

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HUMAN CAPITAL STRATEGY

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ABBREVIATIONS

BOD	Board of Executive Directors
CMF	Career Management Framework
HC	Human Capital
HCP	Human Capital Planning
HCS	Human Capital Strategy
HR	Human Resources
HRD	Human Resources Department
IDB	Inter-American Development Bank
IDB-9	Ninth General Increase in the Resources of the Inter-American Development Bank
IMM	Income Management Model
LAC	Latin America and the Caribbean
LRP	Local Retirement Plan
K&L	Knowledge and Learning
K&LS	Knowledge and Learning Strategy
KNL	Knowledge and Learning Sector Department
RBB	Results-Based Budget
SRP	Staff Retirement Plan

I. INTRODUCTION

- 1.1 **The key asset of the IDB is its employees who work with commitment and passion to further the development of Latin America and the Caribbean.** The ability to hire this skilled diverse talent and to effectively manage it provides the IDB with the foundation to achieve its vision and partnership with the Region.
- 1.2 The objective of the Human Capital Strategy (“HCS”) is to provide the Bank with a framework to ensure it has the **right person, in the right place, at the right time, and with the right incentives that lead to high-performance.** At the same time, the HCS addresses the Bank’s need to:
 - **attract, develop, and motivate** the **best possible talent** available; and
 - provide **flexibility** to respond to the evolving needs of the Region in a **financially sustainable** manner.
- 1.3 This HCS is structured as a comprehensive charter that aims, at both an analytical and practical level, to provide the Bank with: **(i) an understanding of the links between the Bank’s HC and its new business model, which is based on the priorities and mandates established by the Board of Governors in IDB-9; (ii) a review of current challenges and issues that require particular redress to ensure an optimal environment for HC; and (iii) high-impact initiatives that will be developed to articulate and establish the necessary agents of change within the Bank.**
- 1.4 The HCS will work to place the Bank at the forefront of its comparators and best able to achieve its mission. **The implementation of this HCS will allow the Bank to continue attracting people driven to find development solutions and build effective responses to new challenges in the Region.** IDB talent should value and embody the strengths that the Institution is recognized for: *“its knowledge of the countries it serves and its capacity to respond to their specific needs, by its presence in the field and by its institutional commitment to the region’s development”* (IDB-9 report, AB-2764).
- 1.5 The development of this HCS is based on a review of human resources best practices, an external diagnostic assessment on human capital management at the IDB, and an extensive consultation process carried out with Bank staff.
- 1.6 This HCS builds on the Principles of Human Resources Management (GA-153) approved by the Board of Executive Directors (BOD) on March 30, 1994, on the Human Resources Strategy approved by the BOD on January 22, 2001 (GN-2113-3 Rev.), which will be gradually superseded as explained in Chapter VI of this document, and on the Bank’s Knowledge and Learning Strategy 2008-2010 (GN-2479). A review of the IDB’s ethics, conduct, and grievance systems is taking place in parallel, as well as the development of a Total Rewards Framework and a review of the IDB retirement plans.

II. THE HUMAN CAPITAL STRATEGY AND THE BANK'S BUSINESS MODEL

- 2.1 Since 2005, the Bank has undergone a major reshaping of its organizational structure, and established a reform agenda that is part of the Board of Governors' mandate for the Ninth General Increase in Resources of the Inter-American Development Bank (IDB-9). The 2007 Realignment and IDB-9 have changed the Bank's underlying business model and, by extension generated the need to rethink the strategies that shape its human capital.
- 2.2 The Realignment redefined the Bank's organizational and functional structure to be closer to its member countries in the Region, deepen its sector expertise, increase operational efficiency, and improve management practices, all aimed at increasing the focus on achieving development results. The alignment of human resources and management of separation agreements and new hires were central to the implementation of the new business model. Two major HR systems were revamped in order to accompany the new mandate. In 2009, the Bank introduced a new Performance Management Framework for managing performance in a systematic way, including planning work, setting expectations, and proactively managing low performance and rewarding top performance. In March 2010, a new Career Management Framework was launched, providing for an integrated approach to talent management by putting in place the structure to manage national and international staff under a single corporate model.
- 2.3 The Realignment also brought the creation of KNL as a department specialized in the facilitation of organizational learning and knowledge management. The focus of the Knowledge & Learning Strategy (K&LS) on planned, performance-driven learning (as opposed to random learning opportunities) is such that decisions regarding investments and activities for the maintenance and enhancement of the organization's intellectual capital are based on the strategic cross-cutting and individual units' business priorities. The annual K&L plans allow for assessment of needs and ensuing allocation of K&L resources in each organizational unit, with responses through Bank-wide programs, specific initiatives for particular needs of organizational units, as well as individual learning and development opportunities.
- 2.4 An analysis of the implementation of the Realignment reported on the progress achieved and made recommendations to consolidate it. These included the need for some organizational adjustments, locating more technical staff in the smaller and more vulnerable countries, maintaining sector leadership through systematic staff training, making expertise in country offices more mobile, and improving internal communications to strengthen collaboration.
- 2.5 IDB-9 provides the Bank with an institutional strategy and a results framework that is focused on small and vulnerable countries, poverty reduction, climate change, regional integration, and development through the private sector. Governors, in the Better Bank Agenda, laid out a series of goals to increase development effectiveness, improve efficiency in business processes, increase the diversity of the Bank's workforce generally, and in Upper Management in particular, and accelerate the process of locating more technical expertise in the field.

- 2.6 As the Region emerges from the global financial crisis, its needs from the Bank are evolving. While the Bank's financial products are essential sources of funding for some countries in the Region, the Bank is also called to deliver highly specialized and knowledge-rich operations in current and new areas requiring different skill sets, both in the public and private sectors. These new sets of skills will require alignment to the areas identified as having the greatest potential for business development in the Bank's institutional strategy, namely: (i) preventive health and epidemiological transition; (ii) climate change; (iii) social safety nets; and (iv) infrastructure integration, among others.
- 2.7 Adjusting to the IDB-9 mandates, as well as to the changes in the Region, is integral to ensuring that the Bank's additional financial capacity is used where it delivers the largest development impact. The Bank needs to take stock of its progress in building-up the HC of the institution, and define how it needs to evolve given these changes.
- 2.8 The HCS must be flexible enough to allow the Bank to adjust to these changes if it is to be effective. The table on the next page outlines some of the needs created by IDB-9 and how the Bank will respond to them through its HCS.

