The World Bank's Fight against Corruption

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When Paul Wolfowitz was appointed as World Bank president in 2005, many were concerned that he would seek to put his stamp on the organization, bringing about many changes at the Bank to make it friendlier to the U.S. government and the Bush administration in particular. Until recently, however, it seemed as though many of these concerns were unfounded. Wolfowitz has had a much lower public profile than his predecessor, James Wolfensohn; indeed, although there has been discontent within the Bank with aspects of Wolfowitz's management style, there has been little controversy outside the Bank.

This was to change when Wolfowitz decided to take a particularly strong stance on corruption, building on the work of his predecessor but taking it in a much more punitive direction, both internally and externally. In 2005, Wolfowitz announced that funding on some high profile programs, including loans to some of the Bank's biggest clients, would be cut, citing concerns about corruption. This sent out a very strong message that the Bank would no longer tolerate the misuse of its funds under any circumstances. Donor and NGO communities have long criticized the Bank for allowing corruption to continue despite noble declarations and strategy papers. Yet instead of rallying around the Bank, these communities greeted Wolfowitz's decision with almost universal condemnation. In a letter to Wolfowitz signed 31 July 2006 by the Bank Information Center (United States), Norwegian Church Aid, and the World Development Movement (United Kingdom), among others, the signatories strongly argue against Wolfowitz's anticorruption campaign:

> The World Bank has neither the mandate, the legitimacy nor the capacity to become a global arbiter on corruption. . . . The World Bank should focus its energies on its own operations and not move into the role of a "global policeman" on corruption. It

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> cannot be both judge and jury of its own actions and is not a legitimate actor to lead the charge on issues of anti-corruption and much less in the field of governance.[1]

In September 2006, U.K. International Development Secretary Hilary Benn took the unprecedented step of announcing the withholding of a £50 million payment to the World Bank, due to concerns over Wolfowitz's "aggressive anticorruption campaign." As the *Times* of London reported, "Critics, who include a clutch of European governments and many senior members of the bank's staff, claim that the anticorruption campaign threatens to undermine the bank's primary purpose of eliminating global poverty by being too ideological, arbitrary, and high-handed."[2]

Although Benn's particular criticism may have been influenced by additional concerns about the Bank's use of conditionality for economic issues like privatization and trade, there is little doubt that discontent is increasing among the international donor community about the way in which the Wolfowitz World Bank is handling corruption. Donors are distancing themselves from Wolfowitz and his new anticorruption strategy. Indeed, at the World Bank's annual meeting in Singapore in September 2006, the Bank's board took control over a new Bank strategy paper on governance and anticorruption that, arguably, Wolfowitz never wanted to write in the first place.[3] Ironically, these same donors stood side by side with the Bank on corruption just several years ago, adopting Bank definitions of corruption, using Bank research on the subject to form their own policies, and applauding former Bank president James Wolfensohn for breaking through taboos in tackling the "cancer of corruption."

The antipathy towards the current campaign seems to stem from particular concerns about Paul Wolfowitz himself. Wolfowitz's Bank presidency has been controversial from the outset. Many of the European donors do not want to work with Wolfowitz because of his role in the Bush administration and in the war in Iraq, and it has been said that many Bank staffers are of the same mind; he faces distrust because of these two issues. Even when he approaches the subject of anticorruption with some humility, linking it clearly to the Bank's poverty mission, many are automatically suspicious of his motives. Mohamed Hakki, a former Bank staffer writing in the *Middle East Times*, explains that some view his anti-corruption strategy as "a thinly-veiled attempt to limit World Bank funding to countries that are not to the liking of the Bush administration."[4] Distrust of Wolfowitz, his motives, his ideological commitments, and continuing links to the Bush White House have informed concerns regarding his key policy initiative of anticorruption. Writing in the *RGE Monitor*, Felix Salmon claimed,

Wolfowitz's Bank presidency has been controversial from the outset.

