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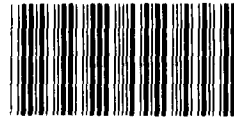
BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

American Employment Generally Favorable At International Financial Institutions

Department of the Treasury, the primary agency responsible for American employment in the World Bank, Inter-American Development Bank, Asian Development Bank, and International Monetary Fund relies on the job market to provide qualified American applicants for these multibillion dollar international financial institutions which support world development and trade. American employment is generally favorable in all of these institutions except for the Asian Development Bank. Since professional staffs are a key to the effectiveness of these institutions, GAO recommends that the United States take action to improve the employment situation at the Asian Development Bank.



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DECEMBER 10, 1980

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-200600

To the President of the Senate and the
Speaker of the House of Representatives

This report analyzes the employment of Americans at multilateral development banks and the International Monetary Fund. The report recommends actions the Congress and Department of the Treasury should take to help solve American employment problems found at the Asian Development Bank.

Copies of this report are being sent to the Secretary of the Treasury; the Director of the Office of Management and Budget; and to appropriate committees of the Congress.

A handwritten signature in black ink, reading "Paul A. Stacks".

Comptroller General
of the United States

D I G E S T

The United States contributes to the success of the World Bank, Inter-American Development Bank, Asian Development Bank, and the International Monetary Fund by providing professional staffs and financial support. It is considering joining the African Development Bank and thus may have similar commitments to that institution. (See p. 4.)

Department of the Treasury, in consultation with the International Development Cooperation Agency, the Development Coordination Committee, and the National Advisory Council on International Monetary and Financial Policies, is the primary agency responsible for U.S. participation in these international financial institutions. Although the contribution of financial resources is controlled and scrutinized by the United States, human resources support receives relatively little attention. (See p. 11.)

The United States generally relies on the employment marketplace to provide qualified American applicants for employment at multilateral development banks and the International Monetary Fund. This approach has generally resulted in favorable American employment at these international financial institutions, the major exception being the Asian Development Bank. (See p. 6.)

For example, Americans not only work throughout the World Bank, Inter-American Development Bank and the International Monetary Fund with relatively high representation at management levels, but they also represent the largest nationality in each institution. In contrast, American employment at the Asian Development Bank is not only relatively low when compared to U.S. contribution levels, but Americans are not spread throughout the bank. In addition,

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Asian Development Bank and U.S. officials expect U.S. representation to worsen unless the United States takes ameliorating actions. (See pp. 6 through 10 and p. 16.)

The major impediment to hiring and retaining Americans at the Asian Development Bank is that the effective salaries of Americans (after income taxes) are too low. Asian Development Bank compensation (the general salary level) has been established based on the premise that bank employees would not be required to pay income taxes. Americans, however, must pay U.S. income taxes on their Asian Development Bank salaries. Thus, Americans realize effective salaries several thousand dollars less than their non-Philippine bank counterparts. (See p. 18.)

Of the several options available for improving American representation at the Asian Development Bank, equalizing U.S. employee incomes with those of their non-American counterparts (salary equalization) appears to be the least costly and yet most likely to be effective. (See p. 23.)

GAO recommends that the Congress support legislation providing for salary equalization as an interim measure to relieve the financial burden and resulting problems of American employees at the Asian Development Bank. (See p. 27.)

GAO believes, however, that the long-term solution to this problem should consider American employment at all international organizations. The Interagency Group on International Organization Staff Remuneration has tentative plans to address this issue. If the Congress decides to support salary equalization, GAO believes it should require the Department of the Treasury to advise the Congress at the time of each annual request for appropriations on the progress made by the Interagency Group on International Organization Staff Remuneration. In addition, several legislative proposals under congressional consideration

which deal with the taxation of Americans living and working outside the United States may alleviate the Asian Development Bank compensation problem.] (See p. 28.)

If the Congress decides to support salary equalization at the Asian Development Bank, GAO further recommends that the Secretary of the Treasury monitor the impact on American employment at the Bank to ensure that the approach is effective.] The results of this approach may also be useful in determining necessary actions in the event the United States joins the African Development Bank and Americans do not join the staff of this overseas institution. If the United States does become a member of the African Development Bank, the timely development of a plan by the Secretary of the Treasury to remedy anticipated employment problems will be beneficial to U.S. participation in the bank. (See ch. 4.)

The Department of the Treasury fully endorsed the major conclusions and recommendations of this report. (See p. 28.)

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ABBREVIATIONS

ADB	Asian Development Bank
AFDB	African Development Bank
AFDF	African Development Fund
AID	Agency for International Development
IDB	Inter-American Development Bank
IDCA	International Development Cooperation Agency
IFI	International Financial Institution
IMF	International Monetary Fund
MDB	Multilateral Development Bank
USED	U.S. Director and Executive Directors to International Financial Institutions

CHAPTER 1

INTRODUCTION

The United States has a major interest in the success of the World Bank ^{1/}, the Inter-American Development Bank (IDB), the Asian Development Bank (ADB), and the International Monetary Fund (IMF) because of their impact on the world economy and international trade and the international financial system. The United States is currently considering joining another international financial institution (IFI), the African Development Bank (AFDB). These IFIs assist people of developing countries in achieving economic growth and in improving their quality of life, both of which are major U.S. foreign policy objectives. The institutions provide capital resources and technical assistance to the developing countries, and facilitate the flow of goods and services between all countries by fostering global monetary stability.

The resources provided the developing countries over the years have been enormous. These multilateral development banks (MDBs) have provided over \$90 billion since they were established to assist the development of economic institutions and to raise living standards in developing countries. Loans and grants approved by the World Bank during the period of July 1, 1978 to June 30, 1979, for example, totaled over \$10 billion. During the 1974 to 1978 period, IMF, acting as the international monetary system's lender of last resort, financed about \$15 billion in balance-of-payment deficits of both developed and developing countries.

This report discusses employment of Americans at international financial institutions. We examine the current status of Americans in professional positions in the institutions and the role of U.S. agencies in insuring that qualified U.S. candidates are available for position vacancies. We also present recommendations for actions to overcome problems encountered by ADB in employing qualified Americans.

WORLD BANK AND IMF

The World Bank (along with the complementary international financial institution, IMF) grew out of the 44-nation, United Nations Monetary and Financial Conference held

^{1/}In this report "World Bank" is used to refer collectively to the International Bank for Reconstruction and Development, the International Development Association, and the International Financial Corporation.

at Bretton Woods, New Hampshire, in July 1944. The international agreements establishing the bank and the fund entered into force in December 1945. U.S. participation in the World Bank and IMF is authorized by the Bretton Woods Agreements Act of 1945.

The objective of the World Bank is to help raise standards of living in developing countries by channeling financial resources from developed countries to the developing world. The purposes of IMF are to promote international monetary cooperation, to facilitate the expansion and balanced growth of international trade, to promote monetary exchange stability, and to provide for international balance-of-payment adjustments.

The World Bank, headquartered in Washington, D.C., consisted of 135 member country governments as of July 1, 1980. Membership in IMF, also headquartered in Washington, D.C., consisted of 141 countries as of September 30, 1980.

