



# World Economy & Development *in brief*

European Briefings on Globalisation, North-South Relations and International Ecology

## The Wolfowitz Affair One Week After: World Bank President remains in limbo

The agenda for the high-level IMF/World Bank Spring Meetings a week ago was suitably ambitious. But then, the buzz in overall Meetings was just about Paul Wolfowitz, the two-year American President of the World Bank. Not about his achievements, mind you, of which – as even his staunchest supporters have to admit – there are so far precious few. From Washington **Liane Schalatek** reports.

Instead, Wolfowitz found himself confronted with allegations of nepotism, favouritism and unethical behaviour in personally securing a golden parachute for his girlfriend Shaha Riza, a World Bank staffer on leave since 2005 and for the time of Wolfowitz' tenure at the World Bank. This raised more than just eyebrows, especially, since during the past year, Wolfowitz had tried to pass off a comprehensive anti-corruption program as his signature achievement to reluctant World Bank staff as well as skeptical shareholder countries.

### \* Unusually undiplomatic and blunt

The irony and hypocrisy were not lost on the Development Committee, the highest ranking decision making body of the World Bank meeting just twice a year: in unusually undiplomatic and forthright language, it expressed "great concern" in its final communiqué, adding: "We have to ensure that the bank can effectively carry out its mandate and maintain its credibility and reputation as well as the motivation of its staff". Some of its member country governors were even more blunt: German

Development Minister Heidemarie Wiecek-Zeul called it questionable whether Wolfowitz "in regard to this mistake [...] can credibly fulfil his duties", while British Development Minister Hilary Benn said that the incident "had damaged the bank" – just a little short of a direct call for resignation. And while the White House, Japan and some African country governments offered public support for Paul Wolfowitz, it was nevertheless noteworthy that US Finance Minister Henry Paulson went along with the communiqué that criticised Wolfowitz.

The World Bank's 24-member Executive Board, tasked by the Development Committee to "deal with the situation urgently, effectively and in an orderly manner", met a few days later. Sole item on the agenda: "the current situation in the Bank, which is of great concern" to the Board, even though it delayed a final decision on Wolfowitz' future. Observers point out that in delaying the finding, the board seemed to be buying time for Paul Wolfowitz to consider resigning. While the board technically could fire the

president, it is obviously reluctant to create a precedent, with European countries unwilling to provoke an open fight with the US government and the White House holding a blocking minority of 16.4 percent on the Board. Unsurprisingly though, any fine diplomatic undertones – amidst the open calls for his resignation from the World Bank’s own staff association, his own Managing Director Graeme Wheeler, leading experts on development policy in Washington, DC, and Democratic politicians from Capitol Hill – was lost on Wolfowitz. He opted to display instead one of his biggest strengths, honed, no doubt, during this tenure as Deputy Secretary of Defence under an equally talented Bush Administration: a self-delusional stubborn willingness to sit the storm out ....

**\* German Executive Director pushed hard**

Although, this strategy might buy Paul Wolfowitz some time, it will not secure his future as World Bank president. For one, the Executive Board in its meeting on Thursday (19 April), while delaying a final decision, still acknowledged there were a number of issues related to conflict of interest and violation of World Bank staff rules that needed further investigation. An ad hoc committee is supposed to present “early recommendations” to the executive directors for decision soon. Apparently, the German Executive Director, Eckhardt Deutscher, had pushed hard to convene the meeting and is said to favour having him step down – as do Britain, France, the Netherlands and the Nordic countries.

Also, just last week, *The Washington Post* unearthed documents showing that in the Spring of 2003, the US Pentagon under then-Deputy Secretary of Defence Paul Wolfowitz employed his girlfriend Shaha

Riza, at the time a gender advisor in the World Bank’s Middle East and North Africa Department, as a consultant on a post-Saddam Iraq society just prior to the invasion of Iraq. This was in clear violation of World Bank rules, which as an international organisation does not allow its staff to be at the employ of national governments during their time at the Bank.

Of course, it was exactly Paul Wolfowitz’ role as one of the architects of the Bush administration’s Iraq War, which made Wolfowitz such a controversial nominee for the World Bank post and such a divisive figure during his two years at the Bank. He snubbed World Bank career staff by bringing his top Pentagon aids as his closest advisors to the Bank, creating an inner circle, which the Bank’s professional staff described as hard to pierce and increasingly publicly objected to. Offers that Paul Wolfowitz made just days to the senior management team of the Bank to change his management style and the structure of his office, will not be enough to regain staff support.

