At issue: Beware the big, bland wolf: The first year of Paul Wolfowitz at the World Bank

What has most surprised World Bank watchers is how little Paul Wolfowitz has changed the institution he inherited one year ago. On Africa, infrastructure, debt relief and the environment, he has stayed the course - for better or worse - set by his predecessor James Wolfensohn. On the high-profile issue of corruption, he has created a lot of noise, but many question whether or not he has a plan. Only in his management moves has he lived up to the fears - or in some cases wishes - of his critics.

When Wolfowitz's name was first put forward by US president Bush as a potential candidate for World Bank president on 16 March 2005, reaction was hostile. In ten days, Brussels-based NGO Eurodad had compiled a list of 1,650 civil society organisations worldwide outraged by the appointment of the architect of the US war in Iraq to the head of the world's largest multilateral development bank. Polls conducted by the *Financial Times*, worldbankpresident.org and the World Bank staff association showed support for Wolfowitz dipping into the single digits.

There were fears that Wolfowitz would freeze engagement with civil society, push the kind of neo-liberal economic conditions which characterised 'reconstruction' efforts in Iraq, and facilitate the use of the Bank as a tool of US economic and security interests. Greeted by protests on his first day on the job, 1 June 2005, Wolfowitz stated that his priorities were Africa and good governance, and also emphasised the need to 're-engage' with middle-income countries through infrastructure financing. A year later, have the fears of Wolfowitz's critics been realised? And how has he fared on his own stated priorities?

Africa: Staying the wrong course?

Wolfowitz had barely moved into his office in Washington, before he was off to visit Nigeria, Rwanda, Burkina Faso and South Africa on a whirlwind tour. At the Gleneagles G8 summit in June 2005, the Bank was asked to elaborate an 'action plan for Africa'. This was to be the latest in a string of such plans stretching back over three decades, most recently the G8 Africa Action Plan in 2002. The Bank's plan takes its lead from each African country's Poverty Reduction Strategy Paper. More money is to be made available for strengthening governance institutions, and spending on infrastructure, education and health, with efforts to harmonise donors.

Several new initiatives have been established in which the Bank will play a central role - the Africa Catalytic Growth Fund, the Africa Infrastructure Consortium, and the Comprehensive Africa Agriculture Development Programme. It is yet to be seen if these new initiatives will impact overall Bank lending to Africa. After the last G8 action plan for Africa, Sub-Saharan Africa's share of International Development Association commitments actually fell from 47 per cent in 2002 to 45 per cent in 2005.

Missing from the fanfare over the flurry of shiny new initiatives was any questioning of the export-led, resource-intensive growth model that the Bank has been supporting in Africa for three decades. A Bank report published in mid-2005, *Where is the Wealth of Nations*, concludes that after considering resource depletion and pollution damage, many African countries which are touted as success stories turn out to be losers.

Infrastructure: Driven by demand

James Wolfensohn started his presidency by withdrawing Bank financing from the proposed Arun III hydroelectric dam project in Nepal, the subject matter of the first investigation of the then newly established Inspection Panel. Coming on the heels of the debacle of Bank involvement in the Sardar Sarovar dam project in India, the Bank would retreat from infrastructure for the rest of the nineties.

In contrast, Wolfowitz has signalled his intention to champion 'high risk-high reward' infrastructure, the roadmap for which was laid out in the Bank's Infrastructure Action Plan in 2003. This return to infrastructure is being driven by the financial imperative for the Bank to maintain loan volumes in middle-income countries and from rich country interest in lucrative construction contracts.

At the Bank annual meetings in September 2005, infrastructure VP Kathy Sierra told NGOs that Wolfowitz had warned her that he would be "watching for arrogance" in anticipation that infrastructure people might "look for technical fixes" rather than "learning from the lessons of the past". In January the Bank's infrastructure network released the paper *Lessons from the last two decades of Bank engagement*. The lessons learned included balancing growth with access; avoiding an over-emphasis on private sector provision; designing projects from the outset to "safeguard people and nature"; and explicitly confronting corruption.