IDB Institutional Priorities and Human Capital Requirements

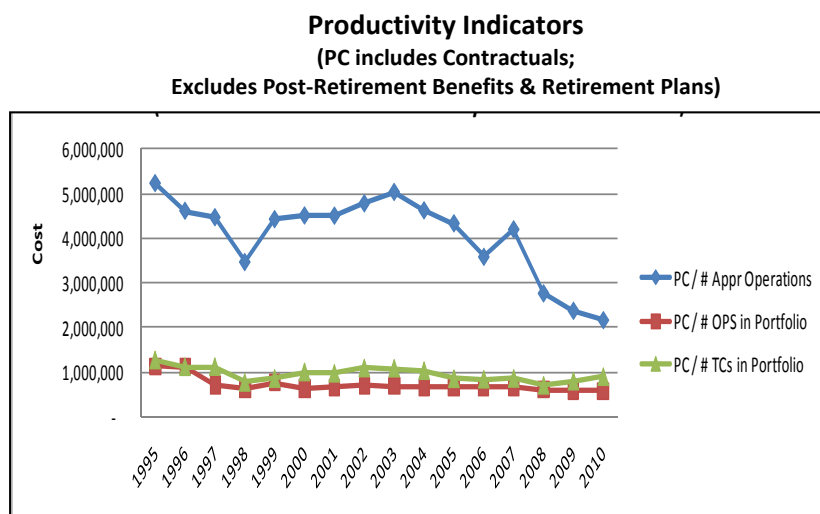
IDB's Institutional	Requirements of IDB's Human Capital
<ul style="list-style-type: none"> ▪ Develop deep sector expertise based on sector strategies and guidelines that identify key areas for development 	<p>Maintaining and expanding sector specialists' expertise by increasing opportunities for individual and technical families to acquire and share cutting-edge knowledge and know-how in existing growth areas and new areas, specialized in the LAC region. Ensuring that sectoral staff make optimal use of their skills. Providing flexible contract modalities for the attraction and retention of human resources. Ability to share and harvest knowledge to be applied consistently across sectors; incentives for collaboration and knowledge-sharing among organizational units.</p>
<ul style="list-style-type: none"> ▪ Operational effectiveness and efficiency. Increased efficiency and accountability in the design, development and delivery of all of the Bank's products. Enhanced focus on Project Management in all stages of project development, particularly in execution. 	<p>Delivering results by effectively managing recruitment to have the right person in the right place. Managing people and operational performance seeking to engage, motivate, and provide incentives for high performance to organizational units, teams and individuals. Establishing optimally functioning key processes that provide clear guidance to monitor and assess results of the Bank's interventions. Building capacity in corporate services management and development projects management, including monitoring and evaluation, both through targeted recruitment and staff development.</p>
<ul style="list-style-type: none"> ▪ Innovation, good practices and development of policy-oriented knowledge 	<p>A workforce planning methodology to anticipate the needs of the future, identifying trends, risks and opportunities, and translating them into initiatives which provide the greatest value for the countries and the organization. Strengthening institutional learning loops and links that focus on systematic learning and use of lessons from operational and corporate experience and evaluation, and allows for identification of good practices for the Bank's work.</p>
<ul style="list-style-type: none"> ▪ Increased capacity in the country offices to better respond with technical knowledge to member country needs, particularly the small and vulnerable 	<p>Alignment of skills and competencies of staff in country offices with the demands of their responsibilities. The ability to attract, retain, and de-centralize talent through mobility or career development opportunities based on business priorities and in a cost-effective manner. Mechanisms to improve collaborative work within the organization. Expertise in adapting products and services to the specific needs of diverse groups, in particular small and vulnerable member countries. Strengthening of core competencies such as focus on stakeholder needs.</p>
<ul style="list-style-type: none"> ▪ Increased sustainability of the IDB's financial model through HC planning 	<p>Adaptation of the Bank's HC planning and compensation and benefits model to the sustainability requirements that stem from the IMM.</p>
<ul style="list-style-type: none"> ▪ Increased diversity in staff and Management 	<p>Incorporating in HC planning and practices the identification, development, and retention of high-performing staff from under-represented groups, including women. Establishing career development plans for under-represented groups, including positions in upper management.</p>

III. IDENTIFYING THE GAPS IN THE BANK'S HUMAN CAPITAL MANAGEMENT SYSTEM

- 3.1 An effective Human Capital Strategy needs to be consistent with the requirements of the Bank's Institutional Strategy. The HCS is the framework that aligns the policies, processes, and practices of the human resources of the Bank to its priorities and goals.
- 3.2 The Bank's Realignment and IDB-9 have generated drastic strategic and organizational changes, affecting how the IDB needs to plan and manage its HC going forward. Over the last five years, **the Bank's workforce has changed—the ratio of professional to administrative staff has increased, staff has higher academic credentials, is somewhat younger and newer to the organization, the gender balance has improved, the distribution of nationalities and of international/national employees has remained constant, and there has been a slight movement towards decentralization and operational focus.**
- 3.3 To analyze and identify the gaps in the Bank's human capital management system, the IDB commissioned an external assessment (see Technical Document A). The study served to identify principal areas where the IDB's current human resource practices are not sufficiently aligned to the requirements of the Institutional Strategy. The study also recommended actions to address the challenges presented.
- 3.4 In addition, a broad consultation process was undertaken by Management to identify the key challenges perceived by staff. Stakeholders consulted included members of the Executive Board of Directors and Senior Bank Executives, the Staff Association, and staff from headquarters and Country Offices. The consultation process gathered feedback through five channels: a Sounding Board chaired by the Vice-President for Finance and Administration, individual interviews conducted with senior executives, periodic meetings with the Staff Association, presentations to the Organization, Human Resources and Board Matters Committee of the Board, twelve focus groups conducted with Country Offices, Representatives, and headquarters staff, and an electronic survey sent out to approximately 500 staff.
- 3.5 The consultations highlighted key areas identified by staff as requiring attention within the context of a new Human Capital Strategy (see Technical Document B for a summary of consultation findings).
- 3.6 The overall diagnostic has led to the identification of the following overarching challenges that need to be addressed by the new HCS:
 - (i) **the need to strengthen the process of alignment of human capital management and the institutional strategy approved in IDB-9;**
 - (ii) **the need to upgrade the employment model to achieve greater flexibility;**
 - (iii) **a reorientation of the incentives program towards collaboration, performance and results; and**
 - (iv) **the strengthening of managerial leadership.**

3.7 The evidence provided by the external assessment supports the views of staff with respect to the gaps and challenges of the organization. It found that **alignment between the Bank's human capital management and its institutional strategy is still pending, and that systemic rigidities do not provide for the flexibility needed to adapt to strategic priorities**. This finding is based on three areas of observation: productivity, workload by unit, and unfilled vacancies and their allocation.

