Cato Institute Foreign Policy Briefing No. 3: Banking on Poverty: An Insider's Look at the World Bank

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Michael H. K. Irwin joined the World Bank in April 1989 as director of the Health Services Department, following a 32-year career with the United Nations. During August and September 1989 he also served as the World Bank's acting vice president for personnel. On March 30, 1990, after completion of one year at the bank, he resigned out of frustration with "the bank's bloated, overpaid bureaucracy, its wasteful practices, and its generally poor management."

Executive Summary

In 1987, facing complaints from its major donor nations that it was "inefficient and drifting," the World Bank undertook an extensive, corporate-style reorganization. The bank publicized the reorganization heavily, in an attempt to convince donor nations that it could trim bureaucratic fat and thereby merit a $75 billion increase in its capital to finance an enlarged annual lending program. The funding boost was received in 1988 (the U.S. share is $14.3 billion), and the bank has expanded its lending activities in Latin America, Africa, Asia, and, more recently, Eastern Europe. In 1990, however, three years after the reorganization, the administrative budget continues to grow. The staff will soon top prereorganization levels. Extravagant benefit packages characterize the institution more than ever. As discussions at meetings of senior World Bank officials regularly disclose, the institution is plagued by massive overstaffing, bureaucratic gridlock, and staff preoccupation with further salary and benefit hikes. Public proclamations to the contrary, poverty reduction is the last thing on most World Bank bureaucrats' minds.

$150 Million Reorganization a Wash

In 1987 the World Bank's regular staff numbered about 6,150, and its administrative budget was $816 million. (New loans approved that year totaled $17.7 billion.) As a result of the reorganization, 498 staff left--80 elected voluntary separation and received golden handshakes averaging $134,000, and another 418 who were let go when no appropriate positions were found for them received average packages of $291,000. The total cost of the reorganization--for separation payments, retraining, and office moves--came to $148.3 million. World Bank president Barber Conable estimated that "the bank's operating costs will be cut about $50 million a year due to greater operating efficiency."[1]

Today the regular staff of the World Bank number about 6,100, and the present administrative budget is $900 million. In addition to the regular staff, there are approximately 500 long-term consultants (average length of service is 1.3 years), another 500 temporary staff (some of whom have been in the same job for three years or more), and 375 contractual staff. At least 50 of those who left during the 1987 reorganization have returned on short-term consultancies.

In short, although the reorganization removed a few hierarchical layers, it did not measurably reduce staff numbers and it did not save any money. On May 4, 1989, William Cosgrove, then the vice president for personnel, admitted to his senior staff that the bank "could do twice as much with its present staff or only needs half the staff for the present workload."[2] Indeed, while some areas are adequately staffed, and even a few are understaffed, most departments have a surplus of personnel looking for work to do. Yet, as Cosgrove admitted, it is still "difficult to remove deadwood. "

Bureaucratic Gridlock

The World Bank today remains highly bureaucratic. For example, some staff never meet their director; several offices still have vague or overlapping functions; there are uncertain staffing predictions and gridlock in the senior grades; and budgeting procedures are complex. The organization, as Francisco Aguirre-Sacasa, then the director of external affairs, noted at a meeting on August 23, 1989, "is choking on reports." The bank suffers from many poor managers who, as noted by personnel consultant Michael Macoby at a senior personnel managers' meeting on January 27, 1989, act as "dukes, running their departments or offices like fiefdoms."

There is a serious staff morale problem at the bank. A Staff Association survey in 1988 revealed that "there is little trust between staff and senior management." Sixty- five percent of the staff described morale among their immediate coworkers as "low." At a senior managers' meeting on December 21, 1989, Willi Wapenhans, then the senior vice president for external affairs and administration, remarked that there is "a declining level of job satisfaction and a preoccupation with salaries and promotions."

The bank's problem of generally poor management is compounded by the excessively legalistic manner in which much of the work is done and by complicated staff rules that, as former bank staffer James Jones noted at a personnel meeting on July 7, 1989, "have layers of exceptions and modifications."

The executive directors, who represent member governments at the bank and are charged with making policy, are, in fact, little involved in the management of the organization. Indeed, the Executive Board is regarded contemptuously by many senior staff. At a budget seminar on May 22, 1989, Robert Picciotto, vice president for corporate planning and budgeting, stated that often the "mushroom approach" is taken with the board: "Keep it in the dark, and feed it garbage." And Aguirre-Sacasa, at a senior managers' meeting on September 13, 1989, noted that "many would be concerned" if the board received certain documents several weeks before they were to be discussed because there "might be too many comments" from its member governments.

