

Annex 1

Report of the Ad Hoc Group dated April 11, 2007



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On April 6, 2007, the Executive Directors decided during an Informal Meeting to establish an Ad Hoc Group "*to acquire information*" related to a matter "*concerning a possible violation of Staff Rules in favor of a staff member closely associated with the President*". The Executive Directors selected Messrs. Aass, Duquesne, Familiar, Kvasov, Wijffels, and Mmes. Ketsela and Zou as members of the Group. The Group had its first meeting on April 9, 2007, and selected Mr. Herman Wijffels as its Chairperson. Ms. Zou, who is traveling, has not participated in any part of the deliberations of the Group.

The Group met respectively with the President, Mr. Paul Wolfowitz, and with the Vice President, Human Resources, Mr. Xavier Coll, the Senior Vice President and Group General Counsel, Ms. Ana Palacio, the former Senior Vice President and General Counsel of the Bank, Mr. Roberto Danino, and Mr. Otaviano Canuto, Executive Director and former member of the Ethics Committee (EC), and by videoconference with Mr. Ad Melkert, former Chairman of the EC. The meetings took place during the course of April 9, 10 and 11, 2007.

During the course of its meetings, the Group obtained or received the relevant files of the EC on so-called Case No. 2 and documents from the President, with a cover note from the concerned staff member.¹

On the basis of the meetings with the above-mentioned officials and former officials of the Bank and a review of the documentation by the members of the Group, the Group notes the following:

I. Ethics Committee Role

1. The EC met on several occasions between June 2, 2005 and September 1, 2005 to consider and provide guidance on a potential conflict of interest on the basis of a request stemming from the negotiations of the contract of the President discussed by the Executive Directors at various restricted sessions of the Board. The potential conflict of interest issue arose under Staff Rule 3.01, Section 4.02 of the Bank's Staff Rules (Supervisory Relationships). On June 6, 2005, the EC sent a letter requesting from the President more information on the potential conflict of interest with respect to a staff member. The President responded by letter dated July 21, 2005 to the Chairman of the EC, providing the requested information and

¹ These documents will be held in a place where Executive Directors may consult them on a strictly confidential basis. It should be also noted that on the basis of a communication received from the concerned staff member, together with the documents provided by the President, access to these documents are "authorized to Board members as necessary and appropriate".

setting out certain facts including, a proposal to recuse himself from personnel decisions involving the staff member but did not indicate recusal from professional contact with the staff member and requesting in addition the advice of the EC on how to address the challenge of avoiding a conflict of interest and treating a loyal professional employee with the respect and fairness that all employees deserved.

2. The EC deliberated on the matter on July 22, 2005 and agreed on advice to be given to the President. The essence of this advice was included in an informal draft advice dated July 27, 2005 which read in relevant part as follows:
 - (a) *"That the staff member will be relocated to a position beyond (potential) supervising influence by the President and therefore will withdraw from the current selection procedure for job promotion within the MENA department;*
 - (b) *That at the same time the potential disruption of the staff member's career prospect will be recognized by an in situ promotion on the basis of her qualifying record as confirmed by her shortlisting for the current job process and as consistent with the practice of the Bank;*
 - (c) *That the President, with the General Counsel, communicates this advice to VPMENA and VPHR so as to implement a) and b) with immediate effect."*

