FROM: Vice President and Corporate Secretary

Second Report of the Ad Hoc Group

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President
Bank Group General Counsel

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REPORT OF THE AD HOC GROUP

I. Introduction

1. On April 6, 2007, the Executive Directors decided 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.”

2. The Ad Hoc Group (“Group”) held meetings with current and former officials of the Bank and obtained and reviewed the relevant files of the Ethics Committee and documents from the President. The Group prepared a “Report of the Ad Hoc Group” dated April 11, 2007, which was presented to the Executive Directors on April 12, 2007.

3. The Executive Directors noted that the Group found that the Ethics Committee, including its Chairman, had not been involved in the discussions with the concerned staff member. It also found that the terms and conditions of the agreement reached by the Bank and the concerned staff member had not been commented on, reviewed or approved by the Ethics Committee, its Chairman or the Board. The Ad Hoc Group was also informed by the former Senior Vice President and General Counsel that he was not involved in any way in the implementation of the Ethics Committee’s advice to the President. After consideration of the Report of the Ad Hoc Group, the Executive Directors issued a communication, including a release of the report and the documents obtained by the Group.

4. This matter was discussed during the Development Committee meeting held in Washington on April 15, 2007 and its Communiqué read in relevant part as follows:

We have to ensure that the Bank can effectively carry out its mandate and maintain its credibility and reputation as well as the motivation of its staff. The

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1 The Group is composed of Mmes. Mulu Ketsela and Jiayi Zou and Messrs. Svein Aass, Pierre Duquesne, Jorge Familiar, Alexey Kvasov and Herman Wijffels. Mr. Wijffels was selected by the Group as its Chairman.

2 During this first phase of its work, the Group met respectively with the President, Mr. Paul Wolfowitz, 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, 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.

3 The Ethics Committee is a committee established by the Executive Directors to address ethics matters involving Board officials including the President. The Ethics Committee and its procedures are outlined in greater detail below in Section II.

4 Cited herein as “Report of the Ad Hoc Group”.
current situation is of great concern to all of us. We endorse the Board’s actions in looking into this matter and we asked it to complete its work. We expect the Bank to adhere to a high standard of internal governance.\textsuperscript{5}

5. On April 20, 2007, the Executive Directors issued a further communication requesting the Ad Hoc Group to consider immediately the arrangements made for the secondment of the staff member. The Executive Directors stated that the Ad Hoc Group would consider such other information as it deems appropriate with reference to, inter alia, the Staff Rules, the Code of Conduct applicable to Board officials and the President, and the contract of the President,\textsuperscript{6} as well as to conflict of interest, ethical, reputational and other relevant standards. The Executive Directors also stated that, on this basis, the Ad Hoc Group would make early recommendations for decision by the Executive Directors.

6. Taking all of the above into account, the Ad Hoc Group decided that it should engage in additional fact finding and that its work should result in a report to the Executive Directors presenting its findings, conclusions and recommendations regarding the matter under review. The Ad Hoc Group believed that additional review of pertinent information, including the Staff Rules, the Code of Conduct for Board Officials, the President’s contract, as well as any applicable standards relating to conflict of interest, ethical or reputational considerations, was warranted. It also believed that follow-up meetings, on the record and recorded by a stenographer, should be conducted with persons who may shed further light on the information already collected.

7. The Ad Hoc Group therefore met on the record (recorded by a stenographer) with current and former officials of the World Bank\textsuperscript{7} as well as with the concerned staff member to gather relevant information on the issues identified in the course of its initial meetings, as well as on issues identified through review of the documents collected to date.

8. Upon completion of its meetings with persons having relevant information on the matter and obtaining further documentary information, the Group engaged in deliberations of the issues dealt with in the mandate given to it by the Executive Directors. In particular, the Group examined the following questions in light of the information it had collected:

\textsuperscript{5} Development Committee Communiqué, April 15, 2007, paragraph 16.

\textsuperscript{6} See footnotes 9 and 10.

\textsuperscript{7} The Ad Hoc Group met with Mr. Paul Wolfowitz, Mmes. Shaha Riza, Robin Cleveland, Aulikki Kuusela, and Pauline Ramprasad and Messrs. Ad Melkert, Otaviano Canuto, Roberto Danino and Xavier Coll.
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(i) whether the facts show the violation of any staff rule;\(^8\)
(ii) whether the facts show a violation of the terms of the contract of the President
of the World Bank;\(^9\)
(iii) whether the facts show a violation by the President of the obligation imposed
by his contract, to "avoid any conflict of interest, real or apparent"; and,
(iv) whether, based on the totality of circumstances, including any reputational
damage that may have been done to the institution as a result of the matters under
review, any changes would appear to be necessary to the governance framework
to enable the World Bank to continue to operate to the fullest extent possible in
achieving its chartered objectives.

9. This report sets out the legal framework relevant to this matter, a statement of the
facts, and the Group's discussion and recommendations to the Executive Directors.

II. Legal Framework

10. Article V, Section 5 of the Bank's Articles of Agreement states:

President and Staff

(a) The Executive Directors shall select a President who shall not be a governor or
an executive director or an alternate for either. The President shall be Chairman of
the Executive Directors, but shall have no vote except a deciding vote in case of
an equal division. He may participate in meetings of the Board of Governors, but
shall not vote at such meetings. The President shall cease to hold office when the
Executive Directors so decide.

(b) The President shall be chief of the operating staff of the Bank and shall
conduct, under the direction of the Executive Directors, the ordinary business of
the Bank. Subject to the general control of the Executive Directors, he shall be
responsible for the organization, appointment and dismissal of the officers and
staff.

(c) The President, officers and staff of the Bank, in the discharge of their offices,
owe their duty entirely to the Bank and to no other authority. Each member of the

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\(^8\) The Ad Hoc Group has construed "staff rule" broadly to include all applicable standards including the
Code of Conduct for Board officials; the Principles of Staff Employment; the Staff Rules, as well as other
pertinent policies such as the World Bank Policy on Disclosure of Information.

\(^9\) *Contract with Mr. Wolfowitz*, SecM2005-0356, June 15, 2005. The President's contract also appears as
Exhibit 3 in the President's Submission on Behalf of Paul Wolfowitz, President of the World Bank Group,
to the Ad Hoc Committee of the World Bank Group, April 30, 2007 ("President's Submission").
Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

11. The President’s contract of employment (“Contract”) states:\footnote{Id.}:

3. You will adhere to the standards set forth in the Code of Conduct for Board Officials (the Code). You will also be expected to observe the standards of ethical conduct applicable to staff members of the Bank, where these reflect a stricter standard. Notwithstanding any provisions to the contrary in the Code or the staff standards, the following provisions will apply to you as President:

* * *

(d) Conflict of interest. It is understood further that you will avoid any conflict of interest, real or apparent.

* * *

(f) where clarification is required with respect to ethical standards, you may seek the guidance of the Ethics Committee, established by the Executive Directors pursuant to paragraph 10 of the Code.

12. The Code of Conduct for Board Officials (Code) states:

3. Basic Standard of Conduct

3(a) Board Officials . . .shall maintain the highest standards of integrity in their personal and professional conduct and observe principles of good governance.

* * *

4. Conflicts of Interest

4(a) In performing their duties, Board Officials shall carry out their responsibilities to the exclusion of any personal advantage.

4(b) Board Officials shall endeavor to avoid any situation involving an actual conflict, or the appearance of a conflict, between their personal interests and the performance of their official duties. If an actual conflict arises, the Board Official concerned shall promptly refer the matter to the Ethics Committee described in paragraph 10 below and shall withdraw
from attendance or participation in deliberations or decision-making connected with that matter. If an appearance of conflict arises, or if there is doubt whether a conflict, actual or apparent, exists, the Board Official concerned shall promptly refer the matter to the Ethics Committee for guidance.

* * *

7. Disclosure of Information

7(a) Board Officials shall at all times observe the applicable policies of the Organizations regarding disclosure of information.

7(b) Board Officials shall protect the security of any information obtained in the performance of their duties as Board Officials that is not otherwise available to the public and, except as required to perform their duties as Board Officials, shall not use such information or disclose it to others [ .... ]

13. The Ethics Committee Rules of Procedure provide the following procedures for handling requests for guidance:

7. Procedures for Handling Requests for Guidance

7(a) A Board Official or the President may submit a request for guidance concerning his or her annual disclosures, conflicts of interest, or other ethical aspects of conduct in respect of his or her personal situation to any Committee Member for consideration by the Ethics Committee in accordance with the procedures set forth in this paragraph 7.

7(b) The Ethics Committee shall review the request. Counsel to the Ethics Committee shall assist with this review. The Ethics Committee may also consult with one or more of the Ethics Advisors. The Ethics Committee may at any time request further information from the individual who submitted the request for guidance.

7(c) The Ethics Committee shall provide in writing its advice in response to each individual who has submitted a request for guidance. The Ethics Committee may communicate such advice to other Board Officials and the President, subject to consultation with the individual and in a manner that ensures the privacy of the individual concerned.
7d) An individual who is not satisfied with the advice received from the Ethics Committee in response to a request for guidance may request reconsideration by the Ethics Committee or review by the Executive Directors.

14. The standards of ethical conduct applicable to staff members of the Bank are set forth in the Principles of Staff Employment and the Staff Rules. Section 1.01 of the Preamble of the Principles of Staff Employment states:

1.01 The Articles of Agreement of the International Bank for Reconstruction and Development and of the International Development Association (together referred to as The World Bank), and the Articles of Agreement of the International Finance Corporation (IFC) provide respectively that, subject to the general control of the Executive Directors of the Bank and the Association and of the Directors of the Corporation (all referred to as the Executive Directors), the President is responsible for the organization, appointment and dismissal of officers and staff.

Moreover, the fact that The World Bank and the IFC (the Organizations) are not subject to the employment legislation of any of their member countries imposes a special obligation on the Organizations in the relationship between them and their staff. Therefore, and without enlarging or restricting the constitutional or delegated authority of the President, the Executive Directors, upon the recommendation of the President, have adopted the following Principles of Staff Employment, which may be amended from time to time.

These Principles of Staff Employment embody the general conditions and terms of employment with the Organizations and the duties and obligations of the Organizations and of staff members. They set forth the broad policies in accordance with which the President shall organize and manage the staff of The World Bank and the IFC.

15. Principle 3 of the Principles of Staff Employment provides, in pertinent part:

3.1. The sensitive and confidential nature of much of their work requires of staff a high degree of integrity and concern for the interests of the Organizations. Moreover as employees of international organizations, staff members have a special responsibility to avoid situations and activities that might reflect adversely on the Organizations, compromise their operations, or lead to real or apparent conflicts of interest. Therefore, staff members shall:

a. discharge their duties solely with the interest and objectives of the Organizations in view and in so doing shall be subject to the authority of the President and responsible to him;
c. conduct themselves at all times in a manner befitting their status as employees of an international organization. They shall not engage in any activity that is incompatible with the proper discharge of their duties with the Organizations. They shall avoid any action and, in particular, any public pronouncement or personal gainful activity that would adversely or unfavorably reflect on their status or on the integrity, independence and impartiality that are required by that status; and

d. observe the utmost discretion in regard to all matters relating to the Organizations both while they are staff members and after their service with the Organizations has ended. In particular they shall refrain from the improper disclosure, whether direct or indirect, of information related to the business of The World Bank or the IFC.

16. Staff Rule 3.01, Section 3 Standards of Professional Conduct, provides:

Duty of Care

3.03 Staff members must comply with the obligations embodied in the Principles of Staff Employment, the Staff Rules and all other policies and procedures of the Bank Group, as applicable.

17. Staff Rule 3.01, Section 4, Supervisory Relationships, provides:

4.01 Supervisors shall at all times treat staff in a fair and unbiased manner. Treatment of staff shall not be influenced by personal ties between a supervisor in the staff member nor shall it be influenced by the race, nationality, sex, religion, political opinions, or sexual orientation of the supervisor or staff member...

4.02 A sexual relationship between a staff member and his/her direct report, or direct or indirect manager or supervisor is considered a de facto conflict of interest. The manager/supervisor shall be responsible for seeking a resolution of the conflict of interest, if need be in consultation with management, who will take measures to resolve the conflict of interest. Failure to promptly resolve the conflict of interest may result in a finding of misconduct.

18. Staff Rule 3.01, Section 6, Instructions and Remuneration from Outside Sources, provides:
6.01 Except as otherwise required to perform Bank Group assignments involving service to other entities, staff members owe their duty entirely to the Bank Group and to no other authority. Accordingly, staff members may not accept instructions relating to the performance of their duties with the Bank Group from any governments or other external entities or persons except where performing duties for others pursuant to:

a. the terms of an Executive Director’s Assistant Appointment;

b. an External Service Assignment;

c. during Leave Without Pay; or

d. the provisions of Staff Rule 3.04.

19. Staff Rule 4.01, Appointment, Section 5, Spouses and Domestic Partners, provides:

5.02 The spouse or domestic partner of a staff member who meets the normal selection standards may be employed by the Bank Group. A husband and wife or domestic partners may be assigned to the same vice presidency or department, if neither supervises the other, directly or indirectly, and their duties are not likely to bring them into routine professional contact. They may not be assigned to the same division or equivalent unit. A spouse or a domestic partner of a staff member may be assigned to the same country office, provided that neither supervises the other, directly or indirectly, and provided that the Vice President responsible for the country office, in consultation with the Manager, Human Resources Service Center or the IFC Manager, Recruitment, approves the assignment.