> Most of the bad blood seems to surround Wolfowitz's anti-corruption drive, which is seen in the Bank as another Iraq-war-like triumph of ideology over practical considerations. Wolfowitz's honeymoon at the Bank is over: the ball's now very much in his court to start winning back the hearts and minds of his institution's staffers.[5]

It seems doubtful that Wolfowitz can successfully win back the hearts and minds of Bank staffers, including those representatives of member countries sitting on its Board of Governors. Ultimately Paul Wolfowitz is the wrong person to take such a strategy forward. He may have raised some important and perhaps uncomfortable issues that the Bank and other donors will need to deal with, especially as corruption remains a significant barrier to aid effectiveness and poverty reduction, but Wolfowitz lacks the moral authority to lead this strategy. It is agreed-upon best practice that the head of any anticorruption body not only act with integrity and be without blemish on his or her reputation, but that he or she should be seen to be a person of integrity, someone that provides a model of behavior for others.

Despite widespread criticism from civil society, governments, and others, Wolfowitz is essentially setting the Bank up as the world's largest anticorruption agency—but first he must answer his own critics. What is most interesting about Wolfowitz's new Bank draft strategy on corruption is not what it says—which is not significantly different from previous strategies and does have some merit. It is instead the politics surrounding the strategy that are really noteworthy.

"Mainstreaming" Anticorruption at the World Bank

> Today one of the biggest threats to development in many countries is corruption. It weakens fundamental systems, it distorts markets, and it encourages people to apply their skills and energies in non-productive ways. In the end governments and citizens will pay a price. . . .
>
> Paul Wolfowitz, Jakarta, 11 April 2006

In 1996, then–Bank president James Wolfensohn announced that the Bank was ready to deal with the "cancer of corruption." Wolfensohn's 1996 speech was largely viewed as an act of "throwing down the gauntlet" to Bank staffers who believed that the issue of corruption was too controversial and too complex, and that addressing it would violate the Bank's non-political mandate, codified in its Articles of Agreement. Since then, the Bank has directed projects, research, training, and policy towards anticorruption. Wolfowitz is therefore not the first Bank president to address the problem of corruption, and though his approach is markedly different from that of his predecessor, it is not groundbreaking.

Although much of the current debate over anticorruption has been framed in terms of the Wolfowitz and Wolfensohn administrations, the Bank has been examining issues of governance since the 1950s, if one includes its investment in accounting, audit, and procurement. The Bank's 1983 *World Development Report* included the issue of corruption in its discussion of public sector reform. The *Report* contained the Bank's first explicit reference to corruption, but for much of the Bank's existence corruption has been dealt with implicitly, through public sector and financial management reform for example. Wolfensohn was the first president to identify anticorruption as an explicit area in which the Bank could lend and to encourage staff to address corruption directly in discussions with governments and in work on the ground. Wolfensohn established the Department of Institutional Integrity (INT) to deal with allegations of corruption and to provide ethics training for Bank staff. He also supported the development of the Bank's first official anticorruption strategy, articulated in the 1997 document *Helping Countries Combat Corruption*.[6]

For Wolfensohn, anticorruption work was part of a "holistic" approach to development that came to be known as the Comprehensive Development Framework (CDF).[7] In the follow-up report to the 1997 strategy document, the Bank's approach to anticorruption was described as follows:

> The Bank views corruption as a symptom of underlying institutional dysfunction, and thus employs a proactive and holistic approach that attempts to help clients strengthen governance and public sector management, to improve economic policies and legal/judicial systems, and to develop and implement specific anticorruption measures. The Bank has made strengthening borrower capacity a priority through increased lending, enhanced country-level advisory service, and the inclusion of 'good and clean governance' as one of the central pillars of the Comprehensive Development Framework.[8]

The CDF is described on the Bank's website as an approach that "emphasizes the interdependence of all elements of development—social, structural, human, governance, environmental, economic, and financial. It encompasses a set of principles to guide development and poverty reduction, including the provision of external assistance."[9] The same rationale for seeing development in holistic terms, addressing the whole of development as opposed to a set of discrete projects or programs, applied to fighting corruption as well, moving the Bank away from one-off anticorruption activities to supporting institutional reform mainstreamed into the Bank's wider development activities.[10]