3. In the meantime, the Chairman of the EC conducted informal discussions with the President and in a draft letter dated August 8, 2005 from the Chairman to the President, the Chairman referred to meetings he had had with Mr. Xavier Coll (VPHR), assisted by Mr. Danino (the General Counsel), sharing with him (Mr. Coll) the considerations and preliminary conclusion of the EC presented in the informal draft of July 27, 2005. The Chairman of the EC also indicated that this draft letter has prepared Mr. Coll *"to meet upon your request, the staff member concerned in order to inform her on the EC's considerations and preliminary conclusions in preparing the advice you had requested in June"*. The letter also states that *"(1) The EC cannot interact directly with staff member situations, hence Xavier (Mr. Coll) should act upon your instructions. (2) The interaction with the staff member at this stage is only for information purposes, by way of courtesy, as both you and the EC have been preoccupied from the outset to have a procedure in place and an outcome reached that would duly recognize the record and career perspectives of the staff member, taking into account the scope of the EC which is limited to Board officials. (3) Once the EC will have formalized its advice it will be up to you and the VPMENA and VPHR respectively to take the appropriate steps, also for the reason Xavier's meeting could not be considered part of formal decision-making"*. The letter continued, *"Assuring that all of this is in the spirit of our previous conversations I would like to suggest that you take the following steps: (A) request Xavier to meet the staff member on the basis of the above (B) to do so as early as possible this week and (C) to ask Xavier to report back to you so as to enable you and me to conclude our deliberations on*

the EC's informal draft, upon which I will report back to the EC in view of its formal advice. I would highly appreciate if we could be in touch by the end of this week."

4. The President responded in a memorandum dated August 12, 2005 to the Chairman of the EC (but received by hand on August 22, 2005 by the Chairman who was traveling). In that reply, the President noted the rejection of his proposal of recusal as the appropriate means of avoiding any conflict of interest and stated that:

"Your memo noted that it would not be appropriate for the Committee to 'interact with staff situations', nevertheless you provided the opinion that she could not be permitted to stay in her current position or serve in the Bank. While I believe any potential conflict is due to my position, not hers, the Committee explicitly directed me to resolve the matter by providing instruction to Xavier Coll, Vice President, Human Resources to meet with her to discuss options. Further you requested I report back this week.

Mr. Coll and Ms. Riza have reached an agreement. Since she has agreed to his recommendation to be detailed outside the Bank Group, there is no further potential conflict of interest. I hereby withdraw my request for consideration of my proposal for recusal and view this matter as closed."

It should be noted that the EC discussed the President's memorandum on August 29, 2005. The EC took exception to the characterizations contained in the memorandum, although it agreed that the outcome was consistent with the EC's findings and advice. *"In particular, the EC noted its views on various misstatements in the Requestor's [President's] memorandum:*

- *The Committee had not made a final determination. The communications of the Chairman with the Requestor were expressly characterized as informal and aimed at finding a constructive solution to the situation prior to the Committee making a final determination*

Members of the Committee 'cannot interact directly with staff member situations'. Therefore, the Chairman appropriately declined to meet with the staff member concerned as the Requestor had suggested. Instead, it was proposed that, the VP HR be instructed by the Requestor to do so.

- *The Committee had indicated that the staff member could continue to work at the Bank provided that the position she holds is outside the direct or indirect supervision of the Requestor and there is no routine professional contact between them.*

- *The Committee was also of the view that the de facto conflict of interest which had been created was not the result of any action by the staff member concerned. The conflict of interest was created by the appointment of the Requestor and could not be resolved without affecting the staff member's position. Indeed, in recognition of this situation, the Committee took the extraordinary step of recommending the consideration of an in situ promotion.*
5. Following receipt of information by the EC, that the staff member had been detailed outside the Bank Group, the Chair of the EC sent a letter dated October 24, 2005 to the President which read in its entirety as follows:

"Thank you for your memo dated 12 August 2005, received by hand on August 22, 2005, regarding your request to the Ethics Committee for guidance. I am writing on behalf of the Ethics Committee to acknowledge the resolution of the conflict of interest in line with the guidance provided by the Committee, as conveyed through my informal draft of July 27, 2005. Your memo confirms that the staff member has agreed to be detailed outside the Bank Group, and that you withdraw your proposal for recusal. Because the outcome is consistent with the Committee's findings and advice above, the Committee concurs with your view that this matter can be treated as closed."

