

# THE WOLFOWITZ WORLD BANK PRESIDENCY

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## 1. Introduction

Paul Dundes Wolfowitz was born on December 22, 1943, in Ithaca, New York to Jacob and Lillian Wolfowitz. Paul Wolfowitz attended Cornell University and received his bachelor's degree in mathematics and chemistry in 1965. He continued his graduate studies at the University of Chicago, where he earned a doctorate in political science in 1972. During this period, Paul Wolfowitz married Claire Selgin, with whom he had two daughters and one son.

Paul Wolfowitz's career has followed a distinguished path. He taught political science at Yale University (1970–1973), and later worked with the U.S. Arms Control and Disarmament Committee (1973–1977). He has served in numerous posts: Special Assistant for Strategic Arms Limitation Talks (1976–1977); Deputy Assistant Secretary of Defense for Regional Programs (1977–1980); head of the State Department's Policy Planning Staff (1981–1982); Assistant Secretary of State for East Asian and Pacific Affairs (1982–1986); Ambassador to Indonesia (1986–1989); Undersecretary of Defense for Policy (1989–1993); Dean of the School of Advanced International Studies at Johns Hopkins University (1993–2001). More recently, Wolfowitz served as Deputy Secretary of Defense for the United States (2001–2005) and as President of the World Bank (2005–2007). This briefing paper provides an overview of Wolfowitz's controversial tenure at the World Bank (*see Fig. 1, Timeline*).

## 2. Nomination to the Presidency of the World Bank

According to custom, the United States (the major shareholder in the World Bank) appoints the Bank's president while other European shareholders, *viz.*, England France and Germany, select the head of the International Monetary Fund. On March 16, 2005, President George W. Bush nominated Paul Wolfowitz to replace James D. Wolfensohn as President of the World Bank.

### 2.1 *Opposition to Wolfowitz's Nomination*

An assortment of approximately 1650 civil-society organizations voiced their strong opposition to what they perceived as a politically motivated nomination. Traditionally, the major shareholders have culled nominees from among the leaders of top American businesses and financial institutions. Opponents to his nomination stressed that Wolfowitz lacked managerial experience, having built his reputation as a strategist and intellectual. Critics believed that Wolfowitz's political baggage would interfere with his ability to lead the world's largest multilateral institution for economic development. With his many personal ties to the "petro-military complex" (i.e., the political-business nexus of United States government officials, oil executives, and oligarchies or autocracies in control of major oil-producing countries, particularly those in the Arab and Central Asian states), Wolfowitz had no prior experience in international development and seemed to lack the aptitude and sensitivity to balancing varied, and sometimes competing, interests of the World Bank member countries. Moreover, in his previous professional roles, Wolfowitz had never demonstrated an interest in the eight United Nation Millennium Development Goals—among them, the fostering of global partnerships to assist in development. In particular, his many detractors shared the fear that Wolfowitz would freeze the World Bank's engagement with civil society.

These critiques were bolstered by Wolfowitz's involvement as one of the chief architects behind the United States' unilateralist policy toward, and invasion of, Iraq. Indeed, numerous entities expressed misgivings that the World Bank would be viewed as little more than an arm of the United States. The *Financial Times*, for instance, reported that, "[T]he world would view a bank directed by Mr. Wolfowitz as no more than an instrument of U.S. power and U.S. priorities," while *Foreign Policy in Focus*, a think-tank of scholars and activists, placed Wolfowitz within "the wrecking crew to demolish internationalism." Thus, Paul Wolfowitz's nomination to the presidency of the World Bank epitomized widespread trepidation over the legitimacy of the World Bank itself.

World Bank staff, in wide part, concurred with the general message of critics and detractors; according to one survey conducted in April of 2005, nearly 90% of the staff opposed the Wolfowitz nomination. In spite of opposition and protest, the Board of Governors approved his nomination, and Paul Wolfowitz began his tenure as President of

the World Bank on June 1, 2005.

## ***2.2 Exodus of Senior Officials and Hiring of New Advisers***

Lingering criticism over the Wolfowitz appointment soon found new fodder in the resignation and exodus of senior World Bank officials in addition to Wolfowitz's appointment of inexperienced and ideological former political colleagues and acquaintances. By December 2006, twenty-nine of the Bank's senior executives, including Shengman Zhang, Ian Goldin, Gobind Nankani, Robert Dañino, and Christiaan Poortman, resigned in protest to Wolfowitz's leadership. Wolfowitz's more contentious appointments (known collectively as "the entourage," "the circle of trust," or "the palace guard") were those he placed in advisory roles: as his top advisor, Robin Cleveland, formerly of the Office of Management and Budget; as his Chief Communication Strategist and Senior Advisor, Kevin Kellems, a former spokesperson for Vice President Dick Cheney; and, as his Counselor and Head of Institutional Integrity and Internal Watchdog Unit, Suzanne Rich Folsom, wife of George Folsom (Deputy Director of the Iraq Reconstruction Management Office and President of the International Republican Institute, a right-wing think-tank linked to coup attempts in Haiti and Venezuela). In addition, Wolfowitz awarded a consulting contract to Ana Palacio, the former Spanish Minister of Foreign Affairs for José María Aznar's government (2002–2004), who had deployed Spanish troops to Iraq in spite of public opposition. Shortly thereafter, in the summer of 2006, Wolfowitz appointed Palacio to the office of Senior Vice President and General Counsel. Many within the Bank considered Wolfowitz's choices to be an abuse of discretion.