3.8 In real terms, personnel costs have remained stable, while productivity has increased for approvals of products and remained constant for supervision of the portfolio (see figure to the right). This productivity data can only account for number of projects, but is not able to account for increased require-



ments in terms of quality of products. In other words, the increase in productivity presented above does not sufficiently account for the increased scope and added complexity of Bank products or their monitoring. Given fairly constant personnel costs, this brings to bear the question of sustainability both in terms of the efficiency gains generated and in the quality of the products delivered. Most units find their personnel resources well below their workload, which points to the **limitations in the methodology used to allocate personnel resources**.

3.9 The rigidities in allocating personnel are mirrored in the assignment of vacancies and their coverage. The number of vacancies in the Institution has remained at double the level found before the Realignment. Therefore, there is an inconsistency between the vacancies assigned and financed within departments and the capacity of the departments to fill them. Resources assigned to these vacancies are used to gain more flexibility in an increasingly rigid system. Management often uses savings from the unfilled vacancies to fill other positions at a higher cost, particularly for international staff, to finance promotions, and hire consultants.

3.10 The elements described above have generated a marked increase in contractual employees (more than 150 days in a year) from 14 percent of the Bank's workforce in 2005 to 28 percent in 2010. **The design of tasks and the working conditions for contractals are important areas for review**.

- 3.11 The Bank's organizational structure poses limitations in meeting management demands that result from a matrix structure, an increased demand for operations, and an increased focus on results. There are several explanations for this limitation, beginning with a reduction in the number of formal supervisors that have seen an increase in the technical staff they manage, many of whom are located in the country offices.
- 3.12 The large size of many business units has resulted in secondary levels of supervision, for which staff performing them is not duly recognized and has not received sufficient training in the supervisory competencies. In the 2010 supervisory feedback program, 54% of supervisors overall were rated as favorable in their capacity to help staff develop their expertise and make progress toward career goals. Nevertheless, 68% of the voluntary terminations in 2010 were staff with less than five years in the Institution and exit surveys point to a possible lack of effective leadership and meeting of career expectations as top areas of opportunity for improvement. Clearly, the challenges arising from the Realignment and IDB-9 call for **a review of workload distribution throughout the organization, to include a review of the span of control of supervisors and resource allocation, as well as a need for increased supervisory training.**
- 3.13 The new Career Management Framework approved in March 2010 has generated a number of welcome changes to the Institution's career structure, such as a consolidation of staff titles and reduction in career streams as a way to begin building the tools for movement across business units, greater clarity in the accountability levels by grade, and a single grade structure for international and national staff. Yet, the CMF still requires further development. Its effectiveness is limited by rigidities in employment modalities. Increasing staff presence in the field has cost implications that require review analysis; further, the current contract modality does not yet recognize the regional role played by many. These issues are compounded by a general **lack of human capital planning across the Bank in coordination with budget and business planning.** Formal human capital planning mechanisms need to be introduced and aligned to the budget and business plans. The **balance between national versus international staff and flexibility and mobility is needed** to optimize the CMF, and this requires an integrated planning approach, as well as programs and flexible arrangements to support decentralization and staff mobility.
- 3.14 The diagnostic points to the **need to reorient the incentives program towards collaboration, performance and results.** The introduction of a new performance management system in 2009 represents a marked improvement from the previous performance measurement framework, as it aims to implement a structured process with work plans at the individual level. Work is underway to align these individual work plans to unit and institutional goals in a way that creates a more homogenous concept of performance. Yet, the performance management system needs strengthening by linking it to results planning, to staff and career development, and by strengthening the capacity and commitment of supervisors to operate it. Performance management at the Bank has aimed to increase differentiation of staff by their performance level. This differentiation, however, has not yet directly translated into career growth, mobility and/or other

incentives for those rated as top contributors. **A specific talent management program needs to be put in place to identify, monitor, and develop high-potential employees.**

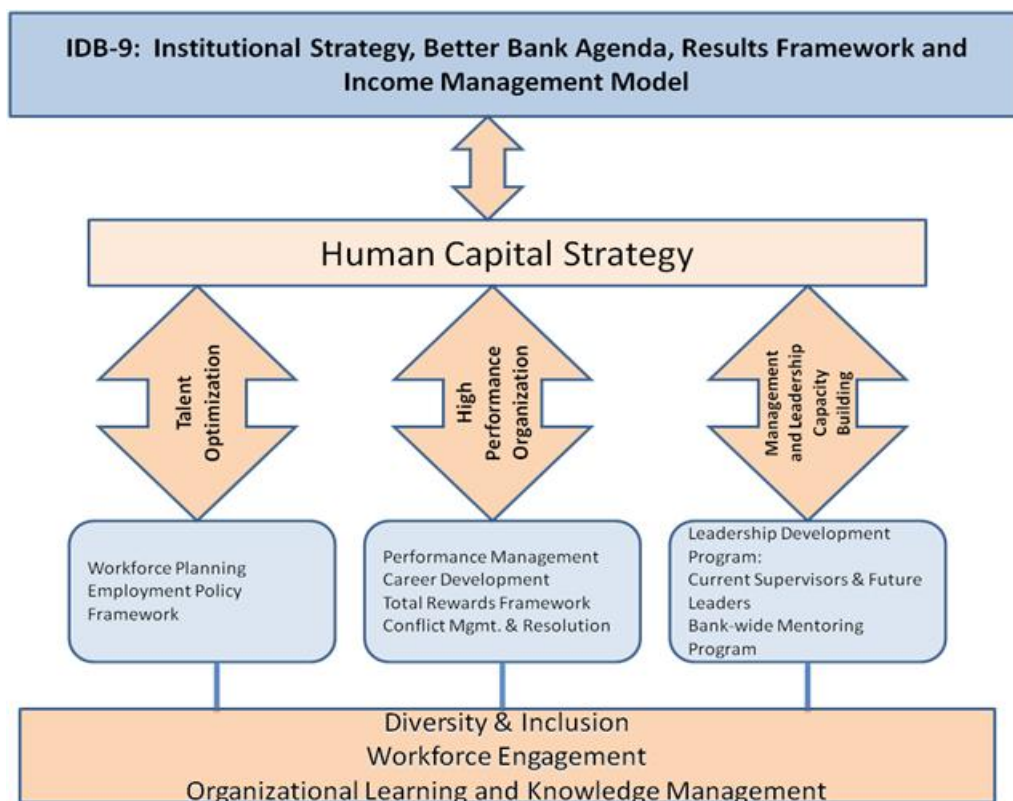
- 3.15 Another finding pointed to the **need to review the use of non-monetary benefits (career, mobility and work-life balance) as a key proposition for retention of high performers in today's workplace.** From the external diagnostic and stressed in the internal consultations, several findings are important. **The first is that staff does not perceive a strong involvement by their supervisors in career planning. Further, mobility is not particularly rewarded. In addition, although the Bank offers resources to manage work-life balance, they are not yet widely used. Staff does not perceive that the institution is sensitive to work-life balance needs.** The findings on incentives will be addressed by a new Total Rewards Framework currently under development.
- 3.16 The Bank implemented a Knowledge and Learning Strategy (GN-2479) for the period 2008-2010. The development of a new Strategy for Knowledge and Learning (K&LS) aligned to the needs of IDB-9 and in synergy with the HCS will be central to talent optimization efforts and is currently underway. If the Bank is to attract and retain the best talent, it will need more than workforce management; it will also **need a comprehensive institutional strategy for knowledge management to cultivate and strengthen the learning culture so as to continually enhance and expand the Bank's human capital.**
- 3.17 The diagnostic also stresses the **need to improve the quality of supervisors as people managers and support their development through leadership training.** The critical contribution of supervisors to people management and talent development must be highlighted through the development of a leadership profile. Further, a development program for both current and future leaders is necessary to strengthen existing capability, as well as identify and build a bench of both technical and managerial leaders for the future. In support of the IDB-9 diversity and inclusion endeavor, and acknowledging the importance of supervisors' command of diversity and inclusion practices, these issues will be key components in leadership development.
- 3.18 In relation to the **four overarching challenges** and the recommendations of the diagnostic assessment, specific lines of action will be developed. These are highlighted in this HCS and they are:
- a review of the allocation of human capital resources throughout the organization, including the supervisory span of control in certain units.
 - the development of formal HC planning mechanisms.
 - a review of the employment model to address the tasks and conditions of the different contract modalities, particularly contractual employees.
 - a review of management practices affecting international and national staff. This includes progress on reviewing a total rewards framework within the need to ensure budgetary sustainability.