INTER-AMERICAN DEVELOPMENT BANK

The Inter-American Development Bank was established by international agreement in 1959, and is headquartered in Washington, D.C. The Inter-American Development Bank Act, approved August 7, 1959, provided for U.S. participation in the institution. The main purposes of IDB are to lend funds and provide technical assistance to developing-member countries in the Western Hemisphere, and to promote investment and foster economic growth in the area. The membership of IDB initially consisted of 20 Western Hemisphere countries. It has since expanded, and in 1979, consisted of 26 countries in the Western Hemisphere and 15 countries in Western Europe.

ASIAN DEVELOPMENT BANK

The Asian Development Bank was established in Manila, Philippines by international agreement in December 1965. The Asian Development Bank Act, approved March 16, 1966, authorized U.S. membership in ADB. The main purposes of ADB are to lend funds and provide technical assistance to developing-member countries in the region of Asia and the Far East, and to promote investment and foster economic growth in the region.

Membership is open to members and associate members of the United Nations Economic and Social Commission for Asia and the Pacific and to other regional countries and nonregional developed countries which are members of the United Nations or any of its specialized agencies. As of December 31, 1979, the Bank had 43 members--29 from the region and 14 from outside the region.

AFRICAN DEVELOPMENT BANK

AFDB was established in Abidjan, Ivory Coast in 1963. The purpose of the bank is to contribute to the economic and social progress of its member states, individually and jointly, giving priority to activities which benefit several member states simultaneously and bring about an orderly expansion in their foreign trade. Originally, only African states were allowed to join the bank. In May 1979, the AFDB Board of Governors, in an attempt to broaden the financial base of the institution, invited (subject to member-country ratification) nonregional countries to join. The United States is currently considering joining the bank.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed the level and distribution of Americans employed at IFIs and the efforts of the United States to furnish qualified U.S. applicants for position vacancies. Direct examination of internal operations of international financial institutions is outside our audit authority. Therefore, we did not make first-hand observations of their internal activities. However, we interviewed officials of the World Bank, IDB, ADB, and IMF; analyzed employment statistics furnished by the offices of the United States Director and Executive Directors of the IFIs (USED), and; reviewed activities of U.S. agencies regarding recruitment of Americans. Our examination also included a review of legislation and executive branch directives pertaining to employment of Americans at the institutions as well as many IFI and agency publications.

Work was performed primarily in Washington, D.C., at AID, IDCA, the Departments of State and the Treasury, and at ADB in Manila, Philippines. While in Manila, we interviewed 22 of the 33 Americans on the staff--all of those available during our stay. The audit work for this review was essentially completed in August 1980.

CHAPTER 2

CURRENT APPROACH RESULTING IN GENERALLY

FAVORABLE AMERICAN EMPLOYMENT, EXCEPT AT

THE ASIAN DEVELOPMENT BANK

With the major exception of ADB, the United States is generally well represented, both in total numbers and organizational distribution of Americans, in all IFIs in which the United States is a member. This is so despite the fact that the United States generally relies on the employment marketplace to provide a sufficient number of qualified American applicants.

AMERICAN PARTICIPATION IN IFIs: SUBSTANTIAL AND BENEFICIAL

The United States has been a member of the World Bank, IDB, IMF, and ADB since they were established, and is currently considering joining AFDB. The United States is the largest single contributor to the World Bank, IMF, and IDB and the second largest contributor, after Japan, to ADB. Over the years the United States has appropriated and/or subscribed to about \$12 billion in paid-in and concessional resources and \$11 billion in callable capital to MDBs. The current U.S. quota in IMF is about \$11 billion. ^{1/} The level of U.S. financial support of these institutions is indicative of their important role in U.S. foreign policy.

In addition to the financial contribution, the United States has a "people" commitment to the institutions as is evidenced not only by the employment of Americans on their staffs but also by statements of U.S. officials. In November 1979, for example, Secretary of the Treasury, G. William Miller, stated that the United States continues "* * *to assign a high priority to the employment of qualified U.S. staff in important international organizations such as the ADB." Meeting this people commitment benefits the United States in a number of ways. American involvement visibly demonstrates the U.S. intent to assist in stabilizing the international monetary system and encouraging the economic growth of developing countries. It also insures in a general way that the American cultural and economic viewpoints are represented within these institutions. Further, in addition

^{1/}Based on exchange rates of November 20, 1979, one Special Drawing Right = \$1.29702.

to providing Americans with employment, American employees can be expected to have a good understanding of commercial services available in the United States and U.S. business practices and methods. To the extent that this affects development assistance contracts, it may enhance the ability of U.S. businesses to participate in MDB assistance efforts.

HIGHLY COMPETENT STAFF: A KEY TO IFI SUCCESS

The effectiveness of the IFIs in accomplishing their complex and difficult objectives depends on many factors. One of the most critical factors is the dedication and competence of individual staff members. Acknowledging the importance of this factor is the following provision contained in the charter of the World Bank.

"In appointing the officers and staff the President (of the Bank) shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographic basis as possible."

IMF, ADB, and IDB charters contain similar provisions and highlight the importance to the institutions of employing highly qualified personnel.

The charter provisions also state that hiring practices should insure that the staff is representative of the international character of the institutions. That is, the citizens of the various member countries should be employed as long as it is consistent with the employment of only the most highly competent individuals. In this way, the staffs will be composed of individuals having a wide cultural and geographic diversity.

The charters do not state the appropriate levels of employees from the various member countries. Many institution officials and Department of the Treasury officials stated, however, that the number of employees from a country is intended to approximate the percentage of that country's subscriptions to total subscriptions or the countries voting share in the institution. This guide may be modified to reflect historical country representation and the international character of the institutions. For example, while the United States provides about 34 percent of total IDB subscriptions, a 34-percent American employment representation is not considered appropriate at IDB. IDB and Department of the Treasury officials explained that the current level (22 percent) and distribution of Americans in high-level positions is appropriate and quite favorable for the United States.

Department of the Treasury officials added that strict adherence to subscription guidelines would not reflect the history of American employment at IDB and might adversely affect the international character of IDB. These guides, in any event, are very informal and are not intended to influence the selection of one individual over another in competition for vacancies.

IFI APPROACH TO STAFFING

To fill professional staff openings, IFIs, with the exception of ADB, generally rely on informal professional contacts and the marketplace to provide applicants. They have not sought U.S. assistance. ADB, in contrast, has requested U.S. assistance in recruiting Americans. (See ch. 3.) Aggressive recruiting is occasionally used to coax individuals which the marketplace does not provide, such as certain developing-country nationals, women, and certain highly specialized experts. The institutions, nevertheless, normally have a variety of qualified applicants for each vacancy, and American applicants number among the highest of any nationality seeking positions for institutions located in the United States (World Bank, IMF, IDB). World Bank and IMF officials explained that location, institution prestige, remuneration, and professional contacts all support their relatively favorable employment situation. Officials from these institutions stated that they believe they are receiving enough qualified American applicants and, therefore, do not require U.S. assistance in obtaining them. The World Bank, for example, receives an average of 50 applications for each opening; approximately 25 percent of which are from Americans.

ADB, located outside the United States, has had particular difficulties in recruiting and retaining Americans. Prior to a recent general salary increase, ADB was also having difficulty hiring other developed-country nationals.