## **3. Wolfowitz's Anti-Corruption Initiative and Strategies**

Although detractors within the World Bank criticized him for failing to adequately articulate a framework for his priorities and lack of a strategic vision, Wolfowitz did, in fact, stridently champion anti-corruption initiatives. Under the Wolfowitz presidency, the Bank expanded its budget for the Department of Institutional Integrity by \$5 million, and of a backlog of 387 suspected anti-corruption cases, 140 were closed. Wolfowitz's interest was on corruption within and across whole societies (*viz.*,

recipient countries), rather than corruption at the micro level (e.g., in programs and projects financed by the Bank) or at the macro level (e.g., in relations and transactions between countries).

In particular, Wolfowitz made it his mission to eliminate bribery and similar corrupt practices within kleptocratic regimes, which he viewed as obstacles to development. Rulers, their cronies, and other officials in kleptocracies manipulate the mechanisms of government in order to usurp the nation's resources and accumulate for themselves great personal wealth. In this regard, Wolfowitz's stance was not dissimilar to that of James Wolfensohn's, the ninth president of the World Bank (1995–2005). However, while Wolfensohn's focus still rested on the elimination of poverty, Wolfowitz placed the accent on bribery, pilfering, and other unethical and illegal practices he hoped to eliminate within recipient nations. This difference in emphasis may help account for the strategies Wolfowitz employed during his short tenure—halting, delaying or retracting the disbursement of already approved loans and interrupting anti-poverty projects. Thus, Wolfowitz suspended financing in: Bangladesh (US\$ 35 million); Chad (US\$ 124 million from the International Development Association, suspension of all loans, and freeze to oil-pipeline profits and royalties held in British Banks); Ecuador (US\$ 400 million); Ethiopia (US\$ 375 million); India (over US\$ 1 billion); Kenya (US\$ 265 million); the Republic of Congo-Brazzaville (despite an IMF decision in support of debt relief); and Yemen (34% reduction in a three-year assistance package). In addition, Wolfowitz interrupted an anti-poverty project in Argentina to raise the wages of poor workers and decided that the World Bank would stop making loans to Uzbekistan.

Some decisions were seen as an affront to the sovereignty of a country. Wolfowitz withdrew aid to Chad, for example, in the wake of government protest of the freezing of its foreign assets relating to a 650-mile oil pipeline. A previous agreement between the World Bank and Chad stipulated that the majority of profits from the pipeline would be placed into an escrow account in London, to be supervised and invested in areas such as health-care and education, with only 15% of the profits going directly to the government of Chad. Chad's president, Idriss Deby, considered the terms of the agreement a violation of Chad's national sovereignty and announced a new law

raising the amount of oil revenue available for the government's use to 30% and ceasing the 10% investment for "future generations." Chad's finance minister, Abbas Mahamat Tolly contended that the additional 15% of oil revenues was needed for improving security in the lawless countryside; he argued that the strengthening of national security was perfectly consistent with poverty reduction. As a result of Chad's efforts to unilaterally change the agreement, Wolfowitz suspended its loans and froze the London account.

Remarkable in Wolfowitz's tactic is the fact that projects were allowed to proceed all the way to the final stages of Board approval before Wolfowitz unilaterally intervened to halt disbursement. As such, Wolfowitz's anti-corruption strategy, as embodied in the retraction of loan disbursements, appeared discretionary and punitive. From the perspective of the Bank's governance, this was problematic insofar as the decision to suspend loans should have resulted from the transparent and consistent application of objective and valid evaluation methods in a structured review process.

### ***3.1 Strengthening World Bank Group Engagement on Governance and Anticorruption***

Although few, if any, at the World Bank would deny that corruption is a problem, many saw Wolfowitz's decisions to suspend, withhold, or delay loan disbursements, municipal and health contracts, or debt-relief funds as incendiary and possibly arbitrary. Undisclosed World Bank staff criticized Wolfowitz for acting unilaterally when he blocked almost US\$ 800 million in aid to India slated to fund health-care related projects based on his concern that political figures in that country would have the power and intent to change the allocations for the funding. Wolfowitz also suspended financing for the Republic of Congo in response to newspaper reports cataloging the expensive hotel bills incurred by Congolese president Denis Sassou-Nguesso during his visit to New York. Wolfowitz suspended aid despite an IMF decision to continue the funding of projects in the Congo. In light of the perceived subjectivity of Wolfowitz's lending decisions, many directors of the World Bank demanded a concrete framework detailing the principles underlying Wolfowitz's anticorruption strategies.