Inflated Salaries

The World Bank pays high, tax-free salaries. World Bank president Barber Conable earns $154,000 a year; the 15 vice presidents earn, on average, $123,000; and the 58 directors earn, on average, $105,000. The World Bank's top 74 officials thus enjoy salaries averaging $120,000. Just below the top levels are hundreds of "technical advisers," who earn between $80,000 and $105,000. Again, all salaries are tax-free.

In recent years World Bank salaries have been rising faster than the U.S. inflation rate. In 1988 professional staff received an average 6 percent increase, compared with a 4.2 percent U.S. inflation rate. In 1989 they received an average 11.1 percent increase (ranging from 7.7 percent for 174 staff at the low end to 17.5 percent for 31 staff at the high end), compared with a 5.2 percent U.S. inflation rate. In 1990, according to a January 8, 1990, report from the Department for Corporate Planning and Budget to the President's Council, there was projected "a salary budget increment of 6 percent . . . compared to a general U.S. inflation rate projected at about 4.5 percent."

Bank salaries are annually reviewed and set by the Executive Board. One reason for salaries that surpass the general inflation rate is that, in the salary reviews prepared for the board by the bank's Personnel Department, great weight is given to comparators in the private sector. In 1989, for example, data on 95 private U.S. companies were used whereas data on only 8 public-sector agencies were included. Moreover, the bank's Staff Association has been actively campaigning to get the U.S. Civil Service removed as a comparator for the bank's salary system.

Another reason for the growth of bank salaries is that the salaries and benefits of the bank's 22-member Executive Board regularly reflect increases in bank staff salaries. (The U.S. executive director is the only exception. He is paid by the U.S. Treasury Department, which he represents at the World Bank.) There is thus little incentive for the board to control salary growth. That seriously contravenes the executive directors' role as the representatives of the bank's member governments who compose the bank's policymaking body.

In addition to salaries, the number of the bank's regular (core) staff also continues to grow. It is projected at 6,211 for 1991, up from about 6,150 before the reorganiza- tion. With the 1990 salary increase and continued staff growth, the bank's administrative budget is expected to reach $1 billion in 1991. That growth in overhead comes despite the fact that the same January 8, 1990, report to the President's Council mentioned above notes that, in some areas of development, the "Bank Group response tends to be constrained less by inadequate numbers of staff than by difficulties in coordination . . . and by the training, orientation and attitudes of bank staff."

Perquisites Galore

In addition to salaries, bank staff enjoy many further benefits, such as a salary supplement of up to $3,000 a year to make up for a spouse's "inadequate" income. A bank professional need only submit a simple form stating that his or her spouse received less than $10,000 from employment in a given year in order to receive such a salary supplement. Certification through presentation of tax forms is almost never requested. My own rough estimate is that one-half of the bank's professionals avail themselves of that benefit.

Bank professionals also receive $420 annually for each dependent child, subsidized meals at work, a good medical and dental insurance plan (staff pay only one-third of the premiums), and excellent life insurance coverage. Internationally recruited staff can receive up to $5,480 in education grants for each child from the age of 5 to 24. Expatriate staff are also entitled to home-leave travel for themselves and their families, flying first class if they go every three years and business class if they return to their home countries every two years. In addition, a staff member receives a grant (pocket money) of $1,070--and a spouse and dependent children each get $534--for every home-leave trip.

Until 1985 staff joining the bank from abroad who had acquired "green cards" (that is, had become permanent U.S. residents but were still using their national passports) received expatriate benefits. Such benefits are no longer officially available for new staff; however, about 900 Washington-based staff who had green cards before 1985, and had joined the bank before that year, continue to take home leave to their countries of birth and receive education grants for their children.

Washington-based professional staff who are reassigned to overseas posts in developing countries, albeit only about 240 at present, do very well in terms of benefits. In addition to their Washington-based salaries and benefits, they get free furnished air-conditioned housing, with all utilities paid, and free security guard service when local conditions warrant. A regular assignment allowance of $5,000 annually is provided and, in most locations, a "special overseas allowance" is also paid (that allowance can vary from a 10 percent bonus of one's salary in Ankara or Brasilia to a 25 percent bonus in Addis Ababa or Brazzaville). Then, in places where the cost of living is higher than in Washington, a post adjustment allowance is additional. Also, there are handsome installation and "settling-in" grants and a further "grant on return" when staff come back to Washington, as well as allowances for shipping personal effects. Because of all those benefits, many staff can save most of their Washington-based salaries when they are reassigned overseas and living like "Lords of Poverty"--to borrow from the apropos title of British writer Graham Hancock's 1989 book about the global foreign aid elite.[3]