- strengthening the performance management system, with a focus on results planning and supervisor accountability in terms of capacity and commitment to manage people and develop talent.
- a need to implement a leadership development program to develop current and future leaders and identify, monitor, and develop high-potential employees.

3.19 Finally, the **HCS must clearly be put at the service of the priorities defined by the Bank's business model and strategy.** The organization of the human capital function needs adjustments to ensure that it provides a strategic dimension to human resources. **HRD must refocus its role as a strategic partner to management and work to strengthen the role and capacity of supervisors as people managers.**

IV. PILLARS OF THE BANK'S HUMAN CAPITAL STRATEGY

4.1 To address the challenges presented above, the HCS is structured around three pillars: (i) **Talent Optimization**, (ii) **High Performance Organization**; and (iii) **Management and Leadership Capacity-Building**. These pillars provide the leverage to align the IDB's human capital management to the Institutional Strategy, thus ensuring the Bank's continued capacity to respond with renewed energy and increased country focus to the needs of the Region and the Better Bank. The pillars are supported by the **cross-cutting themes** of commitment to **diversity and inclusion**, **workforce engagement**, and **organizational learning and knowledge management**, vital to the Bank's ability to successfully partner with the Region.



- 4.2 In order to have a workforce that is more representative of the population that the Bank serves, the HCS values and embraces the rich dimensions of **diversity and inclusion** in culture, gender, nationality, ethnicity, sexual orientation, physical capacity, thought, skills, professional training, academic profile and experience. In 2010, along with the implementation of the CMF, there was a full revision of the procedural guidelines for staff selection processes in order to promote a balanced and diverse representation on selection panels with particular attention given to promoting diversity in the panel composition, reflecting the international character of the institution and the diversity of its member countries, diverse technical backgrounds, and the matrix structure with respect to the position being filled. Integration of diversity and inclusion practices is essential to reach both development and human resources goals.
- 4.3 To create a more inclusive work environment and a more diverse workforce that reflects the diversity of the Bank's member countries and enriches the quality of the IDB's work, the IDB is incorporating mechanisms that hold leaders accountable for embracing diversity and inclusion, for communicating this commitment, and for modeling these practices. Starting with the 2011 performance evaluation cycle, diversity and inclusion is a key competency for supervisors. Guided by IDB-9, further steps include the implementation of awareness-raising communication strategies and incentives and recognition for reaching diversity and inclusion goals, within the context of a Diversity and Inclusion Strategy and Action Plan.
- 4.4 **Workforce engagement** is also central to supporting the development of the new HCS. An organizational climate that fosters open communication, mutual trust, respect, and transparency, is essential to workforce engagement, as is job content satisfaction, work recognition, and quality of supervisor.
- 4.5 In terms of open communication, employees need to know how they are performing and what they need to do to improve; they appreciate constructive feedback that enables them to learn and to develop their skills and competencies. Employees also appreciate having opportunities to provide input and participate in decision-making, thus bolstering their perception of direct contribution to business results. But, they also have a need to understand the connection between the advancement of the Institution's agenda, its mission and goals and their own particular functions and duties. **Communication that provides a better understanding of how individual endeavors contribute to the overarching business needs of the Bank provides for a more engaged workforce.**
- 4.6 To encourage input in decision-making, supervisors need to create an environment in which all team members feel comfortable expressing their opinion and have the opportunity to lead. Such a **participatory approach** ensures that employees feel they have a voice, that they are adding value, that their opinions are taken seriously by the organization, and that their place in the institutional framework contributes to the development and advancement of the Region. This builds and fosters a culture of creativity and innovation, while reducing risk aversion, so staff feels more empowered to "*think outside the box*", offer alternatives to established processes, and establish closer collaborative working relationships.

4.7 **Trust, respect, and transparency** are essential components of the new HCS. How managers relate to their staff and vice-versa, as well as how employees relate to each other, are key to a sense of well-being and engagement. Crucial, as well, is **consistency** in the application of policies, procedures, and change, which instills a sense of fairness and equitable treatment. Further, ensuring that staff receives consistent and identical information is particularly important in an organization such as the Bank, where staff is widely dispersed geographically and where they may be reporting to more than one supervisor in a matrix structure. Mutual trust, respect and transparency should permeate all levels of the organization.

4.8 The **three HCS pillars require internal communication that is consultative, regular, and informative**. This type of communication is crucial to have a long-term impact on human capital management at the IDB. In addition to the implementation of systematic employee engagement surveys, staff consultations will continue to accompany the planning and implementation of human capital programs. This approach provides opportunities for staff and supervisors to give feedback, promote ownership of the processes, and increase their understanding of the changes occurring. **The consultative approach to communication is central to the implementation of the new HCS and to facilitate a more effective change process.**

A. Talent Optimization

4.9 To ensure that the Bank has the **right person, in the right place, at the right time**, a deliberate and strategic effort is needed to source, attract, select, train, develop, retain, and reposition employees. Talent optimization requires a comprehensive workforce planning (HCP) exercise that needs to be carried out in conjunction with budget planning and in line with the organization's business plans. **The alignment of the business model, the budget, and the HC is critical to ensure that the workforce across the organization is structured on the basis of current and future business needs, maximizing the use of the talent in a financially sustainable way.**

4.10 Talent optimization is intrinsically linked to having a cohesive strategic framework that provides inputs for the following critical business decisions:

- what talent does the Bank want to have and where should it be located in the Region;
- what is the appropriate mix of skills and experience to ensure world-class talent in addressing key development challenges and to allow for the development of younger cohorts;
- what are the functions that can be most effective if placed in the field; and
- what is the appropriate mix of core and complementary workforce.