20. Staff Rule 5.01, Reassignment, paragraph 2.03 states, in part:

The Director, Human Resources, shall reassign a staff member who marries or registers as a domestic partner of a staff member assigned to the same vice presidency, department, or other unit, if one spouse or domestic partner supervises the other directly, or indirectly, or their duties are likely to bring them into routine professional contact.

21. Staff Rule 5.02, External Service, Paragraph 2.02 states:

2.02 Staff members are eligible for External Service if they meet all of the following criteria:
a. their performance is fully satisfactory and they have been confirmed in their appointment;

b. they are not currently on External Service;

c. they express, in writing to the External Service Sponsor, interest in the proposed assignment, or respond to an announced vacancy; and

d. their appointment with the Bank Group will not terminate by mandatory retirement until at least one year after the conclusion of the External Service assignment.

22. Staff Rule 5.02, Paragraph 3.01 states:

3.01 The Bank Group will consider applications from staff members for assignment to External Service if, in the opinion of the External Service Sponsor, the proposed assignment supports Bank Group objectives in one or more of the following ways:

a. by providing technical assistance to Bank Group clientele;

b. by enhancing the Bank Group's relations with member countries, the United Nations, other international organizations, or other agencies sharing the Bank Group's missions; or

c. by enabling Bank Group staff to acquire skills and experience which the External Service Sponsor considers will contribute to the Bank Group's efficiency and effectiveness.

23. Staff Rule 5.02, paragraph 3.02(b) states:

3.02(b) Appointments to Public Office with a Political or Policymaking Character. Appointments as minister, deputy minister, head or deputy head or equivalent of a central bank or other public agency having a political or policy-making character are not allowed as External Service. Staff members accepting such appointments shall resign. Appointments to other posts in public office, including senior or civil service posts, may be allowed as External Service unless otherwise determined by the Vice President, Human Resources. If required to do so by the Vice President, Human Resources, staff members accepting such appointments shall resign.
24. Staff Rule 5.02, paragraph 3.03, Length of Service, states:

Length of External Service. The maximum length of External Service is two years, unless the External Service Sponsor, in consultation with the HR Manager or designated official decides to extend the duration of the External Service. The maximum extension shall be for two years. The maximum total duration of the External Service shall be four years.

25. Staff Rule 6.01, Compensation, Paragraph 3.04, Promotion Increase, states:

3.04 Except as provided in paragraph 3.06, upon promotion to a higher grade pursuant to the provisions of Rule 5.05, a staff member will receive an increase equal to the greater of:

i. 3 to 12 percent of the market reference point of the new grade up to the maximum of the salary range for the new grade; or

ii. the amount necessary to bring the net salary to the minimum of the new grade.

26. Staff Rule 6.01, Compensation, Paragraph 6.05, Leave without Pay and External Service, provides, in pertinent part:

6.05 A staff member who has been on external service with pay for a period longer than three calendar months as of the date of the general salary review will receive a salary increase at the time of the general salary review equal to the average percentage applied to adjust the market reference points at grades A through I.

III. Factual Chronology

A. The Ethics Committee Discussion and Subsequent Events

27. In May 2005, in the context of the discussion of the proposed contract of employment for Mr. Paul Wolfowitz, as President of the World Bank, Mr. Wolfowitz disclosed to the Bank, through his then counsel, Mr. Robert Barnett of the Washington law firm of Williams Connolly LLP, that he had a pre-existing relationship with a Bank staff member. On May 27, 2005, the then Senior Vice President and General Counsel of the Bank, Mr. Roberto Danino wrote to Mr. Barnett as follows:
First, I would like to acknowledge that Mr. Wolfowitz has disclosed to the Board, through you, that he has a pre-existing relationship with a Bank staff member, and that he proposes to resolve the conflict of interest in relation to Staff Rule 3.01, Paragraph 4.02 by recusing himself from all personnel matters and professional contact related to the staff member. A determination on whether a recusal is sufficient to resolve the conflict would be made within the legal framework of the institution, namely the contract, the Code of Conduct and the Staff Rules ...... I would be grateful if you could confirm our understanding on these two points.  

On May 29, 2005 Mr. Barnett replied to Mr. Danino:

MR. WOLFOWITZ UNDERSTANDS THE NEED TO DEAL WITH THE APPEARANCE OF A CONFLICT OF INTEREST. HE HAS PROPOSED A FAIR AND APPROPRIATE RECUSAL PROCESS THROUGH CONSIDERATION BY THE ETHICS COMMITTEE. THAT RECUSAL PROCESS WOULD NOT – I REPEAT, NOT – INVOLVE RECUSAL FROM PROFESSIONAL CONTACT. GIVEN THE ATTITUDE THAT THE BANK HAS EXPRESSED WITH RESPECT TO THIS MATTER, WE BELIEVE THAT THIS MATTER MUST BE RESOLVED BEFORE A CONTRACT IS SIGNED.

28. In an email dated May 30, 2005 from Mr. Barnett to Mr. Danino, Mr. Barnett requested guidance from the Ethics Committee:

There are reports that Mr. Wolfowitz has had a personal relationship with a long-time employee of the Bank. In order to avoid any appearance of a conflict of interest involving that individual, Mr. Wolfowitz will recuse himself from any personnel actions or decisions with respect to that individual. We ask confirmation from the Ethics Committee that this approach is consistent with the regulations and policies -- and, most importantly, the practices -- of the Bank. Thank you.

29. Mr. Wolfowitz’ request was considered by the Ethics Committee on June 2, 2005. The Ethics Committee framed the issue presented as a “request to consider and provide guidance on a potential conflict of interest with regard to Staff Rule 3.01, paragraph 4.02” which is the Staff Rule relating to Supervisory Relationships.

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11 Email from Mr. Barnett to Mr. Danino dated May 29, 2005, President’s Submission, Exhibit 2. Emphasis in original.
12 Id. Emphasis in original.
13 Id.
14 Record of Ethics Committee on Case Number 2 (“EC Record”), p. 1.
30. On June 6, 2005, the Ethics Committee requested from the President information on the name, position held in the unit in which the staff member worked and any other relevant facts to enable the Ethics Committee to guide and advise as appropriate.\(^{15}\)

31. With the agreement of the other two members of the Committee, the Chairman of the Ethics Committee, Mr. Melkert and Mr. Wolfowitz discussed and corresponded during the period of June 6 through July 21, 2005, on the nature of the conflict of interest issue and possible solutions. On June 22, 2005, the Chairman of the Ethics Committee wrote to the President pointing out that the key problem raised by Mr. Wolfowitz’s relationship with Ms. Riza was “supervision, directly or indirectly and routine professional contact”.\(^{16}\) The Chairman of the Ethics Committee wrote:

7. However in this approach there is still a very vital part missing, i.e. the legitimate concern and interest of the “partner” (my terminology) that her career path would not be harmed as a consequence of any conclusion on the issue of a potential conflict of interest. It may even be considered to address this question before reaching any conclusion at all. This would require from her side understanding of the situation as described above and readiness to consider alternatives. I am quite convinced that there are ways to ensure full recognition of her (considerable) professional qualifications and achievement in any option for reassignment. From your own perspective this could be considered one of the possible alternatives to address the potential conflict of interest that was brought to the Board’s attention. It would also make it unnecessary to draw any further conclusions.

8. So in summary these are the two scenarios for conclusion that I consider feasible:
   - the “pragmatic approach” along the suggested lines
   - formal guidance to you by the Ethics Committee.\(^{17}\)

32. After additional discussion and correspondence\(^{18}\), on July 21, 2005, Mr. Wolfowitz responded to the Ethics Committee’s June 6 letter:

As you know, during the negotiations of my contract, to avoid any appearance of a conflict of interest, I provided a statement to the Board recusing myself from any personnel actions or decisions with respect to a

\(^{15}\) Id.

\(^{16}\) Memorandum to Paul Wolfowitz from Ad Melkert dated June 22, 2005, President’s Submission, Exhibit 4. Note: Mr. Melkert’s June 22, 2005 memorandum was included in the President’s Papers as Document 4, but did not include its second page. A complete copy of Mr. Melkert’s June 22 memorandum was attached to the President’s Submission in Exhibit 4.

\(^{17}\) Id.

\(^{18}\) Letter from Ad Melkert to Paul Wolfowitz dated July 14, 2005 and Note from Ad Melkert to Paul Wolfowitz dated July 20, 2005, President’s Papers delivered to the Ad Hoc Group, April 9, 2007, (“President’s Papers”) Documents 5 and 6.
longstanding professional staff member of the Bank with whom it has been reported that I have a prior personal relationship. I asked at that time for the Ethics Committee to ensure that this approach was consistent with the regulations, policies and practices of the Bank.

In order to complete your review, I understand that the Ethics Committee needs to be officially informed of the name and professional position of the Bank employee to ensure a recusal can be properly implemented. Ms. Shaha Riza currently works in MENA as Acting Director of EXT.

It is important that my recusal uphold the highest standards of conduct which should be applied across the institution. Moreover, I appreciate the concern you reflected in your memo dated June 22 that my recusal and any related Board decisions not be punitive nor have an adverse impact on Ms. Riza's professional opportunities. The conflict, if there is one, is mine and not hers and the Board was fully informed of it before my contract was signed.

The challenge for your Committee and for me, as President, is how to:

1) avoid a conflict of interest, real or apparent; and

2) treat a loyal professional employee with the respect and fairness that all employees deserve.

I would appreciate the advice of the Ethics Committee on how this challenge can best be met.

In your consideration of these questions, I would ask the Committee to keep in mind two facts:

With respect to point 1 above, the recusal I propose goes beyond the current prohibition on direct or indirect supervision, by recusing myself from any influence over personnel decisions involving Ms. Riza. This sets a higher standard than I believe has been applied previously. In the future, the same standard should apply to all senior management of the Bank and to members of the Board who have a personal relationship with an employee of the Bank, regardless of the supervisory relationship.

With respect to point 2 above, the reasonable prohibition on direct or indirect supervision necessarily precludes Ms. Riza from many professional opportunities in the Bank. She is thus necessarily disadvantaged by a circumstance that is not of her own making.
Thank you for your consideration.¹⁹

33. On July 22, 2005, the Ethics Committee met to review the President’s July 21 letter. The Committee discussed matters raised during informal discussions between Mr. Wolfowitz and the Chairman of the Committee and noted in the Chairman’s June 22 note to Mr. Wolfowitz. In addition, the Committee considered a technical note from the General Counsel²⁰ which reviewed various proposed alternatives, mutually exclusive, with their pros and cons, including: (1) “External Service”, meaning assignment outside the Bank, or Reassignment, meaning remaining within the Bank in a position that did not report to Mr. Wolfowitz directly or indirectly; (2) some form of additional benefit to offset the negative career impact on the staff member, including promotion and salary increase; or, alternatively, (3) a mutually agreed separation, meaning termination of service, with severance determined by established formula. Regarding promotion, the note from the General Counsel indicated the possibility that the staff member could be promoted in situ by a decision of the management of the MENA Region, or competitively if there were a position “not under the direct or indirect supervision of the President”.²¹ The Committee received information and advice relevant to the matter under discussion.²²

34. The Ethics Committee was unanimous in its view that Mr. Wolfowitz’s proposal to recuse himself only from influence over Ms. Riza’s personnel decisions, and not also from professional interactions with her, “would not cure the de facto conflict of interest that existed” under Staff Rule 3.01, paragraph 4.02. The Record of Ethics Committee Deliberations on Case No. 2 read as follows:

“... (1) the situation disclosed by the Requestor [i.e. Mr. Wolfowitz] constitutes a de facto conflict of interest under Staff Rule 3.01, paragraph 4.02; (2) the recusal proposed by the Requestor would not be sufficient in light of the relocation and absence of professional contact standard applicable for spouses and declared partners; and (3) the qualifications and career perspectives of the staff member concerned should be fully taken into account.

The Committee therefore decided that the best possible option to be conveyed to the Requestor would be one in which the staff member concerned is reassigned on external service or to a position beyond the potential supervision of the Requestor and, at the same time, due to the potential disruption of the staff member’s concerned career, an in situ promotion should be considered. This advice would be communicated by

²⁰ EC Record, Annex 6. The General Counsel’s note was prepared for the Ethics Committee and was not disclosed outside the Ethics Committee until April 12, 2007.
²¹ Id.
²² EC Record, p. 2.
the Requestor to the Vice President, MNA and the Vice President, Human
Resources. The Committee believed this was an appropriate course of
action, especially since this matter could be potentially damaging to the
interests of the World Bank Group.\textsuperscript{23}

35. It was agreed that the Chairman would continue informal discussions with the
President with the view to finding an appropriate solution to the matter.\textsuperscript{24}

36. The Ethics Committee then shared with Mr. Wolfowitz an informal draft of the
Ethics Committee advice, dated July 27, 2005, stating\textsuperscript{25}:

1) The situation as described constitutes a de facto conflict of interest.

2) The EC has noted the proposed recusal. At this point in time the EC
does not consider recusal sufficient and would most likely at least propose
relocation/absence of professional contact which is the standard for
spouses/declared partners. Before entering into any further in dept[h]
consideration the EC is of the opinion that the approach below should
prevail.

3) The EC subscribes to the need that the qualifications and career
perspectives of the staff member should be taken fully into account.

4) Having considered different options the EC advises:

a) That the staff member 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.