In 2000, *Finance & Development* editor-in-chief Ian McDonald explained, "Like the mythological hydra, corruption is a many-headed foe that insinuates into every part of the social fabric, weakens the body politic, and jeopardizes prospects for economic growth."[11] This rather dramatic analogy is illustrative of how the Bank approached anticorruption work under Wolfensohn—tackling its impact in every sector of the Bank's work, from public sector management to health to forestry and so on. In order to "kill the beast," the Bank tried to attack it at its institutional core rather than deal with one "head" at a time. The Bank's anticorruption assistance programs under Wolfensohn reflected both the holistic approach to development prescribed by the CDF and the Bank's overall commitment to long-term capacity building, promoting good government while combating corruption.[12]

This CDF-based approach to anticorruption did not lack controversy and often split opinion within the Bank between staff who believed that discrete anticorruption activities were more likely to be effective, at least until current political and economic conditions within countries became more favorable, and those who agreed with Wolfensohn that such activities would waste money in the long term unless seen as part of a wider reform process. As early as the late 1990s, one concern regarding the Wolfensohn anticorruption plan that is still if not more salient today is the fear that the anticorruption emphasis could develop into an end in itself, so as to compromise the Bank's original broad public sector reform agenda.

This concern was voiced in early 1999, and interestingly it is one of the criticisms of Wolfowitz's approach to corruption. The claim is that Wolfowitz has turned the anticorruption into an end unto itself, rather as a key component in the drive to reduce poverty and improve governance. Wolfowitz has said that the Bank's mission is "to send children to school, to help mothers be healthier, to provide jobs for poor people—not to have resources siphoned off in the hands of the corrupt and greedy."[13] He stands accused, however, of forgetting the Bank's main mission in his zeal to attack corruption.

In India, for example, the Wolfowitz plan included an $800 million loan for maternal and child health. The India loan proved particularly controversial. Wolfowitz was accused of undermining women's and children's health, poverty reduction, and India's ability to meet the Millennium Development Goals (MDGs), all in order to make a point about corruption. Funding was also suspended or threatened with suspension to, among others, Kenya, Indonesia, Cambodia, Chad, and the Democratic Republic of Congo. Unprecedentedly, the decision to suspend lending was made by Wolfowitz himself, rather than as a result of discussion with the country offices and the Board as would be

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expected. The British government complained that "the decision . . . had been taken without proper consultation," and other European donors joined in, pressuring Wolfowitz "to put greater emphasis on fighting corruption by building institutions in the developing world rather than simply suspending loans."[14] The Bank's board, composed of representatives from both donor and borrower countries, decided to flex its muscles, demanding a greater say in any future decisions to suspend loans, and a new strategy paper explaining Wolfowitz's approach. According to the *Economist*:

> The new strategy [paper] was not [Wolfowitz's] idea. But the bank's board insisted on it last spring after he had interrupted the flow of money to a number of countries and projects he had found unsavoury. He asked questions about a neo-natal health project in India . . . ; about forgiving the debts of the Republic of Congo even as its president ran up an $80,000 hotel bill in New York; and about lending money to Kenya once its anti-corruption czar, John Githongo, had fled the country after turning over one rock too many. Mr Wolfowitz saw these decisions merely as the application of common sense. But the board wanted to see the method in his meddling.[15]

The criticism of Wolfowitz tends to reflect a concern about his methods, rather than disagreement with his goal of fighting corruption. According to the *New York Times*, "The backlash at the Bank against Mr. Wolfowitz's approach centers not on his intentions or goals, but on a widespread fear that countries will be categorized in the future as corrupt or not corrupt, and that lending will be shut off in a selective way."[16] The article goes on to discuss the disagreement further testing Wolfowitz's already strained relationship with the board.[17] The irony is that by acting like the head of an anticorruption agency, rather than the head of a multilateral development agency, Wolfowitz may have inadvertedly fed into the growing discourse questioning the prominence of corruption in donor agendas.

