

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK**

**ANNUAL REPORT OF THE CHAIRPERSON OF THE ORGANIZATION,  
HUMAN RESOURCES AND BOARD MATTERS COMMITTEE**

**JULY 1, 2011 TO JUNE 30, 2012**

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## **Annual report of the Chairperson of the Organization, Human Resources and Board Matters Committee, 2011-2012**

During the period July 2011-June 2012, the Organization, Human Resources and Board Matters Committee, held 42 meetings, 33 formal and 9 informal. A working group was established to assist the Committee in the subjects related to the revision of the statute of the Administrative Tribunal and the possible creation of an Ethics Oversight Committee of the Board. The working group met on 26 occasions. The major subjects considered by the OHRA Committee during this period were:

### **Human Resources**

1. Review of the Ethics, Conduct and Grievances System of the IDB
2. Human Capital Strategy
3. Staff Retirement Plan
4. Salary Structure Increase (SSI) and Annual salary Adjustment Budget Envelope (ASABE)

### **Organization**

5. Cost-Benefit Analysis of Representation Alternatives in the Offices of Executive Directors of the IDB
6. Conduct Committee of the Board of Executive Directors of the IDB, IIC and the Donors Committee of the MIF
7. Independent Investigation and Consultation Mechanism (ICIM)
8. Proposals to Modify the basic Organization of the Bank and areas for Future Action

### **Board Matters**

9. Board of Executive Directors' Budget Guidelines
10. Per diem of Executive Directors and Alternate Executive Directors

Below is a summary of discussions of these subjects:

#### **1. Review of the Ethics, Conduct and Grievances System of the IDB**

Under the previous Chairmanship, the Committee had considered the recommendations contained in the report of the firm Global Compliance titled "Review of the Ethics, Conduct and Grievance Systems of the Inter-American Development Bank" and agreed with most of them. Considering that additional work was required regarding the recommendations pertaining to the possible creation of an Ethics Oversight Committee of the Board and to the revision of the statute of the Administrative Tribunal, the Committee agreed the terms of reference for the creation of a working group to do the ground work on both subjects. The working group was composed of Directors Arnavat, Bastidas, Bes, Caceres, Nelder-Corvari and Portugal and met on 26 occasions; 17 meetings were dedicated to the revision of the Statute of the Administrative

Tribunal and 9 to the possible creation of an Ethics Oversight Committee of the Board of Directors.

- i. **Revision of the Statute of the Administrative Tribunal** - Following up on the recommendations by the consultancy firm Global Compliance Management, the Tribunal and the Staff Association had the occasion to submit their comments to proposed amendments. A document was produced containing the recommendations and the comments from the three parties and constituted the base for the initial discussions of the working group. Several meetings were dedicated to go through the statute, article by article, and a first draft was completed and again made available for comments from Management, Tribunal and Staff Association. After analyzing in detail the extensive comments received, the working group incorporated, rejected or modified them as deemed appropriate and a new version of the statute was produced and submitted to the Committee for discussion in June 2012. The major issues discussed by the working group were related to:

- Interim relief – Art. II section 3
- Terms of the Judges of the Tribunal – Art. III, section 3
- Appointment of the Executive Secretary of the Tribunal – Art. V, section 1
- Compensation – Art. IX
- Regulations for the Nominating Committee of the Tribunal – Annex I

One of the issues faced by the working group was that several components of the grievances system, closely related to provisions of the statute, were still under preparation. This situation prevented a comprehensive vision the system as whole as it would have been desirable to finalize the revision of the statute of the Administrative Tribunal. As agreed by the Committee, Management circulated drafts the Code of Ethics and Professional Conduct and the Whistleblower staff rule for information, prior to their final approval by the President. Management is reviewing the mediation system, which could influence the final redaction of some provisions of the statute.

- ii. **Possible creation of an Ethics Oversight Committee** - The working group, with the assistance of the Legal Department, prepared draft Terms of Reference (TORs) for an Ethics Oversight Committee of the Board of Directors. The TORs were developed taking into consideration written comments received by Management and a legal opinion prepared by the Legal Department upon request of the working group. The recommendations of the working group, including TORs for the Ethics Oversight Committee, were transmitted to the Committee on 28 June 2012. The most relevant aspects of the recommendations by the working group had to do with:

- Rather than creating a new Committee, the Board of Directors would consider sensitive and confidential matters on employee ethics and

conduct which could potentially affect the Bank's reputation and the functioning of its integrity systems;

- For the purpose, the Board of Directors would meet in executive session, attended only by titular executive Directors;
- A sub-committee composed by the Dean and the Chairpersons of the Audit Committee and of the Organization, Human Resources and Board Matters Committee would act as a triage mechanism in case doubts arose on the need to bring an issue before the Ethics Committee;
- Matters concerning the President of the Bank would be referred to the Chairperson of the Board of Governors; and
- Suggestions for amending the Code of Conduct of the Board and the TORs of the Audit Committee.

In acknowledging the recommendations of the working group, Committee members recognized the need for additional discussion of several subjects at Committee level. The importance of having more detailed information on the other elements of the grievances system prior to taking final decisions, namely the Code of Ethics and professional Conduct, the Whistleblower Staff Rule and the mediation system was also emphasized.