AMERICAN EMPLOYMENT GENERALLY FAVORABLE, EXCEPT AT THE ASIAN DEVELOPMENT BANK

With the major exception of ADB, employment of Americans at IFIs is generally considered favorable by U.S. and IFI officials. Americans represent the largest percentage of the professional staffs at several IFIs. Americans represent about 24 percent of the World Bank staff, 28 percent of the IMF staff, 22 percent of the IDB staff, and 9 percent of the ADB staff.

In addition to the generally favorable overall American employment situation at the World Bank, IDB, and IMF analyses of the distributions by salary level and organizational unit indicate that Americans are also well distributed within these institutions.

World Bank

The World Bank had 2,763 people authorized for its professional staff as of June 30, 1980. Americans employed at the World Bank are generally well distributed throughout the bank's various salary levels.

In addition to the salary level distribution, Americans are also represented in all major World Bank organizational units, as shown by the following table.

**1980
World Bank Professional Staff
By Organizational Unit**

<u>Organizational unit</u>	<u>Staff</u>		
	<u>Total (authorization)</u>	<u>Americans</u>	<u>Percent</u>
Executive Office and Office of the Vice President Operations	8	4	50
Financial Staff	169	43	25
Central Projects Staff	366	74	20
Eastern Africa Regional Office	205	35	17
Western Africa Regional Office	215	27	13
East Asia and Pacific Regional Office	195	41	21
South Asia Regional Office	197	41	21
Europe, Middle East and North Africa Regional Office	239	47	20
Latin America and the Caribbean Regional Office	271	83	31
Development Policy Staff	153	32	21
Operations Evaluations Staff	24	5	21
Legal Staff	54	14	26
Secretary's Department	17	8	47
Administrative Staff	237	116	49
External Relations Staff	95	25	26
International Finance Corporation	217	44	20
Others — such as Young Professional Program, Special Retirement, and Reimbursable Technical Assistance	101	14	14
Total	2,763	653	

Inter-American Development Bank

IDB employed 678 headquarters and 211 field office professional staff as of January 1, 1980. Overall, Americans comprise about 22 percent of the total IDB professional staff. Americans comprised the largest single group at headquarters with 178, or about 26 percent. Only 14 of the field office staff were Americans, about 7 percent. Americans are well distributed throughout the salary levels of IDB.

Americans are also well distributed throughout IDB's organizational structure. The following table shows that Americans are employed in all major headquarters departments with an average representation of about 22 percent.

**1980
IDB Professional Staff
by Department**

<u>Organizational unit</u>	<u>Staff</u>		<u>Percent</u>
	<u>Total</u>	<u>U.S.</u>	
Executive Offices	64	25	39
Operations	123	26	21
Project Analysis	132	22	17
Finance	49	10	20
Economic and Social Development	98	27	28
Legal	31	8	26
Plans and Programs	13	2	15
Administration	138	47	34
Secretariat	28	11	39
Other	2	0	0
Field Offices	<u>211</u>	<u>14</u>	7
Total	<u>889</u>	<u>192</u>	

The U.S. representation in the field offices is notably less than that in other units--about 7 percent versus 22 percent. IDB officials stated that the operations of the field offices consisted principally of loan processing and administration. An official of the USED office stated that they are aware of the small percentage of Americans in field positions, adding that USED does not consider the positions important enough to warrant special recruiting.

International Monetary Fund

IMF employed 793 professional staff as of June 30, 1980. Of these, 219, or over 28 percent, were Americans. The Americans on the professional staff are generally well distributed throughout the grade levels of IMF.

Americans are also well distributed throughout IMF organizational units except for the European offices. The following table shows that Americans are employed in all headquarters departments with an average representation of about 25 percent.

**1980
IMF Professional Staff
By Organizational Unit**

<u>Organizational unit</u>	<u>Staff</u>		
	<u>Total (June 30, 1980)</u>	<u>U.S.</u>	<u>Percent</u>
Office of the Managing Director	23	13	57
Administration Department	86	47	55
African Department	62	9	15
Asian Department	40	9	23
Central Banking Department	13	2	15
European Department	46	7	15
Exchange and Trade Relations Department	46	10	22
Fiscal Affairs Department	47	10	21
IMF Institute	25	1	4
Legal Department	17	5	29
Middle Eastern Department	29	6	21
Research Department	43	16	37
Secretary's Department	41	21	51
Treasurer's Department	70	25	36
Western Hemisphere Department	64	10	16
Bureau of Language Services	56	6	11
Bureau of Statistics	76	22	29
Offices in Europe	9	0	0
Total	<u>793</u>	<u>219</u>	

ASIAN DEVELOPMENT BANK

The United States is under-represented at ADB. (See ch. 3.) As of February 29, 1980, ADB had 367 professional staff members, and only 33, or 9 percent of these staff members, were Americans. Using general country representation guidelines, the United States should have had 44 individuals on the staff for full-numerical representation. Americans employed at ADB are generally distributed throughout bank salary levels. American employees are not well distributed throughout ADB organizational units as shown in the following table.

**1980
ADB Professional Staff
By Organizational Unit**

<u>Organizational unit</u>	<u>Professional staff as of January 31, 1980</u>		
	<u>Total</u>	<u>Americans</u>	<u>Percent</u>
Office of the President	8	2	25
Office of the Secretary	5	0	0
Office of the General Counsel	19	4	21
Country Department	53	4	8
Development Policy Office	4	0	0
Agriculture & Rural Development Department	66	3	5
Infrastructure Department	51	3	6
Industry & Development Banks Department	53	6	11
Central Projects Services Office	15	2	13
Budget, Personnel & Management Systems Dept.	21	3	14
Office of Administrative Services	11	0	0
Controller's Department	18	1	6
Treasurer's Department	11	0	0
Economic Office	13	1	8
Information Office	8	1	13
Office of the Internal Auditor	5	1	20
Post-Evaluation Office	6	2	33
Total	<u>367</u>	<u>33</u>	

DEPARTMENT OF THE TREASURY'S
GENERALLY PASSIVE APPROACH

The U.S. Government role with respect to employment of Americans in IFIs can be generally categorized as passive. With the major exceptions of the highest level positions (such as Bank or Fund Vice Presidents) and most positions at ADB, where there have been particular problems in attracting and retaining Americans, the U.S. Government generally allows the employment market to determine the employment of Americans at these institutions.

The principal U.S. organizations and individuals involved with IFIs are the U.S. Governor to the IFIs (Secretary of the Treasury), USED, the Department of the Treasury, and IDCA. Responsibility within the U.S. Government for participation in IFIs rests generally with the Secretary of the Treasury. Legislation providing for U.S. participation in IFIs originally gave the President responsibility for U.S. participation. This legislation also established a National Advisory Council on International Monetary and Financial Problems comprised of: the Secretary of the Treasury (Chairman); the Secretaries of State and Commerce; the Chairman of the Board of Governors of the Federal Reserve System; and the Chairman of the Board of Trustees of the Export-Import Bank.

