

# The Ethics Office

INTERNATIONAL MONETARY FUND

Annual Report  
2008

Ethical Framework



# Ethical Framework



## Message from Joan Elise Dubinsky, Ethics Officer

The 2008 Annual Report of the Ethics Officer, and all the work of the Ethics Office throughout the year, would not have been possible without the talent and hard work of an exceptionally dedicated staff: Joseph Kroupa, Ethics Office Associate, and Rebecca Mills, Ethics Office Administrative Assistant. They have and deserve my continuing gratitude and heartfelt thanks.

2008 was a busy and challenging year in the Fund, and in its Ethics Office. The caseload handled by the Office rose again, including a sharp jump in the number of allegations of misconduct. The increased willingness of staff to discuss ethical concerns with the Ethics Officer is very positive.

In addition to the number of contacts with Fund staff—whether they were seeking advice or alleging misconduct—the Ethics Office was heavily engaged in other matters: establishment of the Integrity Hotline, investigation into the conduct of the Managing Director, completion of a benchmarking study of the Code of Staff Conduct against those of comparator organizations, the ongoing review of the Fund's Standards of Conduct, and the 2008 staff downsizing and restructuring exercise.

One of the most important lessons learned this past year is the degree to which the Fund's reputation rests on the individual choices and actions of its leaders. Whether we support this development or not, we have learned that the higher an employee's rank in the Fund, the greater the risk to the Fund's reputation when ethical lapses—or even the appearance of ethical failure—may occur. It is a fact of modern life that leaders everywhere face an ever-narrowing sphere of personal privacy.

The Fund stands at an important juncture. The organization is facing major challenges internally and externally. It needs a strong and effective ethical framework if it is to maintain a reputation for integrity in all its dealings. Although the basic elements of such a framework are in place, some—such as the Code of Staff Conduct—have fallen behind the best of our comparators and others—such as a comprehensive ethical training program—are rudimentary. To bring the Fund up to “best in class” as an ethical institution will require resources. More than anything, it will require a commitment from Fund leadership to articulate and exemplify our core ethical values and to place an ethical perspective at the heart of Fund operations.

This is my last Annual Report as the Fund's Ethics Officer. I am sometimes asked what are the essential attributes for a successful Ethics Officer, and I reply: courage, patience, and common sense. Hopefully, I have managed to demonstrate all three during my tenure. I wish to thank the Managing Director for allowing me to work with the entire Fund community during the last five years.

The Fund was established on the basis that international economic cooperation is preferable to the narrow pursuit of national self-interest. That ideal resonates today as the world faces as grim an economic situation as any since the birth of the Fund. I believe that the Fund will serve its membership best when an ethical perspective framing all aspects of personal and professional behavior buttresses that noble principle.



Joan Elise Dubinsky

Ethics Officer

International Monetary Fund

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## The Ethical Framework

An organization that places ethics at the center of all that it does has an ethical framework. Such a framework ensures that ethical concerns are not dismissed as tangential, distracting, or inconsequential. An Ethics Officer can help ensure that a solid ethical framework is in place so that the organization, its leaders, and its staff are able to consider the ethical components of their decisions. This is especially true in times of stress and when the organization faces an upsurge in operational demands—exactly the conditions in which the Fund finds itself today. An ethical framework has four components: a culture for ethical action, standards of conduct, outreach, and a fair and transparent process.



### Establishing a Culture for Ethical Action

At the center of this framework are the core ethical values that represent the foundation of Fund culture. Core ethical values allow staff to better understand and live up to the standards of conduct expected of them. Once these core values are defined in the context of Fund culture, it is much easier to address the difficult ethical choices that will arise in carrying out the Fund's mission.

Core ethical values must be embodied in the voices and actions of the most senior leadership. “Tone from the top” acts as a pace setter in determining the depth and breadth of attention paid to ethical considerations. Together, ethical values and leadership set the parameters for ethical action. The right tone from the top, leaders who reinforce core ethical values, and an institution-wide commitment to ethical conduct are the best defenses against reputational risk.

## Standards of Conduct

The Fund’s standards of conduct comprise the rules, General Administrative Orders, Staff Bulletins, and Codes of Conduct that collectively establish the boundaries for acceptable ethical behavior. These standards detail how the Fund will act toward staff and how staff should act toward each other. Standards of Conduct apply wherever the Fund or its employees act—both inside the Fund’s own workplace and in the external “marketplace” where the Fund delivers its services.

The Staff Code of Conduct and the Executive Board Code of Conduct together should set the tenor and direction for ethical behavior. They should be the single most important elements of the Fund’s ethics program. To be effective, the two codes must provide a user-friendly overview of what the organization means when it talks about ethical conduct. Ideally, these documents should promote ethical behavior, reinforce legal compliance, and enhance the institution’s reputation.

The strength and effectiveness of the Fund’s Standards of Conduct will be reinforced to the extent they reflect *mutuality*, i.e., they constitute the social contract between the Fund and its employees. Standards that reflect a unilateral approach in which enforcement comes ultimately through disciplinary action are less likely to command the respect of staff and thus less likely to be internalized and owned.

## Promoting Ethical Awareness

An ethical organization constantly strives to promote its employees’ awareness of the role ethics plays in operations. Staff who serve “on the front lines” of the Fund’s business cannot be expected to phone back to Headquarters for in-the-moment ethics advice. They need to be able to see ethical issues as they emerge and be prepared to deal with them on the spot. The best way to promote ethical awareness is through focused training.

Training needs to be tied to the organization’s core ethical values and integrated with other aspects of staff development. Ethics training should not be a one-time or stand-alone undertaking. It should be grounded in practical issues of the kind that Fund staff face as their careers develop.

A strong training program needs to be supplemented by an appropriate series of top-level messages about ethics and culture. The advisory role of the Ethics Office helps raise ethical awareness as staff seek counseling on the ethical choices they face.

## Addressing Misconduct

An ethical organization offers a systematic process for receiving and investigating allegations of misconduct. This process should be as transparent as possible within the boundaries of confidentiality, privacy and the need to protect against retaliation. The fact-finding process must be based on respect, fairness, and an unwavering appreciation for due process.

A common misconception is that the overriding role of the Ethics Officer is to address cases of misconduct. While this is certainly one task that an Ethics Officer will undertake, it is a mistake to equate ethics only with investigations and disciplinary action. This may have been one of the reasons why the Fund created an Ethics Office in 2000. It is not, however, the *sine qua non* of the Ethics Office in 2009. Today, the Office focuses far more on prevention than prosecution.

## The IMF Ethics Office: What it is, what it does

The Fund created the Ethics Office and retained its first Ethics Officer in January 2000. The Ethics Officer reports directly to the Managing Director, and serves no more than a five year term. **The function is independent of all other departments, including HRD, OIA, and LEG.**

The Ethics Officer serves the Fund in three ways:

- *Provides confidential advice and counsel* to the Fund and all of its staff about ethics, values, and staff conduct rules
- *Promotes ethical awareness* through education, communication, and training, and
- *Conducts confidential internal investigations* into allegations of unethical behavior and/or misconduct.

The Ethics Officer helps shape the Fund's culture for ethical action, by increasing awareness of ethics-related issues within the organization, and by proposing selected Fund policy. The Ethics Officer ensures that ethics advice is provided independently of management and without bias. Staff members who request ethics advice will not suffer adverse action if they rely upon that advice, provided that they have accurately disclosed all material facts and information.