## **2. Human Capital Strategy**

The Committee considered the second progress report on the implementation of the strategy. The debate centered on the need for a closer relationship with the decentralization exercise, treatment and utilization of consultants and gender diversity, amongst other subjects. Management will present the results of an "engagement survey" in the third quarter of 2012 and committed to submit progress reports on the implementation of the strategy on a semiannual basis.

## **3. Staff Retirement Plan**

Following up on the earlier decision by the Board of Directors, Management submitted to the Committee proposed parametric amendments aiming at harmonizing the Bank's various retirement plans, namely, the Staff Retirement Plan, the Local Retirement Plan, the Complementary Staff retirement Plan, the Special retirement Program and the Pension for Former Presidents. In addition, Management proposed amendments to the benefits structure of the Local Retirement Plan in view of the changes to the compensation strategy for national staff. Some technical amendments to maintain the Staff Retirement Plan's Internal Revenue Service (IRS) qualification were also agreed. Management reported the creation of a working group comprising all stakeholders of the Bank's Retirement Plans to address other parametric and structural reforms requiring a more extensive review.

At a second meeting, Management presented a progress report of the working group and equally addressed concerns raised by Committee members. In Management's view, the drop in plan funded status occurred in 2011 was common to similar corporate and public U. S. based plans and resulted from an unusual decline in interest rates. The situation was in no way dramatic and was expected to be reversed in time. Some Directors recommended reviewing the staff

contribution rate and taking into consideration a broader package of IDB employment benefits in conjunction with the Total Rewards Framework. Management explained that the staff contribution rate was being analyzed but any decision in this respect needed careful consideration as it could create imbalances between current and former contributors. In terms of sequencing, the reason why the Bank's contribution rate came first was because it would be the first issue requiring consideration in the context of the budget process. A separate working group will be reporting on the reform of the medical insurance plan.

#### **4. Salary Structure Increase (SSI) and Annual salary Adjustment Budget Envelope (ASABE)**

Management provided details on the methodology used and on its application for the calculation of the 2012 salary increase. Committee members stressed the importance of ensuring transparency and fairness in the merit pay process and insisted on the need to have a clear picture of the procedure and responsibilities in the approval of specific salary increases. It was requested that documents related to salary increases should in future include a note making it clear that they should be considered as inputs for decisions to be taken by the Board of Directors in the context of the overall budget discussion and should not be interpreted as any sort of commitment.

Salary increase proposals should provide additional information regarding: a) the separation between structural and actual increase; b) merit/variable pay; and c) calculation of the national salary increase, including the handling of exchange rate variations.

In June 2012, Management submitted a paper with additional information and informed that a comprehensive comparison of the Bank's benefits package with those of sister institutions would be carried out. A document on the evolution of vacancies since the realignment exercise would also be prepared. The Committee requested that the comparison with sister institutions should, if possible, comprise total compensation packages, including salary, benefits and pension.

#### **5. Cost-Benefit Analysis of Representation Alternatives in the Offices of Executive Directors of the IDB**

Lengthy discussions were held and several documents prepared on this subject. The debate centered on the need to establish precise regulations for the position of Junior Counselor, both paid by the Bank and by member countries. A significant number of alternatives were considered and progressively narrowed down to the so-called "Uruguay Option", consisting on the possibility of establishing positions of Junior Counselor on the proviso that the current headcount of the offices of Executive Directors is maintained. This option also provided for the possibility of appointing Junior Counselors paid by member countries not physically present in the offices of Executive Directors. The costs of the latter should be fully covered by interested members countries through funding agreements established with the Bank. The budget neutrality of the initiative was a concern raised by most Directors. At the last discussion, a majority of Chairs expressed support for the "Uruguay option", but it was agreed to request the Office of the Secretary to produce a document with detailed provisions regulating all aspects of Junior Counselor positions.

## **6. Conduct Committee of the Board of Executive Directors of the IDB, IIC and the Donors Committee of the MIF**

A working group was created for the purpose of amending the regulations of the Conduct Committee, and the guidelines for the selection of its members. The major changes agreed upon had to do with the strengthening of the gender balance and the differentiation between borrowing and non-borrowing members. The selection procedure was modified and the Dean of the Boards, with the assistance of the Secretary of the Bank, will identify the candidates responding to the conditions outlined in the guidelines from the orders of precedence of the Bank and the Corporation. The Conduct Committee will now be composed of six members, three borrowers and three non-borrowers, three females and three males and two representing the Bank, two representing the Inter-American Investment Corporation and the two last representing the Multilateral Investment Fund. The mandates of committee members will be of one year and it was agreed that the mechanism should be reviewed after a period of three years.

## **7. Independent Investigation and Consultation Mechanism (ICIM)**

The Committee discussed the ICIM's work program for 2012, budget proposal and information on the 2011 budget execution. Several versions of the 2012 program and budget were prepared, incorporating comments from Directors. The Committee approved a revised version of 2012 program and budget subject to amendments in case the BUFIPOL decided to lower the overall budget. The latter materialized and a revised version of the work program in line with the approved budget was endorsed by the Committee. It was agreed to establish a contingency fund to be used for Request and Case management upon presentation to the Organization, Human Resources and Board Matters Committee of a written justification based on pre-established criteria.