The council was established to assist the President and to coordinate the policies and operations of the U.S. representatives to IMF and the World Bank. Further legislation and executive order added IDB, ADB, and the African Development Fund to the council's responsibilities. The President delegated operational responsibilities, including authority to instruct U.S. representatives to IFIs, to the Secretary of the Treasury in consultation with the council. The council was also renamed the National Advisory Council on International Monetary and Financial Policies and was enlarged to include the Director of IDCA, the U.S. Trade Representative, and the Assistant to the President for Economic Affairs.

In June 1978, pursuant to a Presidential administrative reorganization of U.S. development assistance programs, responsibility for reviewing the development aspects of proposed multilateral development bank loans and credits was transferred from the National Advisory Council on International Monetary and Financial Policies to the Working Group for Multilateral Aid of the Subcommittee on Multilateral Aid of the Development Coordination Committee. The Development Coordination Committee is an interagency advisory committee (to the President) which is chaired by the Director of IDCA.

With regard to the human resource aspect of U.S. participation in IFIs, Department of the Treasury and USED officials explained that they generally monitor high-level positions and overall statistics on the total number of Americans employed at IFIs. Department of the Treasury officials explained that although the United States does not have a specific written policy on the employment of Americans at IFIs, the U.S. philosophy, which provides for the international character of the institutions, supports the employment of highly qualified Americans at IFIs. These officials also stated that it is important for the United States to be represented in numbers generally commensurate with U.S. contributions and, furthermore, that Americans should generally be distributed throughout the departments and at various management and staff levels.

Department of the Treasury and USED officials stated that they also monitor the progress of women applicants and follow-up on any complaints that may evolve from an American application. USED and the Department of the Treasury generally attempt to ensure that Americans receive an equal opportunity for employment.

Department of the Treasury and USED officials explained that because of the relatively favorable overall statistics on U.S. employment in the three IFIs headquartered in the United States (the World Bank, IDB, and IMF), more active participation in the employment process is not warranted. They are aware of the relatively unfavorable U.S. employment position at ADB and have attempted to alleviate the problem. (See ch. 3.)

CONCLUSIONS

A highly qualified international staff at IFIs, including Americans, is critical to the success of IFIs and to the furtherance of U.S. international interests pursued through these institutions. To fully support these institutions, highly qualified Americans from diverse fields and staff levels should be important components of IFI staffs.

American employment at the World Bank, IMF, and IDB is generally favorable. In addition, Americans are generally well distributed within these institutions by salary level and organizational unit. By contrast, U.S. representation at ADB is not favorable. (See ch. 3.)

CHAPTER 3

SALARY EQUALIZATION FOR AMERICANS

AT THE ASIAN DEVELOPMENT BANK NEEDED TO

REVERSE THE DECLINE IN AMERICAN EMPLOYMENT

Americans are underrepresented at ADB mainly because of their relatively low after-tax income compared with that of other expatriates whose incomes are tax free. The level and characteristics of American employment have slowly declined over the past few years and the decline appears likely to continue unless remedial action is taken. Of the several options which may be used to attempt to reverse this decline, equalization of American employees after-tax incomes with those of their ADB counterparts appears to be the option which is least costly and most likely to be effective under current circumstances.

ADB wants and needs a highly qualified staff, including Americans. However, the bank is unable to attract and retain enough highly qualified Americans on their own efforts and receives only limited assistance from the U.S. Government in this area.

The United States receives both direct and indirect benefits from the employment of Americans at ADB. By helping to ensure that the ADB staff is highly competent, the U.S. Government helps ensure that U.S. contributions, as well as those of other ADB contributors, are efficiently and effectively used. American employment at ADB also visibly demonstrates the U.S. commitment to assist in the economic development of Asia and the Far East. Because of these benefits, and the current circumstances at ADB, the United States should take additional steps to support the employment of Americans at the bank.

As the agency with overall responsibility for management of U.S. participation in IFIs, the Department of the Treasury has not been effective in its attempts to reverse the American employment decline. Efforts by the Department of the Treasury include occasional referrals and concentration on filling a few selected senior-level positions. (See p. 20.) Even though the Department of the Treasury has attempted to recruit Americans, most Americans accepting positions at the bank have come on their own with no assistance or encouragement. To improve U.S. participation in ADB, the Department of the Treasury in January 1980, requested funds to make the after-tax salaries of American employees at ADB equal to those of their ADB counterparts. GAO supports this concept as an interim response to the employment problem.

ADB STAFFING

As of February 1980, ADB had a total professional staff of 367 people. The staff, which represents 31 different nationalities, is composed of both fixed-term and career employees. As of February, only 33 Americans were employed at ADB--about 9 percent of the total staff.

The ADB staffing policy

The ADB charter prescribes that due regard should be given to recruitment on as wide a geographic basis as possible, consistent with securing the best qualified people for each job. In pursuing the most highly qualified individuals ADB draws professional staff from member countries generally in ratios approximating their individual share of subscribed capital. Bank officials stated that country representation ratios are just guidelines not a quota system, but added that application of these guidelines indicates some countries are relatively over-represented (India, Pakistan, and Great Britain) and others are relatively under-represented (United States, Japan, Indonesia, West Germany, and Canada.) ADB and Department of the Treasury officials explained that, prior to a August 1979 general salary increase, ADB had been having difficulty attracting candidates from developed countries for bank staff positions. According to these officials, the August 1979 increase alleviates the problem of attracting candidates from developed countries, with the exception of the United States. In February 1980, when American employees represented about 9 percent of the ADB staff, U.S. subscribed capital was about 12 percent of the total. According to country representation guidelines, the United States should have had 44 individuals on the staff in February for full numerical representation but had only 33. Considering expected staff growth in the year, the bank should have 55 Americans by the end of 1980. The following table shows the distribution, average salary, and level of responsibility for Americans at ADB.

ADB Salary Ranges

<u>Salary Range</u>	<u>Level of responsibility</u>	<u>Average salary^a</u>	<u>Americans</u>
VII	Department Director or equivalent	\$50,000	1
VI	Deputy Director or equivalent	47,000	1
V	Assistant Director, Manager, or equivalent	44,000	3
IV	Senior Officer	39,000	8
III	Other Senior Officer	33,000	10
II	Other Officer	29,000	9
I	Other Officer	24,000	1
			Total 33

^aThe average salary was calculated by adding the range maximum and minimum salary, dividing by 2, and rounding to the nearest thousand.

Ranges II and III are considered entry-level positions, with relevant experience determining the range classification. The first supervisory level is Range IV, Senior Officer, who is head of a small unit and leads project missions to various countries. Range V is a management level, usually having responsibility for units of 10 to 20 professional staff members. Ranges VII and VI are Department Director and Deputy Director levels. All professional staff, except the ADB President and the two Vice-Presidents, are classified within the seven ranges.

According to ADB officials, ADB salaries are established at levels competitive with other international organizations so that ADB can compete for needed staff. According to ADB and Department of the Treasury officials, the most recent general salary increase, 19 percent in late 1979, has resulted in competitive ADB salaries. Another noteworthy feature of ADB general salary levels is that, according to ADB officials, the levels are based on the premise that ADB employees will not be required to pay income taxes.

