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Enabling poor rural people  
to overcome poverty

## **Report on the special expenditure for the Voluntary Separation Programme for 2009-2011**

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**For: Approval**

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## **Recommendation for approval**

The Executive Board is invited to consider the final report on the special expenditure for the Voluntary Separation Programme for IFAD for 2009-2011, together with the attached draft resolution on a repurposing of the balance of the appropriation from the special expenditure for the Voluntary Separation Programme as a special expenditure for reform actualization to finance implementation of the outcomes of the major human resources reform initiatives, as proposed in paragraphs 29-45.

The Executive Board is further invited to submit this document, together with the attached draft resolution, to the Governing Council with its recommendation that the Governing Council adopt the draft resolution at its thirty-fifth session.

## **Special expenditure for the Voluntary Separation Programme for IFAD for 2009-2011**

### **I. Background**

1. The purpose of the Voluntary Separation Programme (VSP) was to facilitate early separation when it was in the interest of both the staff member and the organization, so as to allow for the updating of skills in the context of the changing environment in which IFAD conducts its business.
2. Upon endorsement and recommendation by the Executive Board, the Governing Council approved a special expenditure of the VSP for the period 2009-2010 in the amount of US\$5.5 million.
3. Upon further endorsement and recommendation by the Executive Board, the Governing Council approved an extension of the appropriation of the special expenditure for the VSP for 2011, as contained in document GC 34/L.7.

### **II. Purpose**

4. The purpose of this document is twofold:
  - (a) To provide a final report on the VSP, including expenditures, for submission to the Governing Council, as outlined in resolution 162/XXXIV; and
  - (b) To request an authorization for the repurposing of the remaining balance from the VSP special appropriation as a special expenditure to finance implementation of the outcomes of the major human resources reform initiatives.

### **III. Recapitulation of VSP implementation status 2009-2010**

5. President's Bulletin 2009/03, issued on 30 March 2009, established the framework and procedures for the VSP. A second call for candidates, via an information circular, was issued in September 2010.
6. In December 2009, it was reported to the Executive Board that 10 staff members, including seven General Service staff and three Professional staff, had been approved for early separation under the first phase of the programme. In December 2010, it was reported to the Executive Board that one additional staff member took advantage of the programme in 2010, bringing the total to 11 staff members who made use of the programme from 2009-2010.

Table 1  
**Staff having participated in the programme (2009-2010)**

	<i>Women</i>		<i>Men</i>		<i>Total</i>	
	<i>Number</i>	<i>Percentage</i>	<i>Number</i>	<i>Percentage</i>	<i>Number</i>	<i>Percentage</i>
<b>Category</b>						
General Service	7	64	0	0	7	64
Professional	4	36	0	0	4	36
<b>Total</b>	<b>11</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>100</b>
<b>Department</b>			<b>List</b>			
Ex-EAD	2	18				
FAD	4	37	A		5	45
OPV	3	27	B		0	0
PMD	2	18	C		6	55
<b>Total</b>	<b>11</b>				<b>11</b>	<b>100</b>

Note: Ex-EAD: External Affairs Department; FAD: Finance and Administration Department; OPV: Office of the President and Vice-President; PMD: Programme Management Department.

7. As indicated in the above table, all staff participating in the programme in 2009-2010 were women and 64 per cent were in the General Service category. It should be noted that approximately 82 per cent of General Service staff are women.

#### **IV. Implementation progress in 2011**

8. In 2011, while still emphasizing the voluntary nature of the programme, as agreed with the Executive Board, directors were encouraged to review their inputs into the corporate Strategic Workforce Plan, clearly define the necessary skills-mix for IFAD's operations for the forthcoming replenishment period, and suggest staff who might profit from participation in the programme.
9. Discussions were held with staff to determine their level of interest in the programme, and in 2011 a further 14 staff members were approved for early separation under the VSP. As indicated in the table below, 29 per cent of the staff participating were men and 71 per cent of the staff participating were in the General Service category. The gender statistics represent an improvement in the overall distribution of participants over the 2009-2010 period.