Staff members and managers may contact the Ethics Officer to seek confidential and independent advice on ethical matters or to make complaints about suspected misconduct. In the latter case, the Ethics Officer conducts and/or oversees investigations related to misconduct to ensure that they are handled professionally, objectively, fairly, and consistently. Staff may also seek advice or report concerns about potential misconduct through the Integrity Hotline, which is operated by an independent external firm. Calls to the Hotline are reported to the Ethics Officer on a confidential or anonymous basis, as determined by the caller.

To contact the Ethics Office, staff may visit the office in HQ1-05-548 or call Ext. 39665. Staff can also reach the Ethics Officer via email at [ethics@imf.org](mailto:ethics@imf.org)



## 2008 Activities and Operations

**C**ontacts with the Fund's Ethics Office are classified based on the type of issue raised. The Office uses standardized categories to allow comparisons of the caseload over time and detect emerging risk areas. Examples within each category illustrate the kinds of concerns that can arise at the Fund.

| Workplace Fairness   | Conflicts of Interest  |
|--|--|
| <p>Discrimination</p> <p>Harassment</p> <ul style="list-style-type: none"> <li>• Hostile environment</li> <li>• Abusive management practices</li> </ul> <p>Retaliation</p> <p>Workplace relationships</p> <ul style="list-style-type: none"> <li>• Nepotism; close personal relationships</li> <li>• Abuse of power</li> </ul> | <p>Personal conflicts of interest</p> <ul style="list-style-type: none"> <li>• Gifts, awards, honors</li> <li>• Favoritism</li> </ul> <p>Financial disclosure, certification</p> <p>External activities</p> <ul style="list-style-type: none"> <li>• Post-Fund employment</li> <li>• Membership on outside Boards</li> <li>• Work in private financial sector</li> </ul> |
| Resources & Information  | External Compliance  |
| <p>Misuse of Fund resources</p> <ul style="list-style-type: none"> <li>• Fraud, waste, and abuse</li> <li>• Corruption, bribery, facilitation payments</li> </ul> <p>Misuse of Fund information</p> <ul style="list-style-type: none"> <li>• Protection of confidential information</li> <li>• Privacy</li> </ul>              | <p>Unpaid debt, tax liens</p> <p>Visa</p> <ul style="list-style-type: none"> <li>• G4/G5 employment</li> </ul> <p>Other</p> <ul style="list-style-type: none"> <li>• Domestic violence</li> <li>• Following local criminal and civil laws</li> </ul>   |



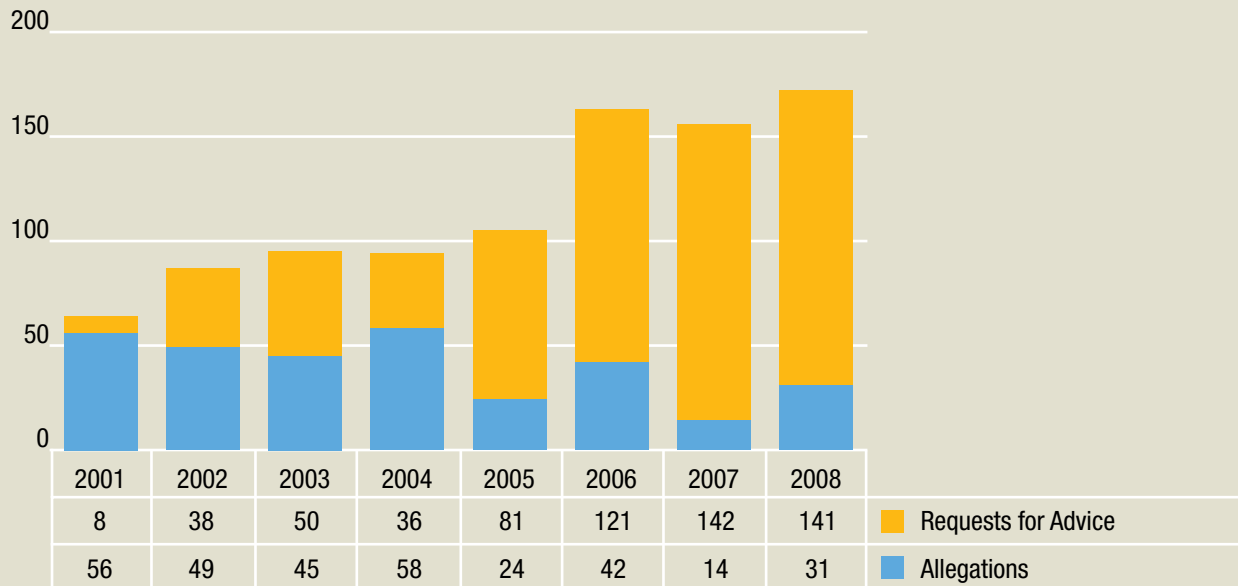
Confidential advisory consultations and investigative cases form the core of the Ethics Office workload. The total number of matters before the Ethics Office increased in 2008 by 10 percent. This included a more than doubling of the number of allegations of misconduct. However, the nature of the caseload did not change markedly from 2007. The Office addressed concerns in all four of the categories described above. The downsizing exercise resulted in a significant number of consultations with the Ethics Officer focusing on concerns over job loss, fairness, and future employment considerations. The provision of views and input into the investigation of the Managing Director's conduct also occupied a part of the Office's time in the fall of 2008.

## Caseload: Advice and Investigations

The Ethics Office handled a total of 172 cases for the twelve-month period ending December 31, 2008, of which 141 were requests for advice—essentially unchanged from the 2007 caseload—and 31 involved allegations of misconduct. The latter figure brought to a halt the downward trend in the number of misconduct allegations that had emerged in recent years. At first glance, the sharp increase in such cases—up from 14 in 2007—would appear to be a cause for alarm and is certainly a matter that should not be viewed lightly. However, one should not place undue weight on a single figure.

| <b>Detailed Activity by Category - 2008</b> |               |                    |
|---|---------------|--------------------|
|   | <b>Advice</b> | <b>Allegations</b> |
| Workplace Fairness                          | 23            | 7                  |
| Retaliation                                 | 1             | 0                  |
| Visa  | 11            | 2                  |
| Unpaid Debt                                 | 0             | 1                  |
| Other                                       | 11            | 7                  |
| Conflicts of Interest                       | 18            | 1                  |
| External Activities                         | 70            | 0                  |
| Misuse of Resources                         | 1             | 6                  |
| Misuse of Information                       | 0             | 7                  |
| Financial Disclosure                        | 6             | 0                  |
| <b>TOTAL</b>                                | <b>141</b>    | <b>31</b>          |

## ETO Work Load – 2001 to 2008



An organization's ethics office typically experiences an upsurge in allegations of misconduct (or an actual increase in misconduct) during a period of turmoil and change. 2008 certainly qualifies as such a period: first, the downsizing exercise caused considerable anxiety and stress as staff pondered whether to stay or go and under what conditions; and then in the second half of the year, the global economic and financial meltdown called for a sudden, rapid response by the Fund. In some cases, staff who mentally had "one foot out the door" extended their employment. The establishment of the Integrity Hotline did not lead to a significant increase in allegations of ethical misconduct. But its activation may have helped raise consciousness of ethical issues within the Fund.