The ADB career system

The bank has both career and fixed-term employees. Some ADB officials expressed concern about accepting staff on a fixed-term basis. One official felt it was important to continue offering fixed-term contracts limited to bringing in the highly skilled people needed for relatively short terms who would not otherwise accept bank positions. Another official believed limiting the number of fixed-term employees to no more than 20 percent of total staff would accommodate the bank's short-term needs for special skills, but would not require excessive time to train and develop personnel. The Japanese, for example, are nearly always on fixed-term contracts, generally for 3-year periods. Korean nationals also come on fixed-term contracts but usually on a 5-year basis. Most fixed-term contract employees are hired at Ranges II and III.

The bank plans to do an analysis to determine the proper mix of fixed-term/regular employees and assess overall current and future bank staffing needs. Consideration is also being given to developing a program to hire recent college graduates. The recently developed ADB personnel management policy recognizes the need for both fixed-term and career appointments.

ADB recruiting

The bank actively recruits employees from its member nations and also accepts unsolicited applications. Bank recruiting missions normally visit about 20 countries once

each year, and major labor markets, such as the United States twice a year. Several months prior to visiting a country, the bank advertises positions in major newspapers and professional journals. Applications are screened first by the bank personnel department and then by the various departments which have or expect to have positions to be filled. The departments indicate applicants they are interested in and recruiting mission personnel interview these individuals on their next scheduled recruiting visit. Interview results are sent to the appropriate departments which make the final hiring decisions.

One ADB official stated that ADB does not have well-defined position classifications, nor are ADB positions clearly comparable with positions in similar organizations--either in functions or responsibility levels. The bank has placed a high priority on correcting this situation and plans to retain a consulting firm to assist in establishing position classifications.

Recently, ADB provided the United States (at the U.S. Director's request) with a list of position vacancies and job descriptions for positions in Ranges II through IV. One ADB official said he believed this list would be helpful to member countries in identifying qualified applicants even though some refining was needed. ADB plans to provide this list regularly to all member countries. (See p. 20.)

AMERICAN EMPLOYMENT AT ADB

U.S. representation at ADB has been slowly declining over the past few years. Not only has the percentage of Americans (relative to total staff) been declining and the turnover rate of Americans been considerably higher than that of others at ADB, but the percent of high-level American employees has also been declining. High-turnover rates increase training and recruiting costs and result in a bank staff which is less experienced in ADB operations. ADB and Department of the Treasury officials anticipate a continuing decline in employment of Americans unless remedial action is taken.

Analysis of American employment levels shows that Americans are generally distributed throughout ADB professional grades. Five of the 33 Americans on the staff on February 29, 1980 were at the Assistant Director level (V) or above. Bank officials stated that they would like to have more Americans at the bank, particularly engineers, economists, and financial analysts. ADB has not been successful, however, in attracting and retaining Americans.

The following chart shows ADB and U.S. staff distribution changes from 1976 to 1980.

**ADB Professional Staff
by Salary Range**

<u>Range</u>	<u>As of January, 1976</u>		<u>As of January, 1980</u>		<u>Changes 1976-80</u>	
	<u>Total</u>	<u>U.S.</u>	<u>Total</u>	<u>U.S.</u>	<u>Total</u>	<u>U.S.</u>
VII	8	1	9	1	+ 1	0
VI	12	1	13	1	+ 1	0
V	21	2	33	3	+ 12	+1
IV	48	5	81	6	+ 33	+1
III, II, & I	<u>165</u>	<u>17</u>	<u>225</u>	<u>19</u>	<u>+ 60</u>	<u>+2</u>
Total	254	<u>26</u>	361	<u>30</u>	<u>+107</u>	<u>+4</u>
Percent to total		10%		8%	42%	15%

Although the bank professional staff has expanded by 107 positions since 1976, a 42-percent increase, the American contingent has expanded by only 4 positions, a 15-percent increase. The ADB management and supervisory level positions expanded by 47 positions, a 53-percent increase. The American contingent at these levels expanded by only 2 positions, a 22-percent increase.

According to an ADB official, ADB will expand its professional staff in 1980 by 87 positions--11 in the management levels. To be representative, in terms of U.S. subscriptions to the bank, as many as 55 Americans should be on the bank staff by the end of 1980. Bank officials are concerned that not only will they be unable to increase the American contingent, but they may even lose some of the present American staff.

ADB officials stated that during the last 2 years, the turnover rate of ADB staff has resulted in less experienced staff. Resignations have included a number of experienced American economists and agriculturalists. According to one high-level ADB official, even though the numbers were replaced, the American contribution to bank operations has diminished because the new staff lacks the experience and expertise of the resigning Americans. In recent years, the bank has also lost five Americans in the Office of the General Counsel. The turnover rate of Americans in 1979 has been about twice that of all other nationalities, as shown below.

**Staff Turnover Rates
Bank Staff**

<u>Year</u>	<u>Americans</u>	<u>Non-Americans</u>	<u>Total staff</u>
	(Percent)		
1976	19	10	11
1977	21	4	6
1978	17	11	12
1979	31	14	15

From 1977 to 1979 the American staff turnover rate was also about twice that of other nonregional developed countries.

HIRING AND RETAINING AMERICANS:
THE COMPENSATION-TAX PROBLEM

The major impediment to hiring and retaining Americans at ADB is that the effective salaries (after income taxes) of Americans are too low. According to ADB officials, ADB compensation (the general salary level) has been established based on the premise that ADB employees would not be required to pay income taxes. Americans, however, must pay U.S. income taxes on their ADB salaries. Thus, Americans realize effective salaries considerably below (several thousand dollars) their ADB counterparts who are generally not taxed. Bank officials--both Americans and other nationals--also believe this is the major impediment to hiring and retaining Americans.

Bank and Department of the Treasury officials also stated that prior to an August 1979, 19-percent general salary increase, ADB was having difficulty attracting developed-country candidates because the general salary level was not competitive with other organizations. In fact, ADB was losing people to other international organizations. For example, 8 of the 45 staff members resigning from ADB during the first 8 months of 1979 joined other international organizations.

Prior to August 1979, the low general salary level had exacerbated the problems resulting from the already relatively low American after-tax salaries. According to ADB and Department of the Treasury officials, the August 1979 increase alleviates ADB's overall compensation problem. This action, however, still leaves Americans at the bank with relatively lower incomes than their ADB counterparts and their counterparts in other organizations which compete with ADB staff. Thus, it is not surprising that American employment is decreasing.

Americans at ADB are the only nationals (other than Philippine nationals) who are not exempted from income taxes. Recent high inflation rates in Manila, Philippines and rather recent changes in U.S. income tax legislation in 1976 and 1978 (which reduced and restricted the tax exclusion on overseas income) have combined to place increasing financial pressure on American ADB employees.

The 1978 changes (the Foreign Earned Income Act of 1978) are the latest in a chain of adjustments to the Internal Revenue Code of 1954 which for many years provided an exclusion of up to \$20,000 from qualified gross taxable income for U.S. citizens living overseas. The 1976 changes reduced the amount excluded from \$20,000 to \$15,000. The 1978 act eliminated the exclusion except for individuals residing in qualified hardship areas and instead allowed U.S. citizens living overseas certain deductions from taxable income. Manila is not a hardship area under current regulations. Before these changes, American ADB employee income was generally taxed at lower rates. Several bills currently under consideration in the Congress, if passed, would again revise the U.S. tax code sections (911 and 913) affecting the taxation of Americans living and working outside the United States. GAO is currently in the initial stages of a review of the Foreign Earned Income Act of 1978.