In response to the Development Committee's request for a detailed articulation of

the World Bank's strategy on anti-corruption efforts as a fundamental component of poverty-reduction, the Bank released a staff-written paper on March 21, 2007, entitled *Strengthening World Bank Group Engagement on Governance and Anticorruption* (hereinafter, the Report).

The Report emphasized that developing nations must reign in corrupt practices that siphon off money to elites before they can achieve the Millennium Development Goals and help their populations escape poverty. While there is no accurate assessment as to the amount of funding that has been diverted improperly, estimates range from around 10 to 25 percent. The Bank's governance work should therefore focus on the development and advancement of mechanisms of accountability that institutions and governments can implement as they devise policies, provide public services, and govern markets. Even so, the Report took a decidedly anti-regulatory position, warning that excessive regulation may increase the cost of business and potentially create new opportunities for corruption. Rather than regulate unnecessarily, the Report endorsed the judicious use of reforms to "rationalize the role of the state, reduce red tape, and promote competition." The Report, therefore, adopted a more holistic approach to combating corruption, which entails strengthening the overall economic health of a state, and not merely punishing corrupt practices within.

#### **4. The Wolfowitz Scandal and Resignation**

The controversy surrounding Paul Wolfowitz and his departure from the office of President for the World Bank centered around his personal and business relationship with his companion, Shaha Riza, a Middle East expert with the World Bank prior to Wolfowitz's arrival.

Upon his nomination in 2005, Wolfowitz disclosed his relationship with Riza to the Board of Directors' Ethics Committee. The Bank's regulations forbid spouses or romantic partners from supervising one another or working within the same cone of influence. The Committee allegedly advised him to arrange for Riza's transfer to an outside job with a promotion to compensate for her forced departure from the Bank. Although Riza transferred to the State Department, she remained on the Bank's payroll

and her salary rose from approximately \$133,000 to \$180,000; later, with subsequent raises, it reached \$193,590.

Critics charged that Wolfowitz still had violated conflict-of-interest rules by this conduct. Even though Riza was not directly under his authority at the World Bank, it was asserted that Riza's placement in the State Department and her subsequent raises (Riza's salary exceeded that of Secretary of State Condoleezza Rice) constituted a preferential treatment and an unethical use of Wolfowitz's influence. Wolfowitz denied any violations and accused his opponents of launching a "smear campaign" against him. The controversy exposed a lingering dislike for Wolfowitz among World Bank staff and the public at large. In addition, Wolfowitz's reliance on an inner circle of aides with ties to the Pentagon and White House further isolated him from the Bank's management and employees. The controversy caused many World Bank Board Members to call for an investigation and possible censure. At a meeting on April 6, 2007, the Executive Directors of the World Bank Group created an Ad Hoc Group "to acquire information" related to a matter "concerning possible violations of Staff Rules in favor of a staff member closely associated with the President." Three days later, Wolfowitz met with the Ad Hoc Group to present his views.

In its 60-year history, the World Bank had never sought to fire or censure its President. Consequently, there was no precedent to follow as the members considered their choices: censure, vote of no-confidence, request for resignation, or outright termination. It was virtually impossible for Wolfowitz to stay on as President because of the damage to the Bank's credibility and, consequently, in its ability to be effective in its mission to reduce global poverty. As the atmosphere at the World Bank worsened, Kevin Kellems, a member of Wolfowitz's hand-picked staff, resigned in May 2007, and stated that, "Given the current environment surrounding the leadership of the World Bank Group, it is very difficult to be effective in helping to advance the mission of the institution."

The controversy also has raised questions about the process by which the Bank's president has traditionally been selected. Since the Bank's inception after World War II,

the United States has always nominated the President without objection, while European nations have selected the head of the Bank's sister institution, the International Monetary Fund. Critics have long charged that both institutions, while professing to fight poverty, have largely been wielded as foreign and economic-policy tools for the United States and Europe. Emblematic, in this respect, was a letter posted on the Government Accountability Project's (GAP) website, in which one World Bank staff member stated that, "At the World Bank many of us believe that this unseemly episode clearly illustrates the need for rapid reform of the governance framework, in general, and the presidential selection process in particular." The letter further chided that, "The shareholders of the World Bank will have learned nothing from the damage done to the institution by Paul Wolfowitz if they again allow a minority shareholder to install a president of its choosing and to claim a defining and proprietary influence."