The wrangling reached a very public climax in September 2006 with Hilary Benn's announcement of the suspension of some British funds to the Bank, as well as collective rebuke from Board members at the annual International Monetary Fund (IMF)–Bank meeting in Singapore in September. Wolfowitz "suffered a stinging rebuke . . . when the organisation's members took control of his flagship policy."[18] Never before has a Bank president been brought to heel by the board in such a public manner. The conflict came to a head at the IMF–Bank meeting where many board members including Bank of Indonesia Governor Mulyani Idrawati and South African Deputy Minister of Finance Jabu Molekati emphasized that punitive restriction of funds should not remove focus from the broader goals of poverty eradication or good governance.[19] Speaking after the IMF–Bank meeting, Hilary Benn explained:

> We agreed that good governance is fundamental to eliminating poverty . . . and that governance and corruption—although obviously linked—are not one and the same thing. The Bank's approach to governance and corruption must clearly articulate this. We agreed that progress on governance and corruption must come from within—people and their governments have to do it for themselves, with donors dividing up support according to their strengths, neither trying to do it all themselves, nor simply transferring models from rich to poor countries. And we also agreed that donors needed to stay involved and work with governments, not around them, as long as they are determined to deal with the problem. We must not penalise the poor because of corruption among politicians and officials. And where governments aren't willing to tackle the problem we mustn't turn our backs on poor people either.[20]

Described as "contrite" after the meeting, Wolfowitz said, "I look forward to [the board's] continued oversight and involvement as we implement this strategy."[21] The Bank has since put the strategy paper out for wider consultation, including from NGOs and other interested organizations, and consultation from the board can certainly be seen in the most recent draft of the strategy, dated 8 September 2006. There are echoes of Hilary Benn here, including statements such as, "Governance and corruption are not synonymous," and "The governance agenda, of which anticorruption is one aspect, needs to be understood in the framework of the Bank's core mission of helping countries reduce poverty."[22] Although the draft strategy has been described by one critic as "a lot of rhetoric and arm-waving,"[23] it does provide more concrete suggestions about how to deal with countries with varying levels of commitment to reform and with different institutional environments.

Although Wolfowitz may very well have over-stepped his bounds by acting arbitrarily and without involving the board in his decisions, he had importantly highlighted the problem of actually addressing cases in which funds are being misused and governments are acting with impunity. His critics in other donor agencies certainly highlight the problem of corruption in their own strategy documents and dealings with recipient countries, but there is little consensus about how far to push sanctions once corruption is suspected. Writing in support of Wolfowitz, Francis Fukuyama argues that he "is heading an organization poorly structured to lead a fight against corruption."[24] The reasons he gives are: (a) the Bank's Articles of Agreement prevent overtly political work, and fighting corruption is always going to be political; (b) the Bank's own staff incentives encourage lending over other considerations; and (c) an overall "pressure to move money regardless of performance" among the donor community, which results in greater incentives to give aid than to protect it from corruption.[25] Fukuyama links this particularly to the pressure to lend in order to meet the MDGs. "The idea that the Bank will simply sit on loans and aid going to poor African countries until they dramatically improve their governance is itself wholly unrealistic, given this larger political climate," but this is just what needs to happen, he says, in order to take the fight against corruption seriously.

Fighting Corruption within the Bank

Although much has been made of Wolfowitz's approach to fighting corruption outside the Bank, there is just as much contention about his approach to corruption inside the Bank. Many tenured and respected Bank officials find Wolfowitz's emphasis on fighting internal corruption, and its implicit suggestion of widespread corruption throughout the Bank, upsetting. In an interview for *US News & World Report*, Jean-Louis Sarbib, a Bank vice-president, said, "The backlash is because people feel that there has been too much of an implication that corruption is rampant . . . and for a lot of staff this really does not jive with their experience with the place."[26] According to Robert Calderisi, writing in the *New Statesman*:

> Wolfowitz has created the impression that bank staff are at the heart of the problem. "He came with the widespread view that bank staff are coddled and corrupt," one young economist told me. "We may be coddled but we're not corrupt." Particularly infuriating was the suggestion that most of the 350 investigations under way at the bank's "integrity" unit concerned employees rather than borrowing governments. In fact, fewer than 70 cases were internal, and many of those had to do with forms of misbehaviour (such as harassment) rather than financial impropriety. One exasperated manager said: "He uses the fight against corruption the way George Bush uses the war against terrorism—as a test of loyalty and a cover for his personal agenda."[27]

He is said to have appointed highly controversial "special advisors" from inside the Bush administration, forming a small, closely-knit circle around himself that not even senior vice-presidents can penetrate. This circle includes Kevin Kellems, former communications director and spokesman for Dick Cheney and present director of strategy in external affairs, communications, and United Nations affairs; Karl Jackson, former assistant to the U.S. president for national security affairs and current special advisor to Wolfowitz; and Robin Cleveland, former associate director of the Office of Management and Budget (OMB) in the Executive Office of the U.S. President and now counselor to Wolfowitz.