The problem of hiring and retaining Americans at ADB, apparent from the slowly declining American employment picture, is also illustrated by staff comments, staff turnover rates, and ADB employment interview results. Many Americans on the ADB staff (7 of the 22 available for interview) mentioned that they were considering leaving ADB because of financial/tax problems. In addition to the relatively high turnover rate of Americans at the bank, ADB has been experiencing problems in hiring Americans. For example, about one-third of the 61 Americans interviewed for ADB positions in 1978 and 1979 withdrew their applications before the conclusion of their employment interviews because of salary and tax reasons.

TO DATE, DEPARTMENT OF THE TREASURY REMEDIAL
ATTEMPTS RELATIVELY INEFFECTIVE

As early as January 1977, the Department of the Treasury expressed concern about the ADB American compensation problem. More recently, Department of the Treasury Secretary Miller reiterated the U.S. concern by writing to the President of the bank and stating "We continue to assign a high priority to the employment of qualified U.S. staff in important international organizations such as the ADB." ADB officials also believe

it is important to have the United States equitably and effectively represented on the ADB staff. In response to these concerns the Department of the Treasury has attempted to remedy the compensation problem, nevertheless, no solution had, as of November 14, 1980, been achieved.

The Department of the Treasury has provided ADB with American candidates for six specific positions over the past 3 years. Department of the Treasury officials stated that this assistance resulted from their search for applicants in both the public and private sectors of the American employment market. Department of the Treasury officials also stated that they provide information on ADB (and application forms, if requested) to Americans who request information on ADB employment. A specific request by ADB for a central contact point in the United States for ADB information, and comments by American ADB staff that none had joined the ADB through the Department of the Treasury indicate that the Department of the Treasury's effort in this information area need improvement.

On February 25, 1980, ADB provided a list of 39 position vacancies with position specifications to the U.S. Director of ADB. This list was subsequently (Feb. 26, 1980) sent to the Department of the Treasury and then on to the Personnel Directors of AID, IDCA, and the Department of State on March 20, 1980. None of these organizations have provided lists of potential candidates to ADB in response to this request. Department of the Treasury officials explained that without some type of salary equalization such list distribution would probably continue to be fruitless.

The Department of the Treasury has not been entirely successful in having U.S. employees detailed to ADB. Two of their three attempts to detail individuals to the ADB staff, however, have been successful. In their one unsuccessful attempt the involved agency considered the employee too valuable to be detailed to ADB. This particular employee nevertheless decided to go to ADB on a separation/transfer basis. (Details and separation/transfers are explained later in this chapter.)

One indication of the Department of the Treasury's relatively ineffective efforts to help recruit Americans for the ADB staff, is that none of the ADB American staff interviewed (22 of the 33 on the staff) stated that they had joined the staff through Treasury Department referral. Most (12) applied from having professional contacts with the bank, and 7 others responded to ads in professional publications or newspapers.

On several occasions the Department of the Treasury, through the U.S. Director to ADB, requested that ADB pay American employee income taxes. Such a request is not without precedent in that American employees at the World Bank and IMF have their income taxes paid by their employing organizations. ADB refused the U.S. suggestion on the basis that the U.S. tax system created the American ADB compensation problem and thus, the United States should solve the problem. ADB was also concerned that other countries with nationals on the ADB staff might seek similar type payments from the bank.

The executive branch, at the suggestion of the Department of the Treasury, also submitted legislation in early 1980 to authorize funds to equalize ADB American employee salaries with those of their ADB counterparts. This measure is presently under consideration by the Congress.

The Department of the Treasury requested \$700,000 in their 1981 budget as an interim measure to assist Americans at ADB with taxes incurred on their ADB salaries during 1979 and 1980. According to the Department of the Treasury, this measure is intended to bring their after-tax income to a level comparable to that of other expatriate staff. The budget request stated that the request was intended as an interim measure to be used until the problem is resolved on a permanent basis.

In February 1980, an interagency group, sometimes called the Interagency Group on International Organization Staff Remuneration, was attempting to arrive at a permanent solution, a consistent government-wide treatment of international organization remuneration. This group, chaired by an Assistant Secretary of State and including a Treasury Department representative, was not able to arrive at a consensus. A Department of State official stated that no additional activity was currently planned for this group. Treasury Department officials later explained that although the group has been relatively inactive since February, they hoped to reactivate the group in the fall of 1980. Several tax revision proposals presently before the Congress may also provide relief to the ADB employment problem by removing or reducing the taxation of the incomes of American ADB employees as well as that of other Americans living and working outside the United States.

ASSISTING ADB

ADB would like the United States to solve the compensation-tax problems of its American employees. In September 1979, the ADB President generally agreed with the Department of the

Treasury approach to equalize the ADB American employee salaries as an interim measure before a final remedy is worked out to the taxation issue.

In addition to the compensation-tax issue, ADB officials stated that other U.S. assistance would also be helpful. ADB officials suggested that the United States

- provide a central point for bank information in the United States to serve as initial contact point,
- identify organizations from which the bank can seek people with needed skills, and
- provide a list of highly specialized professional journals in which ADB can advertise positions requiring special skills.

ADB officials believe that these three aids would refine and expand the bank's market base for potential applicants. Having a repository for bank brochures and application forms would speed the process of communication with prospective applicants. At present, applicants generally communicate directly with the bank when responding to advertised positions, or when inquiring about bank employment in general. Because of the distances involved, this method of communication is very time consuming.

Other governments have assisted the bank in various ways in recruiting their nationals. Korea, for example, provides the bank a list of qualified candidates to interview during recruiting missions. The Indian Government receives and pre-screens both public- and private-sector applications by their nationals. Bank officials prefer the Canadian and German approach of providing a central office which identifies a wide range of potential applicants who then deal directly with the bank.

SEVERAL OPTIONS AVAILABLE:
SALARY EQUALIZATION PREFERABLE

Several options are available which can potentially alleviate the American employment problem at ADB. Detailing and the separation/transfer of Federal employees to ADB can alleviate the shortage of American employees at that institution. The United States has also suggested that ADB pay American employee taxes but previous ADB rejections suggest that this option has little potential. Another possible remedy, salary equalization, paid for through U.S. government

appropriations has been recommended by the Department of the Treasury and is currently being considered by the Congress. An explanation of these alternatives and their implications follow.

Detail of Federal employees to IFIs

Authorization to detail Federal employees to IFIs is codified in Title 5 of the U.S. Code, Section 3343. This statute provides that heads of agencies may detail employees for 5 years with an additional 3-year extension under certain circumstances. A detailed employee is deemed to be an employee of the agency from which detailed, and is entitled to pay, allowance, and benefits from funds available to that agency. Details may be made with or without reimbursement to the United States by the international organization.

The law enables the United States to provide qualified U.S. applicants for vacancies at international financial institutions. Detailed employees are entitled to the housing allowances and pay rates of their government positions. This alleviates financial disadvantages which may exist, such as the high cost of living in a foreign city or the lower salaries of some international organizations. The absence of financial disincentives and the right to return to Federal service makes details to IFIs desirable to many Federal employees. The United States is able, therefore, through details, to fulfill its responsibility of providing qualified U.S. applicants for vacancies at IFIs.