On May 14, 2007, the Ad Hoc Group ultimately found that Wolfowitz had acted in a manner inconsistent with World Bank policy. In what was initially a confidential report, which they then released to the public, the Ad Hoc Group criticized Wolfowitz's judgment and preoccupation with self-interest. The report explained that Wolfowitz's conduct was a manifestation of his general attitude of casting himself in opposition to the established rules of the institution. More specifically, the report concluded that the facts showed violations of the Staff Rules and the Code of Conduct for Board Officials. By becoming involved in the terms of Riza's external assignment and directing the Bank's Vice President of Human Resources to agree to specific terms for Riza's salary and promotion, Wolfowitz engaged in a *de facto* conflict of interest. The Code of Conduct for Board Officials required Wolfowitz to avoid situations that could lead to allegations of favoritism. It required Wolfowitz to observe principles of good governance and steer clear of any situation involving an actual or apparent conflict between his personal interest and official duties. The promotion, salary increase and future annual salary adjustments Wolfowitz requested for Riza were in excess of the permissible range established in the Staff Rules. Wolfowitz, moreover, was contractually bound to adhere to the Code of Conduct for Board Directors; thus, by violating the Code, he also breached his contract. The Ad Hoc Group Report concluded by recommending that the Executive Directors of the Bank consider whether Wolfowitz would be able to provide the

necessary leadership for the Bank.

On May 17, 2007, Wolfowitz formally announced that he would step down from the presidency at the end of the fiscal year (June 30, 2007). No doubt owing to an excellent attorney, Wolfowitz succeeded in extracting from the Executive Board an exculpatory statement as a quid pro quo for his resignation. Thus, the Statement of Executive Directors provided that “[Wolfowitz] assured us that he acted ethically and in good faith in what he believed were the best interests of the institution, and we accept that. We also accept that others involved acted ethically and in good faith.”

Upon his resignation, Wolfowitz touted his efforts to secure the Multilateral Debt Relief Initiative (an agreement for 100% debt relief to the world’s most indebted nations), the Clean Energy Investment Framework, the Africa Action Plan, and the Avian Flu Initiative. He stressed the record year in lending to Africa, and the development of new strategies for Rapid Response in Fragile States. Finally, he expressed his continued support for the World Bank. It remains unclear to what extent rising pressure to end the United States’ role in the Bank’s presidential selection process informed Wolfowitz’s decision to resign.

On June 25, 2007, the twenty-four member panel of the World Bank unanimously approved Robert Zoellick, former Deputy U.S. Secretary of State and Trade Representative, as its next President. Zoellick’s term in office began on July 1, 2007. In a story published by Reuters, shareholders of the World Bank stated that Zoellick “brings to the bank presidency strong leadership and managerial qualities as well as a proven track record in international affairs and the drive required to enhance the credibility and effectiveness of the bank.”

Fig. 1, Timeline

March 16, 2005 March 31, 2005	Nomination Wolfowitz Unanimously approved
June 1, 2005	Wolfowitz term as president begins
January 10, 2006 January 17, 2006	Kevin Kellems appointed Suzanne Folsom appointed
September 2006	Christiaan Portman resigns
October 20, 2006	Shengman Zeng announces resignation
November 2006	Dr. Gobind Nankani resigns after 30 years in service
March 21, 2007	Strengthening World Bank Group's Engagement on Governance and Anticorruption is published
April 6, 2007 April 9, 2007 April 11, 2007 April 12, 2007	Ad Hoc Group is formed The first of many meetings between Ad Hoc Group and Wolfowitz Ad Hoc Group produces report for the Executive Directors Wolfowitz meets with Executive Directors; documents collected as of this date are made public
May 6, 2007 May 7, 2007	Ad Hoc Group delivers a draft report to Wolfowitz and requests his comments by the close of business on May 8 Kevin Kellems resigns; Wolfowitz requests additional time to prepare his comments on the Ad Hoc Group report
May 14, 2007 May 17, 2007	Special Investigation Committee concludes Wolfowitz was in violation of ethics rules Wolfowitz announces resignation
May 30, 2007	President Bush names Zoellick as successor
June 30, 2007	Last day in office at World Bank

Links:

The final report of the Ad Hoc Group is available at:

<http://siteresources.worldbank.org/NEWS/Resources/secondreportoftheadhocgroup.pdf>

The Statement by the World Bank Executive Board in response to Wolfowitz's resignation is available at:

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/EXTPRESIDENT2007/EXTPASTPRESIDENTS/EXTOFFICEPRESIDENT/0,,contentMDK:21339650~menuPK:51175739~pagePK:51174171~piPK:64258873~theSitePK:1014541,00.html>