\textsuperscript{23} Id, pp. 2-3.
\textsuperscript{24} Id, p.3.
\textsuperscript{25} EC Record, Annex 5.
37. The Chairman continued informal discussions with the President. On August 8, 2005, the Chairman sent a letter to him\(^{26}\) addressing issues relating to the possible implementation of the informal draft advice which read:

As agreed by phone last week I have, following your suggestion, approached Xavier Coll and, assisted by Roberto Danino, have shared with him the considerations and preliminary conclusion by the Ethics Committee that I have presented to you in the July 27 informal draft. This briefing has prepared Xavier to meet - upon your request - the staff member concerned in order to inform her of the EC’s considerations and preliminary conclusions in preparing the advice that you had requested in June. I have underscored to Xavier that the following facts should be well understood:

1) The EC cannot interact directly with staff member situations, hence Xavier should act upon your instruction.

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 that reason Xavier’s meeting could not be considered part of formal decision-making.

Assuming 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

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.\(^{27}\)

\(^{26}\) Letter to Paul Wolfowitz from Ad Melkert dated August 8, 2005, EC Record, Annex 8, p. 2.

\(^{27}\) EC Record, Annex 8, second page.
38. According to Mr. Wolfowitz, he understood the August 8 letter as follows: "Look, my understanding of that language was you’re in charge of this. Get it done. Report back to us by the end of the week. You give Mr. Coll his instructions. We’ve given him some general guidelines, but you’re the one who has to take responsibility for the negotiations." 28

39. Mr. Melkert stated:

It would have been perfectly appropriate for him [Mr. Wolfowitz] to instruct his relevant Vice Presidents to resolve the issue in accordance with the advice he had received from the Ethics Committee and with the Bank’s rules and practices and then to otherwise recuse himself from the negotiation and approval of the terms and conditions... As an Ethics Committee and I can say as the Board, there was no way around that the President is responsible, as I quoted from the Articles, for dealing with staff matters. But obviously the President is also bound by the Code of Conduct in terms of avoiding a conflict of interest in the way that you deal with your formal responsibility, and it was really not that difficult to separate those two elements. 29

40. Mr. Canuto stated, on this point:

May I say something on this? We don’t have to go into a semantic debate on what does “instruction” mean to understand that it encompasses, on the one, extreme detailed guidance and orders to, in a manner, simply the instruction to deal with some issues. As the vice president or whoever would be nominated to solve the issue acts upon instructions given by his or her superiors, there has to be some instruction for some task to be implemented. So I really did not conflate that’s how we understood at the time instruction to say kind of detailed order. So I think we are making much first [sic] on this, but the basic meaning is the following. Get it out of the way. Do it. 30

41. Mr. Coll presented the Ad Hoc Group with detailed recollection of the chronology of events based on contemporaneous records. Mr Wolfowitz stated that he had no clear recollection of the sequence of events. 31 According to Mr. Coll he met with Mr. Wolfowitz and Ms. Cleveland, Counselor to the President, on August 10, 2005, in

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28 Interview of Paul Wolfowitz dated April 30, 2007 (‘Wolfowitz Interview’), p. 37.
29 Interview of Ad Melkert and Otaviano Canuto dated May 1, 2007 (“Melkert/Canuto Interview”), pp. 36 and 38 - 9.
30 Melkert/Canuto Interview, pp. 9, 36. See also Melkert interview p. 38.
31 Wolfowitz Interview, pp. 45, 46
preparation for a meeting on August 11 with Ms. Riza. During that meeting, Mr. Coll was told to stop consulting with the Bank’s General Counsel on this matter.

42. Mr. Coll met with Ms. Riza on August 11, where she was accompanied by a friend who is also a lawyer. She proposed the following terms, as recounted by Mr. Coll:
   - she would leave the Bank as part of one of the secondment programs to an institution “of her choice”
   - she would be promoted to level H before leaving the institution – given the nature and in recognition of the job that she had been doing over the past few years
   - the secondment program would maintain her current employment with the Bank, including salary and benefits (for as long as she is in the program)
   - as part of the promotion to level H, she would be placed at the mid-point (or a bit higher) of the level H salary range. She mentioned a figure of $180,000
   - her annual merit increases during her secondment period would reflect a mid-5 merit increase category
   - after 5 years in the program, Mr. Riza would come back to the Bank at level G-I
   - after 10 years in the program, Ms. Riza would come back to the Bank at level G-

43. According to Ms. Riza, she arrived at the figure of $180,000 by taking into account her view that “two consecutive MENA Vice Presidents” had not promoted her due to “discrimination,” because she is “a Muslim, Arabic woman who dares to question the status quo.” She also said:

   I thought that given the fact that I was supposed to have been given my H level at least in situ – you have to remember that everybody else in the EXT in my position, whether in the Regions or in the Networks were all at the H level. I was the only one who was not at the H level. Why? I don’t know. My feeling is that it had something to do with somebody on the Board. Yes, absolutely. Because there was no reason for me not to get my H level, given the fact that I was doing the job of an H level for three years. Actually, by the time I left, it was almost

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33 Id. p. 28. See also, email dated August 10, 2005, 6:44 p.m. from Mr. Coll to Mr. Melkert and Mr. Danino stating that Mr. Coll had met with Mr. Wolfowitz, and that “the follow up will remain confidential” between Mr. Coll and the President, and that “the President will decide how to proceed from there.” See also letter from Xavier Coll to Herman Wijffels dated May 2, 2007 (“Coll Papers”), Annex 4, and Interview of Roberto Danino, April 30, 2007 (“Danino Interview”), pp. 11, 22, 23. Mr. Coll stated that in the evening of August 11, he called a person he trusted (David Rivero) at home to discuss informally – on an hypothetical and no name basis – his concerns at being asked to take action outside of the Staff Rules. He also disclosed concerns involving the interplay between external service arrangements and staff grievances.
34 Email to self dated August 12, 2005, Coll Papers, Annex 1.
35 Riza interview p. 9.
four years. So I looked at that and I said, where would I be had they given me my H level when they should have given it to me? 36

44. Mr. Coll met again with Mr. Wolfowitz and Ms. Cleveland on August 12 to discuss Ms. Riza’s proposed terms. According to Mr. Wolfowitz, he knew of Mr. Coll’s “discomfort” with the proposed agreement with Ms. Riza. 37 He stated that Mr. Coll did not tell him the proposals were outside the Bank’s rules, and that, in any case, “there were no established Bank practices for a situation like this.” 38 According to Mr. Coll, he told Mr. Wolfowitz and Ms. Cleveland that the terms proposed by Ms. Riza, regarding her promotion increase, her annual increases and guaranteed promotion to Levels I and J were “outside the Staff Rules” and that moving forward with them was a reputational risk to the Bank. 39 In Mr. Coll’s view, there is “no doubt that the President knew or had been made aware of by me that this was outside the rules.” 40

45. Ms. Riza’s initial proposal that her promotion to Levels I and J be automatic was not accepted. According to Mr. Coll, he viewed the provision for guaranteed promotion to Levels I and J as “more outrageous than everything else” and therefore insisted to Mr. Wolfowitz and Ms. Cleveland on some form of peer review for the promotions to Levels I and J, even though he did not believe that would bring the proposal within the Staff Rules. 41 The Ad Hoc Group notes in the record a document described by Mr. Wolfowitz as an “early draft” with Mr. Wolfowitz’s handwritten edits, in which Mr. Wolfowitz directs Mr. Coll to accept all of Ms. Riza’s terms. 42 The record also shows a final version of this memorandum dated August 11 which incorporates a peer review element and other elements that according to Mr. Coll were discussed during a meeting with Mr. Wolfowitz, Mr. Coll and Ms. Cleveland on Monday, August 12. 43

46. The full text of the August 11, 2005, memorandum is as follows:

As you know, I recused myself from any personnel action or decision related to Shaha Riza, a proposal which would have afforded her the opportunity to continue on her professional career course at the Bank while avoiding any

36 Riza interview pp. 28 and 29.
37 Wolfowitz Interview, pp 39 and 41.
38 Id. p. 47.
39 Coll Interview, p.40, 43. See Coll Papers, p. 3.
40 Id. p. 41.
41 Id, p. 59.
42 President’s Submission, Exhibit 11 second document. Note that in the President’s Submission dated May 11, 2007, he asserts that the Ad Hoc Group has erroneously identified as his the writing on a “draft agreement dated 08/26/05” See, President’s May 11 Submission, page 19, note 52. However, the Ad Hoc Group reference is to the second of two documents attached as Exhibit 11 to the April 30 President’s Submission. That second document is not a “draft agreement dated 08/26/05” as claimed by Mr. Wolfowitz but rather, it is an early draft of the August 11, 2005 memorandum from Mr. Wolfowitz to Mr. Coll as described in Mr. Wolfowitz’s May 13 Submission, p. 29.
43 President’s Submission, Exhibit 10. See also Coll Interview, p. 47
appearance of conflict of interest. The Ethics Committee advised me that my proposal was unacceptable. In addition, they stated that it was not appropriate for them to "interact with staff member situations", therefore, I was directed to instruct you to inform her of their conclusions and develop a plan which "duly recognizes (her) record and career perspectives," and that I should complete the action by the end of this week.

In accordance with this directive from the Ethics Committee, I provided instruction for you to meet with her to discuss options. I appreciate your effort to carry out this assignment promptly and in a fair, professional manner.

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, she should return at a J level, which she notes would be one year from retirement. Since we have created a situation that 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 my 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.44

47. From the time Ms. Riza presented her terms to Mr. Coll until Mr. Wolfowitz instructed Mr. Coll to accept those terms, neither Mr. Wolfowitz nor Mr. Coll consulted with Bank counsel concerning whether the terms were in the Bank’s interest. Mr. Coll states that during his August 10 meeting with Mr. Wolfowitz and Ms. Cleveland, they told him he “could not talk to anybody” including the General Counsel, about his conversation with Ms. Riza.45 According to Mr. Coll, after he received the written August 11 instructions from Mr. Wolfowitz, he asked again whether he could consult with the Bank’s General Counsel, or anyone in the Bank’s Legal Department, and was told he could not.46 Mr. Wolfowitz has not denied that the General Counsel was excluded from the negotiations. However, he explains that he did not consult with the General Counsel because he considered the General Counsel to be conflicted from providing advice to both the Ethics Committee and management.47

48. On August 12, the President wrote to the Chairman of the Ethics Committee,48 indicating that because Mr. Coll and Ms. Riza had reached an agreement, he was withdrawing his proposed recusal and he considered the matter closed. The August 12 memorandum reads as follows:

On August 8, I received a memo from you stating that the Ethics Committee had rejected my proposed recusal as the appropriate means to avoid any conflict of interest bearing on the professional circumstances of Shaha Riza. 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

44 Id.
45 Coll Interview, p. 28. See also, email dated August 10, 2005, n. 35, supra.
46 Coll Interview, p. 38.
47 Wolfowitz Interview, pp. 24, 25.
48 President’s Papers, Exhibit 11
further potential conflict of interest. I hereby withdraw my request for consideration of my proposal for recusal and view this matter as closed.

49. In his August 12 memorandum, Mr. Wolfowitz did not describe to the Ethics Committee the specific terms and conditions of the agreement reached with Ms. Riza, and he did not provide the Ethics Committee with a copy of his August 11 memorandum to Xavier Coll. He did not disclose that he had been directly involved in the determination of those terms and conditions or that he had directed Xavier Coll to implement them. The Ethics Committee did not request any information from Mr. Wolfowitz or anyone else. Mr. Melkert has explained that the Ethics Committee assumed the details of the arrangements between the Bank and Ms. Riza would be in accordance with the Bank’s rules and practices and it was not the role of the Ethics Committee to delve further once it was reported to them that Ms. Riza was assigned outside Mr. Wolfowitz’s influence.\(^{(49)}\)

50. The President’s August 12 memorandum was hand delivered, to the Chairman but he did not receive it until August 22, 2005, since he was on leave.\(^{(50)}\)

51. The Ethics Committee met on August 29, 2005. The record of its deliberations, which neither Mr. Wolfowitz nor the Board had access to, in relevant part reads as follows:

[the Committee] agreed that the outcome is consistent with the Committee’s findings and advice as noted above. In particular, the Committee noted its views on various misstatements in the Requestor’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. Indeed, 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

\(^{(49)}\) Melkert Interview, pp. 11, 27.
\(^{(50)}\) EC Record, p. 3.
the direct or indirect supervision of the Requestor and there is no routine professional contract 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.\textsuperscript{51}

52. According to Mr. Melkert, because the solution reported by Mr. Wolfowitz to the Ethics Committee was that Ms. Riza would “no longer be under his supervision, which was the heart of the matter” the Ethics Committee determined not to engage in a further exchange with Mr. Wolfowitz’s about “interpretations of the roles of the different actors”.\textsuperscript{52}

53. On August 31, 2005, Mr. Douglas Cox, an attorney with the law firm of Gibson Dunn and Crutcher, wrote a letter to the President advising him:

You have asked us to review a contract that provides for a detail of a Bank employee to the State Department. As you know, our review has been limited: the key elements of the contract had been accepted and agreed to by all parties to the contract before we were retained. In addition, we understand that the State Department is separately reviewing the contract and will conclusively opine that the detail described therein is consistent with all applicable laws, including any appropriation law restrictions on the State Department’s ability to accept the detail. Within this limited review, we believe that the contract is a reasonable resolution of the underlying perceived conflict of interest and reflects a reasonable compromise between the interests of the Bank and the detailee that avoids, among other things, the risks of protracted legal proceedings.\textsuperscript{53}