The Committee also considered the ICIM Policy Implementation Guidelines which clarified specific roles and responsibilities amongst other procedures. Some Directors believed the Guidelines needed further refinement, but it was eventually agreed that, if necessary, amendments could be considered in the framework of the evaluation of the mechanism, to be carried out by OVE (Office of Evaluation and Oversight) later in the year. The major recommendation of the Committee was that time had come for the ICIM to focus on casework.

At the request of Directors, a technical briefing was held on the ICIM's Consultation and Investigation Processes.

## **8. Proposals to Modify the basic Organization of the Bank and areas for Future Action**

Management presented a series of proposals to adjust the Bank's organizational structure aiming at improving efficiency and cost effectiveness. Major changes were related to the transfer of the Grants and Co-Financing Unit (GCM) to the Office of Outreach and Partnerships (ORP), the creation of a new Haiti Department, the upgrading of two units in the Vice-Presidency of Sectors to divisions, the consolidation of executive grades into a single band and the creation of an Access to Information Section in the Office of the Secretary. In agreeing with the changes, the Committee requested a revised version of the proposal containing: a) a sunset clause for the Haiti

Department and an evaluation by 2015; b) additional information regarding the Inter-American Cultural Center; and c) the possibility for the Board of Directors to determine the “E” grade for the positions of Executive Auditor, Chief of OII and Director of OVE.

Later in the year, and based on the deliberations regarding the review of the Bank’s Ethics, Conduct and Grievances System, the Committee agreed the establishment of the Office of Ethics as an independent unit reporting to the Office of the President.

## **9. Board of Executive Directors’ Budget Guidelines**

A working group chaired by Director Duffy was created to review the Board of Executive Directors’ Budget Guidelines. The original document dated from 2003, which, even if effective in practice, had never been formally approved by the Board. The revised document contains regulations providing for the use of resources allocated to the Board of Directors.

## **10. Per Diem of Executive Directors and Alternate Executive Directors**

In the framework of discussions related to the “Board of Executive Directors’ Budget Guidelines” and of the changes to the Bank’s Travel Policy, the Committee agreed to terminate the 20% premium applied to per diem rates of Executive Directors and Alternate Executive Directors.

### **Other subjects discussed by the Committee**

**Appointment of Judges to the Administrative Tribunal** - The Committee agreed recommending to the Board the extension of the mandates of two of the Judges while proceeding with the reform of the statute of the Administrative Tribunal, which included revising the methodology for the appointment of Judges. The reform of the statute has taken longer than expected and the mandate of the two same Judges ended up having to be extended twice for a period of six months, on November 2011 and May 2012. With the second extension, the mandates of the two Judges will terminate on 31 December 2012, which should provide for enough time to finalize the appointing system. On 31 December 2012, the mandates of five out of the seven Judges of the Administrative Tribunal will come to an end.

**Information and Technology Strategy** – The Committee endorsed the Information and Technology Strategy, noting its consistency with the major objectives and commitments of the Ninth General Capital Increase. Committee members emphasized the importance of having the IT Strategy and the Decentralization exercise closely aligned.

**OPTIMA Program** - In December 2011, Management provided the Committee with an update on the implementation of the OPTIMA Program noting the transfer of responsibilities from the Vice-Presidency for Finance and Administration (VPF) to the Office of Strategic Planning and Development Effectiveness (SPD) and the appointment of a new program coordinator. The original idea of having a consulting firm in charge was changed into a more gradual approach led by Management and supported by more selective consultancies as required. From the total budget package of US\$55 million, US\$37 million had been requested and it was expected that

the whole program would be implemented within the original budget. Management committed to undertake periodic reporting and technical briefings to keep the Board informed of developments.

In March 2012, Management submitted to the Committee an update of the program's implementation and the work program for 2012. A technical briefing was held on the visualization initiative MapAmericas.

**Knowledge and Learning Strategy** - The Committee endorsed the Knowledge and Learning (KNL) Strategy with some Directors noting that the budget allocation of the Bank to knowledge and learning still lagged behind those of sister institutions. The Committee requested the preparation of an action plan for the implementation of the strategy containing specific baselines and targets against which progress could be monitored. Management committed to schedule a technical briefing on KNL's self-evaluation and to circulate a revised version of the strategy.

It was agreed that future strategies of the kind and respective evaluations should be considered by the Policy and Evaluation Committee.

**Employment Model Framework** - In agreeing the New Employment Model Framework, Committee members emphasized the increased flexibility provided by the new model allowing responding better to the business needs and granting benefits to the complementary workforce in the framework of competitive compensation. Discussions focused on the need to ensure consistency between the Employment Model Framework and the Decentralization Exercise, developing more competitive and transparent procedures for contracting the complementary workforce and the proposed model's financial impact. Additional information was requested regarding the benefits for each contract modality.