Table 2  
**Staff having participated in the programme (2011)**

	<i>Women</i>		<i>Men</i>		<i>Total</i>	
	<i>Number</i>	<i>Percentage</i>	<i>Number</i>	<i>Percentage</i>	<i>Number</i>	<i>Percentage</i>
<b>Category</b>						
General Service	8	80	2	50	10	71
Professional	2	20	2	50	4	29
<b>Total</b>	<b>10</b>	<b>100</b>	<b>4</b>	<b>100</b>	<b>14</b>	<b>100</b>
<b>Department</b>						
OPV	4	40	2	50	6	43
FOD	2	20	1	25	3	21
CSD	2	20	1	25	3	21
PMD	2	20	-	-	2	14
<b>Total</b>	<b>10</b>	<b>100</b>	<b>4</b>	<b>100</b>	<b>14</b>	<b>100</b>

Note: OPV: Office of the President and Vice-President; FOD: Finance and Operations Department; CSD: Corporate Services Department; PMD: Programme Management Department.

10. The VSP concluded with a total of 25 staff approved for early separation over the entire period 2009-2011.

## V. VSP final expenditure status 2009-2011

11. Total expenditure under the VSP during 2009-2010 amounted to US\$1,483,679, which represents 27 per cent of the total budget allocation. The remainder, US\$3,962,321, was made available for the second phase.
12. The expenditure for the additional 14 staff approved for separation in 2011 amounted to US\$1,764,211, which represents 32 per cent of the total budget allocation.
13. Total expenditure under the VSP (2009-2011) amounted to US\$3,247,890, which represents 60 per cent of the budget allocation. The VSP concluded with a balance of US\$2,198,110.

Table 3  
VSP expenditures during the period 2009-2011

Category	Budget	Expenditures			Total	Balance
		2009	2010	2011		
Voluntary separation costs	5 346 000	502 527	950 241	1 764 211	3 216 979	
Human resources staff costs	100 000	0	30 911	0	30 911	
<b>Total</b>	<b>5 446 000</b>	<b>502 527</b>	<b>981 152</b>	<b>1 764 211</b>	<b>3 247 890</b>	<b>2 198 110</b>

Note: Data available as of 31 October 2011 based on committed funds.

## VI. Lessons learned

### A. Overview

14. Lessons learned from the first phase were outlined in document GC 34/L.7 (see annex). Many of the lessons outlined in that document held true for the second phase.
15. In general, voluntary separation programmes work best when they are targeted to meet specific organizational goals, the financial incentives are sufficient to offset the risk of even a temporary loss of employment, and the underlying non-financial incentives to participate in the programme are at least as compelling as the financial incentives being offered to potential participants.

### B. Programme outcome and design learning

16. With this in mind, given the design characteristics of the VSP, although the budget set aside for the VSP was not fully spent, it could be considered a success, as a reasonably large number of staff were separated under the VSP, especially in its last phase.
17. Among the factors contributing to the underspending, perhaps the most important were:
- The broad and generally untargeted approach of the programme;
  - A somewhat modest financial encouragement to participate, given the current difficult external economic environment (the average VSP payment to staff was US\$134,664 for Professionals and US\$125,863 for General Service); and
  - The absence of sufficiently strong underlying non-financial incentives for staff to take advantage of the programme.

### C. Analysis of programme design learning: Targeting

18. Targets for voluntary separation programmes can fall into many categories. Typical organizational goals for such a programme could include such purposes as cost

reduction, skills-mix adjustment or refreshment, changing the size of an organization and creating opportunities for upward mobility.

19. In the case of IFAD's VSP, the identified goal of updating skills in a changing business environment was a worthy and suitable goal to support the programme. However, in retrospect, better targeting of those areas in which the skills-mix most needed to be refreshed and greater engagement of managers and supervisors at the outset in identifying staff who might be encouraged to take part in the programme might have yielded somewhat better results.
20. The relatively more successful final year of the programme in 2011, where greater managerial engagement was encouraged and the number of participants in 2011 exceeded the number identified in the previous two years, supports the value of this approach.