Many on the ground where the impact of Bank-funded infrastructure projects will be felt fear that those lessons are not being learned. Bosshard and Lawrence, of US NGOs International Rivers Network and Environmental Defense, cite the example of Pakistan's Indus Basin irrigation system as "a prominent example of how corruption pervades economic development and distorts the priorities of infrastructure investment." Despite Bank commitments to emphasise efficiency over new infrastructure, Bosshard and Lawrence argue that the interests of the World Bank's member governments are well aligned with the institution's bureaucratic self-interests: "Northern governments favour loans that pay for the contracts of international consultants and construction companies. Borrowing governments favour bulky projects that yield ribbon-cutting opportunities, build political prestige, support centralized bureaucracies, and offer spoils for patronage."

Debt relief: Giving credit where its due

The Bank approved $37 billion in debt relief for 17 countries at the end of March, effectively conceding that its previous debt relief effort - the Heavily Indebted Poor Countries initiative - was a failure. While there was some suggestion that Wolfowitz was a positive influence on US support for the deal, impetus came from campaigns which shamed the G7 creditor countries, and the roadmap was laid out at the G7 finance ministers' meeting in spring 2005, before Wolfowitz started at the Bank. Serious concerns remain about economic conditionality attached to the relief, and the number of countries still living under debt burdens which prevent spending on desperately needed public services.

The next test for Wolfowitz will be whether he tackles the issue of 'odious' or illegitimate debts. Any debt cancellation package will continue to appear arbitrary until a transparent process has been established to determine creditor responsibility for monies lent to kleptocratic regimes or dubious projects. Wolfowitz was supportive of US cancellation of

Iraqi debts on the basis that the Iraqi people should not be held responsible for the actions of a dictator that they did not elect. It is difficult to see how a line can be drawn between irresponsible lending to Saddam Hussein and any of a long list of equally nefarious figures. The Norwegian government is lending its weight to the calls for a re-examination of odious debt, launching an investigation of its own bilateral lending, and setting up a trust fund at the Bank to investigate the issue.

Guarded on environment and human rights

Though the Bank would ultimately walk away from many of their findings, former president James Wolfensohn launched the World Commission on Dams in 1998 and the Extractive Industries Review in 2002. Wolfowitz has yet to make clear his intentions on the environment and human rights, though he may not be able to remain aloof much longer. Recent tragedies at Bank-funded projects such as Anvil Mining's Dikulushi mine in the DRC (see *Update* 47), are examples of the inadequacies of Bank safeguard policies. New environmental and social safeguards have since been adopted by the Bank's private sector arm, but NGOs argue that they prioritise the reduction of client risk over the protection of project-affected peoples and the environment. Inspection Panel findings in Cambodia and an upcoming investigation in DRC raise serious questions about the Bank's approach to forest issues (see *Update* 51).

The other big issue put onto the Bank's plate by the G8 in 2005 was climate change. At the Gleneagles summit, the Bank was tasked with "creating a new framework for clean energy and development, including investment and financing". The framework launched at the spring meetings proposes several new financing mechanisms for technology development, but uses a perverse definition of clean energy, lets northern polluters off the hook and neglects the needs of the rural poor. The Bank itself continues to invest heavily in oil and gas.

Corruption: Waiting for the plan

While former president James Wolfensohn liked to take credit for committing the Bank in 1996 to "fight the cancer of corruption", Wolfowitz has made corruption the defining issue of his first year at the Bank. Over the past months, he has ordered a halt on Bank lending to countries across the globe, initiated a framework to coordinate multilateral development banks' anti-corruption efforts, and ordered internal reviews of Bank programmes plagued by corruption (see *Update* 50).