6. The Chairman of the EC, on October 25, 2005, reported to the Executive Directors at the end of an informal meeting that the matter raised by the President regarding conflict of interest had been dealt with appropriately and the matter was therefore closed.
7. It should be noted that allegations were made on January 21, 2006 by a "John Smith" which were considered by the EC which decided, pursuant to paragraph 8(b) of the Ethics Committee and Procedures that the allegations did not appear appropriate for further consideration by the EC.

II. Arrangements for External Service with Pay

8. With respect to the arrangements for the external service with pay for the concerned staff member, the Group found as follows on the basis of the meetings and the documentation provided during such meetings.
9. In a memorandum dated August 11, 2005, the President specified actions to be taken by the VPHR with respect to the concerned staff member. The memorandum states that *"After hearing your report of her desire to pursue the option you outlined as preferable, that is to be detailed outside the Bank Group, I now direct you to agree to a proposal which includes the following terms and conditions. You should accept immediately her offer to be detailed to an outside institution of her choosing while retaining Bank salary and benefits. After being shortlisted for consideration as the Director of EXT for MENA, she has qualified for and should receive a promotion to H level at a mid-point salary*

level of \$180,000 net income with mid-point, zone 5, annual increases which will approximate 8%. Further, because she is being compelled to leave the Bank Group and will not be able to go through regular reviews as the basis for future promotions, she is being forced into a situation with no precedent under Bank rules, practice or policy. Given the opportunity to continue on a regular career path, you have indicated that she normally would have been eligible for promotion to an I level within four to six years. Therefore, it seems reasonable to grant her request to be guaranteed the right to return at an I level should I depart at the end of a five-year term. Should I stay on to serve a second term, should return at a J level, which she notes would be one year from retirement. Since we have created a situation which precludes normal Human Resources (HR) review of her performance, you should propose the promotion to I (or J) level would be contingent upon a review of her work outside the Bank by a Committee of her peers to be appointed by mutual agreement between Ms. Riza and HR at the time. I understand your preference would be to offer her a financial settlement that would compensate her for both the lost opportunities related to promotion and the pain, suffering, and damage to her professional reputation that has been involved in her forced departure.

Based on your advice, I direct you to provide her a choice between her proposal and your alternative of financial compensation in lieu of promotion to I or J level. The H promotion should be included in either alternative.

You reported that a non-disclosure agreement was a standard Bank procedure in financial compensation settlements. If you believe it is appropriate in this circumstance, you should propose it to Ms. Riza as a way to protect both her privacy and the institution.

Finally, I wish to reiterate by deep unhappiness with the whole way of dealing with a situation that I still believe, and have been advised by experienced labor legal counsel, should have been resolved by my recusal."

10. The VPHR met with the concerned staff member on August 12, 2005. The Group noted that on the same day, the President sent a memorandum to the Chairman of the EC stating that the VPHR and the concerned staff member had reached agreement. The Group found a letter of agreement dated September 1, 2005 signed by the VPHR and the concerned staff member which contained the terms and conditions of the detailing of the concerned staff member to the U.S. Department of State. These terms and conditions were the same as those set out in the President's memorandum dated August 11, 2005 referred to in paragraph 9 above including, the proposed promotions to Level I and J.

11. The Group did not find in any of the documentation it reviewed and did not receive any information in its meetings that the EC, including its Chairman, had been involved in the discussions with the concerned staff member. Neither did it find any evidence that the terms and conditions in the September 1, 2005 letter of agreement had been commented on, reviewed or approved by the EC, its Chairman or the Board. The Group was also informed by the former Senior Vice President and General Counsel that he was not involved in anyway in the implementation of the Ethics Committee advice to

the President. A draft memorandum dated September 9, 2005 indicates that when the President accepted the responsibility to resolve the matter, he did so with the view that the General Counsel of the Bank could not provide legal advice to both parties (i.e., the EC and the President). Instead, the President chose to retain an outside law firm to review the letter of agreement "*the key elements [of which] had been accepted and agreed by all parties to the contract before [the firm] was retained*" as underlined in their letter of August 31, 2005.

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