4.11 In order to address these issues, the following high impact initiatives are proposed:

- (a) Development and implementation of Workforce Planning (HCP); and
- (b) Development of a new Employment Policy Framework.

a) **Development and Implementation of Workforce Planning (HCP)**

- 4.12 **The external diagnosis identified a gap between the alignment of the human capital and the organizational strategy approved in IDB-9.** The current process to establish the budget and the business plans does not integrate the planning of the workforce in a systematic way. To be financially sustainable, the cost of doing business cannot be uncoupled from the cost and investments necessary for an effective workforce. Therefore, talent optimization cannot be haphazard, but has to be embedded in other institutional strategic decisions, such as the business and budget plans.
- 4.13 Human capital is the main input to deliver on the Bank's goals and should be closely integrated to the programming and planning efforts of the Bank. **Workforce planning is an analytic tool that helps align the human capital and budget with the goals and objectives of the institution through a systematic and comprehensive process that identifies critical jobs, and the competencies and skills necessary for current and future business needs.** As a methodology, HCP identifies the cost, size, skills-mix and competencies of the workforce needed to deliver the work programs, as well as diversity and gender aspects. The HCP also identifies the appropriate mix of contract modalities at a given time to address business needs, such as the balance of staff and contractuals, national and international staff, generalists versus specialists, the assignment of staff across different locations, as well as the use of regional and multi-disciplinary roles rather than relying solely on country- or sector-specializations. A review of roles in headquarters and in the field in terms of functions and decision-making ability will serve to empower employees as projects and initiatives evolve and to help decentralization better address business challenges. In addition, workforce planning should establish synergies with the planning of knowledge and learning investments and activities, in order to build up the strategic technical capital required to sustain the Bank's comparative advantage, and support resource allocation for learning and development.
- 4.14 HCP is not a one-time exercise. Business needs change and, consequently, so do staffing needs. Therefore, periodic and systematic workforce planning will provide the basis for a strategic process to manage human capital. Adopting a **workforce planning methodology** will help the Bank's leadership analyze the career potential of employees, identify critical vacancy risks, high potential talent and candidates for critical positions, and develop action plans to prepare employees for future roles in the organization in a **timely and strategic manner**, and in a **cost-effective** way. HCP promotes and supports succession management efforts, as well as efforts to attract and mobilize under-represented groups in the organization. Thus, HCP can help address IDB-9 mandates regarding more women in senior-level positions, increased professional staff presence in the field, and the achievement of a more diverse workforce. Under this initiative, the Bank's leadership can **proactively identify opportunities and take measured actions to attract, retain, and develop the best possible talent.**
- 4.15 **This initiative will serve to address the overarching challenge highlighted through the diagnostic assessment in relation to the need to strengthen the process of**

alignment of human capital management and the organizational strategy approved in IDB-9.

b) Development of a new Employment Policy Framework

- 4.16 The diagnostic assessment also highlighted rigidities within the current employment model. A strategic shift in the organization emerges from IDB-9, in that having technical expertise in the field is essential for the Bank's capacity to respond effectively to the Region and to meet its business objectives. The IDB-9 report (AB-2764) indicates *"that the IDB is recognized by its knowledge of the countries it serves and its capacity to respond to their specific needs, by its presence in the field and by its institutional commitment to the region's development"*. The mandate for a deeper country-focus requires greater sourcing and recruitment efforts with particular emphasis on national staff in the countries and better ability to move staff to respond to changing demands. Policies and practices will need to be reviewed and adjusted to facilitate both. Managers and HRD are expected to mobilize the Bank's talent in the field through formal job rotations, lateral transfers, and/or career development opportunities either for short-term or long-term assignments. The IDB-9 mandates **a target of 40% of the Bank's professional staff assigned to the field by 2015**. This organizational objective must be accompanied not only by a systematic process of planning and coordination in an efficient and cost-effective way, but also by a much more flexible employment model.
- 4.17 The current employment model includes various modalities both for staff, special programs, and contractual needs. Nevertheless, the business of the Bank has evolved since the current employment model was approved in 2001 (first Human Resources Strategy, GN-2113-3-Rev.). Today, this model has become restrictive in addressing existing and future business needs. As a result, there has been an increase in the use of complementary workforce arrangements to help balance workload within a rigid employment model framework and headcount restriction. The role and employment conditions of the complementary workforce group needs to be reviewed. To streamline and integrate the global talent management effort, the Bank needs a new **Employment Policy Framework** to ensure that the Institution can recruit employees with the necessary skills and offer the appropriate contract modalities in order to respond in a flexible and comprehensive manner to business challenges and requirements.
- 4.18 Stemming from workforce planning, the Bank has to ensure the **appropriate mix of core and complementary workforce necessary to deliver on its business plans and to respond appropriately to short-, medium-, and long-term staffing needs**. This mix is an evolving target that is business-driven. **Concurrent with these engagement requirements, the new Employment Policy Framework has to clearly define and differentiate the services to be provided under different contractual arrangements in association with Bank needs**. These services include the delivery of immediate workload needs of a short duration, the delivery of specifically defined products in a planned medium-term timeframe, and long-term business needs that can be best met through the use of career staff. Staff rules will be reviewed and updated, as needed, to specify the conditions of service and appropriate remuneration and benefits, as

applicable, for each contract modality in line with the principles set forth in the Employment Policy Framework. **The Employment Policy Framework will aim at ensuring that the Bank fosters good hiring practices.**

- 4.19 The new employment model, regardless of the various contract modalities, must satisfy Bank staffing needs by providing an expeditious way to fill staff vacancies and contractual needs. It has to be **flexible enough to accommodate the regulatory frameworks of the different countries where the IDB has workforce presence and forceful enough to promote and encourage good hiring practices, workforce engagement, and the appropriate use of each contract modality according to the nature of the identified need.** Flexible mechanisms are also required for the Bank to be more effective and timely with regards to the ability to separate employees when their skills are no longer relevant or current, while preserving the adequate balance between the employer's rights and institutional business needs. The employment model should secure the Bank's ability to assign staff across the organization regardless of contractual affinities.
- 4.20 An assessment and revision of the Bank's production function is necessary in order to align its objectives with the size and quality of its workforce and the types of employment contracts offered. This includes a review of the Bank's contractual norms in order to provide for a more flexible and effective response to business needs.
- 4.21 **The Employment Policy Framework will serve to address the overarching challenge in relation to the need to upgrade the employment model in order to achieve greater flexibility.**