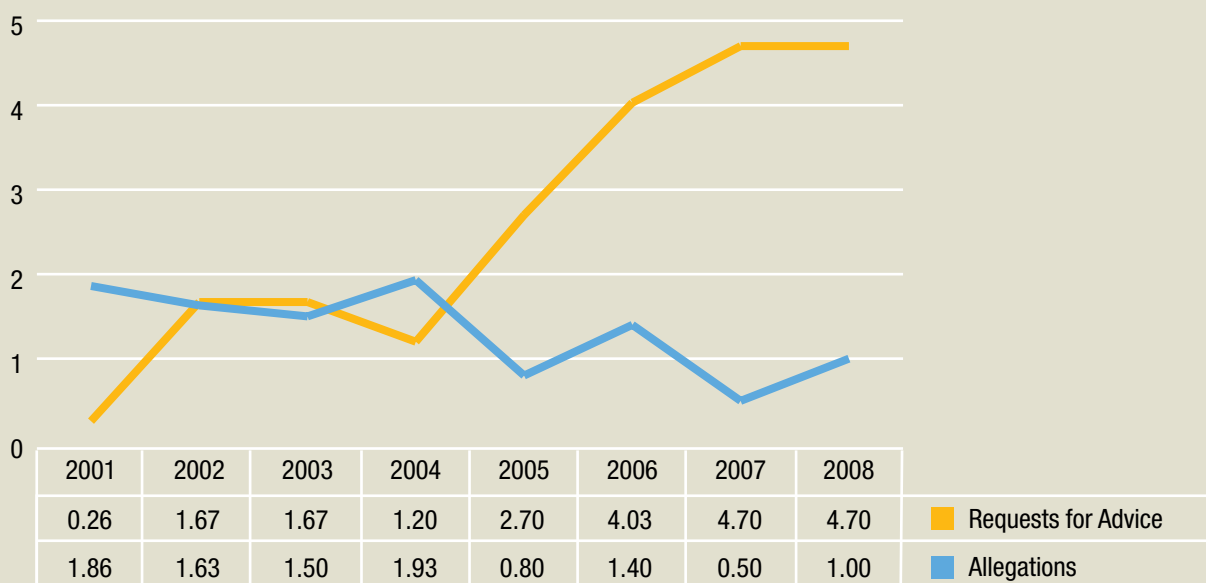
## Ratio of Contacts per 100 Staff per Year

In the United States, a survey by one of the leading business membership organizations found that organizations typically experience 2.5-3.5 ethics-related contacts per 100 staff members per year.<sup>1</sup> This benchmarking ratio includes both requests for ethical advice and allegations of misconduct or unethical behavior. The Ethics Office has used this metric over the years to analyze trends in ethical awareness at the Fund. For 2008, the ratio of contacts/staff remained at the high level seen in 2007, with 5.7 total contacts/100 staff received.

<sup>1</sup> "Universal Conduct: An Ethics and Compliance Benchmarking Survey," The Conference Board, New York, 2006; (Research Report T-1393-06-RR), written by Ronald E. Berenbeim.

The continued high usage of the Ethics Office for advice and guidance is a very positive trend, reflecting the premium that staff place on the counseling role of the Ethics Officer and their awareness of the adage, “If in doubt, ask.” The increased traffic with respect to allegations of misconduct, while a matter of concern, may not represent a sudden deterioration in staff’s behavior; it may rather reflect significant organizational stress. The rise in activity in this area could also stem from more trust on the part of the staff that they can speak freely to the Ethics Officer, that their concerns will be taken seriously and handled in an appropriately confidential manner. One can also regard as positive the relatively high ratio of advice requests to allegations—at about 4.5:1 this remains higher than in all previous years except 2007, a situation that many organizations would envy.

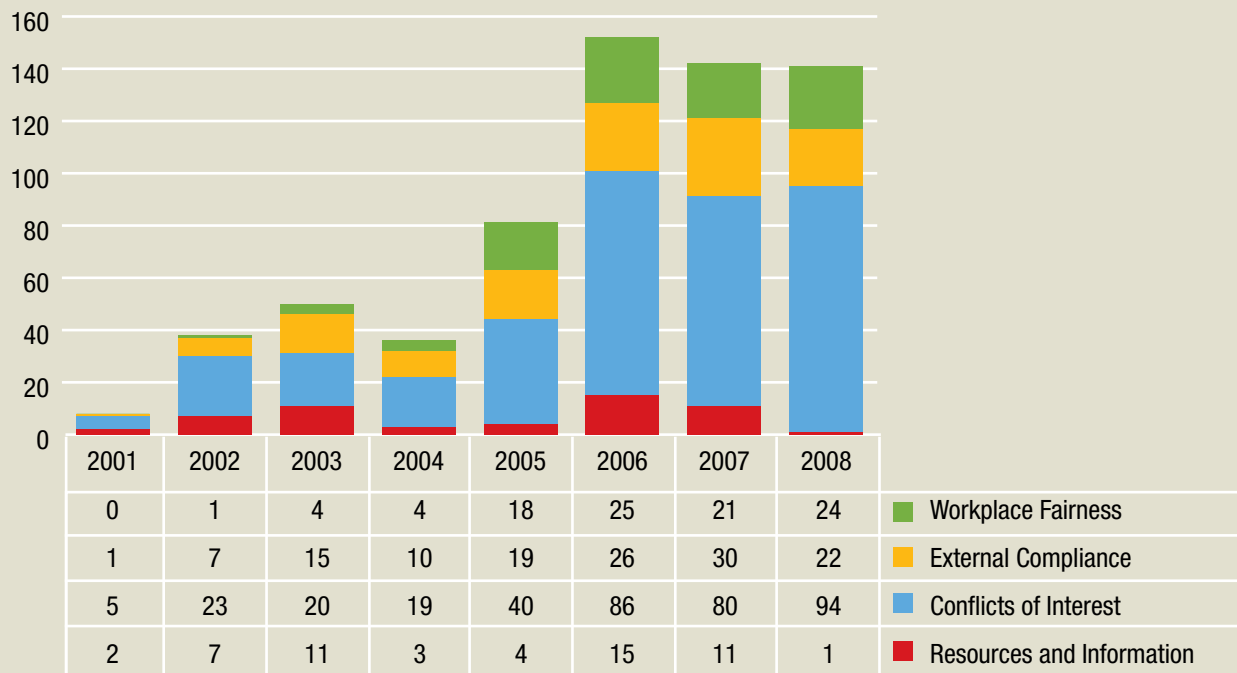
### Contacts per 100 Staff per Year – 2001 to 2008



### Advisory Cases

The number of requests for confidential ethics consultations with the Ethics Officer in 2008 was essentially the same as in 2007. Within the overall category of advice, there was a notable increase in the number of cases falling under the general heading of conflicts of interest. This category, which has always been the main area in which staff seek guidance from the Ethics Office, represented two-thirds of advisory cases in 2008 compared to half of the caseload in earlier years. The topic grouping “conflicts of interest” includes but is not limited to gifts, honors and awards, external activities, outside employment, political activity, nepotism, prohibitions on currency speculation and short-term trading, and financial disclosure. This makes sense in a year when the downsizing exercise was underway and staff sought help navigating the ethical issues surrounding post-Fund employment and temporary assignments in the private financial sector.