54. According to Ms. Cleveland, Gibson Dunn and Crutcher was retained because:

When the President accepted his responsibility, he did so with the view that Bank Counsel could not provide legal advice to both parties (i.e., the Committee and the President). In order to assure the Bank’s interests were appropriately protected, the President believed a legal evaluation of any

\textsuperscript{51} EC Record, p. 3.
\textsuperscript{52} Melkert Interview, p. 42.
\textsuperscript{53} President’s Submission, Exhibit 21.
agreement was essential so he asked me to look at outside law firms with strong labor and personnel practices.\textsuperscript{54}

Billing records from Gibson Dunn indicate that the Bank was billed for a total of two hours for the law firm's work on this matter.\textsuperscript{55}

55. On September 1, 2005, Mr. Coll signed a letter of agreement with Ms. Riza on the terms and conditions of her external service.\textsuperscript{56}

56. By letter dated September 21, 2005, to Mr. J. Scott Carpenter, Deputy Assistant Secretary Bureau of Near Eastern Affairs, US Department of State, Mr. Coll confirmed that Ms. Riza would be assigned to External Service at the U.S. Department of State, to serve as Senior Adviser in charge of establishing a foundation that will focus on reform of the MENA region.\textsuperscript{57}

57. On October 24, 2005 the Chairman of the Ethics Committee wrote to the President indicating that the matter was closed:

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.\textsuperscript{58}

58. On October 25, 2005, at an informal meeting of the Board of Executive Directors, the Chairman of the Ethics Committee delivered the following statement:

On May 31, 2005 in the course of the negotiations of the contract of the President, the Ethics Committee was requested to provide guidance on a potential conflict of interest with regard to Staff Rule 3.01, paragraph 4.02. The Ethics Committee considered the request and is pleased to

\textsuperscript{54} Email (draft) from Robin Cleveland dated 9/9/05, President's Papers Exhibit 12..
\textsuperscript{55} Invoice from Gibson, Dunn & Crutcher, November 21, 2005. Note that the billing records include a charge for 1.25 hours on October 26, 2005, which is presumably not time spent reviewing the agreement with Ms. Riza, which was signed on September 1, 2005.
\textsuperscript{56} President's Papers, Exhibit 14.
\textsuperscript{57} Id, Exhibit 16. The Foundation for the Future website states that its purpose is to "promote democracy and reform" in the MENA region.
\textsuperscript{58} President's Submission, Exhibit 14.
confirm to the Executive Directors that the conflict of interest has been dealt with appropriately.\textsuperscript{59}

59. On November 25, 2005 the Chairman of the Ethics Committee wrote to the President:

This is (formally needed for the records) just to confirm the outcome regarding this extraordinarily difficult issue.

I would like to thank you for the very open and constructive spirit of our discussions, knowing in particular the sensitivity to Shaha, who I hope will be happy in her new assignment.\textsuperscript{60}

B. The Ethics Committee Discussion of the “John Smith” Emails

60. On January 21, 2006, one “John Smith” sent an e-mail to the World Bank investigations hotline with a copy to the members of the Board of Executive Directors of the Bank\textsuperscript{61} asking for an investigation of the salary increase provided to Ms. Riza and the contracts of Robin Cleveland, Kevin Kellems and Mr. Karl Jackson.

61. On February 13, 2006, the Ethics Committee met and discussed, among other things, whether the allegations made in Mr. Smith’s January 21, 2006 email warranted further review by the Ethics Committee. The Committee members agreed that the allegations concerning Ms. Cleveland and Messrs. Kellems and Jackson had been satisfactorily addressed by management during the meetings on February 1 and 3 with the Personnel Committee\textsuperscript{62} on a presentation on the general principles of employment and succession planning and governance processes for senior appointments. Regarding the Ms. Riza matter, the Ethics Committee determined that the facts alleged by Mr. Smith were “consistent with the Committee’s resolution of Case No. 2” and therefore no further action was required.\textsuperscript{63}

62. On February 15, 2006, Mr. Smith sent a second e-mail to the Bank’s investigations hotline and the Board complaining that his previous request for an

\textsuperscript{59} EC Record, Annex 10.
\textsuperscript{60} President’s Submission, Exhibit 16.
\textsuperscript{61} EC Record, Annex 11.
\textsuperscript{62} Report to the Board from the Personnel Committee dated February 27, 2006, PC2006-0002, paragraph 5, indication that management “assured the committee that the recent appointments made by the President were coherent and consistent with the Bank’s existing rules and regulations as well as past precedents in the institution.”
\textsuperscript{63} EC Record, Annex 11.
investigation was being ignored, and taking issue with defenses to the claims he perceived in the media or other unidentified correspondence.\(^{64}\)

63. On February 28, 2006, the Ethics Committee Chairman wrote to the President informing him that the Ethics Committee had considered both Mr. Smith’s emails, along with other documents and concluded the matters raised in the emails did not require further action by the Ethics Committee:

> On the basis of a careful review of the above-mentioned documents and the information provided by the President at the informal meeting with Executive Directors on February 3, 2006, the Ethics Committee decided that the allegations regarding appointments of Bank staff do not appear to pose ethical issues appropriate for further consideration by the Committee. The Committee also decided that the allegation relating to a matter which had been previously considered by the Committee did not contain new information warranting any further review by the Committee.\(^{65}\)

64. Mr. Melkert explained that from the standpoint of the Ethics Committee, the John Smith emails did not raise new information concerning Ms. Riza because the Ethics Committee knew she had received a promotion, and the amount of the promotion “was an aspect which we deliberately had not engaged ourselves with in the summer of 2005 [because] the levels of salary and all these kinds of things should not be part of or are not part of the responsibility of Board members and the Ethics Committee.”\(^{66}\)

65. The Ad Hoc Group has been informed by the Human Resources Department, that staff on External Service for more than three months as of July 1, 2006, received an annual increase of 3.45% because that is the amount calculated by operation of Staff Rule 6.01, Compensation, Paragraph 6.05, Leave Without Pay and External Service. Ms. Riza’s actual increase, effective July 1, 2006, was 7.55% ($180,000 x .0755 = $13,590). The September 1 agreement with Ms. Riza provides that she will receive additional annual increases that are not related to the formula in Staff Rule 6.01.

C. Recent Developments

66. This matter has received considerable attention in the media and has become an issue impinging on the Bank’s reputation. On March 28, 2007 the Washington Post published an article titled “Where the Money Is” in which Mr. Kevin Kellems, Director, Strategy and Senior Advisor to the President, was quoted as saying: “All arrangements concerning Shaha Riza were made at the direction of the Bank’s Board of Directors.”\(^{67}\)

\(^{64}\) Id.
\(^{65}\) Id.
\(^{66}\) Melkert Interview, p. 71.
\(^{67}\) Mr. Kellems’ statement also appeared in an article in the New Yorker magazine dated April 9, 2007 titled “The Next Crusade, Paul Wolfowitz at the World Bank.”
On April 9, 2007, the President issued a statement to all Bank staff stating that he had sought the advice of the Board of Executive Directors and “acted on the advice of the Board’s Ethics Committee.” At a press conference on April 12, 2007, Mr. Wolfowitz stated “In hindsight, I wish I had trusted my original instincts and kept myself out of the negotiations. I made a mistake for which I am sorry.” I take full responsibility for the details of the agreement, and I did not attempt to hide my actions or to make anyone else responsible. I met with the Board this morning, and I proposed to them that they establish some mechanism to judge whether the agreement reached was a reasonable outcome. I will accept any remedies they propose.” On April 14, 2007 the President issued a statement indicating his concern that the documents released by the Board “are quite lengthy; it’s a lot to wade through looking for significant facts, so I’d like to call your attention to a number of them” and he provided a link to documents that had been underlined for emphasis. On April 30, 2007 Mr. Wolfowitz’s statement to the Ad Hoc Group appeared in the media. In that statement he claimed there was a “plainly bogus charge of conflict of interest” a “smear campaign” and that “for the Directors now to declare my actions to be improper and to criticize me would be unjust and frankly hypocritical.”

67. Statements made to the Ad Hoc Group by Mr. Melkert, Mr. Danino and Mr. Wolfowitz have also appeared in the media. In addition, statements attributed to Bank officials have appeared in the news and in on-line postings.

IV. Discussion

A. Ad Hoc Group’s Deliberations

68. At the outset, the Ad Hoc Group would like to underscore that it does not regard the work it was asked by the Executive Directors to undertake as an adversarial process in which one party is pitted against another. The Group is of the strong view that everyone involved must approach this work with the same common objective: to do that which is in the best interest of the institution. We must not lose sight of the fact that we each and all of us have a fiduciary obligation to the organization.

69. The Ad Hoc Group regards its work as primarily involving matters of institutional governance. In the view of the Group, the question that must be kept uppermost in mind is whether principles of good governance and the highest standards of integrity have been observed by all parties, or whether some fell short. Looking forward, the question that must be addressed is whether the events that have unfolded have implications for how the institution is best served in terms of its leadership as well as its governance structure.

70. The Ad Hoc Group benefited from an extensive documentary record as well as from meetings with several current and former staff members and Board officials. The
Group is grateful to the persons who made themselves available to meet with the Group, in particular Mr. Wolfowitz who met with the Group on three separate occasions and who, directly and later through his lawyers, provided an extensive compilation of documents. The draft of this report of the Ad Hoc Group was shared with Mr. Wolfowitz on May 6, 2007. He submitted a reply to the draft of this report of the Ad Hoc Group on May 11, 2007;68 and a subsequent submission dated May 13 and the Ad Hoc Group has given careful consideration to the points made in that reply as well as in Mr. Wolfowitz’s submission dated May 13 in which he proposes amendments to the draft report.69

71. The Group finds that the documentary record in this matter is by and large undisputed. Although different persons may have drawn differing conclusions from the words written in these documents, there is little dispute over which documents are central to the matter under review. Where differences have emerged, it is in the recollections of persons as described in their meetings and interviews with the Ad Hoc Group. Because of the strong and largely undisputed documentary record, the Ad Hoc Group has decided to base its conclusions primarily on the documents it has before it as they reflect a contemporaneous record and provide a comprehensive picture of the events supplemented where needed by evidence from the meetings and interviews.

72. In terms of the legal framework, the starting point for the Ad Hoc Group’s review is found in Mr. Wolfowitz’s contract with the Bank. Mr. Danino explained the legal framework as early on May 2005 when he wrote to Mr. Wolfowitz’s lawyer, Mr. Barnett, that “a determination on whether a recusal is sufficient to resolve the conflict would be made within the legal framework of the institution, namely the contract, the Code of Conduct and the Staff Rules .....” (emphasis supplied).70 The contract articulates the obligations Mr. Wolfowitz undertook upon becoming President of the World Bank. Among other things, the contract states that Mr. Wolfowitz “will adhere to the standards set forth in the Code of Conduct for Board Officials (the Code).” It goes on to provide that Mr. Wolfowitz “will also be expected to observe the standards of ethical conduct applicable to staff members of the Bank, where these reflect a stricter standard.” Finally, the contract explicitly states that “[i]t is understood further that you will avoid any conflict of interest, real or apparent.”

73. The Ad Hoc Group has construed “ethical standards applicable to staff members of the Bank” to include those standards enunciated in various Bank policies and rules, including the Principles of Staff Employment adopted by the Executive Directors in 1983, which set forth the “broad policies in accordance with which the President shall organize and manage the staff of the The World Bank and the IFC.” The Group has also

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68 Submission of Paul Wolfowitz in Response to May 6 Draft Report of the Ad Hoc Group, cited herein as "President’s May 11 Submission".
70 Letter from Robert Barnett dated May 27, 2005, President’s Submission, Exhibit 2. See also email from Mr. Danino to Mr. Barnett dated May 30, 2005. President’s Submission, Exhibit 2.
reviewed pertinent staff rules, as well as the World Bank Policy on Disclosure of Information (the "Disclosure Policy"). The salient provisions of the Code of Conduct for Board Officials, the Principles of Staff Employment, the Staff Rules and the Disclosure Policy are set out in detail above, in the section outlining the legal framework.

74. Mr. Wolfowitz has taken the position that there were no rules that applied to the situation, and therefore no rules could have been broken in resolving the matter as he did. On the contrary, the Ad Hoc Group is of the view that the situation was governed by specific provisions in the President's contract, the Code of Conduct for Board Officials, the Principles of Staff Employment, and Staff Rules as well as the other standards set forth in the Legal Framework described in Section III, above, and discussed in the following sections.

75. The Ad Hoc Group has identified several specific areas of concern in connection with Mr. Wolfowitz's involvement in the events under review. One involves Mr. Wolfowitz's involvement in the terms of Ms. Riza's external assignment and the issue of conflict of interest. Another involves important governance issues and relates to the decision taken by Mr. Wolfowitz not to consult the World Bank General Counsel, or any other staff of the World Bank Legal Vice Presidency, regarding the legal issues, including potential liabilities to the World Bank as well as compliance with internal World Bank rules and policies, surrounding Ms. Riza's external assignment. A further area of concern relates to the manner in which this matter has become a topic of public debate through issuance of statements to the press. In addition, the Ad Hoc Group has identified areas of concern relating to potential shortcomings related to governance of the Bank.