B. High-Performance Organization

- 4.22 Ultimately, all actions aimed at building Human Capital have as their principal objective to consolidate the Bank as a High-Performance Organization. This means that the Bank can **successfully deliver innovative solutions with maximum development impact.** Management, along with every employee, plays a critical role in achieving this goal. An important component of high-performing organizations is not just "what gets done" but "how". High performance is attributable to **abilities, motivation, good communication, opportunities to participate, and recognition and reward, as well as equitable and just means to resolve differences and provide for an ethical work environment.**
- 4.23 The High-Performance Organization pillar of the HCS helps the organization to identify:
- how to align individual and team contributions to organizational priorities.
 - the elements needed to ensure that career management is aligned to organizational priorities.
 - types of rewards (monetary and non-monetary) that ensure financial sustainability, while at the same time providing vehicles to motivate, retain and reward high-performing staff, all in a flexible manner.

- the institutional mechanisms needed to strengthen conflict management and grievances.

4.24 To address these areas, the following initiatives will be implemented:

- (a) improve performance management;
- (b) foster career development;
- (c) design and implement a Total Rewards Framework; and
- (d) review and strengthen the conflict management and resolution systems.

a) Performance Management

4.25 The new Institutional Strategy includes an accountability framework that monitors the achievement of specific goals. The Results Framework of IDB-9 and the business plans are the basis of the Bank's accountability framework. All units of the Bank and staff need to identify themselves with this new set of requirements and establish how they expect to contribute to these higher-level goals.

4.26 To address this concern, the performance management system, based on the **cascade of institutional goals down to the goals of organizational units, teams and individuals**, will be reinforced. In turn, staff members, in collaboration with their supervisors, should more precisely design work programs to maximize their contribution to departmental and ultimately to organizational goals. Therefore, a **tighter alignment of individual contribution to overall organizational goals is required, as well as an increased focus on collaboration and on delivering results**.

4.27 To reinforce the matrix structure, work programs need to be designed to include specific objectives for **cross-functional team projects** and **horizontal collaboration**. This approach requires that institutional leaders engage in a concerted communications campaign to ensure that all staff, whether at Headquarters or in the field, understand the common vision, direction, and business priorities, as well as emphasize the role of cross-functional teams in moving towards Results-Based Management.

4.28 Business units will be accountable for achieving their targets in an efficient and cost-effective manner. By understanding how their contribution impacts the overall results of the organization, staff will be more engaged, which ultimately will result in higher productivity and efficiencies.

b) Career Development

4.29 The initial implementation of the Career Management Framework (CMF) in March 2010 has set a clear path for each core business function, enabling employees to better understand the expected responsibilities, and key accountabilities. As a second phase, the CMF will also include the technical and behavioral competencies as part of the framework for adopting a structured institutional approach to career mobility and promotions, aiming at greater transparency, fairness, and objectivity.

- 4.30 **The implementation of an integrated performance management and career development system linked to competencies will enable each staff member to track technical and behavioral strengths, gaps and development needs in key competency areas and provide supervisors with a clear picture of the talent profile of their workforce.** In turn, supervisors, through a K&L planning process, need to identify and prioritize the collective and individual learning and development needs to enhance their staff performance, as inputs to the definition of activities and investments that will help to align that talent profile with the organizational unit's current and future needs, as well as contribute to the career development and motivation of individual employees. The potential tensions between collective needs and individual needs that compete for scarce knowledge and learning resources and staff time will be taken into account in the preparation of the new K&LS.
- 4.31 **The role of supervisors as “coaches” of employees in their career development is critical.** The CMF provides supervisors and managers a reference map when considering staff for work assignments, promotions, mobility, and other development opportunities. Supervisors should have open and regular discussions with employees about development needs and career opportunities, which should in turn be reflected in individual development plans. Supervisors play an active role in the success of their staff, and must be equipped with adequate training and resources to fulfill this responsibility. To this end, a central budget should be established to facilitate career development opportunities for future leaders and to facilitate varied and meaningful skill-building experiences, such as work and external assignments. Similarly, an additional central budget should be established for promotions.
- 4.32 The CMF allows staff to more clearly map out their desired medium- and long-term career progression and to understand the requirements of the different business functions and related development needs. Career development opportunities, such as mobility and work assignments, aim to enhance an employee's breadth of experience, important for career progression and promotion. **Staff members empowered to manage their careers are prone to take initiative, take risks, work in teams, and present more innovative financial and/or non-financial work outputs and solutions. Staff members need to be proactive in planning and managing their careers and seeking opportunities to close gaps and reinforce their strengths**

c) Design and Implementation of a Total Rewards Framework

- 4.33 **“Total Rewards”** is a concept that aims to develop synergies amongst the tools available to an organization to attract, motivate, retain and differentiate employees, and generate value for the employees and the organization, going beyond financial compensation. As a separate but important component of the HCS, a Total Rewards Framework Strategy is currently under development and will include a review of the financial and non-financial elements discussed hereafter. In parallel, the IDB is also undertaking a review of its retirement plans.

(i) Compensation and Benefits

- 4.34 The proposed compensation and benefits framework under development will be aligned to the different contract modalities of the employment model developed within this HCS. **Competitiveness, sustainability, differentiation in rewards, and transparency** will be the guiding principles for the analysis of and recommendation for changes to this financial component of the Total Rewards Framework.
- 4.35 The compensation and benefits scheme will be aligned to better support the HCS objectives of **flexibility, sustainability** and the creation of individual and team incentives for a high performance organization. The new initiatives and programs will need to ensure the level of competitiveness required to attract, retain and motivate the human talent required to fulfill the Bank's business goals.
- 4.36 In undertaking these initiatives, the Bank's value proposition to current and prospective employees will be a guiding consideration, taking into account that not all individuals place the same value on a given reward or set of rewards. This consideration will support the exploration of options for diversifying "the compensation tool set" to ensure effectiveness in the attraction of diverse talent.

(ii) Work-Life Balance

- 4.37 Work-life balance programs include an array of non-monetary offerings that contribute to a productive and efficient work environment. The Bank already offers a number of non-financial benefits, such as on-site childcare facility, a fitness center, and health services unit. It also offers the possibility for alternative work schedules in the form of flexible time, telecommuting, and compressed work schedule.
- 4.38 For flexible work arrangements to succeed, however, supervisors must adopt a **management-by-results approach** where the quality of work and the accountability for actions and decisions are the drivers of performance management.