### Advisory Matters by Topic Groups – 2001 to 2008



### Allegations

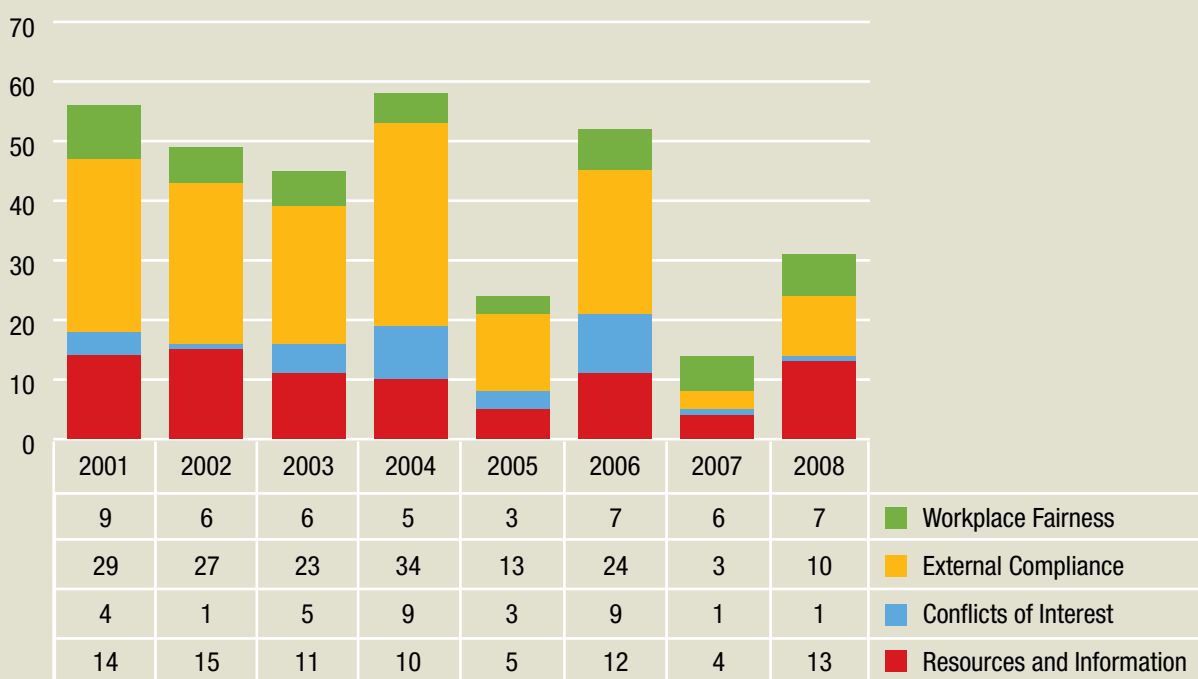
The number of allegations of misconduct more than doubled in 2008. There is no single explanatory factor for this increase, but it will be critical to monitor this area carefully in the coming months to discern any emerging patterns of risk behavior on the part of Fund staff.

The breakdown of allegations by topic groups differed somewhat from 2007, when issues of workplace fairness predominated, and reverted to a pattern broadly similar to that of previous years. Namely, concerns over external compliance and misuse of Fund resources or confidential information constituted the bulk of allegations. The seriousness of the matters under investigation remained relatively high as in 2007, and included allegations concerning:

- Misuse of resources
- Leaks of confidential information
- Attempted identity theft
- Retaliation
- Sexual harassment
- Abuse of power
- Conflicts of interest
- Distribution of pornography
- Violations of national criminal laws
- Domestic violence and abuse

While the seriousness and frequency of alleged misconduct increased, there has also been an increased level of cooperation among the Fund units that investigate and resolve these matters. This is an encouraging development. Within the bounds of confidentiality, the Ethics Office collaborates with OIA, TGS Security, HRD, and FIN on selected matters.

### Allegations by Topic Groups – 2001 to 2008



### Investigations and Outcomes

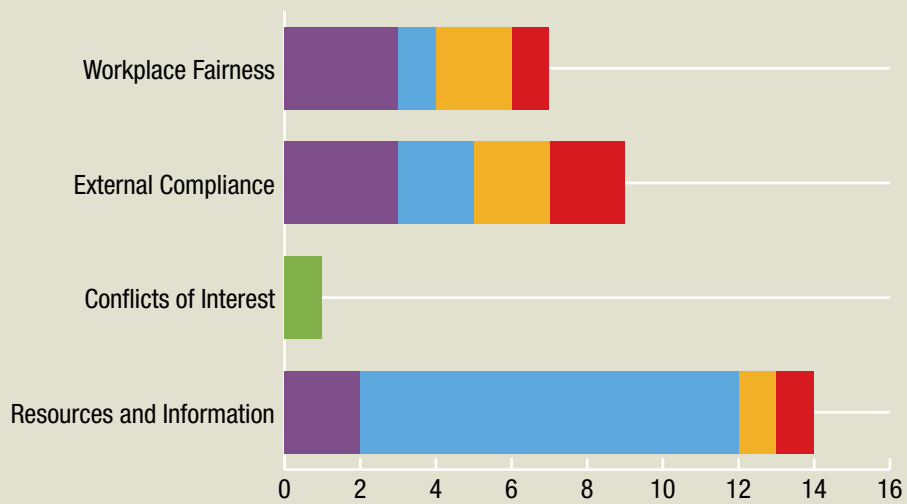
Of the 31 allegations of misconduct in 2008, the majority were dismissed, withdrawn, or dealt with through informal resolution. In some of the latter cases, the allegation was resolved through management intervention and a formal investigation was not necessary. At the end of the year, 5 cases were pending completion. In conducting internal investigations, the Ethics Office works to ensure balance and thoroughness, appropriate confidentiality, and freedom from reprisal in accordance with the Fund's Procedural Guidelines on the Conduct of Investigations into Allegations of Misconduct. Furthermore, all inquiries and investigations were based on fundamental fairness in procedural terms, including notice to those against whom allegations were made and an opportunity to be heard.

Although the Ethics Officer will reach a conclusion on the nature of the misconduct, he or she does not take disciplinary action. Rather, the Ethics Office submits its Reports of Investigations to the Director of HRD, in cases involving A-level staff, or to the Managing Director for matters related to B-level staff, and they take responsibility for deciding upon disciplinary measures.

As noted in last year's Annual Report, the Fund has a tendency toward leniency when it comes to imposing disciplinary actions on staff. In fact, there is a trend to treat regular staff with more leniency than contractual employees or those on limited-term appointments. This observation remains valid.

Dealing too lightly with misconduct undermines the credibility of the Fund and can create a sense that personal accountability for the standards of conduct is not a value the Fund takes seriously.