Among Wolfowitz's advisors, Ms. Cleveland is said to have played a key role in articulating Wolfowitz's strategy on corruption and designing the new draft strategy. According to the *Financial Times*, Ms. Cleveland "is seen as a widely experienced policymaker but a somewhat polarizing figure. One staff member at the World Bank described her as a 'wild-eyed' conservative whose expertise lies in national security, not development."[28] Her appointment has proven particularly controversial, in part because of her management style, which has been described as heavy-handed, rude, arrogant, and abusive. She has been accused of manipulating her connections with former Secretary of the Air Force James Roche in order to obtain a position for her brother at Northrop Grumman. None of the allegations against Cleveland have been proven, but this personal corruption controversy, exacerbated by complaints about her management style, has dramatically restricted her credibility when articulating Bank policy on corruption. It also shows a lack of judgement on Wolfowitz's part; if the head of anticorruption agency should be seen to be above reproach so should the rest of the management team.

Another key Wolfowitz appointee is director of the Department of Institutional Integrity (INT) Suzanne Rich Folsom, wife of International Republican Institute President George Folsom. Under her directorship, the department has shifted its focus from articulating ethics policy and staff training to conducting investigations into corrupt behavior among staff. Folsom's appointment has been controversial, not least because she lacks experience. According to Hakki, since her appointment, "very little has come out of the Department of Institutional Integrity except unproved accusations against Bank group staff. Staff have likened the atmosphere within the Bank to a Stalinist regime—one never knows when one will be denounced for some real or imagined transgression, with the goal of intimidation into silence."[29] Since Folsom took over, INT has examined 92 alleged cases of corruption involving Bank staff, finding evidence of fraud in 33 of these. According to the *Economist*, much of this has been typical of activity found in any company, including fiddling taxes and doctoring expenses.[30] With up to 26,000 Bank staff and consultants, there is little to suggest that corruption or fraud is more of a problem for the Bank than in any corporation of its size. Although it is vital that the Bank be seen to take corruption in its own ranks seriously, there is significant doubt that the approach taken by Folsom, which is alienating a large number of experience staff, is appropriate or necessary.

Wolfowitz's appointments demonstrate both a lack of judgement, in terms of bringing in staff with questionable qualifications at a very high level, and hypocrisy, in terms of making such high-level appointments in a non-competitive and non-transparent manner. It must be said that Wolfensohn courted similar controversy at times. He appointed European Bank for Reconstruction and Development's (EBRD) Nicholas Stern, as the chief economist at the World Bank, when his brother, Richard Stern, was already the Bank's vice president of human resources. Since the Bank's rules specifically forbid the employment of close family members, this decision garnered both external and internal criticism warning Wolfensohn that such seeming nepotism "ultimately demeans the

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ability of staff to speak in a credible way with clients about corruption and hamper our work in issues of governance."[31] Wolfensohn's management style was also a source of controversy; in 2001, the *Guardian* published a leaked memo from Bank staff describing Wolfensohn as "isolated from reality" and intolerant of dissent.[32]

This instance, however, pales in comparison to complaints, for example, that Wolfowitz and his special advisors use the press to criticize Bank staff, an unprecedented method of public humiliation. Since Wolfowitz's appointment, the Bank has lost several senior Bank staff, many of whom worked on its anticorruption strategy under Wolfensohn. Among these names are Shengman Zhang, former managing director and chair of the Sanctions Committee; Martin de Jong, former director of the Department of Institutional Integrity (Folsom's predecessor); and Roberto Danino, former senior vice president, who said of Wolfowitz's management style, "He presumes that anyone who opposes him is either incompetent or corrupt."[33]

Danino's comment is particularly significant. It will be extremely difficult for Wolfowitz to try to weed out the few corrupt apples in the barrel if his internal anticorruption campaign is seen to be a way to silence opponents within the organization. By putting his own special advisors—controversial figures in their own rights—in charge of this process, he stands to alienate the majority of Bank staff, many of whom may already be genuinely concerned with limiting corruption in the Bank's work.

