The issue is controversial, and has been of concern to both the United States Congress and the Treasury Department for a number of years. In recent years, the United States has consistently opposed salary increases in both the IMF and World Bank, primarily because we believe the agreed salary setting mechanism is being applied in a mechanistic manner.

There are encouraging signs that some other major donor countries are starting to agree with our position. Additionally, both the Bank and the Fund are planning staff reductions, and the Bank's administrative budget is declining in both real and nominal terms.

Treasury believes that a complete consideration of this issue should include the following factors:

- It is the borrowing countries, and not the American taxpayer, who ultimately bear the cost of salaries and benefits in the World Bank Group. Administrative costs are paid for out of revenues. The IBRD's interest rate is set to yield a spread over borrowing costs, and to provide adequate profitability after meeting all expenses. Both the IBRD and the IFC are consistently profitable.
- The United States is one of the very few nations which does not exempt the salaries of employees of international organizations from personal income tax. IMF and World Bank reimbursement to their staffs for Federal income taxes represents a direct "bottom line" transfer to the United States Government. As shown by the GAO's report, this tax allowance amounted to \$59.7 million in the Bank and \$18.8 million in the Fund during WBFY94.
- Although World Bank and IMF salaries and benefits are clearly high in comparison with those of the U.S. Civil Service, they are not significantly out of line with those in other major international organizations. Similarly, Treasury does not believe that it is appropriate to exclude from the analysis the relatively high pay scales at both the Federal Reserve and the Federal Reserve Bank of New York.
- Finally, American citizens are by far the largest nationality group among IMF and World Bank staff. Expenditures by IMF and World Bank employees (both American and non-American) in the greater Washington area constitute a significant benefit for our nation's economy.

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