#### **D. Analysis of programme design learning: Financial incentives**

21. The adequacy of special financial incentives, particularly when measured against an organization's existing standard termination package or separation incentives, is also a critical element in the success of voluntary separation programmes.
22. Staff are more likely to accept a voluntary separation package when the relative value of the voluntary package exceeds what they might otherwise expect to receive through traditional separation packages, including those provided to staff whose positions are abolished or reclassified.
23. In IFAD's case, the financial incentives were only slightly more attractive than the termination package that staff might have expected if their jobs had been abolished or had they negotiated a mutually agreed separation. First, the package was somewhat more attractive because the multiplier used to convert years of service into a lump-sum payment was more generous than the standard termination package lump-sum multiplier. Second, for staff who had not reached age 55 or 25 years of service, there was also an optional grant of six months' net base pay for retraining and outplacement support and a four-year pension bridging arrangement (allowing staff to take up to four years of special leave without pay, as long as they paid both the staff member's and IFAD's shares of pension and medical insurance contributions).
24. To make a substantial difference, however, the voluntary package would have needed to have been more financially attractive when compared to the standard termination package. One option might have been to factor the post adjustment<sup>1</sup> into the calculation. If the goal was to encourage staff with some time left before retirement to voluntarily separate, then the financial cushion for such staff would in many instances need to be more substantial, especially given the current external job market and economic conditions.

#### **E. Analysis of programme design learning: Non-financial incentives**

25. While financial incentives to accept voluntary separation need to be sufficient to make the calculus of opportunity attractive to potential participants, the underlying non-financial incentives to participate are often an equally essential element of such programmes. To be successful, persuasive underlying incentives are usually related to substantial changes in work or personal circumstances that make the acceptance of the financial incentive more attractive.

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<sup>1</sup> The post adjustment is designed to equalize the purchasing power of United Nations salaries for professionals and higher categories, taking into account the cost-of-living differences between the base city of the system (New York) and other duty stations. The system aims to ensure that no matter where United Nations common system staff work, at some 180 locations worldwide, their take-home pay has a purchasing power equivalent to that at the base of the system.

26. Examples of underlying incentives that would contribute to making a voluntary programme more successful might include such factors as:
- (a) An impending downward change in the size of an organization, where the separation options, if such a change took place and staff were separated because their positions were abolished, would not be as generous as in a voluntary programme;
  - (b) The potential of a mandatory transfer to a new position or an involuntary change in responsibilities or salary level that would be perceived as less attractive than the staff member's current situation; or
  - (c) Personal circumstances (related to health or family conditions or other factors) that would make the ability to leave the workforce, or the desirability of such a change, even for a few years, an attractive option.
27. In IFAD's case, while personal circumstances (health or family circumstances) formed a part of the calculus of opportunity for several participants, there was a relative lack of forceful underlying organizational incentives. When the IFAD programme was announced, the reasons given to staff for the programme were all couched in terms that reflected the advantages to the institution of the programme ("to ensure a good balance between experience and new and diverse ideas"; to promote "change in skills and knowledge and management competencies" and "flexibility and mobility and the capacity to learn and respond to the changing environment").
28. While these underlying reasons were true, they did not specifically address personal incentives to accept a voluntary separation. When there is no immediate likelihood of either a significant personal gain or a personally adverse or unpalatable change in the organizational context (and when, again, the external job and economic environment is unattractive), the underlying incentives to take the relatively uncertain path of voluntary separation are not strong. Voluntary programmes face a greater likelihood of wider participation when, for example, the organization is facing the prospect of a mandatory reduction in staff and is seeking volunteers for separation, on relatively attractive terms, before being forced to launch a mandatory reduction-in-force programme.

## **VII. Request for repurposing of VSP funds**

29. Although the entire budget allocated for the programme was not spent, the VSP has been an effective tool for accomplishing the goals it was established to support. A significant number of opportunities have been created for the infusion of new skills, knowledge and management competencies, in support of the dynamic and evolving demands and opportunities IFAD faces.
30. However, the changes and challenges facing IFAD in the coming two years point to the likelihood that there will be a continuing need for a stand-alone special expenditure to provide transitional support to IFAD and its staff. Drawing from the lessons learned under the VSP, it is also likely that the conditions facing IFAD in the next two years will create an environment more conducive to the predictable expenditure of resources from such a special expenditure. The implementation of the job audit will likely require additional consultant support for it to be successful. It is likely that there will be the need for substantial retraining and retooling of staff. There may be changes in the types or numbers of positions needed for some mandatory staff separations to take place. And the implementation of an enhanced performance-management system and a new performance based pay structure following on from the job audit exercise will also require substantial consultant and implementation support.
31. Moreover, because the balance of the funds likely to be required over the next two years is in the nature of a one-time special expenditure, it would be unwise to

incorporate it into the administrative budget. Measurements of budget stability, growth or decline, and patterns of expenditures over time (including the three-year measuring period) would be distorted by the inclusion of this one-time special expenditure. In general, monitoring of the use of special one-time resource allocations is better managed separately from the mainstream administrative budget.