(iii) Performance Recognition

- 4.39 Both financial and non-financial recognition of performance will be reviewed. Changes in the current pay mix will be analyzed to develop alternatives and/or additional approaches, which take into account not only individual or team performance, but also a link to organizational achievements. This approach will be aimed at providing management with a variety of **cost-effective tools to better differentiate between performance levels**, thus improving the Bank's ability to retain top talent and high potentials without compromising the long-term financial sustainability of the programs.
- 4.40 The practice of recognizing high performance via non- or limited-financial mechanisms will be further explored with a view to increasing staff motivation and engagement. Incentives and recognition of performance of teams will be explored.

(iv) Deferred Compensation (Staff Retirement Plan/Local Retirement Plan)

- 4.41 The IDB Staff Retirement Plans (SRP and LRP) constitute an important part of the benefits system that the Bank offers to its staff members. The Bank's defined benefit retirement plans entitle staff to a percentage of their final salary, based on the number of years of service and an average of the salary during a reference period prior to retirement. At this moment, within the context of the HCS, the IDB is at a turning point to implement changes in its pension plans, updating them to evolving demographics and other factors. These reforms are aimed at better aligning the Plans, in a financially sustainable way, with the HCS and other instruments of the Total Rewards Framework, maintaining competitiveness and strengthening flexibility and sustainability.

d) Conflict Management and Resolution Systems

- 4.42 A high-performing organization needs to have effective mechanisms to engage in difficult conversations, manage conflict, and achieve resolutions that are viewed as fair and transparent. These mechanisms need to provide employees with the opportunity to voice their disagreements through proper channels that ensure that all points of view are considered towards a satisfactory resolution. Conflict is a possible outcome of human relations, and should, therefore, be embraced and positively led through institutional mechanisms that ensure due process and recourse for appeal. **The prevention of conflicts, as well as their management during the early stages, is a key component to accomplishing better engagement, and improves collaboration and productivity in the organization.**
- 4.43 High quality standards of respect and tolerance in the workplace, as well as an ethical conduct that follows the principles and values of international development service, constitute an essential part of the Bank employee's core competencies and behaviors. The Bank has made great strides towards the dissemination, implementation, and defense of such institutional values and principles, with the revised Code of Ethics and Professional Conduct and its procedures, issued in 2007, and the creation of the figure of the Ethics Officer and Ethics Office as an integral part of the organization. Such momentum needs to be capitalized upon and furthered to ensure transparency, respect, and accountability for all HC within the Bank.
- 4.44 At the direction of the BOD, the Bank has recently engaged a specialized firm to review the Bank's conflict management and resolution systems vis-à-vis international and regional best practices and those of comparator organizations. A final report will include recommendations and improvements, which will be evaluated by the BOD and Management with the goal of improving the Bank's existing systems. Management's aim is to provide for more simplified and streamlined procedures, as well as expeditious and balanced processes. These will build upon the strengths of the Bank's current systems, continue to ensure a structured, transparent, and clear manner by which employees and Management can resolve any differences, while providing assurance that ethical and professional conduct standards are met and respected by all individuals.

- 4.45 This endeavor will require modifications to existing policies and procedures, in addition to a systematic training effort to ensure that all employees understand the mechanisms available to guarantee an adequate and fair resolution of issues in the workplace. The communication of clear rules will aid to build a better work environment, improving engagement and performance at all levels.
- 4.46 Therefore, this HCS incorporates as a key high-impact initiative the implementation of the necessary modifications and adjustments, currently underway, to the internal grievance, ethics and professional conduct systems.
- 4.47 **These initiatives will serve to address the overarching challenge in relation to the need to reorient the incentives program towards collaboration, performance, and results.**

C. Management and Leadership Capacity-Building

- 4.48 This pillar will develop the elements needed to implement a new way of leading and delivering results at the IDB, since leaders play a key role in the management of human capital. Leaders have a critical role in selecting, engaging, managing, and developing staff, both through formal development and performance plans, the implementation of HR policies and actions, and human relations.
- 4.49 Developing effective leadership will require a cultural shift. While the IDB workforce has traditionally been multi-cultural and multi-generational, the dispersion of employees across geographical boundaries, the size of some organizational units, and increased responsibilities to achieve institutional goals, results in a need to re-think both the traditional workplace and the span of control in order for supervisors to be increasingly more effective. The matrix model requires higher levels of internal collaboration and communication in order to deliver products and services efficiently to member countries, partners, and executing agencies. The Management and Leadership Capacity-Building pillar helps the organization to address the following:
- what incentives are needed to develop greater collaboration among staff and units with multiple and sometime differing priorities.
 - what is needed to develop the sense among staff that they have a leadership role to play in achieving the Bank's goals.
 - how to support the continued development of staff currently in leadership positions.
 - how to help improve how leaders communicate the priorities of the Bank and connect those with individual and unit performance.
 - how to identify future leaders and develop career plans that build their technical capabilities as well as their management capacity.
 - what policies and actions are needed to develop greater diversity among staff and management.
 - which organizational incentives are necessary to reward and reinforce sound management and leadership practices.

4.50 To address these areas, the following initiatives will be implemented:

- (a) Implementation of a Leadership Development Program; and
- (b) Bank-wide Mentoring Program.

**a) Implementation of a Leadership Development Program:
Current Supervisors and Future Leaders**

4.51 The **new leadership profile stresses the importance of people management at all levels**, both in formal and informal relations. The responsibility of leading and developing staff, and the associated competencies, is as important as the technical duties and skills, and, as such, should be the basis for a career in management. The goal of any Leadership Development Program is to develop leadership and management capability so that leaders can effectively respond to the demands of the Bank's institutional strategy. The proposed program is comprised of four key areas:

4.52 (i) ***Learning Actions***, which need to be culture-setting, future-focused, and respond to organizational priorities such as diversity and inclusion. Development actions should be mandated for all levels of management.

4.53 (ii) ***Performance Management***, which requires that the leadership cadre of the Bank continues to be evaluated on its people management and technical skills via a multi-rater approach, and where specific goals related to a commitment to diversity and inclusion and talent management is reflected.

4.54 (iii) ***Supervisor Feedback***, to ensure that specific developmental input is provided to leaders, beyond the formal review process.

4.55 (iv) ***Supervisor Development Plans***, which are Individual Development Plans (IDP) that define career aspirations, point out strengths to be leveraged, weaknesses to be addressed, and identify required knowledge and skills in line with the business needs and the career management framework. The IDP would be used to enhance supervisors' current performance with the objective of preparing to be future leaders.

4.56 **Identifying potential leaders** is a key component of the Bank's HCS. Creating a pool of high potential staff requires that senior management acts cohesively and is actively involved in the selection and development of the individuals identified. **Ensuring that an appropriate pipeline of potential staff is in place to fill critical technical and managerial positions is essential to ensure continuity in the business.** Future leaders need to be identified and developed in a timely manner; this requires an understanding of the competencies needed to develop as a leader and a development plan that provides high-value leadership training.