### Investigation Outcomes by Topic Groups – 2008



|  | Resources & Information | Conflicts of Interest | External Compliance | Workplace Fairness |
|--|-------------------------|-----------------------|---------------------|--------------------|
| Misconduct Found <span style="color: red;">■</span>          | 1                       |                       | 2                   | 1                  |
| No Misconduct <span style="color: green;">■</span>           |                         | 1                     |                     |                    |
| Pending <span style="color: yellow;">■</span>                | 1                       |                       | 2                   | 2                  |
| Informal Resolution <span style="color: blue;">■</span>      | 10                      |                       | 2                   | 1                  |
| Dismissed or Withdrawn <span style="color: purple;">■</span> | 2                       |                       | 3                   | 3                  |

### Outreach and Communication

Advice and investigations represent only a portion of the Office’s activities. In seeking to strengthen the overall ethical framework, an important part of the Ethics Officer’s time is devoted to engaging all levels of the institution in dialogue about the ethical aspects of their work. In 2008, this included a range of internal training and communication events with departments, the SAC, and HRD. Outreach activities touched upon specific ethical topics or policies, new employee orientation programs, G4/G5 issues, and the new Integrity Hotline, among others.

In addition, the Ethics Office often receives requests from external organizations for advice and consultation on a broad array of ethics-related issues including establishing ethics and compliance functions, adopting value-based systems, drafting codes of conduct, and developing standards to resolve conflicts of interest. The Ethics Office has responded to inquiries on disclosure processes, annual certification, training and education, and identification and remediation of financial, personal, and organizational conflicts of interest. This year, the Ethics Office has worked with, among others, the World Bank, IADB, PAHO, the IXth and Xth Annual International Investigators Conference, the Conference Board, the European Business Ethics Forum, the Global Fund, the Ethics & Compliance Officer Association, and the Practicing Law Institute.

## Investigations and Relief: Some Observations

The Fund's current process for investigating allegations of staff misconduct balances the rights of the accused (e.g., the Respondent) with the Fund's rights. Missing from the equation is an appreciation of the rights of the Complainant, the one who brought the matter to the Fund's attention in the first place. The Complainant may be the victim, an innocent bystander, or someone who believes strongly that a wrong must be put right. The typical outcome of an investigation where misconduct is established is the imposition of disciplinary action on the Respondent. The investigative process does not automatically result in justice, relief, or remedy to make the Complainant whole.

An example helps illustrate the problem. Assume that the victim of abusive management practices approaches the Ethics Officer for relief. She files a complaint against her manager, stating that a promotion was intentionally withheld because she had a previous professional disagreement with that same manager. After fact finding, the Ethics Officer concludes that the manager had acted out of retaliation.

At this point, the Fund's process provides a mechanism for imposing disciplinary action on the manager. (Such action is not within the remit of the Ethics Officer, but of HRD or Management according to the circumstances.) While HRD and Management have the ultimate discretion to make the Complainant whole, they are under no obligation to do so. If the Complainant is dissatisfied, she must then file a Grievance.

In the view of the Ethics Officer, the Fund should be prepared to remedy the impact of unethical conduct directly and swiftly. The victim of unethical behavior should not have to take two formal actions in order to ensure that justice is served.



## Major Developments

**S**ignificant developments bearing on the ethical culture of the Fund in 2008 included the establishment of the Integrity Hotline, the investigation into the conduct of the Managing Director, a benchmarking of the Staff Code of Conduct, the initiation of a review of the Fund's Standards of Conduct, and a series of issues arising out of the staff restructuring exercise. This section discusses each of these developments in turn.

### Launch of the Integrity Hotline

After much study, in June 2008 the Fund launched the IMF Integrity Hotline—often referred to as a whistleblowing system—for receiving allegations of misconduct against anyone at the Fund.

The Hotline (1-800-548-5384) is available worldwide, 24 hours a day, 365 days a year. Calls are received by Global Compliance, Inc., an independent external firm, whose staff are trained to receive information about misconduct allegations. Reports of misconduct may also be made via the Internet through a direct web link to the Hotline vendor. Summaries of all calls are sent to the Ethics Officer, who transmits reports concerning Board members to the Chair of the Board's Ethics Committee, and those concerning the Managing Director to the Dean of the Board. For reports concerning Fund staff, the Ethics Officer determines the next step for each matter—including informal resolution, follow-up and investigation, or no action. Investigations of staff misconduct

follow the process outlined in the Fund's Procedural Guidelines for Conducting Inquiries into Allegations of Misconduct.

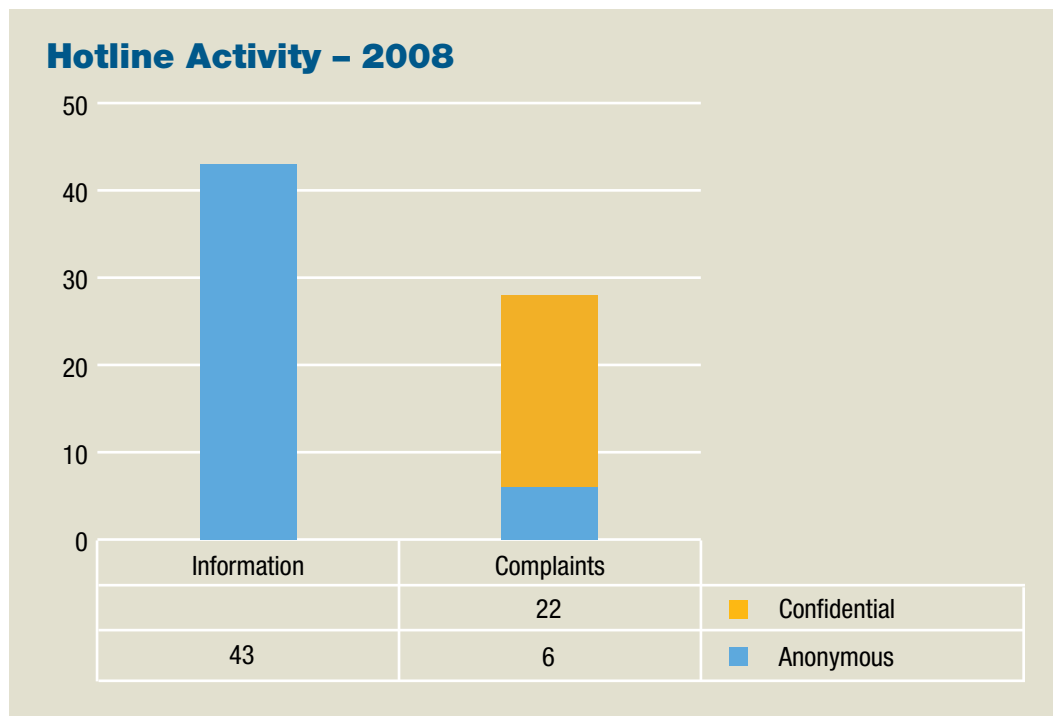
If the Fund has additional questions about a report made through the Hotline, the Ethics Officer may contact the caller directly. Individuals are encouraged to identify themselves, but they always have the option to remain anonymous. This choice will be respected. However, if callers choose to remain anonymous, it is important that they describe their concerns in sufficient detail so that the matter can be adequately addressed.

In its first six months of operation, the Hotline received a total of 71 calls or web

#### Integrity Hotline

**1-800-548-5384** or via the web  
<https://www.integrity-helpline.com/imf.jsp>

- Available 24/7, every day of the year
- Operated by Global Compliance, an independent firm
- All calls are treated confidentially
- Callers may choose to remain anonymous



contacts. Many of these were simply questions about how the Hotline operates. A large number represented external complaints about fraudulent email messages allegedly linked to the Fund. In 2008, the Hotline did not receive any substantial allegations of misconduct by Fund staff, senior executives, or Board members, nor any “bad faith” or malicious complaints. No complaints were received concerning the downsizing which was underway in 2008. Two inquiries were made about whether the application of certain Fund policies or practices was ethical and these were addressed appropriately.