#### **A. Need for a special expenditure to support actualization of the reform agenda**

32. In the context of the Change and Reform Agenda, an external review of IFAD's human resources management system was undertaken and the results shared with the Executive Board in 2010. A number of important findings emerged, one of which was the unusually high ratio of General Service to Professional staff. This led to a temporary freeze on recruitment of staff in the General Service category, pending a more systematic review of the causes and possible solutions for this imbalance.
33. As part of this review, and to ensure that IFAD's skills-mix would match the functions being performed by staff at the appropriate level, a job audit was commissioned. The job audit began in July 2011 and is being carried out by external consultants. It is assessing job functions, qualifications and skill requirements in relation to the work programme of each division, both now and in the foreseeable future.
34. A need for flexibility in addressing important IFAD human resources reform goals within the structure of the International Civil Service Commission (ICSC) – especially in finding ways to reward strong performance and address inadequate performance – was also identified as a top priority.
35. Preliminary results of the job audit will be shared with Management in late 2011, and the final report will be received by the first quarter of 2012. An implementation plan for the outcomes of the job audit will be developed and initiated in 2012.
36. While it is too early to predict with certainty what the outcomes of the job audit will be, the Fund's evolving needs and focus, as reflected in the IFAD Strategic Framework 2011-2015, point to a need for continuing changes in IFAD's internal jobs and skills environment. It is certain that adapting to a changing IFAD business model will require retraining and retooling of staff. Adopting a greater field presence and reducing the headquarters-centric staffing model will require new flexibility and new skills sets, as well as related career development and other incentives. Introducing improved ways of handling career and performance management will require the creation of new human resources management tools and models.
37. Implementation of the outcomes of the job audit and of critical reform initiatives will result in one-time costs to the organization. In some cases, the precise dimensions and constituents of those costs will depend on the outcome of the job audit and its implementation procedures. Nevertheless, it is possible to identify in fairly specific terms what the needs will be.

#### **B. Components of the reform actualization special expenditure**

38. Based on the experience of other organizations when large-scale job audits were performed, IFAD could anticipate several possible scenarios that might emerge from the audit. These could include redefinition and possible upgrading of some positions, downgrading of others, no change to others and, in rare cases, possible redundancy of some positions.
39. The outcomes of some of these scenarios will require additional funding:
  - (a) If any positions are redefined or found to be redundant, attempts would be made in the first instance to retrain or redeploy the staff holding those



positions. It is likely that possibilities would exist to match existing staff skills sets to new positions – attempting to fill these newly defined positions with current staff, preferably with little or no additional training or expense.