76. The Ad Hoc Group's review in connection with each of these three areas will, in turn, shed light on the four questions identified by the Executive Directors and incorporated by the Ad Hoc Group in its April 27, 2007, Plan of Action. The four questions are: (i) whether the facts show the violation of any staff rule; (ii) whether the facts show a violation of the terms of Mr. Wolfowitz's contract with the Bank; (iii) whether the facts show a violation by Mr. Wolfowitz of the obligation to avoid any conflict of interest, real or apparent; and (iv) whether, based on the totality of circumstances including any reputational damage that may have been done to the institution as a result of the matters under review any changes would appear to be necessary to the governance framework of the World Bank.

(i) The External Service Assignment

77. Regarding what has happened to Ms. Riza, the Ad Hoc Group notes with regret any discomfort she may feel but also observes the following. It was not the Ethics Committee that created the situation as Mr. Wolfowitz seems to imply by saying that "its members did not want to deal directly with a very angry Ms. Riza, whose career was being damaged as a result of their decision." The problem was created by Mr.
Wolfowitz's decision to accept a position at the place where she was employed. The situation was unique only in that it involved the President, and so his supervisory influence reached to most positions at the Bank. It was nevertheless possible for her to stay within the Bank in a position outside his potential supervisory influence. Her desire for compensation for a past grievance, not related to Mr. Wolfowitz arrival, appears to have driven the most controversial elements of the agreement she reached with the Bank (with Mr. Wolfowitz directing the Bank's side of the negotiation). She is still a Bank employee, who could have stayed under arrangements that do not create a conflict of interest or even return from her external assignment.

78. By involving himself in the specific terms of Ms. Riza's external assignment, Mr. Wolfowitz acted in a manner that was inconsistent with his obligations to the Bank in two important respects. One relates to his obligation to avoid conflict of interest situations. The other relates to his obligation to act in a manner that is consistent with the Staff Rules and other obligations that pertain to staff.

79. The Ad Hoc Group concludes that the President placed himself in a conflict of interest situation when he became involved in the determination of the terms of the external service assignment. He should have withdrawn from any decision-making in the matter. Furthermore, the Ad Hoc Group concludes that the President, going beyond the preliminary conclusions and informal advice of the Ethics committee, directed Mr. Coll to enter into an external service arrangement with Shaha Riza that was at variance with the applicable Staff Rules in three important respects: (i) the amount of the promotion increase related to the in situ promotion; (ii) the amount of subsequent year salary adjustments; and (iii) the potential for promotions in grade Ms. Riza was assured under the agreement. Each of these areas is discussed in detail below.

80. Mr. Wolfowitz's contract with the Bank obliges him to "avoid any conflict of interest, real or apparent." The Code of Conduct for Board Officials obliges him and all Board Officials to "endeavor to avoid any situation involving an actual conflict, or the appearance of a conflict, between their personal interests and the performance of their duties." In addition, the Code of Conduct establishes the standard to be followed if an actual conflict arises when it states that a Board Official "shall withdraw from attendance or participation in deliberations or decision-making connected with that matter."

81. The Ad Hoc Group acknowledges that the informal advice as provided by the Ethics Committee was not a model of clarity. It should have been drafted in language that would not leave open the possibility of misinterpretation. Nonetheless, the Ad Hoc Group believes that the interpretation given by Mr. Wolfowitz, which is that the Ethics Committee instructed him to become involved in the determination of the specific terms of and conditions of the external assignment, turns logic on its head. The Ethics Committee did not advise Mr. Wolfowitz to become directly involved in the details of the conflict of interest matter that the Ethics Committee was attempting to keep him out of in the first place.
82. From the outset the Ethics Committee established that Mr. Wolfowitz’s proposal for recusal was not sufficient which means recusal was a necessary element, but not enough to resolve the de facto conflict of interest. The need for recusal was not a matter for debate or negotiation. Rather, it was required and mandated by the Code of Conduct for Board Officials. Recusal from only personnel decisions was impractical and ineffective because the persons evaluating and compensating Ms. Riza would themselves be within Mr. Wolfowitz’s supervisory influence.

83. Mr. Wolfowitz states that he had disquiet with his understanding of the advice, but that he nevertheless followed it. The Ethics Procedures make clear that Mr. Wolfowitz could have taken the matter up with the Executive Directors directly if he did not believe the advice he had been given was correct. The Ethics Procedures state that “[a]n individual who is not satisfied with the advice received from the Ethics Committee in response to a request for guidance may request reconsideration by the Ethics Committee or review by the Executive Directors.” Mr. Wolfowitz did neither. He has repeatedly claimed that he protested vehemently to the Ethics Committee that he did not wish to be involved, but the Ad Hoc Group did not find any convincing documentary evidence of such a protest.\textsuperscript{71} This is particularly troubling given the paramount importance given to avoidance of conflict of interest in both his contract and in the Code of Conduct for Board Officials. Alternatively, Mr. Wolfowitz might have expressed his concerns to the General Counsel or to some other member of the Legal Vice Presidency. However, as discussed in greater detail in the following section of this report, Mr. Wolfowitz had cut off that important avenue of advice and legal counsel.

(ii) Staff Rules and Bank Policies

a. The Promotion Increase

84. At the heart of the matter are two documents: the informal draft advice of the Ethics Committee to the President of July 27 and Mr. Melkert’s letter to Mr. Wolfowitz of August 8. The informal draft does recognize the need that the qualifications and career perspectives of the staff member should be taken fully into account, and sets as advice the potential disruption of the staff member’s career prospect be recognized by an in situ promotion, consistent with Bank practice.

85. It is a fact that a salary increase goes hand in hand with a promotion, but it is also a fact that the salary increase granted to Ms. Riza far exceeded an increase that would have been granted in accordance with the applicable Staff Rule, Staff Rule 6.01, “Compensation,” para. 3.04. Rule 6.01 provides in pertinent part that upon promotion to

\textsuperscript{71} See, President’s Submission, pp. 1 and 4; President’s May 11 Submission, pp. 3, 5, 8, 11; President’s May 13 Submission, p. 20. Note that Mr. Wolfowitz’s comment in his August 11 memorandum to Mr. Coll in which he expressed “deep unhappiness” with the way the situation had been dealt with, is not a complaint to the Ethics Committee.
a higher grade a staff member will receive an increase equal to the greater of: (i) 3 to 12 percent of the market reference point of the new grade up to the maximum of the salary range for the new grade; or (ii) the amount necessary to bring the net salary to the minimum of the new grade. In Ms. Riza’s case, the terms that Mr. Wolfowitz directed Mr. Coll to agree to resulted in a promotion increase that placed Ms. Riza’s salary at $180,000.

86. According to the Human Resources Department, Ms. Riza’s salary immediately preceding her promotion to Level H was $132,660. The minimum salary level for Grade H was $129,140 and the Market Reference Point for Grade H was $167,890. The 3 – 12 % range of promotion increase available to Ms. Riza under the Rule was from $5036.70 (3% of $167,890) to $20,146.80 (12% of $167,890). Ms. Riza’s actual promotion increase was $47,340, which is an increase of 28.2% of the MRP of Grade H, rather than the 12 % high end of the range stated in the Rule.

b. Future Salary Adjustments

87. Neither the informal draft advice nor Mr. Melkert’s letter of August 8 recommended or made mention of any special arrangements for future salary increases. Nonetheless, Mr. Wolfowitz directed Mr. Coll to agree to “mid point, zone 5, annual increases which will approximate 8%.” Staff Rule 6.01, “Compensation,” provides, at para. 6.05 that “[a] staff member who has been on external service with pay for a period longer than three calendar months as of the date of the general salary review will receive a salary increase at the time of the general salary review equal to the average percentage applied to adjust the market reference points at grades A through I.” The Human Resources Compensation Unit has advised that under this formula, in July 2006, staff on external service with pay for more than three months would have received an increase of 3.34%. This contrasts with the annual salary increase of 7.55% that Ms. Riza received in July 2006 under the external service agreement she entered with the Bank.

c. Future Promotions

88. Neither the informal draft nor Mr. Melkert’s letter of August 8 to Mr. Wolfowitz recommended or made mention of future promotions for Ms. Riza. Staff Rule 5.02, “External Service,” provides at para. 5.03 that “[s]kills and experience acquired during External Service will be taken into consideration in evaluating the staff member’s eligibility for promotions in accordance with Rule 5.05, “Promotion,” after the staff member returns to active service.

89. Mr. Wolfowitz’s direction to Mr. Coll, however, states that because Ms. Riza was 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 [Mr. Coll] 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, she should return at a J level, which she notes would be one year from retirement.” Promotion would, however, have been contingent upon a review of her work outside the Bank Group by a Committee of her peers to be appointed by mutual agreement between Ms. Riza and HR at the time.” The Ad Hoc Group notes nothing in Staff Rule 5.02, “External Service,” provides to staff on external service with assured consideration to promotion upon return to the Bank. Furthermore, the Ad Hoc Group could find nothing in Staff Rule 5.05, “Promotion,” that affords staff the opportunity to be vetted for promotion by a panel the composition of which the staff member has a hand in deciding by mutual agreement with the Vice President of Human Resources. The Ad Hoc Group notes that it does not view the agreement with Ms. Riza as assuring automatic promotions to Levels I and J, but rather that the agreement provides for promotion in a manner that is not envisaged for in the Staff Rules.

(iii) The Informal Advice and the August 8 Letter from Mr. Melkert

90. As for Mr. Wolfowitz’s involvement in deciding the details of the arrangement with Ms. Riza, the August 8, 2005, letter from the Chairman of Ethics Committee contains a sentence that reads: “The EC cannot interact directly with staff member situations, hence Xavier should act upon your instruction.” Read in isolation, the above-mentioned sentence could be interpreted as the Ethics Committee advising that Mr. Wolfowitz should take an active role in the negotiation with Ms. Riza. However, when both the informal draft advice and the August 8 letter are considered in the overall context of the events, such an interpretation is unreasonable.

91. There are a number of important aspects to the August 8 letter that warrant emphasis. The letter makes clear that Mr. Coll is to meet with Ms. Riza “upon your [Mr. Wolfowitz] request” and that the purpose of the meeting would be “to inform her on the EC’s considerations and preliminary conclusions.” The letter states that “the interaction with the staff member at this stage is only for information purposes, by way of courtesy,” and that the meeting “could not be considered part of formal decision-making.” It explains that there would be a subsequent exchange between Mr. Melkert and Mr. Wolfowitz “to conclude [their] deliberations.” Finally, the letter also states that “once the EC will have formalized its advice it will be up to [Mr. Wolfowitz] and the VPMENA and VPHR respectively to take the appropriate steps, also for this reason Xavier’s meeting could not be considered part of the formal decision-making.”

92. Based on the above-described parts of the August 8 letter, the Ad Hoc Group concludes that it is very clear that the “instruction” envisaged was for the President to instruct Mr. Coll to “meet – upon [Mr. Wolfowitz’s] request – the staff member concerned in order to inform her on the EC’s considerations and preliminary conclusions
... for information purposes, by way of courtesy... [and that the] meeting could not be considered part of formal decision-making.” It is apparent that the Ethics Committee intended that the process would not go beyond that.

93. The only reason for Mr. Melkert telling Mr. Coll that he should “act upon [the President’s] instruction was to make it clear to him that he (Mr. Coll) could only act (i.e. arrange the meeting) if and when asked by the President to do so, since “the EC cannot interact directly with staff member situations”. It is clear that all decisions would come later, “once the EC will have formalized its advice” once the President and Mr. Melkert have “concluded [their] deliberations on the EC’s informal draft” and that all this would follow a further discussion later in the week. It is not possible to conclude from this letter that Mr. Melkert was instructing the President to negotiate and decide personally the full terms and conditions of Ms. Riza’s external assignment, without any further involvement by or reference to Mr. Melkert, Mr. Danino, or anyone else. It is simply not what the letter says. Furthermore, it is the Ad Hoc Group’s view that if Mr. Wolfowitz were in any doubt as to the precise meaning of the letter or the propriety of the advice it contained, he should, as the Ethics Committee rules stipulate, have asked for clarification or raised his concerns with the Ethics Committee itself, with the Executive Directors, or with the General Counsel or another member of the Legal Vice Presidency. As noted above, Mr. Wolfowitz did not do so.

94. The Ad Hoc Group finds that Mr. Wolfowitz did not comply with the provision in his contract that required him to “avoid any conflict of interest, real or apparent” as well as the provision in the Code of Conduct requiring that he withdraw from “participation in deliberations or decision-making” when he involved himself in the specific terms of Ms. Riza’s external assignment. The Ad Hoc Group is of the view that Mr. Wolfowitz went beyond the advice provided by the Ethics Committee both in becoming involved in the deliberations and decision-making as well as in determining the specific terms of the external assignment and directing Xavier Coll to implement them. Those terms, furthermore, went beyond the arrangement envisaged by the Ethics Committee as well as the provisions of the applicable Staff Rules.