The use of the Hotline for general ethical inquiries, rather than a specific allegation of misconduct, is entirely legitimate. Offering staff multiple channels for presenting concerns about possible misconduct or unethical behavior is a best practice. It serves the Fund well to make it as comfortable as possible for staff to bring ethical concerns to the attention of those with responsibility for addressing them.

In the view of the Ethics Office, the launch of the Integrity Hotline represents a major strengthening of the Fund’s ethical framework. Most large public and private sector organizations in the United States and other countries have operated whistleblowing systems for a number of years. It will be essential to deepen staff awareness of the Hotline’s availability. For its part, the Ethics Office is committed to making sure that contacts to the Hotline, as through other internal reporting channels, are handled fairly, promptly, and thoroughly, and that the Fund takes appropriate action to resolve each reported matter.

## Investigation of the Managing Director’s Conduct

In the fall of 2008, an allegation of a close personal relationship between the Managing Director and a senior staff member was brought to the attention of the Dean of the Board. The staff member in question had already voluntarily left the Fund and found employment at another organization.

The issues to be resolved were whether the establishment of the relationship constituted sexual harassment and an abuse of authority by the Managing Director, in particular, either through encouraging the staff member to leave the Fund, or through preferential treatment in the terms and conditions of the staff member's employment.

It is not within the Terms of Reference for the Ethics Officer to investigate alleged misconduct by the Managing Director. However, because his contract requires the Managing Director to observe the standards of conduct applicable to staff members, the Dean of the Board sought the views of the Ethics Officer regarding applicable staff policies and practices, given the responsibility of the Ethics Officer to conduct investigations into allegations of misconduct on the part of Fund employees.

Several aspects of the process bear reflection. Due to the sensitivity of the allegations and the implications for privacy of all concerned, the Fund retained independent outside counsel to conduct the investigation. Outside counsel were given free access to Fund documents and materials, and they determined the number, timing, and direction of all interviews. All parties cooperated fully and were given numerous opportunities to explain "their side of the story." The Executive Directors received a full report from outside counsel, met with them in person, and received their findings. The Board applied the applicable standards of conduct to the facts, and reached their conclusion that no misconduct had occurred.

Any high-level investigation, conducted under the glare of press coverage, produces unavoidable discomfort. From the perspective of a business ethicist, the process worked extremely well. The standards of conduct to which the Managing Director was held are the same standards to which staff members would be held under the same circumstances. It is commendable that the Fund chose to make public outside counsel's report, the analysis of the applicable standards of conduct, the Board's decision, and the Managing Director's response. The report of outside counsel posed a significant point for the Fund to consider, namely whether senior leaders ought to be held to a higher standard of conduct than is expected of staff. This is transparency in action.

In the Ethics Officer's view, staff should have no sense that the investigation into the Managing Director's conduct was any less careful or comprehensive than would have been the case for a staff member, at whatever level, facing a similar allegation.

## **Code of Conduct Benchmarking**

In 2008, the Ethics Office conducted a comparative analysis of the Fund's Code of Staff Conduct against codes of 14 large public and private sector institutions or companies. Why was this analysis undertaken and what did it show?

The IMF's existing Code of Staff Conduct was adopted in July 1998. Since then, a number of internal rules and directives have been adopted, clarified, revised, and updated. The Code of Conduct should be consistent with these changes. For example, the Code makes no mention of the existence and function of the Ethics Office, which was created in 2000.

The field of business ethics has evolved substantially in the decade since the Fund adopted its Code of Staff Conduct. New issues continue to emerge in business ethics, like employee privacy, confidentiality of information, use of telecommunications technology, intellectual property rights, corruption, terrorism financing, environmental protection, and human rights protection. Finally, best practices for most international organizations are to revise and update their Codes at least every 5 years to keep up with changes in their internal and external operating environments.

At the beginning of 2008, and reflecting upon the importance of protecting the Fund from reputational risk, the Advisory Committee on Risk Management (ACRM) recommended that the Code of Staff Conduct be updated. With this in mind, the Ethics Office compared the Fund's existing Code against the equivalent documents of other International Financial Institutions (IFIs), the U.N. and related public international agencies, and the private sector. The study also examined the degree to which the Code remained internally consistent with Fund policies.

## Code of Conduct Benchmarking Study: A summary of recommendations

*The study found that there are a number of ethical risk topics that are not adequately addressed by the current Code of Staff Conduct. The study suggested ways to clarify the Code with respect to implementation and administration, and to update its presentation and design.*

- The Code of Staff Conduct should be expanded to address, revise, or enhance a number of risk topics that impact directly upon the Fund's reputation for ethical conduct. These include:
  - Core ethical values
  - Commitments to stakeholders
  - Conflicts of interest
  - Fraud, waste, abuse, and corruption
  - Use of Fund property and resources
  - Confidentiality of Fund and member country information
  - Whistleblower protection
  - Human rights protection
  - Safety and security
  - Competition
  - Employee privacy
  - Harassment, discrimination, and retaliation
  
- The Code of Staff Conduct should be expanded to describe the Fund's ethics process and resources, clarify confidential ethics advisory services, and summarize the internal fact finding process used to address allegations of misconduct. The Code should specifically address:
  - Enforcement and discipline
  - Application and scope
  
- The presentation and design of the Code should be redesigned and updated, to include more user friendly features, learning aids and a more inclusive style and tone.

The study concluded that **the current staff Code does not address many emerging risk topics that are necessary to safeguard the Fund and its employees.** It also found that **the content of the Code is not always consistent with many of the Fund's own rules, policies, and procedures,** such as information disclosure, use of property and facilities, the dispute resolution process, conflicts of interest, discrimination, and harassment. Accordingly, the study recommended that the existing Code of Staff Conduct be substantially revised.

A Code of Conduct is not intended to address every possible issue that may arise in an employee's work life. Often, good judgment and common sense are key to resolving ethical issues. However, a Code of Conduct that is substantially out of date can no longer serve as the center point of the Fund's commitment to ethics. The more out of date a Code becomes, the less effective it is. If a Code reaches the "point of no return," it must be entirely rewritten in order to regain relevance to the work lives of staff. To do otherwise, risks feeding cynicism about the Fund's commitment to ethics.

## Review of the Fund's Standards of Conduct

In December 2008, Management established a Working Group on the Fund's Standards of Conduct. In launching this initiative, the Deputy Managing Director noted that it had become apparent that some of the guidelines and rules governing employee conduct on the job were outdated and no longer consistent with best practices elsewhere.

In addition to the Code of Staff Conduct, standards governing staff conduct are set out in selected GAOs, Staff Bulletins, and other directives. Together, these materials serve a dual purpose: to create a positive, respectful and productive workplace, and to ensure that the Fund's reputation for integrity and principled behavior is sustained. There are four broad topical areas that collectively make up the Fund's Standards of Conduct:

- Workplace fairness
- Conflicts of interest
- Use of resources and information, and
- Legal compliance

Management charged the new Working Group<sup>1</sup> with examining the Fund's policies and procedures in these four areas, to identify gaps or weaknesses and make recommendations, taking into account best practices in comparator organizations. The Working Group was asked to focus on workplace fairness first, with particular attention to the rules and policies on harassment, discrimination, retaliation, and workplace relationships. The Group's work will likely extend well into FY2010 in order to address all four topical areas.