There are drawbacks in using details to fulfill the U.S. "people" commitments to IFIs. One is the cost of details when the IFI does not reimburse, or only partially reimburses, the costs of the employees' salaries and allowances. For example, in Manila, Philippines, allowances for housing, education, home leave, and post differential may range from \$11,000 to \$23,000 or more for each Federal employee annually, depending on the employee's salary and number of dependents. The United States would be required to pay this amount in addition to the normal salary if the United States is not reimbursed for the detailed employee. The cost drawback is alleviated if the United States is reimbursed. Presently, the United States is reimbursed the normal ADB pay and allowances of Americans detailed to ADB, thus substantially reducing this cost drawback.

Regardless of the reimbursement status, employees detailed to IFIs from U.S. agencies also remain on the rolls of those agencies. They are counted against staff-level ceilings which, according to Treasury Department officials,

are generally established without taking into account potential details of staff to other organizations. Therefore, details not only cost the agencies funds appropriated to carry out normal operations, but also remove staff intended to perform those operations.

Treasury Department officials stated that from the point of view of the IFIs, detailing does not provide them with professional staff oriented towards careers in the institutions. The salaries and expenses of detailed employees are often paid by the U.S. Government and the duration of a detail is generally limited to 5 years. Details may provide experienced and talented professional staff, but they cannot be depended upon to fill the need of these institutions for career-oriented professional staffs.

Separation/transfer

Authorization for the separation and subsequent transfer of Federal employees to IFIs is also codified in Title 5, U.S. Code, Sections 3581-84. These provisions and implementing regulations provide that government employees may transfer to international organizations and retain re-employment rights for 5 years (with a potential for a 3-year extension) with the agency from which the employee transferred. The provisions also provide that the President may prescribe regulations necessary to carry out this statute.

Prescribed regulations, contained in the Code of Federal Regulations, Title 5, Section 352.301 and following, provide in general that agencies may authorize transfers of employees to international organizations on written request by the organizations for the services of the employee. Upon transfer, the employees are entitled to retain retirement, health benefits, and group life insurance provided the employees continue the required payments.

The transferred employees are also entitled to be paid an amount equal to the difference between the pay, allowances, post differential, and other monetary benefits allowable to an employee detailed under section 3343, title 5 and the amount of pay and allowances received from the international organization. The compensation is payable to employees upon re-employment with the agencies from which transferred. Transferred employees are entitled to be re-employed in their former positions, or ones of like seniority, status, and pay, within 30 days of their re-employment applications.

The benefits of transferring Federal employees to positions at IFIs are similar to those which occur in detailing Federal employees to IFIs. That is, the United States can fulfill its "people" commitment to IFIs when financial or other disincentives of employment at the institutions otherwise hinder fulfilling this commitment. Employee transfers, however, are potentially less costly to the United States than details because transferred employees normally receive the full pay and benefits of their new positions from their employers. The United States is required to pay only the difference between that amount and the amount that would have been paid if the employees were detailed. Employees transferred to international financial institutions are not counted against agency staff-level ceilings during the periods of their transfers. Upon a proper request to return to the agency, a position must be made available for them. At that time, any compensation due under the law is computed and paid to them from agency funds.

This procedure is advantageous to the agencies because the transferred employees do not count on agency rolls. The procedure is not financially advantageous to transferred employees because the employees must bear the cost of allowable expenses until returning to their agencies. Further, the total lump-sum differential payments are taxed as ordinary income while the taxable allowances paid to detailed employees are spread over time and taxed accordingly.

Treasury Department officials stated that the disadvantages from the IFIs point of view are the same as for detailed employees because transferred employees do not provide them with needed career-oriented professional staff. That the transferred employee must return to Federal service to receive the differential compensation provides a strong incentive for employees to return to Federal service when their period of separation/transfer ends, generally after 5 years.

Salary equalization

The salary equalization program proposed in the fiscal year 1981 U.S. budget request will, according to Treasury Department officials, compensate U.S. employees of ADB for the difference between their net (after-tax) pay and the untaxed pay of other ADB employees. Philippine nationals are the only other nationals at ADB, besides Americans, subject to income taxation on ADB income.

Salary equalization is intended to bring parity to the incomes of U.S. employees of ADB and ADB employees from other countries. The salary equalization would similarly bring

after-tax incomes of U.S. employees of ADB more in line with those of comparable U.S. employees of other international organizations. The tax benefits to Americans will be significant. Based on figures provided by ADB, representative Americans can receive between \$4,000 to \$11,000 or more per year depending upon their salary and tax status.

Compared to detailing or separation/transfer, salary equalization opens up a wider market of career-oriented professionals. Details and separation/transfers are generally limited to 5 years and options are available only to Federal Government employees. Salary equalization would increase the attractiveness of ADB employment throughout the U.S. employment market, including Federal Government employees, and the time limitation would not apply.

The estimated costs of salary equalization are also generally lower than detailing and separation/transfer. For example, based on information provided by ADB, estimated costs to the United States of salary equalization are about \$5,000 lower than the costs of a detailed or separated/transferred employee. These estimated costs, based on a representative ADB American employee, assume that ADB incurs the costs of salaries of detailed and separated/transferred employees.

One disadvantage of the salary equalization option is that it may be considered by other IFI officials to establish a precedent indicating that the United States is willing to pay American employee taxes for employees at other IFIs. Treasury Department officials explained that although they are concerned about this disadvantage, the location of ADB, the relatively small number of American employees at ADB, and the particular circumstance at ADB would probably mitigate this disadvantage. They believe other institutions are aware that a small appropriation by the United States to alleviate a specific problem at ADB does not mean that the United States can be influenced into appropriating the millions of dollars that would be required to pay American's taxes at other IFIs.

Two advantages of providing salary equalization through yearly appropriations are that this will provide the opportunity for regular scrutiny of the impact of this approach and relieve pressure contributing to the ADB American employment decline, while the overall issues of American employment at IFI and the taxation issue receives further analysis. As previously mentioned, the Congress is currently considering further changes in the U.S. Tax Code with respect to Americans living overseas we are currently in the initial stages of a review of the Foreign Earned Income Act of 1978.

CONCLUSIONS AND RECOMMENDATIONS

The employment of Americans at ADB is not commensurate with U.S. contributions. This situation is likely to continue and worsen unless the United States takes ameliorating action. The United States has responsibility for, and interest in, American employment at ADB. The relatively low effective compensation of American ADB employees has been one of the main factors causing the American employment problem at ADB. This low compensation occurs because Americans, unlike their counterparts, are required to pay income taxes on their ADB incomes.

Several options are available to the United States to attempt to halt the American employment decline at ADB. We believe the option to equalize American ADB employee incomes with those of their non-American counterparts (salary equalization) is the option which is least costly and yet most likely to be effective.

Because of U.S. interest in ADB and the particular employment compensation problems of Americans at ADB, we recommend that the Congress support the concept of salary equalization as an interim measure to help alleviate the employment problem. Such support may be accommodated through congressional appropriation. Funds for this purpose are included in the Administration's fiscal year 1981 budget request.