95. It is the view of the Ad Hoc Group that these actions show that the relationship between Mr. Wolfowitz and Ms. Riza went beyond the appearance of conflict of interest (which Mr. Wolfowitz acknowledged from the earliest days of his contract negotiations) and constituted an actual conflict of interest situation. In this regard, the Ad Hoc Group notes that Staff Rule 3.01, “Standards of Professional Conduct,” provides that “[t]reatment of staff shall not be influenced by personal ties between the supervisor and the staff member.” The Rule states that “sexual relationship between a staff member and his/her direct report, or direct or indirect manager or supervisor, is considered a de facto conflict of interest. The manager/supervisor shall be responsible for seeking a resolution of the conflict of interest, if need be in consultation with management, who will take measures to resolve the conflict of interest. Failure to promptly resolve the conflict of interest may result in a finding of misconduct.”
96. The Ad Hoc Group found Staff Rule 3.01 noteworthy for the following reasons. It makes clear that personal relationships between a direct or indirect manager and a subordinate constitute a de facto conflict of interest. It imposes on the manager the obligation to seek a resolution to the conflict. Most importantly, it underscores the risk the rule seeks to avoid: that treatment of staff is influenced by personal ties. The Ad Hoc Group found this rule to be particularly pertinent in connection with the matter under review because many of the problems the rule seeks to preclude actually occurred.

97. In addition to the previously-mentioned conclusion, the Ad Hoc Group would note that the documents it has reviewed leave the Group with the impression that Mr. Wolfowitz, from the outset, challenged the way in which the Bank’s internal governance rules regarded personal relationships. Mr. Wolfowitz regarded the relationship as possibly giving rise to an “appearance” of a conflict of interest. In the view of the Ad Hoc Group, the relationship he disclosed went beyond creating an “appearance” and gave rise to an “actual” conflict. By resisting the Bank’s prohibition on “professional contact” and arguing that recusal only from personnel matters would suffice, Mr. Wolfowitz placed himself, in a matter in which he had a personal interest, in opposition to the established legal framework of the institution he had been selected to head and in a conflict of interest situation even in the domain where he had proposed to recuse himself. Instead of setting the example of adhering to the highest (and in this case well-established) standards, he initiated a negotiation with the institution he was to lead and then sought to dilute the standard the Bank had adopted for itself. The Ad Hoc Group is troubled by these actions coming as they do from the person responsible for setting the “tone at the top” and the example that all staff should follow.

(iv) Legal Safeguards

98. The documents reviewed by the Ad Hoc Group, as well as the statements made in the course of its interviews with some of the persons the Group met with, confirm that a decision was taken by Mr. Wolfowitz not to consult the World Bank General Counsel or any other member of the World Bank Legal Vice Presidency, regarding the legal issues and potential liabilities arising from the external assignment of Ms. Shaha Riza. The Group also finds that Mr. Wolfowitz not only took this decision, but that he directed his Vice President for Human Resources, Mr. Coll, not to consult with Mr. Danino or anyone else in the Legal Vice Presidency despite Mr. Coll’s expressed desire to do so. While the advice he obtained may have addressed Mr. Coll’s concern regarding his own interest in how to, as VPHR, deal with instructions he felt were contrary to the Staff Rules, this was not advice concerning the Bank’s interest in the terms of the agreement with Ms. Riza. The Group finds that these actions effectively deprived the institution of any acceptable legal safeguard. It resulted in the established governance structure of the Bank, which the Executive Directors and the staff count on as part of the overall governance framework and control environment in which the Bank operates, being subverted. The fact that this was done without being disclosed to the Executive Directors, or to any appropriate Bank
officials outside the small circle dealing with this sensitive matter, further compounded the problem.

99. The Ad Hoc Group finds that these actions manifest a lack of understanding for and a disregard for the interests of the institution as a public international organization. From the standpoint of internal governance, the actions disturbed the system of checks and balances that are in place and act as safeguards. It removed a central element of the World Bank's governance safety net. It left only the Vice President for Human Resources to safeguard the interests of the institution, but he accommodated the wishes of the President.

100. The Group found the rationale provided for these actions particularly troubling. The Vice President and General Counsel traditionally has acted as legal advisor both to Management and to the Executive Directors. This is a role that General Counsel over the years managed to execute with professionalism and effectiveness. For Management to cut the General Counsel entirely out of the picture without informing the Executive Directors further undermined the carefully constructed governance framework that has been in place and worked well at the Bank for many years. Furthermore, the idea that the General Counsel could not advise both the Ethics Committee and the President defies logic, as the Ethics Committee and the President share the same interest which is to protect the institution from legal and reputational harm. The Group does not see that anyone is better placed to do that than the General Counsel who is the most senior legal officer in the Bank.

101. The Ad Hoc Group also finds that the President's decision to resort to outside legal advice was flawed in several respects. First of all, it was done without the benefit of the Bank's internal legal counsel's guidance and direction, and should have been done through the Bank's General Counsel or through lawyers from the Bank's Legal Vice Presidency. Second, the external legal counsel did not review the adequacy of the proposed arrangement from the perspective of the Bank's internal law or the law of international civil service generally. Rather, it assessed the arrangement from the perspective of legal risk and practice in the United States. While this might have been useful, it was not adequate. Finally, the review by the firm of Gibson Dunn & Crutcher, LLP came at a time when, by the law firm's own letter, the "key elements of the contract had been accepted and agreed to by all the parties to the contract before we [Gibson Dunn & Crutcher] were retained." The Ad Hoc Group finds that this sort of legal review, in these circumstances, is squarely at odds with the "high degree of . . . concern for the interests of the Organizations" required by Principle 3 of the Principles of Staff Employment.

(v) Public Debate and Disclosures

72 See, Danino Interview p. 18 - 19.
102. As stated earlier, the matter before the Ad Hoc Group is one of internal governance. It relates to issues that have arisen between the Board of Executive Directors and its Chairman. The process that is underway is a Board process in the exercise by the Executive Directors of their fiduciary responsibilities to the Bank. It has been initiated by the Executive Directors and endorsed by the Development Committee.

103. The Ad Hoc Group views with profound regret the public pronouncements by some current and former Bank officials and staff members on this matter, and the disclosure of information, otherwise confidential, in manners inconsistent with the applicable staff rules and policies of the Bank. The Ad Hoc Group is strongly of the view that all officials and staff of the World Bank Group must adhere to the highest standards of conduct.

104. The Group notes with dismay the misstatements to the press attributed to Mr. Kellem, on behalf of the President, that “all arrangements concerning Shaha Riza were made at the direction of the bank’s board of directors”. The Group determined in its report dated April 11 that it did not find that the terms and conditions of the agreement with the concerned staff member had been commented on, reviewed or approved by the Ethics Committee, its Chairman or the Board. Based on its further work, the Group reiterates this finding.

105. The Group is troubled by Mr. Wolfowitz’s own public statements as well as those of his lawyer made on his behalf, for a variety of reasons. First, they involve disclosure of information relating to a Board proceeding which, under the Board’s Rules of Procedure and in the World Bank Policy on Disclosure of Information, adopted by the Executive Directors in 2001, are confidential and are not publicly available information.

106. But of greater concern to the Group is the attitude it reveals about the nature of the process currently underway. It has turned an internal governance matter into an ugly public relations campaign in which Mr. Wolfowitz believes he is being publicly attacked and therefore has resorted to public attacks of his own which denigrates the very institution he was selected to lead. The statements ridicule the governance framework and process established by the 185 member countries of the Bank. The Ad Hoc Group believes that this is of concern for a variety of reasons: 1) it places Mr. Wolfowitz’s personal interests ahead of institutional interests; 2) it casts Mr. Wolfowitz as an adversary of the World Bank when, as noted above, the process underway should not be regarded as adversarial; 3) it results in the institution being seen in a bad and unfair light in the public eye; and 4) it has produced an environment that, put mildly, is not conducive to maximum work efficiency or positive staff morale.

107. The Group believes that the President’s actions are inconsistent with his obligation to “maintain the highest standards of integrity in [his] personal and professional conduct and observe principles of good governance” as required by the Code of Conduct. His statements regarding matters that are the subject of Board proceedings
and the release of statements he made to the Ad Hoc Group violate his obligation to "at all times observe the applicable policies of the Organizations regarding disclosure of information."

108. The Ad Hoc Group also finds that the Principles of Staff Employment, applicable to the President through the terms of his contract, provide a useful standard against which to measure his actions. Principle 3 provides that staff shall "conduct themselves at all times in a manner befitting their status as employees of an international organization. They shall not engage in any activity that is incompatible with the proper discharge of their duties with the Organizations. Principle 3 also provides that staff is to "observe utmost discretion in regard to all matters relating to the Organizations both while they are staff members and after their service with the Organizations has ended. In particular, they shall refrain from the improper disclosure, whether direct or indirect, of information related to the business of The World Bank or the IFC." Staff is obliged to discharge their duties solely with the interest and objectives of the Organizations in view."

109. The Ad Hoc Group finds that these standards have not been observed. The Group does not accept the view that just because others may have done, or are doing, something egregious, this provides a basis for similar actions by anyone else. As for Mr. Wolfowitz, he is the chief of the operating staff of the Bank and Chairman of its Executive Directors and, as such, he must uphold the high standards the institution has adopted.

(vi) Governance-Related Issues and Some Lessons

110. In the course of its work and its deliberations, the Group has found issues which are noteworthy and which may require further review by the Executive Directors. Although the Group was troubled by the manner in which some issues had been dealt with as discussed in its conclusions, it believes that these events highlight issues that will need to be addressed and also provide an opportunity to draw some lessons for application in the future.

111. First, in connection with the selection process, the contract negotiations and the resolution of the potential conflict of interest issue, the Group believes that this matter may have been alleviated if the issue had been resolved before the execution of the contract of the President and before the President took office. The issue was not resolved sooner because Mr. Wolfowitz persisted in arguing that self recusal from only personnel matters was sufficient, and the Ethics Committee continued to try to find a pragmatic solution to the problem. The Group would like to suggest consideration by the Executive Directors of a practice under which contracts with incoming Bank Presidents in the future are not concluded before all outstanding issues are resolved, notwithstanding any pressures to the contrary.
112. The Group’s review of the external service assignment and this matter, have also
given rise to issues related to some procedural aspects of the work of the Ethics
Committee which may need review by the Executive Directors. In the documents and in
the interviews, the Group observed that the former members of the Committee who were
interviewed were constrained in the extent of their involvement in the details of the
request for advice. Since the request was for advice, the present Ethics Committee
Procedures restricted the Ethics Committee to providing advice on the matter in response
to the President’s request and accordingly, they felt unable to become sufficiently
involved in the matter. The Group believes that it might have been appropriate for the
Ethics Committee to respond to the mischaracterizations in the President’s memorandum
dated August 12 with which it had concerns. It might also have been appropriate for it to
have received details of the agreement with the concerned staff member. The Group
noted in this connection that as the Procedures also had a provision giving the requestor
the right to appeal to the Ethics Committee for reconsideration of its advice or to the
Board, it appeared that the process was in the control of the requestor.

113. Even more fundamental, however, was the constraint the Ethics Committee
members believed existed due to the provisions of Article V, Section 5 (b) of the Articles
of Agreement, which gives the responsibility for the organization, appointment and
dismissal of the officers and staff to the President, subject to the general control of the
Executive Directors. Due to this demarcation between the respective roles of the
President and the Board, the Ethics Committee felt unable to become involved in the
details of the matter. These observations will also require reflection by the Executive
Directors in the future.

114. At an even higher level, the issues which have been uncovered and have unfolded
in the course of the last few weeks may give rise to a careful examination of the Bank’s
overall governance framework, and in particular, the oversight function of the Executive
Directors. In the course of this examination, consideration should be given to changes
that may be required to bring the Bank’s governance framework to the state of the art
now existing in the twenty-first century. Experiences in corporate governance practices
across the world should be taken into account.

(vii) Employment Contracts Made by the Office of the President

115. In addition to its review of the matters outlined above, in the brief time available
to it the Ad Hoc Group also looked into certain employment contracts made by the Office
of the President. In addition to a review of pertinent documents, the Ad Hoc Group heard
from Ms. Pauline Ramprasad who is the Human Resource Manager responsible for the
office of the President and who, therefore, was the senior human resource officer working
with Mr. Wolfowitz on the appointments.

116. The Group learned from Ms. Ramprasad that she provided Mr. Wolfowitz with
grade and salary possibilities for Ms. Cleveland and Mr. Kellems. Ms. Ramprasad
informed the Ad Hoc Group that it was Mr. Wolfowitz’s wish to provide these staff members with grades commensurate with the significant responsibilities they had each held in their previous positions as well as over the course of their careers. Mr. Wolfowitz also made clear he wanted them each to have grades and titles that would command respect within the institution and signal to other staff that they worked closely with the President of the Bank. According to Ms. Ramprasad, Mr. Wolfowitz said to her that he envisaged these staff members as being primary interlocutors between him and the staff of the Bank.

117. The Ad Hoc Group determined, based on its review of the documents and the information received in the course of its interviews, that the grades and salaries offered both to Ms. Cleveland and Mr. Kellems though generous were within the broad Human Resource guidelines applicable given the role Mr. Wolfowitz identified for them. The Group decided that it would therefore not devote any additional time to looking into these matters.

B. Ad Hoc Group’s Reactions to May 11, 2007 Submission of Mr. Wolfowitz

118. The May 11, 2007, submission of Paul Wolfowitz confirms the Ad Hoc Group’s conclusion that the central facts in this matter are not in dispute. The Ad Hoc Group has given careful consideration to the points made in the submission and has decided that nothing in it alters the central conclusions reached in this report. The Group has, where necessary, addressed in the preceding section specific points made in the response. For the most part, however, the Group’s assessment of the points made in the submission are contained in this Section, IV B.