The importance of tackling and following through on the recommendations related to issues within the Working Group's remit is discussed in the next section.

## Issues Arising from the 2008 Staff Restructuring Exercise

In early 2008, the Fund undertook its first major reduction in staff. This was coupled with an effort to hire staff with new skills and/or encourage existing staff to gain new skills through periods of leave in the private financial sector. Furthermore, in the second half of the year, as the global

<sup>1</sup> The members of the Working Group are: Ms. Joan Dubinsky, Ethics Officer (co-chair), Mr. Markus Rodlauer, HRD (co-chair), Ms. Diana Benoit, HRD, Ms. Sabina Bhatia, EXR, Ms. Ana Lucia Coronel, MCD, Ms. Joan Powers, LEG, Ms. Laure Redifer, SAC, Mr. Ghiath Shabsigh, MCM, and Mr. Harry Trines, OIA.

economic and financial crisis intensified, there was a sharp upsurge in demand for the Fund's analytical support and financial assistance.

Layoffs are ethically challenging. Ethically defensible restructurings take deep notice of ethical values such as fairness (“like deserves like”), promise-keeping, confidentiality, transparency, respect for the individual and the institution, adequate notice, and opportunity to respond. At the same time, managers and those implementing the downsizing need to be aware of the “compassion trap” in which decisions can be influenced by extraneous considerations. The ethical soundness of a decision is not determined by who likes or dislikes the decision, but can be framed by asking questions such as: what are the consequences—who is harmed and who is benefited? Will the decision be applied universally, i.e., will similarly situated staff members receive similar treatment? Often, competing ethical considerations will have to be prioritized: at times confidentiality will be more important than transparency; sometimes fairness and universality will be more important than care and compassion. There may be times when decisions are taken that are legally supportable, but for which a compelling ethical argument cannot be made.

Against this background, there are a number of lessons that can be drawn from the Fund's restructuring exercise. First, Management and HRD put considerable effort into ensuring that the basic *design* of the exercise adhered to fundamental principles of fairness. They engaged in communication with staff throughout the exercise, including meeting with the SAC in the early stages. Some of the SAC's concerns were reflected in the overall approach—such as the emphasis on voluntary rather than mandatory separation.

At the individual level, the picture is more mixed. Many staff felt that the factors used by the Fund to compare and rank staff were unwarranted and/or unfair. Others complained that they felt undue pressure from their department to “volunteer” to separate. Still others felt that they had gotten the “nod” to go but were later refused because of the oversubscription of volunteers in their grade range. Many of this latter group were left with embittered feelings, having relied upon assurances that they would be able to leave the Fund with a substantial financial incentive.

It is hard to emphasize enough the importance of “straight talk.” The design of the exercise was predicated on communication between managers and staff so that each employee heard directly what his/her job prospects were at the Fund. Unfortunately, not all employees were prepared to hear the truth as their managers saw it, and not all managers were as well prepared as they might have been in delivering these messages.

Staff from all levels sought advice from the Ethics Office on one aspect or another of the downsizing exercise. A broad area of concern—which did not impinge on the operation of the exercise internally—was the different ethical criteria that staff might face in employment outside the Fund or in the transition to the private financial sector. The potential for conflicts of interest and how to handle confidential Fund information were mentioned frequently. The relatively large numbers who sought advice speaks well to the ethical awareness of these staff, but it also suggests that there may be others who could be “blind-sided” when they enter the very different operating environment of the private sector.

## Continuing Challenges: A Call to Action

### The Fund's Organizational Culture is Changing

The Fund is in the midst of major changes in its internal and external environment. Externally, the global economic crisis has resulted in a renewed focus on the role of the Fund in the international financial system, with fresh calls for the Fund to intensify its core activities and take on new ones. The crisis response can engender a sense of renewed purpose and energy. These external influences will force changes in the Fund's organizational culture.

At the same time, the restructuring and downsizing exercise that began last year will continue to play out. The 500 or so staff who have accepted separation packages will have left—for the most part—by May of 2009. But the impact of the downsizing continues. As the Ombudsperson noted in his 28<sup>th</sup> Annual Report,<sup>1</sup> the Fund must pay close attention to staff morale while it articulates its changing vision and mission.

The Fund is also hiring new staff with skills that are judged to be more relevant to the evolving role of the institution. These new staff will be inexperienced in the day-to-day routine of the Fund. It will take time to absorb and train them. In the language of cultural anthropologists, the Fund's culture can be described as “high context”, i.e., it is dense, complex, and opaque to newcomers or outsiders. If the Fund is not clear and direct about the written and unwritten rules that govern the everyday behavior of its personnel, it will miss the opportunity to take full advantage of newcomers' contributions. Failure to fully integrate new staff, including mid-career hires, can increase the Fund's exposure to ethical and reputational risk.

The Fund now seeks employees with greater experience and knowledge of private financial markets. One is likely to see more of a “revolving door” character to Fund employment, especially for core economic and financial staff. Such a situation is quite different from the model of a life-long international civil servant followed by the Fund for decades.

Generally, the private sector delegates more responsibility and demands higher levels of personal accountability in exchange for giving its employees decision-making authority. Staff complain that the Fund's hierarchy limits their ability to make decisions—of any kind. Staff who have experience

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<sup>1</sup> Memo from Wilbur Hicks, Ombudsperson to All Staff and Employees, October 1, 2008.



making high-level decisions and accepting risks—whether from prior private sector experience or Leave Without Pay assignments—will have different expectations of the Fund.

The Fund has instituted some ethical protections to help prepare staff who take rotational assignments into the private financial sector. Many staff who resign from the Fund to take a private financial sector job receive a confidential ethics briefing before departing the Fund. Staff who are granted leave of absence status in order to gain private financial sector employment experience are required to have a quarterly ethics briefing with the Ethics Officer while they work in the private sector.<sup>2</sup>

The Fund must ensure that both incoming and outgoing staff understand the various ethical questions that can arise. The simple rise in traffic between the Fund and the private sector heightens the potential for ethical lapses, including ones that might become public. The kinds of ethical issues that predictably arise include:

- Protection of confidential information
- Prohibitions on insider trading
- Conflicts of interest
- Charitable giving
- Political activity and speech
- Addressing fraud, waste, abuse, and corruption, including facilitation payments
- Impairment of independence
- Gifts, gratuities, and entertainment
- Distinguishing between duties to shareholders vs. obligations to member countries

The Fund must prepare itself to address this new internal environment.

## Work on the Standards of Conduct

The Working Group on Standards of Conduct will make its first report to Management in early May 2009. This Annual Report of the Ethics Office was prepared prior to the issuance of the Working Group's report. It would be premature to anticipate the Working Group's recommendations. However, this much can be said with a great deal of certainty—the Working Group's report will undoubtedly make specific suggestions for ways in which the Fund's Standards of Conduct should be strengthened. And this will require significant follow-up work.