Managing the World Bank is like managing a university—with its collegiate spirit, a near universal dislike and distrust of hierarchy, and several thousand PhDs critiquing strategy papers as soon as they emerge. Staff members expect to have a say in how their work is conceived and implemented. They expect to be consulted and they expect to be heard, even by management at the top. If ignored, they have the capacity to undermine senior management in Washington and implement policy on the ground. As Sebastian Mallaby points out in the *Washington Post*, "Wolfowitz should trust that the Bank's staff is, on average, better and more professional than the staff of most public-sector bodies and that his role is to create the space for these people to work effectively."[34] One would assume that Wolfowitz understands how to manage in this sort of environment, given his experience as dean of the Johns Hopkins University School of Advanced International Studies, but evidence suggests that Bank President Wolfowitz is acting as deputy secretary rather than dean, and to his own detriment.

Wolfowitz, the Bank, and Legitimacy in the Fight against Corruption

Regardless of some merits in his proposed anticorruption campaign, Paul Wolfowitz is not, and never has been, a credible "global policeman" on corruption. Perhaps unfairly, many see Wolfowitz's insistence on targeting corruption as a means to undermine the institution as a whole—to accuse its staff of complicity and outright sleaze, to reduce the amount of funding disbursed, to damage relationships with its borrowers, and to undermine its own work on reducing poverty. He has never worked in, let alone led, a multilateral organization, and this has proven disastrous for him. Managing the Bank is not like managing the Department of Defense: policy cannot be formulated at the top by a small, elite group and then disseminated down through the ranks, where it is implemented without question by staff. U.S. administrations, Democrat or Republican, are generally not renowned for their support for multilateralism, and the Bush administration has demonstrated a particular disdain for multilateral institutions. Many critics see Wolfowitz's appointment to the World Bank in the same light as John Bolton's appointment as U.S. ambassador to the United Nations, an appointment interpreted by many as an attempt to undermine the institution from within. Certainly this colors Bank staff and others' attitudes towards his attempts to combat corruption within the Bank itself.

It is important, however, not to malign Wolfowitz as the sole problem. The controversy surrounding him highlights the very flawed system in place for appointing the World Bank president. The best way for the World Bank to have legitimacy in the fight against corruption is for the organization to practice what it preaches, and this means that, at the very least, the president should be appointed in a transparent manner based on merit and not on personal connections, and that he or she should not hire staff on a non-competitive basis. Hakki cites a Bank staff member as saying, "It is difficult for us to tell a minister that he cannot hire his cronies on bank projects when our own President does so with impunity."[35]

For the Bank to tackle corruption in its own lending practices and to punish its non-complying borrowers with sanctions, it must, as Wolfowitz argues, weed out corruption from within its own ranks, including those at the top. Paul Wolfowitz, however, cannot champion the fight against cronyism partly because his presidency is arguably a product of this very ailment. If he were to act as if he is in fact the head of an anticorruption agency, he would take seriously his critics' concerns. He would replace his current special advisors with a transparently and competitively appointed executive team, and he would put in place a system where the Bank president is appointed on a competitive basis, without regard to nationality. Although it would arguably require more than this to silence all of his critics, this would certainly go some way in establishing that he is in fact more interested in strengthening the World Bank than in tearing it down, and more interested in combating corruption

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than in silencing his critics, both inside and outside the organization.

Perhaps Fukuyama is right about Wolfowitz prioritizing the fight against corruption, but most donors would argue that he is wrong to prioritize this over helping the poor. It is likely that once the controversy regarding Wolfowitz's methods dissipates, there will be a more honest discussion among donors about when to cancel projects and even cut off aid, in order to have a more honest and systematic approach to sanctions. It is not at all clear that Wolfowitz is the right person to lead this discussion, but by taking such a strong stance on corruption, he has, inadvertedly or not, started a much more sincere debate about the role of donors in fighting corruption.

NOTES

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