World Bank staff away from Washington also work in comfortable surroundings. A December 1989 report in a Pakistani newspaper, describing the new bank building in Islamabad, mentioned that "those who visit the office will think they are in the lobby of a luxury hotel rather than a fuddy-duddy bank."[4]

All bank staff members based in Washington can eventually benefit from a generous pension plan. If I had completed my two-year assignment, beginning at age 62 (the present retirement age) I could have received a pension, starting at $5,872 annually, for the rest of my life. (That is a typical pension, adjusted for years of service, for the lowest level of director at the World Bank.) Staff members contribute 7 percent of their salaries, and the bank provides an amount equal to twice the total contributions of all participants as well as any additional amounts that may be required to cover the costs of the plan. The present assets of the bank's plan total about $2.7 billion. Retired staff are guaranteed a lifetime pension, with cost-of-living increases, and financial security for their survivors. In 1990 generous revisions of the retirement plan are being considered. Those revisions, if approved, could cost the bank a further $9 million annually.

Because of the excellent salaries and benefits, it is no wonder, as Macoby, who himself once received $3,000 a day from the bank, said at a senior personnel managers' meeting on January 27, 1989: "Nobody leaves--many staff are too comfortable." (About 5 percent of the staff do leave every year, but approximately half that number are at the normal retirement age.)

Since salaries (about 5 percent higher) and benefits (including an even better pension plan) are greater at the International Monetary Fund, it is easy to understand why the bank's management and Staff Association frequently refer to the need for "parallelism" between the two organizations so that the World Bank's emoluments can rise to the IMF's levels.

Flying First Class

Given that about 90 percent of the World Bank's total staff live in the Washington area, one major expense of operating the bank is travel to the developing world. In the present budget, $85 million is provided for such travel. When the most distant destination of a trip is more than nine flying hours from Washington, staff fly first class; otherwise, they fly business class, never economy. If all of the bank's overseas travel was business class, at least $12.5 million would be saved.

In February 1990, on a trip to East Africa, I gave up my first-class entitlement and, by flying business class, saved $1,900. That resulted in considerable internal criticism--from the Staff Association,[5] Senior Vice President Ernest Stern,[6] and many individuals. One wrote to my vice president that first-class travel is necessary to protect the "health of frequent flyers." He concluded: "My family and I will not feel safe again until Mr. Irwin has been replaced by someone who really cares."[7] Another, a physician, maintained that there might be "a modest increase in the numbers of post mission travel induced strokes among our more elderly frequent travelers."[8] And the editor of the Bank's World, the staff journal, who printed a letter from me saying that I believed there were no important advantages to flying first class,[9] told me that, in his nine years as editor, he did "not recall ever running a story prompting so many angry responses."[10]

Of course, flying first class allows staff to very quickly accumulate "frequent flyer mileage," which the bank allows them to use for personal travel. In addition, the first-class entitlement made it possible for the bank to reach an agreement with British Airways last March that provides staff with "a free upgrade to Concorde for first class travel to/from Washington, subject to availability within 96 hours of departure."

When traveling officially, staff can stay in first- class hotels (such as the Grosvenor House in London and the Nairobi Safari Club) with all expenses paid. Staff are reimbursed for food or hotel expenditures without presenting receipts, and many such claims go undocumented. The Staff Association has successfully resisted attempts to institute a simple money-saving per diem arrangement, such as that followed by the State Department for U.S. government employees. On official trips staff use U.N. "laissez-passers," which give them a preferred status when passing through immigration and customs inspections.

"Borrowers May Now Be More Skilled Than Bank Staff"

The World Bank also wastes considerable funds on training programs and "retreats." In a September 12, 1989, report to President Conable, it was noted that, between July 1988 and June 1989, 5,763 participants were involved in 188 retreats at a total cost of $5.8 million. Although the bank has several good training and conference rooms, 90 percent of the retreats were held outside the bank. One-third were held in Washington hotels, including such expensive establishments as the Waterqate and the Willard.

Training, especially for maintaining professional skills, is very important in any organization, and there is $6.9 million for training in the fiscal year 1990 bank budget. However, there is little overall coordination of training activities. As President Conable wrote in a June 16, 1989, memorandum: "The training budget, training objectives and training results are increasingly controversial." At a discussion on training in the President's Council on June 30, 1989, Wapenhans noted that "there had been a deterioration in the skills of Bank staff" and that "the bulk of training resources went to basic skills areas: technology, language, writing and communications and orientation." Timothy Thahane, vice president and secretary to the Executive Board, said that "increasingly the skills of the Executive

Directors' advisers were superior to some of the Bank staff they have to deal with." The question was raised whether staff should not be more responsible and take courses on their own time, but the minutes recorded that "Bank staff have become used to having training courses provided during working hours." Afterwards, in a July 7, 1989, report to his senior staff, then-vice president Cosgrove reported that "borrowers may now be more skilled than Bank staff."