4.57 The **management of high potential staff**, in both technical and managerial capacities, will help create talent pools for key positions in the organization and foster a culture of career development within the Institution. Candidates will be identified across multiple levels of the organization and prepared through a combination of offerings under the

leadership development program and other interventions such as mentoring, job rotation, and work assignments.

- 4.58 Properly selected and placed high potentials, coupled with a comprehensive development program, creates opportunities for incumbents to make an immediate impact on the business. The initiative should initially focus on the next generation of leaders for Country Representative and Division Chief positions, with additional talent pools to be established for key Executive positions, as well as critical non-supervisory positions in the Country Offices.

(b) Bank-wide Mentoring Program

- 4.59 To further support leadership capacity and staff development, a Bank-wide Mentoring Program will be launched. A new leadership model calls for collaborative, across-the-board leadership and includes sharing ideas and information. In this regard, mentoring provides an opportunity for more experienced staff to share their institutional knowledge and insight, as well as technical skills, with more junior staff and emerging leaders. Mentors provide useful feedback and advice on career and interpersonal development, act as role models, and encourage mentees during new and challenging work assignments.
- 4.60 Formal mentoring programs should be developed to support the adjustment of new hires and career development of staff at all levels of the organization. The mentoring program will be rolled out in phases, beginning with mentoring for high potential staff, specifically for high potential women and underrepresented groups, as well as new hires. As the mentoring program matures, it will be rolled out to the entire organization.
- 4.61 **These initiatives will serve to address the overarching challenge in relation to the need to strengthen managerial leadership.**

V. EVALUATION FRAMEWORK FOR THE HCS

- 5.1 The activities described in the previous sections related to the three pillars of the HCS-- Talent Optimization, High Performance Organization, and Management and Leadership Capacity Building--provide the leverage to bring the IDB's human capital management in consonance with its institutional strategy, thus ensuring the Bank's continued capacity to respond with renewed energy and increased country focus to the needs of the Region and the Better Bank.
- 5.2 A set of performance indicators that monitors the design, implementation, and impact of these actions is needed to ensure that the HCS effectively and cohesively drives forward the goals of IDB-9. These measures need to be obtained on a timely basis, provide relevant information on the HC organizational capabilities, and provide evidence of the actual situation of HC at the Bank and its alignment with the corporate goals.
- 5.3 The table on the next page presents a **sample set of monitoring indicators** to evaluate each pillar of the Human Capital Strategy. These will be reviewed and adjusted as the initiatives of the HCS pillars are further developed.

HCS Pillar	Monitoring Indicators
Talent Optimization	<ul style="list-style-type: none"> – Percentage of total positions filled each year through the established workforce plan – Percentage of recruits that are from underrepresented groups (track regional representation by nationality, by gender, and by academic background, including breakdown of academic institution by location, while other diversity indicators are developed) – Percentage of professional workforce in the field (IDB-9 target) – Span of control at the level of Divisions and Units – Type of employment contract as a percentage of total new contracts issues per year – Ratio of staff to contractual
High-Performance Organization	<ul style="list-style-type: none"> – Utilization rate of work-life balance programs – Percentage of supervisors that score satisfactory by their staff as supporting their career development – Percentage of high performance candidates that rotate – Retention rate of high performers – Satisfaction of employees with their work environment – Satisfaction of employees with career development opportunities – Satisfaction of employees with job content
Managerial and Leadership Capacity-Building	<ul style="list-style-type: none"> – Percentage improvement in 360° ratings on leadership competencies (compared to baseline) – Annual work engagement index – Number of positions filled with identified high potentials – Percentage of women in upper management positions (IDB-9 target) – Percentage of women in grade 4 and above (IDB-9 target) – Percentage of under-represented groups in upper management and grade 4 and above positions

VI. BUILDING CHANGE AT IDB

- 6.1 The implementation of this HCS will reshape the Bank's human capital practices for years to come. As such, it will require a strategic approach to ensure that the initiatives proposed come fully to fruition.
- 6.2 Sustained organizational success can only be achieved if the design and implementation of the high-leverage initiatives are rooted in the premises of **inclusion, cross-collaboration, accountability, and flexibility**.
- 6.3 The revamping of the role of HRD through the high-impact initiatives described within each of the pillars of the HCS is necessary to address the challenges and issues facing the organization. These initiatives need to be designed and implemented in a way that addresses expectations, while increasing the Bank's capacity to innovate and support IDB-9 business objectives.
- 6.4 Success of the HCS will require strong change and transition management. An institutional change management program will be essential for Senior Management to lead the implementation of the HCS. Management retains the responsibility to recruit, retain, and develop staff in accordance with business need and staff capability. **It is the**

full responsibility of Bank leadership at all levels to carefully leverage and manage its talent.

- 6.5 **HRD's role is to partner with the business units and provide the mechanisms to address career management and staff development needs.** The responsibility for efficient and effective talent management cannot be delegated principally to HRD. In collaboration with supervisors, HRD can help the Bank meet its work program and keep staff motivated and engaged within a work environment that is diverse, inclusive, and clearly defines expected results and establishes desired behaviors. Employees feel stronger engagement when they understand the mission, vision and goals of the organization and their individual alignment with it.
- 6.6 Management has prepared an Action Plan for the HCS. It provides details on the high-impact deliverables, timetable, corresponding resource requirements, range of estimated costs, and corresponding monitoring indicators related to each high-impact initiative. Progress on the execution of these initiatives will be periodically presented to the BOD by Management, during the course of the implementation of this HCS, including a comprehensive mid-term review in 2015. It should be noted that one of the line items in the Action Plan is the strengthening of HRD's capacity to play a more strategic role and carry out the HCS in the most effective manner. This strengthening may require an assessment of additional financial and human resources, to include training and skills re-tooling.
- 6.7 This HCS builds upon the framework that the 2001 Human Resources Strategy (document GN-2113-3 Rev.) implemented in the Bank. Following the approval of a new Institutional Strategy in 2010 and changes in organizational priorities and direction, the Human Capital Strategy needs to be superseded by a new HC framework that articulates a more efficient, flexible, and adaptable workforce for the critical challenges the Bank faces in the immediate- and medium-term.
- 6.8 This HCS supersedes the 2001 Human Resources Strategy. In order to assure a seamless and smooth transition between the 2001 framework and this HCS, it is understood that the current employment model of the Bank (as described in document GN-2113-3 Rev.) will continue to be applicable until a new Employment Policy Framework is approved and implemented, foreseen as a high-impact initiative within the Talent Optimization pillar of the HCS.