All sides have acknowledged that the issue of corruption needs to be addressed. Added impetus is given by anticipated increases in aid levels and a return to infrastructure lending which historically has been most susceptible to grabbing hands. However, Wolfowitz's tactics have come in for criticism. By allowing high-profile projects to reach the board before stepping in to postpone them, Wolfowitz appears to be aiming more at members of the US senate foreign relations committee (who have led a two-year investigation into corruption at the IFIs - see *Updates* 40, 48) than at solving a complex problem.

Civil society organisations have demanded that the Bank elaborate a transparent, systematic approach to dealing with corruption in its activities. US NGO Government Accountability Project wants Wolfowitz to reveal the recommendations of an internal investigation into the Bank's accountability systems, and take up the recommendations on improving Bank whistleblower policies (see *Update* 49, 42). NGOs Publish What You Pay coalition and International Rivers Network have called for the adoption of minimum standards in governance, transparency and human rights in extractive industries and infrastructure projects. This follows similar recommendations made in the Bank's own Extractive Industries Review, and coming from the Bank's Independent Evaluation Group.

In a discussion paper circulated to board members, 'Raising the bar on anti-corruption', Wolfowitz appears to be listening to some of these suggestions. The paper asks what mechanisms should be made available to protect whistle blowers, and suggests a strengthening of efforts such as the Extractive Industry Transparency Initiative, conceding that "corruption is a particularly critical challenge in those poor countries which are heavily dependent on extractive industries".

While the discussion paper should be applauded for asking board members to consider what role "donor countries and their multinationals" play in contributing to corruption, culpability of the Bank is notably absent. Systemic problems in the way the Bank works must be addressed. These include the normalisation of petty corruption driven by civil servant pay cutbacks, the failure to establish a mechanism for creditor responsibility for odious debts, and foot-dragging in the investigation and disbarment of companies found guilty of malpractice in Bank projects.

(Mis)management of the Bank

One of the most common ways that new World Bank presidents have stamped their authority on the institution is by embarking on organisational restructuring. While Wolfowitz has so far resisted this temptation, he has redrawn lines of accountability by stealth. Surrounding himself with former colleagues from the US government, he has left senior Bank staff out in the cold. A mass exodus has been the result (see *Update* 48). Blocked out by Wolfowitz's inner circle, and under attack from insinuations of corruption, staff morale is at an all-time low.

Adding to staff woes is the looming shadow of an organisational budget crisis, similar to that of their colleagues across the street at the IMF (see *Update* 51). The Bank's income from borrowers' fees fell from $8.1 billion in 2001 to $4.4 billion in 2004, while investment income dropped from $1.5 billion in 2001 to $304 million in 2004. Wolfowitz is reportedly examining options for rationalising the current 30-odd vice presidencies. Civil society groups fear that this may mean the end of the Environment and Socially Sustainable Development unit - traditionally one of the few allies of campaigners for the environment and affected communities.

Wolfowitz has continued Wolfensohn's tradition of holding 'town hall' meetings with civil society organisations at the spring and annual meetings. Civil society access, both in Washington and in-country, seems largely unchanged; ditto concerns that civil society participation in key economic policy decisions remains marginal at best.

A number of questions loom ahead for Wolfowitz year two. Will the corruption crusader turn his theatrics into a coherent strategy, or will corruption simply become the new pretext for Washington imposed governance recipes? Are key US allies in the war on terror going to face the same scrutiny of their corrupt practices as 'less important' neighbours? And which bits of the Bank will be cut as the budget squeeze tightens?

If he is to quell his many critics, Wolfowitz will need to show leadership in reforming the farcical governance structures of the Bank that see countries most affected by its policies with the least say in its decision-making. He needs to take decisive action to get the Bank to stop dictating borrowers' economic policies, and ensure that the Bank really has 'learned the lessons' of infrastructure. And if the big, bad wolf really wants to blow the house down, he could finally address the question of odious debt. But don't hold your breath.

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