Burn Bags and Shredders A January 1987 World Bank directive states: "It is the Bank's policy to be open about its activities, and to welcome, and to seek out, opportunities to explain its work to the widest audience possible." Yet discussions within the organization and in the Executive Board are often conducted with the greatest secrecy. Notes attached to the transcripts of the proceedings of the board's meetings state that they "should not be copied without the permission of the Vice President and Secretary" (Thahane) and that his office must be notified "if the transcript is to be passed on to another staff member."

Circulation of countless other records, reports, and documents is also restricted. Most documents are classified "strictly confidential" (defined as "information of a highly sensitive nature," for example, many papers on fine-tuning the reorganization); "confidential" (defined as "information to be confined to recipients who have a need to know," for example, the annual budget); and "for official use only" (defined as "information available to all staff of the institution but to which external access is limited," for example, a staff appraisal report on a project).

According to a March 1989 instruction, staff "should use 'burn bags' to dispose of all classified records, including drafts, one-time-use carbon paper, notes, etc. Burn bags containing classified records should be stored in locked file cabinets until they have been collected" by the security division. And "certain classified records of Controller's and Personnel . . . require shredding before disposal." As an example of shredder mania, the World Bank's Health Services Department maintains three shredders for a staff of 30.

The bank also requires "regular and frequent password changes to assist in managing access to computerized information." Passwords "should be memorized and not written down where unauthorized persons could easily retrieve them," according to bank guidelines. Passwords have to be changed at least once every six months, and sometimes even monthly. For access to the personal computer in my office, I worked my way through my three daughters' names in a single year.

Early last year, World Bank officials tried to prevent the publication of a June 1989 Reader's Digest article entitled, "The Alarming Truth about the World Bank." Reader's Digest editor-in-chief Kenneth Gilmore confirms that William Stanton, counselor to World Bank president Barber Conable, telephoned him with a request that the magazine not publish the article. Later, at a May 17 World Bank senior managers' meeting within the administration complex, Aguirre-Sacasa noted that the bank had been unable to "suppress" the article's publication but had achieved a few prepublication "corrections."

Conclusion

The bank staff, living and working comfortably in the Washington area and venturing forth in luxury, with first- class flights and hotels, are out of touch with both the realities and the causes of poverty in the Third World. World Bank staff, who deal almost exclusively with ministers and senior civil servants on their "missions," are simply bureaucrats talking confidentially with autocrats, getting only information that the borrower governments want the bank to have. In fact, the well-paid World Bank staff strikingly parallel the Third World's own senior bureaucrats whose padded salaries have contributed to the economic ruin of most of their nations.

The World Bank is hypocritical in prescribing financial discipline and savings for developing countries while it lavishes handsome salaries and other benefits on its own bureaucrats. Moreover, the bank's continued internal malaise and financial extravagance three years after reorganization, along with the lack of any "graduates" from its lending program, raise serious questions about whether the United States or any other Western nation should give the institution another dime.

Notes

[1] Hobart Rowen, "World Bank Retrenchment May Cut Up to 600 Jobs," Washington Post, May 5, 1987, p. C1.

[2] The author was present at this meeting and the quote is taken from his meeting notes. Other quotes in this paper attributed to World Bank officials at meetings, with dates given, are taken from the author's notes.

[3] Graham Hancock, Lords of Poverty: The Power. Prestige and Corruption of the International Aid Business (New York: Atlantic Monthly Press, 1989).

[4] Ishrat Hyatt, "World Bank Building Inaugurated," The Muslim, December 1, 1989.

[5] World Bank office memorandum to Michael Irwin from Paul Cadario of the Staff Association, February 16, 1990.

[6] Note from Ernest Stern to Bilsel Alisbah, vice president of Michael Irwin's department, February 16, 1990.

[7] World Bank office memorandum to Bilsel Alisbah from Gottfried Ablasser, February 9, 1990.

[8] World Bank office memorandum to Michael Irwin from Grant Sinclair, February 9, 1990.

[9] Bank's World, letters to the editor, February 1990, P. 19.

[10] World Bank office memorandum to Michael Irwin from Thierry Sagnier, editor of Bank's World, March 14, 1990.