Neither the initial report of the Working Group nor its subsequent reports can serve as the end point. The task of revising, updating, retrofitting, and making consistent all of the relevant documents is where the “heavy lifting” begins. The Fund cannot allow itself to fall into the trap that a promise to do better is a substitute for the act of doing better. Management's acknowledgement of the need to update the Fund's Standards of Conduct provides the initial momentum. However, the impetus behind the efforts of the Working Group will need to be sustained once the Group has completed its initial assignment. Recommending that a policy be changed is not the same as revising and reissuing the policy.

Ideally, the Fund would revise its Code of Staff Conduct simultaneously with related rules and policies so that all the rules and standards are up-to-date, easy to locate, and effectively applied. This challenging objective will require setting realistic goals and holding the responsible units accountable for reaching them. But the alternative—failure to modernize the Code of Conduct

<sup>2</sup> At any one time, the Ethics Officer counsels between 15 and 30 staff who fall into this category. The staff involved report that these ongoing briefings are beneficial.

and the rules and policies upon which the Fund's ethical expectations are based—will engender cynicism and thereby jeopardize the Fund's ethical framework.

## Implement Comprehensive Ethics Training

Robert Fulghum is a popular author whose first book, "All I Need to Know I Learned in Kindergarten," remained at the top of *The New York Times*' bestseller list for nearly two years. The book contains many insights into how to act in an ethical manner, and its title contains a central truth: moral development begins in childhood. But just because we learned certain truths at our mother's knee does not exempt us from considering how to apply them in the more demanding world of adulthood. This is especially true in an organization as complex as the Fund, operating under multiple and competing pressures, and with staff drawn from scores of nationalities and cultures. We cannot assume that staff come to the Fund already clad in the ethical armor that will enable them to withstand the various stressful choices they will face.

Over the last several years, the Fund has made progress in formalizing its ethics program. The Ethics Office is seen as a trusted source for ethics advice. The Integrity Hotline launched in mid-2008 is in use. An Ethics & Integrity website is available as a staff resource (although it is strongly advisable that its location be separated from HRD so as to underscore the independence of the Ethics Office). These preventive instruments are supplemented by the investigation and fact-finding role of the Office when allegations of staff misconduct arise. However, ethics training remains at a sporadic and rudimentary level. To bring ethical awareness, knowledge of ethics and conduct rules and policies, and ethical decision-making to "the next level" will mean integrating these elements into the broader training programs that the Fund offers to leaders, managers, and staff alike.



What are the key components of an effective ethics training program?

It is **values-driven**, i.e., tied to the Fund's core values. Great ethics training brings values to life through explicit case studies, exercises, and real-life situations. To reinforce this, the performance management process should also integrate core ethical values and their related behavioral

competencies. The current APR process incorporates the Fund's competency model but does not reference ethical commitments, expectations, or values. As the APR system is revised, expectations for ethical conduct should be incorporated as part of the appraisal process.

An **ethics training program should be aligned and integrated with existing training** for each block of the Fund's career development curriculum, rather than offered on a stand-alone basis. This way, ethics is seen as part of good management rather than simply as an add-on to management responsibilities.

Best practices in the ethics training field clearly show that a **“top-down approach” is the most beneficial**. Staff become cynical if they are required to take ethics training but their leaders are not. The challenge is to energize the senior levels of the organization to purposefully focus on the Fund's ethical values and hence its integrity and reputation. In this way, leaders are and are seen as the Fund's ethical role models.

It will take time—and resources—to develop a comprehensive ethics training program designed to meet the specific needs of the Fund. But this is an undertaking that can pay off handsomely in terms of safeguarding the Fund and reducing reputational risk. The box below describes a set of concepts and skills that could be among the components of such a program.

| <b>Ethics Training Components</b>  |  |   |
|--|--|---|
| <b>Values</b>  | <b>Business Conduct</b>  | <b>Compliance</b>   |
| <ul style="list-style-type: none"> <li>• Focus on core ethical values that are fundamental to the Fund's mission</li> <li>• Explore relationship between ethics and culture</li> <li>• Address moral choices, ambiguities, and judgment calls</li> <li>• Understand rewards and motivation (i.e., how we act when we are at our best)</li> </ul> | <ul style="list-style-type: none"> <li>• Focus on how work is done by staff</li> <li>• Interactions with stakeholders</li> <li>• Special attention to management behavior in modeling how work gets done</li> <li>• Concerns about procedural due process (i.e., how we treat each other)</li> <li>• Understanding ethical choices and barriers to ethical action</li> </ul> | <ul style="list-style-type: none"> <li>• Focus on written rules and policies</li> <li>• Explore relationship between ethical action and Fund's reputation</li> <li>• Examine enforcement and accountability</li> <li>• Concerns about substantive due process (i.e., how can we really know what happened)</li> </ul> |

## **Articulating the Fund's Ethical Values**

There was a time when organizational management was considered a “values free” science and business was an “ethics free zone.” Those days, if not wholly past, are fading fast. Indeed, a case can be made that the current global financial meltdown stems in no small part from failure by key corporate decision-makers to question the ethical components of their decisions and business strategies. Academia and corporate management more frequently recognize that attention to values is not a frill or an indulgence but is integral to effective leadership, touching on all aspects of a company's operations. High-performing organizations will increasingly need ethical competencies to

match the economic and technical competencies that they have historically sought to cultivate—in essence, they will need to be as skilled in moral reasoning as they are in economic reasoning.<sup>3</sup>

What does this mean for the Fund? **Values** are at the heart of any organization's ethical culture. However, the Fund's ethical values are not necessarily apparent to everyone who works for the Fund. An informal experiment repeated in many ethics presentations by the Ethics Officer asks attendees to name the Fund's core ethical values. No two groups ever come up with the same answer.

An effective set of ethical values, that can be readily understood and internalized by staff, has the following characteristics:

- They are **simple**—simplicity and ease of use ensures that employees will apply these values to everyday challenges.
- They are **logical**—if leaders articulate the right set of values that reflect the culture of the organization, employees can reason forward from values to solve real life ethical dilemmas—even where the rules are hard to find, hard to understand, and hard to apply. Faced with an ethical challenge, values give you a constant to rely on.
- They are **universal**—ethical values should appeal to all stakeholders. They enable the organization and its staff to rise above national, religious, familial, and culture-specific behaviors and principles.
- They are **compelling**—core ethical values describe who the Fund is and what it aspires to be.

It is not the role of the Ethics Officer to proclaim the Fund's core ethical values. These must be developed through a broad consensus that has the commitment and sponsorship of senior management. However, the Ethics Officer can offer a perspective on what such a set of values might look like.

### **An Ethicist's Perspective on the Fund's Core Ethical Values**

#### **Integrity**

We do what is right for our members, our communities, the Fund, and each other. We make hard decisions and tackle tough choices. We do not compromise our values.

#### **Independence**

We are objective, neutral, and impartial in providing advice and in discharging our professional obligations. Our professional judgment is not influenced by partisan politics or outside authorities. We are responsible to our members and earn their trust and confidence every day.

#### **Honesty**

We tell the truth. We are straightforward in our actions and honest in our relationships. When we say we will do something, we follow through and honor our commitments.

<sup>3</sup> For a thoughtful and compelling analysis along these lines, see "Values Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance" (McGraw-Hill, 2003) by Lynn Sharp Paine. Professor Paine is John G. McLean Professor at the Harvard Business School, where she currently heads the Leadership and Corporate Accountability group.



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