



---

April 12, 2006

## World Bank Chief Outlines a War on Fraud

By [CELIA W. DUGGER](#)

The World Bank president, [Paul D. Wolfowitz](#), laid out a broad strategy yesterday to help developing countries combat rampant corruption, as well as to halt fraud in antipoverty projects supported by billions of dollars in World Bank money.

In a speech in Jakarta, Indonesia, Mr. Wolfowitz described for the first time his plans to make fighting corruption a pervasive issue in the bank's operations. The new efforts will range from intensified monitoring of projects in the field to an increased focus on reforming institutions that can hold governments accountable.

Mr. Wolfowitz also seems to be trying to change the culture of the bank. In remarks after the speech, he said he wanted bank managers to understand that they would be rewarded "as much for saying no to a bad loan as for getting a good one out the door."

Mr. Wolfowitz has in recent months made corruption the defining issue of his brief tenure at the bank, the largest financier of antipoverty programs worldwide. An architect of the Iraq war when he was at the Pentagon, he took the helm at the bank 10 months ago.

In that time, he has delayed, suspended or canceled hundreds of millions of dollars in loans to India, Bangladesh, Kenya, Chad and Argentina over corruption-related issues. Yesterday he tried to put those actions in a wider framework.

"Suspending loans on problem projects by itself does not deliver results for the poor," he said.

His predecessor, [James D. Wolfensohn](#), broke the taboo against talking bluntly about corruption, but Mr. Wolfowitz has set himself the task of more aggressively taking the issue into the guts of the bank's own bureaucracy.

Some experts, while praising Mr. Wolfowitz's determination, questioned how much leverage the bank really had to prevent corrupt elites from siphoning off money intended for the poor. Others said the

execution of Mr. Wolfowitz's ideas had in some cases been ham-handed.

Mr. Wolfowitz's approach is certainly ambitious. In his speech, he defined it much more broadly than merely detecting and stopping graft. Countries also need assistance to build the institutions of accountability and the capacity to tackle corruption on their own, he said.

Toward that end, the bank will increase loans to reform the courts and civil services of poor countries and to decentralize public services, among other things.

To minimize corruption in bank-funded projects, the bank will deploy what he called "anti-corruption teams" to work on the ground in poor countries with government auditors and others.

Under Mr. Wolfowitz, the staff of the bank's department of institutional integrity will grow to 65 from 53. Its budget will expand by almost \$5 million.

The bank says more than 140 suspected corruption cases in a backlog of 387 cases have been closed since Mr. Wolfowitz took over, but many new ones have been opened as staff members have been encouraged to report suspected instances of corruption. "He wants us to go more actively after corrupt companies," said Bart Stevens, a spokesman.

The bank is also changing the way it devises projects to put more emphasis on incentives to combat corruption, Mr. Wolfowitz said. He will direct staff members in the most-corrupt countries to mobilize all the bank's loans, grants, research and technical assistance "to strengthen governance and fight corruption."

Bangladesh is a case study of how the changes are playing out. Last December, the bank canceled \$35 million in loans to Bangladesh after corruption was found in the bidding process on 14 road-building contracts.

But the bank is not washing its hands of Bangladesh. In discussions with the bank's board, bank managers noted that Bangladesh had made impressive strides in educating girls, reducing child mortality and increasing life expectancy despite what they called "serious governance weaknesses." They anticipate \$3 billion in loans over the next five years, with a particular focus on strengthening accountability.

Pointing to the gradual progress against corruption in Indonesia, where he served as the American ambassador 20 years ago, Mr. Wolfowitz sounded a cautiously optimistic note in a brief news conference after the speech.

The bank's own experience suggests the daunting nature of the task, particularly in countries lacking the political will.

In January, Mr. Wolfowitz suspended all loans to Chad, an impoverished African country, after its government gravely weakened an agreement to commit most revenues from an oil pipeline the bank had helped it build to poverty reduction.

Last month, the bank approved \$2.9 billion in debt relief for the Congo Republic. At Mr. Wolfowitz's insistence, that relief depends on concrete steps to combat corruption in the state-run oil company. But two leading advocates for cleaning up Congo's oil sector were arrested last week and remain in jail.

In the news conference, Mr. Wolfowitz said he was aware of their arrest. "It suggests to me that it's not going to be easy to get the same performance there if the facts are as they appear," he said.

Some are skeptical of the bank's recent efforts to use its clout to change the kleptocratic ways of some powerful government officials.

The bank's announcement of \$145 million in new lending for Kenya in January — when the country was in the thick of a huge corruption scandal — struck Sir Edward Clay, the former British high commissioner to Kenya, as so ill-timed that he wrote Mr. Wolfowitz an open letter published Jan. 29 in *The Daily Nation*, a Kenyan newspaper.

Sir Edward said in a subsequent telephone interview that though one of the loans, for \$25 million, was specifically to combat corruption, the bank should never have announced it just as the press and protesters were uniting to condemn the government for its failures on corruption, as laid out by the country's former anticorruption czar, John Githongo.

"It's unbelievably dense and the mark of a bureaucracy so caught up in its own processes that it doesn't pay attention to the environment in which it's operating," Sir Edward said. "Donors have been giving money to help improve governance for generations and that's not the answer at the moment."

Mr. Wolfowitz took only a few questions during his brief telephone news conference yesterday, and there was no time to ask about the Kenya incident. But officials noted that the bank had suspended \$260 million in loans to Kenya since October pending the outcome of bank audits.

The bank went forward with the \$25 million anticorruption loan, and with another for \$120 million that was Kenya's share of a regional plan for trade and transportation, because there were enough guarantees

built in to assure accountability, bank officials said.

[Copyright 2006 The New York Times Company](#)

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [XML](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)

---

..