We believe that the long-term solution to this problem should be addressed in the more general context of American employment at international organizations. In this regard, the Interagency Group on International Organization Staff Remuneration tentatively planned to meet and address this issue in the fall of 1980. Any long-term solution to the ADB problem should be decided in this larger context. If the Congress decides to support salary equalization, we further recommend that the Secretary of the Treasury monitor the impact on American employment at ADB to ensure that there are qualified American applicants for position vacancies throughout ADB organizational units. This monitoring should not only include analysis of employment data but also include active searches for qualified American applicants for important position vacancies at ADB. We believe that salary equalization, if approved and effective, should be continued. In this regard we believe the Congress should require the Department of the Treasury to advise the Congress at the time of each annual request for appropriations on the progress made by the Interagency Group on International Organization Staff Remuneration.

We also believe that certain requests made by ADB for American assistance in recruiting Americans for ADB, can help improve American employment at ADB and should be accommodated. We therefore recommend that the Secretary of Treasury--the primary responsible agency official with respect to ADB--provide the following services to ADB:

- act as a central contact point in the United States for Americans interested in ADB employment and, in that respect, serve as a repository for bank information;
- identify and advise ADB of U.S. organizations, including educational institutions, where ADB should seek people with requisite skills; and
- identify and advise ADB of available U.S. professional journals within which ADB position vacancy advertising would be appropriate.

AGENCY COMMENTS

The Department of the Treasury fully endorsed the major conclusions and recommendations of this report. (See app. I.)

CHAPTER 4

AMERICAN EMPLOYMENT AT THE AFRICAN

DEVELOPMENT BANK: A POTENTIAL PROBLEM

Although the United States is not now a member of the African Development Bank (AFDB), the United States is a member of the African Development Fund (AFDF) and is currently considering joining the bank. In light of American interest in African development and potential U.S. membership in the bank, the United States should be considering actions to alleviate potential American employment problems at the bank.

BACKGROUND

In 1963, 33 African countries formed AFDB as a new mechanism for regional cooperation through the provision of loans for development projects. Reflecting a sensitivity to their then-recently terminated colonial relationships with European countries, the African countries decided to restrict membership in AFDB to independent African States.

AFDB membership and resources have increased significantly since established. The bank has 48 members with total subscriptions of about \$1.5 billion. AFDB also administers several special funds such as the Nigerian Trust Fund (estimated at \$84 million), the Arab Oil Fund (estimated at \$13 million), and the Special Relief Fund (estimated at \$1 million). In addition, in 1972, AFDB and 16 nonregional states established AFDF. AFDF (estimated at \$752 million as of December 31, 1979) provides financing on concessional terms to AFDB member states. Although affiliated with AFDB, AFDF is not liable for any obligations of AFDB. Both institutions are located in Abidjan, Ivory Coast.

AFDB and AFDF finance specific projects which contribute to the economic development of the regional member states, particularly those included within regional or national development programs. A special preference is accorded to projects which benefit two or more member states and thus stimulate intra-African cooperation. Such projects include transportation, telecommunication, irrigation and flood control, joint production and/or distribution of electric power and other forms of energy, industrial, agricultural, and educational and vocational training projects. A high priority is also accorded to loans for those development projects which demonstrate clear efforts toward self-help, mobilize local resources, or assist member states in attracting additional capital from non-African sources.

UNITED STATES CURRENTLY
CONSIDERING JOINING AFDB

In May 1979, the AFDB Board of Governors, in an attempt to broaden the financial base of the institution, invited (subject to member country ratification) nonregional countries to join AFDB. Currently, all AFDB members are African countries. Nonregional membership is expected to broaden the AFDB financial base and increase AFDB access to private capital markets, thereby allowing AFDB to more fully meet Africa's development needs.

The United States is a member of AFDF, providing about 7 percent of Fund resources. In March 1980, the National Advisory Council on International Monetary and Financial Policies recommended (to the President and the Congress) that the United States join AFDB. Their reasoning for participation was basically stated as follows.

"The United States has direct economic, humanitarian and political interests in assuring a strong and viable Africa where poverty is reduced, the pace of economic growth improved and serious financial problems avoided. While a wide range of U.S. political and economic policies already contribute toward these objectives, our membership in the African Development Bank, an institution created by Africans to further their development goals, would demonstrate our willingness to work with them to promote the social and economic growth and development of their continent. United States participation as the single largest non-African member in the most prominent pan-African development institution would help strengthen our ties with African nations and meet our growing humanitarian, economic and political interests in Africa."

The Congress is currently considering the issue of AFDB membership. In June 1980, the Senate authorized membership and U.S. financial support of AFDB. However, as of November 14, 1980, the House had not completed actions on authorizing legislation.

AFDB STAFFING

As of December 31, 1979, AFDB had a professional staff of 192 individuals which included nationals from 36 member countries and five individuals from three nonmember countries. By virtue of the agreement establishing AFDF, the Fund also draws on the officers, organization, and facilities of AFDB to carry

out its business. According to a Treasury Department official, all AFDB employees are employed on a 2-year renewable contract basis, none have long-term career appointments. In addition to the 192 professional staff members, there were 24 additional technical assistance experts in the service of the bank employed under both bilateral and multilateral assistance programs.

AMERICAN EMPLOYMENT AT AFDB

With the minor exception of four Agency for International Development-funded technical consultants, no Americans currently work on the AFDB staff. Treasury Department officials stated that, considering the high cost of living in Abidjan, Ivory Coast, and the relatively low AFDB compensation of employees, the employment situation for Americans is unlikely to improve. American employment opportunities will also depend on any AFDB employment policies that will probably follow the ratification of nonregional membership in AFDB. As of June 1980, over half of the 48 AFDB member countries had ratified the nonregional membership amendments to the AFDB agreement. Ratification by 75 percent of the member countries is required for the charter amendments to become effective. Although anticipating problems with respect to the employment of Americans at AFDB, Treasury Department officials are not currently planning for this contingency, according to officials there.

CONCLUSIONS

The United States has direct interest in the development of Africa. AFDB and AFDF contribute to African development. The AFDB staff is a key element of the success of AFDB and AFDF.

The high cost-of-living and the relatively low compensation of AFDB employees will probably result in significant employment problems for Americans at AFDB. If the United States becomes a member of AFDB, the timely development of a plan by the Secretary of the Treasury to remedy these problems will be beneficial to U.S. participation in AFDB.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 30, 1980

Dear Mr. Fasick:

I am replying to your letter of October 20, 1980, requesting that the Treasury Department review and comment on GAO's proposed report to Congress on the employment of Americans at the international financial institutions.

First, let me say that we believe your report is a well-written and very useful summary of the present status of American employment in the international financial institutions. We fully endorse the major conclusions reached in your report which are:

- a) that the record of American employment at the IMF, IBRD, and IDB is positive;
- b) that the Bank in which positive steps are required to improve an American presence on the staff is the Asian Development Bank; and
- c) that the best method available for correcting this situation is the enactment of a salary equalization program at the ADB.

Thank you for the opportunity to review this draft.

Sincerely,


C. Fred Bergsten

Mr. J. K. Fasick
Director
International Division
U.S. General Accounting Office
Washington, D.C. 20548

Enclosure

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