119. The Ad Hoc Group finds that Mr. Wolfowitz’s response to the draft report falls into five broad areas. In general terms, these are: 1) he acted in good faith, simply following the advice given to him by the Ethics Committee; 2) the situation involving Ms. Riza was unique and without precedent or applicable legal framework; 3) Ms. Riza had legitimate grievances against the Bank that had to be compensated; 4) the inability of the General Counsel to provide legal advice both to the Ethics Committee and to the Management of the Bank; and 5) Mr. Wolfowitz’s need to speak publicly about non-public matters so as to defend himself personally. The Ad Hoc Group has given careful consideration to each of these responses and finds them unpersuasive. The Group will address each of these responses below.

(i) The Advice of the Ethics Committee

120. From the time he signed his contract Mr. Wolfowitz had two principal, overriding obligations that applied directly to the situation he confronted. These are found in his contract. They required him to avoid conflict of interest situations and to observe the provisions of the Code of Conduct of Board Officials which, among other things,
explicitly requires all Board officials to withdraw from participation in matters in which they face a conflict of interest. They are based not only on the legal framework that applied but also on common sense. If Mr. Wolfowitz had any doubts about the proper course of action, he could, and should, have consulted with the appropriate persons: the General Counsel, the Ethics Committee, or even the Executive Directors. That he acted against his own best judgment in becoming involved in the external service provisions (as he now asserts) is no excuse.

121. Mr. Wolfowitz asserts that he assumed that the Ethics Committee knew the details of the external assignment or at a minimum could have informed itself of the details (pp. 13 of the President’s May 11 Submission). The Ad Hoc Group finds that this line of reasoning has no basis in the record. Mr. Wolfowitz did not disclose the details of the assignment or the in situ promotion to the Ethics Committee, so it is difficult to understand how he came to assume the Committee knew the details. Moreover, the Ethics Procedures, which Mr. Wolfowitz should have been familiar with as a Board Official, make clear that the role of the Ethics Committee is only to provide advice. It is not to become involved in the details of implementation of its advice. Once the President informed the EC of his withdrawal of his request for advice, the EC had no further role to play. It should also be noted that the Ethics Committee advised that the H Level promotion for Ms. Riza should be consistent with Bank practices. As discussed in greater detail above, the direction Mr. Wolfowitz gave Mr. Coll went beyond the established Bank practices in connection with promotion and salary increases.

122. In his response to the Group’s May 6 Draft Report, Mr. Wolfowitz states that the report fails to give any weight to the critical fact that, but for the explicit advice of the Ethics Committee, he would have not played any role whatsoever in the negotiations of the terms and conditions of Ms. Riza’s external placement (pp. 8, 13 of the President’s May 11 Submission). Mr. Wolfowitz mentions that the Ethics Committee told him on more than one occasion that he had to remain involved to instruct Mr. Coll and that he should not be penalized for following what he understood to be the Committee’s guidance (pp. 3, 4, 8-10, 13 of the President’s May 11 Submission).

123. Mr. Wolfowitz also states that no one on, or associated with the Ethics Committee ever told him that he should delegate the matter completely to Mr. Coll, or that he should not provide Mr. Coll with instructions concerning the negotiation with Ms. Riza (pp. 4, 13 of the President’s May 11 Submission). Furthermore, Mr. Wolfowitz states that with the benefit of hindsight he has come to believe that the Ethics Committee told him to instruct Mr. Coll because its members did not want to deal directly with a very angry Ms. Riza, whose career was being damaged as a result of their decision (p. 5 of the President’s May 11 Submission).

124. The Code of Conduct of Board Officials establishes that if a conflict arises the Board Official concerned shall refer the matter to the Ethics Committee and withdraw from attendance or participation in deliberations or decision-making connected with that
matter. This provision of the Code of Conduct simply cannot be ignored: it is an integral part of the Ethics Committee’s advice since it is precisely the point of origin of such advice.

125. From the outset the Ethics Committee characterized Mr. Wolfowitz’s proposal to recuse himself as insufficient since it was an incomplete way of resolving the conflict of interest. Nevertheless Mr. Wolfowitz recusal from decision making was a necessary, or even the essential component of that process.

126. The Group analyzed the possible misinterpretation of the Ethics Committee’s advice in the foregoing paragraphs. As discussed there, the Group acknowledges that the advice should have been drafted in language that would not leave open the possibility of misinterpretation but also concluded that the interpretation given by Mr. Wolfowitz to the Ethics Committee’s advice simply turns logic on its head. To conclude that the Ethics Committee was instructing Mr. Wolfowitz to become directly involved in the details of the conflict of interest matter and that that was the sole reason why he got involved, would require one or ‘a person’ or ‘a conclusion’ to conclude that the Ethics Committee, the General Counsel and Mr. Wolfowitz ignored the requirement set forth by the Code of Conduct to withdraw from attendance or participation in deliberations or decision-making connected with that matter. It is simply not reasonable to believe that such a scenario was possible.

127. On two occasions, the Ethics Committee touched upon Mr. Wolfowitz’s involvement in this matter. The August 8, 2005 letter from Mr. Melkert to Mr. Wolfowitz contains a sentence that reads: “The EC cannot interact directly with staff member situations; hence Xavier should act upon your instruction”. The July 27, 2005 informal draft of the advice of the Ethics Committee states: “That the President, with the General Counsel, communicates this advice to VPMENA and VPHR so as to implement a) and b) with immediate effect.” In his dealing with this matter, Mr. Wolfowitz claimed to follow literally the above quoted sentence from the August 8 letter (pp. 9, 10 of the President’s May 11 Submission). However, he chose to ignore many other aspects contained in that same letter, which are mentioned in paragraph 91 above, and he was also not as strict and to the letter when he interpreted the July 27 advice since he decided to exclude the General Counsel from the implementation of such advice and to act before the advice was final.

128. The fact that no one ever told Mr. Wolfowitz that he should delegate the matter completely, or not provide instructions concerning the negotiations with Ms. Riza, cannot be considered as a valid justification of what happened. But it should also be considered that maybe no one told him these things simply because they were mandated by the Code of Conduct, a document that Board Officials, and especially the President of the institution, are expected to be familiar with, understand, and uphold.
(ii) Applicability of the Legal Framework

129. The Ad Hoc Group has considered carefully the statement that the situation involving Ms. Riza was unique and without precedent, and therefore allowed for deviations from the Staff Rules and other applicable policies (pp. 1, 14-15, 19-20 of the President's May 11 Submission). The Group believes that this situation was not unique or without precedent in the Bank, except for the fact that it involved the President. His cone of influence was, therefore, greater than in the case of other managers in the Bank. But the fact remains that Staff Rule 3.01 prescribed the necessary outcome, and the Ethics Committee advised that the staff member should be relocated to a position beyond potential supervising influence by the President. Contrary to the view that the Ethics Committee forced Ms. Riza out of the Bank, the outcome envisaged by the Committee could have been achieved in either of two ways neither of which involved terminating Ms. Riza's appointment to the staff of the Bank. Its advice could have been implemented either by reassignment to a position within the Bank that did not report directly or indirectly to the President or by an external service assignment. In the end, Mr. Wolfowitz decided to direct Mr. Coll to implement an external service assignment for Ms. Riza.

130. There has been some discussion of the situation involving Mr. Zhang and Mr. Koch-Weser. But those situations were different in that they involved spouses. Staff Rule 4.01, "Appointment," specifically allows spouses to work in the Bank so long as neither supervises the other and their duties are not likely to bring them into routine professional contact. In Mr. Zhang's case, arrangements had been made to remove Mr. Zhang's spouse from the area over which he had responsibility as Managing Director. Mr. Zhang ultimately departed the Bank before the reassignment was effected.

131. There is no evidence in the record that either Mr. Zhang's spouse or Mr. Koch-Weser's spouse received at their spouse's direction (or otherwise) promotion increases or annual salary increases in excess of those prescribed by the Staff Rule, or that they were assured consideration for future promotion by a panel, the composition of which they had a hand in deciding, simply by virtue of the passage of time.

(iii) Compensation for Grievances

132. Mr. Wolfowitz's submission suggests strongly that the additional elements of Ms. Riza's external service assignment provided at Mr. Wolfowitz's direction were justified due to legitimate grievances she had against the Bank (pp. 1, 4-5, 14-17 of the President May 11 Submission). The Ad Hoc Group finds no merit in this line of reasoning because it does not believe that Ms. Riza actually had any legitimate grievances against the Bank. Three are mentioned in the President's May 11 Submission, but none has any basis.
133. The first is that Ms. Riza was being asked to leave the Bank (pp. 14, 17 of the President’s May 11 Submission). This is incorrect, as no one asked Ms. Riza to leave the Bank. Furthermore, Ms. Riza did not leave the Bank. Staff who go on external service remain staff of the Bank and continue to receive pay and benefits from the Bank. But even more to the point, Ms. Riza could have remained in the Bank and accepted a reassignment to a position outside the President’s cone of influence, but she did not want to do so. The second is that Ms. Riza had not been promoted earlier to level H, but staff members have no entitlement to promotion (p. 17 of the President’s May 11 Submission). If lack of promotion to level H is a legitimate grievance then it is one that countless other staff members also have against the Bank. The third is the effect that publicity surrounding the relationship with Mr. Wolfowitz was having on Ms. Riza’s health and family (p. 17 of the President’s May 11 Submission). The flaw in this argument is that it is predicated on the false assumption that the Bank was to blame for this. In fact, the publicity derived from a personal decision made by Mr. Wolfowitz and Ms. Riza to continue in a personal relationship despite the fact that Mr. Wolfowitz was going to head the institution where she worked.

134. The Group would like to emphasize that Ms. Riza’s situation was not unique. There have been many staff who have found themselves in the same situation she did, where a personal relationship has serious career implications. Indeed, some staff have been faced with difficult choices, some of which may not have been conducive to the career path the staff members would have preferred. Nevertheless, the situations have been resolved as required by the Bank’s policies. External service was not the only option. Reassignment within the institution was another real possibility, but one that Ms. Riza did not avail herself of. Ultimately, of course, it was Mr. Wolfowitz’s decision to accept the position of President of the World Bank, a decision that had consequences that both he and Ms. Riza should have foreseen.

(iv) The General Counsel

135. Mr. Wolfowitz reasoned that the General Counsel could not advise management at the same time he advised the Ethics Committee (pp. 6, 22 of the President’s May 11 Submission). The Group does not subscribe to the argument that there was a conflict of interest between the Ethics Committee and the management of the Bank. Indeed, it is the Group’s view that the General Counsel’s function is above all to safeguard the interests of the Institution. Both the Ethics Committee and the management of the Bank had the same interest, the good of the Institution. The Group finds that any reasoning to the contrary betrays a fundamental misunderstanding of the institution’s interests and lack of appreciation for the institution’s organizational safeguards.

136. Mr. Wolfowitz states that he only intended that the General Counsel should be kept out of the matter during the few days of the negotiations (pp. 20-23 of the President’s May 11 Submission). If anything, those would have been the most important days for the General Counsel to be involved. Furthermore, there does not appear to be
any basis in the record to support the statement that Mr. Wolfowitz only intended to keep Mr. Danino from being involved for a few days (p. 21 of the President’s May 11 Submission).

(v) Public Statements

137. Mr. Wolfowitz asserts that he has a right to defend himself publicly when as a result of improper and inaccurate leaks his integrity is impugned (pp. 24-25 of the President’s May 11 Submission). The Ad Hoc Group does not agree with Mr. Wolfowitz’s assertion. To begin with, the public pronouncements and release of documentation involve a Board proceeding. The Bank’s disclosure policy is unequivocal in its protection of Board proceedings and deliberations, absent an agreement by the Executive Directors to make them public. The policy does not provide for any other exception to the policy, and certainly does not contain any provision of the sort asserted by Mr. Wolfowitz. Moreover, the Group finds that the Mr. Wolfowitz’s statement in this regard is inconsistent with principles of good governance, for it implies that anyone can violate a rule, Code of Conduct or a policy when he unilaterally determines that it is in his self interest to do so. It is hardly credible that this could be a rule of general applicability in any organization.

138. It is also troubling that some of the pronouncements made by Mr. Wolfowitz and by his counsel on his behalf involve attacks on the Board and a Board process which has been mandated by the Development Committee. The Group believes that pronouncements of this sort cannot be regarded as acceptable from any staff member under any circumstance, much less from the President of a global institution. It is the President’s responsibility to impose discipline and good order, and to set an example that other staff should strive to emulate. The Group finds that Mr. Wolfowitz has not done so.

(vi) Concluding Observations

139. Mr. Wolfowitz’s submission is noteworthy for its focus on his subjective perception of the events under review. The Ad Hoc Group, by contrast, has sought to base its review on objective facts that have a basis in the documents that have become part of the record as well as the legal framework of the Bank including established rules and other applicable standards.