Opposition of Wolfowitz’ nomination world-wide, but especially among European countries, had centred on the fear that he might be unable to separate the World Bank’s international, supposedly “a-political” mission of poverty reduction from the ideologically charged agenda of the Bush administration. Several of Wolfowitz’ management decisions in the past two years proved that he was indeed unwilling to.

**\* ”Putting American foreign policy interests first”**

After taking over the mantle of World Bank president, Wolfowitz urged the Bank to take on a larger role in Iraq, pushing to get a new country-manager for Iraq despite

concerns over staff security there. The “impression that at critical moments Wolfowitz was putting American foreign policy interests first” (*New York Times* in a recent article) was for example reinforced by Wolfowitz’ decision to suspend a program in Uzbekistan – just shortly after the country had denied landing rights to US aircraft. And several of the countries such as Pakistan or Jordan that were supportive of Washington’s counter-terrorism agenda, enjoyed increased World Bank aid packages under Wolfowitz.

Of the top five international appointments made by him during the last two years, three were political appointees of right-wing governments that had provided strong backing for the US policy in Iraq and were also in other aspects close to the conservative agenda of the Bush administration – and one can argue in line with Paul Wolfowitz’ personal beliefs. One of them, the former Salvadoran Finance Minister Juan Jose Daboub, has become the most controversial. Since taking over as managing director at the Bank, Daboub ordered references to family planning and birth control to be eliminated from Bank strategy documents, including the Bank’s long-term health strategy, when the World Bank has traditionally pushed family planning initiatives and birth control as core agenda items of its efforts to improve women’s health and economic well-being in developing countries. This is the more worrisome, since the World Bank is also highly visible in global efforts to deal with HIV/Aids. “Abstinence”, one might recall, is the main ingredient of the Bush Administration’s domestic and international (particularly UN-directed) family planning and population agenda.

#### **\* Critical times for the Bank**

The scandal comes at a time when the World Bank, as its Bretton Wood twin, the IMF, is fighting for relevance and forced to accept greater public scrutiny. It cast doubt about President Wolfowitz’ capability to successfully finish the new round of the replenishment talks with major donor countries for the World Bank unit, which deals with the poorest developing countries, the International Development Association (IDA). The negotiations, which started in March, hammering out the contributions for the next three-year period (IDA 15 starts in July 2008), seek to raise close to US\$25bn, more than the US\$18bn that were collected during IDA 14 by Wolfowitz’ predecessor James Wolfensohn, due to debt relief and thus foregone debt repayments to the Bank since 2005.

The fundraising for Wolfowitz will be all more difficult since it has become apparent that current Bank lending to Africa is down more than US\$1bn over the previous year and US\$3bn off from prior projections – result of a changed aid architecture with increased competition for IDA from regional banks, but also new sovereign lenders such as China. This makes a mockery of Wolfowitz’ commitment to the Europeans after his nomination to “scale up resources for Africa.”

Wealthy European countries (Germany, Great Britain, France primarily) are already channelling their aid for poor countries away from the Bank (the EU’s 27 member states provided a total of US\$59bn in 2005, with the EU Commission contributing a further US\$10bn of common funds); this trend will surely accelerate if Wolfowitz remains. With a new campaign, European NGOs, too, are putting increased pressure on their governments to take greater

responsibility for the direction of the World Bank. Rumour has it that the European donor countries (who made up 60% of IDA contributions the last round) could do some horse trading with the US as part of IDA15, whereby the US would have to increase its contribution significantly as the price for maintaining the right to name the World Bank president, if even for a Wolfowitz-successor.

**\* The name game has already begun**

In Washington, the name game has already begun. One put forward is that of Wall Street Banker Robert Zoellick, the former US Trade Representative and a Deputy Secretary of State until about a year ago; the current Secretary of Treasury Henry Paulson is also rumoured to be a contender. Or a weakened, already lame-duck White House could – finally, in an effort to make good with the Europeans – bow to growing international pressure that the Bank’s leadership should reflect a changing world. For this, albeit unlikely case, US President Bush is said to have the name of an Afghan friend of the war on terrorism up in its sleeve...

*Liane Schalatek* is Associate Director of the Heinrich Böll Foundation Office in Washington, DC.

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