- (b) However, additional expenses would be incurred in cases where it would be necessary to introduce training to develop new skills sets. Similarly, for staff that could not (or did not wish to) be retrained or redeployed, there would be additional costs of mandatory redundancy separation under IFAD's termination packages for which there are no budgetary allotments.
  - (c) Positions that are upgraded will require an immediate increase in the standard costs of these positions, and those increased costs are not currently part of the 2012 administrative budget projections. While the increased salary costs would be offset in the long run, at least in part, by any reductions in costs of downgraded positions, the implementation procedures for such downgrading have not yet been decided. However, if the past practice of other organizations is a guide, it would likely entail a transitional period of up to two years in which the staff member's salary would be maintained at its current level. The salary would then be frozen until the salary of the new grade level caught up.
  - (d) In addition, although plans are still under development, implementation of job audit recommendations will also likely involve further costs in the area of additional consultant support for the implementation phase, and possibly increased expenses beyond standard termination packages (such as placement assistance, career counselling and similar support).
40. A preliminary estimate of the dimensions of the requirement would be in the magnitude of approximately US\$1.1-1.2 million per year, over a two-year implementation period, for a total of approximately US\$2.2-2.5 million. The costs would likely be generated under the following categories.
  41. First, costs of additional training to address the need for new skills sets would likely be on the order of US\$150,000-200,000 per year (US\$300,000-400,000 in total). This would include remedial training to adapt current staff to new job requirements, as well as additional training for strategic capacity-building, particularly in support of enhanced development initiatives in operations and in support of country presence.
  42. Second, further consultant assistance to support implementation of the job audit exercise could incur an additional US\$150,000-200,000 in costs, in total, over the next two years. In addition, follow-up activities designed to address the management of performance and career growth (including development of a revised performance management and merit pay system and review of the concept and application of job-banding in IFAD) could cost US\$150,000-300,000 in total over two years.
  43. It is difficult to estimate the potential cost of upgrading positions, as this would depend on the number and grades of the positions to be upgraded and is an unknowable figure at this point. Similarly, it would be difficult to estimate the cost of separation packages for staff whose positions were found to be redundant, or whose skills were found to not match revised job requirements, and who could not (or who did not wish to) be retrained or redeployed. Nevertheless, if fewer than half of the total number of staff who took advantage of the VSP (i.e. 12 staff in total) would require some sort of termination and outplacement assistance following the job audit, a total of US\$1.56 million would be required over the next two years, using the average costs incurred per person (US\$129,915) in that exercise.

Table 4  
**Reform actualization special expenditure budget – upper limit  
 2012-2013**

<i>Category</i>	<i>Reform actualization special expenditure budget</i>		
	<i>2012</i>	<i>2013</i>	<i>Total</i>
Additional training	400 000	200 000	400 000
Job audit implementation	200 000	100 000	200 000
Performance and career management	300 000	150 000	300 000
Outplacement and separation	1 558 980	779 490	1 558 960
<b>Total</b>	<b>2 458 980</b>	<b>1 229 490</b>	<b>2 458 980</b>

44. Depending on the final determination of need, the approximately US\$2.198 million balance remaining from the VSP would cover most of these costs over a two-year period. The repurposing of these funds, dedicated to the actualization of the outcomes of the human resources reform initiatives, would provide a sensible and prudent approach to offsetting these potential additional one-time costs.
45. The Executive Board is thus being requested to approve the repurposing of the balance of the appropriation of the special expenditure for the VSP as a special expenditure for reform actualization, to be used towards implementation of the outcomes of the human resources reform initiatives. Further information on the actual use of these funds would be provided to the Board in future reports.

## **Draft Resolution .../.....**

### **Repurposing of the balance from the special expenditure for the Voluntary Separation Programme for reform actualization**

#### **The Governing Council of IFAD,**

**Bearing in mind** article 6, section 10, of the Agreement Establishing IFAD and regulation VI of the Financial Regulations of IFAD;

**Recalling** resolutions 156/XXXII and 162/XXXIV, adopted by the Governing Council respectively at its thirty-second and thirty-fourth sessions, approving the special expenditure and its extension of the appropriation for the Voluntary Separation Programme for IFAD;

**Having considered** the recommendation of the 104<sup>th</sup> session of the Executive Board concerning the repurposing of the balance remaining under the special appropriation for the Voluntary Separation Programme to finance implementation of the outcomes of the major human resources reform initiatives;

#### **Decides that:**

The repurposing of the balance of the appropriation for the special expenditure for the Voluntary Separation Programme as a special expenditure for reform actualization to finance implementation of the outcomes of the major human resources reform initiatives, as set forth in document xxx, is approved; and requests the President to submit a final report including expenditures to the Governing Council in February 2014.

## **Lessons learned from the first phase of the VSP**

The lessons learned during implementation of the first phase of the VSP were incorporated into the second phase. The lessons learned included the following:

- (a) Gender balance is difficult to achieve, as the programme is voluntary.
- (b) The VSP package is perceived to be more favourable to General Service staff than to the Professional category.
- (c) The programme should not be seen solely as a means to early retirement.
- (d) Given the voluntary nature of the programme, it is difficult to target candidates. Strong performers with viable employment options elsewhere are more likely to apply for the programme. Management should have the final decision in the approval process: the fact that someone has applied for the VSP does not mean automatic approval for separation under the programme. Management should reserve the right to retain staff essential to IFAD operations and to encourage other staff to separate.