140. There is one central theme that runs throughout the submission: Mr. Wolfowitz believes that the blame for the current situation involving Ms. Riza rests with others. Mr. Wolfowitz is portrayed as the newcomer to the institution who was simply following the direction of others. The Ad Hoc Group finds this posture troubling for what it says about the leadership the Bank could expect from the man who had been selected to head a global institution with the central mission of fighting poverty. The Group finds the submission notable for the absence of any acceptance by Mr. Wolfowitz himself of responsibility or blame for the events that transpired. As President, he bore principal
responsibility for safeguarding the institution and establishing the ethical standard that to which staff would be expected to adhere to. As noted in an earlier section of the report, he should have set the tone at the top. Instead, he casts himself as an intermediary between other seemingly larger forces.73 He saw his role as merely seeking to accommodate those forces. As noted above, this is in stark contrast to the role he had been selected to play as President of the World Bank. But even more to the point, it is in contrast to the events that actually occurred. The Ad Hoc Group concludes that in actuality, Mr. Wolfowitz from the outset cast himself in opposition to the established rules of the institution. He did not accept the Bank’s policy on conflict of interest, so he sought to negotiate for himself a resolution different from that which would have applied to the staff he was selected to head. He did not agree with the advice he received about the legal requirements in connection with conflict of interest, so he stopped seeking advice from the Bank’s Legal Vice Presidency and instead sought an inadequate review by external lawyers after the fact. The Ad Hoc Group sees this as a manifestation of an attitude in which Mr. Wolfowitz saw himself as the outsider to whom the established rules and standards did not apply. It evidences questionable judgment and a preoccupation with self interest over institutional best interest.

V. Conclusions and Recommendations

141. On the basis of the findings made by the Ad Hoc Group in Section IV of this Report, the Group draws the following conclusions and makes the following recommendations regarding the questions formulated by the Executive Directors and posed to the Ad Hoc Group, as set out in paragraph 8 above. In making these conclusions and recommendations, the Group has paid due regard to the entire legal framework described in Section II, above. Although the situation was unique because it involved the World Bank President, the Group concludes that there was nevertheless an applicable legal framework, including the President’s contract, the Code of Conduct for Board Officials, the Principles of Staff Employment, and Staff Rules as well as the other standards discussed in the legal framework above.

A. Conclusions

Question 1: Whether the facts show the violation of any staff rule.
Answer: The Group concludes that the Code of Conduct and Staff Rules 3.01, 5.02 and 6.01 were violated.

73 See, President’s Submission dated May 13, p. 57, where he states: “Mr. Wolfowitz acted in good faith to balance the best interests of the Institution with the staff member’s interests.”
(i) **Staff Rule 3.01, “Standards of Professional Conduct”**

142. The Group concludes that by becoming involved in the terms of Ms. Riza’s external assignment and directing the Vice President of Human Resources (“VPHR”) to agree to specific terms that went beyond the informal advice given by the Ethics Committee, Mr. Wolfowitz engaged in a *de facto* conflict of interest. Staff Rule 3.01, “Standards of Professional Conduct,” Section 4 addresses manager-subordinate relationships and defines them as *de facto* conflict of interest situations (which the President’s contract and the Code of Conduct for Board Officials obligate him to avoid). It states that sexual relationships between a staff member and his/her direct or indirect manager constitute a *de facto* conflict of interest; that a manager in such a situation has an obligation to seek a resolution of the conflict of interest; and that treatment of staff shall not be influenced by personal ties between a manager and a subordinate staff member.

(ii) **Staff Rules 6.01, “Compensation” and 3.01, “Standards of Professional Increase”**

a. **Promotion Increase**

143. The promotion increase Mr. Wolfowitz directed the VPHR to agree with Ms. Riza was inconsistent with Staff Rule 6.01, “Compensation,” Section 3, which provides that staff members who are promoted to a higher grade are entitled to receive a promotion salary increase within a permissible range established in the Staff Rule. The salary increase Ms. Riza received at Mr. Wolfowitz’s direction was in excess of the range established by Rule 6.01. A promotion increase outside the permissible range was never envisaged in the informal advice provided by the Ethics Committee which had explicitly advised that the *in situ* promotion to Level H should be “consistent with the practice of the Bank.” In directing such a salary increase, Mr. Wolfowitz also acted in a manner that was inconsistent with the obligation to avoid conflict of interest situations imposed by Staff Rule 3.01.

b. **Subsequent Pay Increases**

144. The Group concludes that the size of future salary increases Mr. Wolfowitz directed the VPHR to agree to are in excess of the annual salary adjustments for staff on external service provided by Staff Rule 6.01, Staff Rule 6.01, “Compensation”, Section 6, stipulates the amount of annual salary adjustment a staff member on external service is to receive. The annual salary adjustment agreed with Ms. Riza at Mr. Wolfowitz’s direction are in excess of the amounts provided by Staff Rule 6.01. Mr. Wolfowitz’s involvement in establishing the amount of future salary adjustments was also a violation of the conflict of interest provision of Staff Rule 3.01, as discussed above.
(iii) Staff Rules 5.02, “External Service” and 3.01, “Standards of Professional Conduct”

145. Staff Rule 5.02, “External Service,” Section 5, states that skills and experience acquired while on external service will be taken into consideration in evaluating the staff member’s eligibility for promotions. The Group found no basis in the external service rule or elsewhere for the provisions in the agreement with Ms. Riza for external assignment that assure her consideration for promotion to level I and even level J. Rule 5.02 does not assure staff consideration for promotion upon return to the Bank, or that affords staff the opportunity to be vetted for promotion by a panel the composition of which the staff member has a hand in deciding by mutual agreement with HR. By directing the Bank to enter into such an agreement, Mr. Wolfowitz also engaged in a conflict of interest contrary to the provisions of Rule 3.01.

(iv) Code of Conduct

146. The Group notes that the Code of Conduct for Board Officials established the overall applicable standard of professional conduct. Neither the Ethics Committee nor Mr. Wolfowitz (or any other Bank official) is empowered to disregard those standards. The Code obliged Mr. Wolfowitz to maintain the highest standards of integrity, observe principles of good governance, avoid any situation involving an actual or apparent conflict between his personal interest and his official duties, and in the case of an actual conflict of interest, the Code required that he withdraw from deliberation or decision making. The Group concludes that these provisions provided a legal framework that imposed on Mr. Wolfowitz the obligation first and foremost to avoid situations that could lead to allegations of favoritism or other improper behavior. This legal framework seeks to prevent the occurrence of a situation where the institution itself comes to be seen in a bad light as a result of such actions.

Question 2: Whether the facts show a violation of the terms of the contract of the President of the World Bank.

Answer: The provisions (para. 3) in Mr. Wolfowitz’s contract requiring that he adhere to the Code of Conduct for Board Officials and that he avoid any conflict of interest, real or apparent, were violated.

147. The Group identified two provisions warranting special attention in this regard. One requires Mr. Wolfowitz to avoid any conflict of interest, real or apparent. The other requires him to adhere to the standards set forth in the Code of Conduct for Board Officials and to observe the standards of ethical conduct applicable to staff members of the Bank, where these reflect a stricter standard. In other words, the latter provision of the contract makes applicable to Mr. Wolfowitz a number of important standards of conduct that apply to the staff of the Bank. These are outlined in greater detail in the Legal Framework section of this report.
148. The Group concludes that these important provisions of the contract were not observed. As already noted, the Group concludes that Mr. Wolfowitz’s involvement in the terms of Ms. Riza external assignment constituted a conflict of interest, which his contract as well as the Code of Conduct for Board Officials obliged him to avoid. Furthermore, his involvement in establishing the terms and directing VPHR to accept them was at odds with the obligation imposed by the Code of Conduct which provided that he should have withdrawn from attendance or participation in deliberations or decision-making connected with the matter. His actions were also inconsistent with the obligations imposed on the staff of the Bank by Principle 3 of the Principles of Staff Employment, requiring that staff avoid situations that might reflect adversely on the Bank, compromise its operations, or lead to real or apparent conflicts of interest.

149. The Group also has concern over the decision by Mr. Wolfowitz not to consult with the Bank’s General Counsel or any other member of the Bank’s Legal Vice Presidency on matters that had the potential to expose the World Bank to legal and reputational hazard. The Group cannot reconcile these actions with the obligations imposed by the Code of Conduct (made applicable through his contract with the Bank) that Mr. Wolfowitz “observe principles of good governance” as he carries out his responsibilities. Furthermore, Principle 3 of the Principles of Staff Employment (also applicable through his contract with the Bank) requires a high degree of concern for the interests of the organization and imposes a special responsibility to avoid situations and activities that might reflect adversely on the organization or compromise its operations. The Group concludes that excluding the Bank’s Legal Vice Presidency from involvement in matters that had legal and reputational implications for the Bank, involved application of the Bank’s internal rules, and had the potential (which Mr. Wolfowitz himself appears to have recognized) to expose the Bank to associated risks, was inconsistent with the principle of good governance and concern for the interests of the Bank required by the Code of Conduct and Principles of Staff Employment. The Group notes that resorting to consultation with an outside law firm does not compensate for lack of consultation with the Bank’s own Legal Vice Presidency.

150. Finally, the Group notes that the Code of Conduct imposes on Board Officials the obligation to observe at all times the applicable policies regarding disclosure of information. Board Officials are obligated to protect the security of information obtained in their work as Board Officials not otherwise available to the public and must not disclose it to others. The Group noted that Mr. Wolfowitz made available to the press his statement to the Ad Hoc Group within hours of having delivered it to the Group. The Group notes with dismay the fact that not just Mr. Wolfowitz but other current and former Bank officials as well have perceived the current environment as one where obligations of confidentiality and respect for Board proceedings need not be observed.

Question 3: Whether the facts show a violation by the President of the obligation imposed by his contract, to “avoid any conflict of interest, real or apparent.”
Answer: The Group concludes that Mr. Wolfowitz’s involvement in determining the terms of Ms. Riza’s external assignment constituted a conflict of interest, as discussed above in connection with the Group’s answers to Questions 1 and 2.

151. While Mr. Wolfowitz’s initial proposed recusal from personnel matters involving Ms. Riza was necessary, it was not sufficient to address the conflict of interest situation in light of the requirements of Staff Rule 3.01. These requirements would necessitate (as recommended by the Ethics Committee) relocating Ms. Riza to a position beyond potential supervising influence by the President. This could be achieved only through a reassignment to a position in the World Bank that did not report to Mr. Wolfowitz either directly or indirectly, or by an external assignment outside the World Bank Group.

152. The Group also concludes that by excluding the General Counsel and other members of the Legal Vice Presidency from involvement in the matter, Mr. Wolfowitz placed his own personal interests in opposition to the interests of the institution. In so doing he undermined the legal safeguards the institution had in place to protect itself from the harm it has unfortunately now come to experience.

Question 4: Whether, based on the totality of circumstances, including any reputational damage that may have been done to the institution as a result of the matters under review, any changes would appear to be necessary to the governance framework to enable the World Bank to continue to operate to the fullest extent possible in achieving its chartered objectives.
Answer: The Group concludes that based on the totality of circumstances, changes need to be made to the governance framework to ensure that the World Bank continues to operate to the fullest extent possible in achieving its chartered objectives.

153. As the Group recalls, the Development Committee in its last Communiqué expressed the view that “the current situation is of great concern” and that the Bank must uphold a high standard of internal governance. This concern has been reiterated by many stakeholders leading to calls for the Executive Directors to complete their work in order to alleviate the reputational damage to the World Bank Group. The Group is of the view that this matter has had a dramatic negative effect on the reputation and credibility of the World Bank Group. This has been evidenced in the daily commentary in the media worldwide about the current situation. While some comments have cast a positive light on the World Bank Group and its present leadership, most comments, including communications from former and current Governors of the Bank, distinguished academics and representatives of other stakeholders, such as nongovernmental organizations, have raised serious questions about the Bank’s governance, its reputation and its ability to carry out its mandate.
154. The Group underscores that there is a crisis in the leadership of the Bank. This crisis and the challenges it presents have also been recognized by Mr. Wolfowitz in his messages to staff. The current situation has generated a crisis not only in the management ranks, but across the institution. For instance, the Group now observes that the Bank’s credibility and authority to engage with all stakeholders, including government and nongovernmental agencies and donor partners, in its implementation of the Governance and Anti-Corruption Strategy, is being called into question. This crisis in leadership may also have a highly negative impact in the negotiations for the 15th IDA Replenishment, IDA being a key provider of financial assistance to the less developed member countries.

155. The Group observes erosion in the operational effectiveness of the Bank triggered by the current crisis in leadership. The ability of staff, particularly those working in borrowing countries, to interact with their counterparts and the institution’s ability to convene partners, is eroding. The Bank’s Independent Evaluation Group believes that the institution is currently at a critical juncture where its development effectiveness is being jeopardized by the crisis in leadership. This is of great concern to the Group.

156. As indicated in earlier paragraphs of this Report, the Group found important governance challenges that require attention by the Board going forward. In particular, the Group believes there is a need to review the role as well as procedural and other aspects of the Ethics Committee. In addition, the Group underscores that serious consideration be given to issues regarding internal and overall governance of the institution. This should encompass issues relating to the demarcation of the respective responsibilities of the President and the Executive Directors. There are also outstanding significant issues on the strategy of the Bank on which work has usefully begun.

B. Recommendations

157. Taking into account the following:

- the Group’s conclusions on questions 1, 2, 3 above;
- the damage done to the reputation of the World Bank Group and to that of the President;
- the lack of confidence expressed by internal and external stakeholders in the present leadership;
- the erosion of operational effectiveness caused by the current crisis; and
- the important strategy and governance challenges the World Bank Group is facing;

The Group recommends the Executive Directors to consider:
1. Whether Mr. Wolfowitz will be able to provide the leadership needed to ensure that the Bank continues to operate to the fullest extent possible in achieving its mandate.

2. To undertake a review of the governance framework of the World Bank Group with the aim of ensuring that it is capable of effectively dealing with the challenges raised for the institution.