

STATEMENT OF PAUL WOLFOWITZ

TO THE WORLD BANK GROUP EXECUTIVE DIRECTORS

MAY 15, 2007

Opening Statement

Mr. Chairman and Members of the Board. Thank you for allowing me and my counsel Bob Bennett and Amy Sabrin to appear before you today.

This has been a difficult time for all of us. It has been difficult for the World Bank family, and it has been difficult for me and my family.

I have spent nearly all my professional life in public service.

Some people have disagreed with my policies and positions.

But never before have they questioned my honesty or integrity.

In the last month, Shaha Riza and I have been held up to public ridicule. I have been caricatured as a “boyfriend” who used his position of power to help his “girlfriend”. She, a talented and productive professional staff member has been demeaned. I have had to explain to my children, my friends and my professional colleagues that this was not the case.

I tell you this so that you can understand why I have been fighting so hard to defend myself. I know that you would do the same if you were in my position.

But this is not only, or even principally, about me personally. My children and those who I care about deeply know I have integrity.

This is about the World Bank. For the sake of the Bank, and for your sake, this process has to be fair.

If you want to have a discussion about my leadership, my management style and the policies I support, let's do it. That's fair. That's legitimate. But let's get past this conflict of interest matter that was resolved over a year ago.

I sincerely believe that if you read my submissions, you will conclude that I acted in what I believed were the best interests of the institution, and that my conduct with respect to Ms. Riza's external placement does not justify taking any action against me or warrant a finding that you lack confidence in my leadership. I believe the Ethics Committee was also acting in good faith at the time.

I do hope you will read the submission I made to the Ad Hoc Group on May 11th carefully. We put a lot of care and thought into it. I will not repeat all of the points made in my submissions – points that were supported with strong documentary evidence and witness statements -- but I do want to emphasize a few critical points.

First, if it had not been for the explicit advice I received from the Ethics Committee to “instruct” Mr. Coll – “instruct” was the word they used -- I would not have played any role whatsoever in the matters surrounding Ms. Riza’s external placement.

Second, it is undisputed that the Ethics Committee blessed moving Ms. Riza out of the Bank and also said that she should receive an in-situ promotion prior to her relocation.

Third -- as Ms. Riza told the Ad Hoc Group -- Ms. Riza did not view me as her ally in this matter. To the contrary, she told the Ad Hoc Group. “. . . I thought he should have fought the decision by the Ethics Committee. He became them, you, the Bank, and I had to fend for myself in the same way I’m now fending for

myself.” She did her own negotiating and the terms she demanded were those she came up with, with the help of a lawyer.

Fourth, as everyone recognized – including HRVP Xavier Coll and General Counsel Roberto Danino – legal action was a possibility. Ms. Riza did not volunteer to go – her relocation was against her will. As she told the Ad Hoc Group, she felt like she was being “banished from the Bank” and being placed in what she called “employment limbo” for an extended period. She knew others at the Bank were not treated the same way. Ms. Riza, Mr. Coll and Mr. Danino all told the Ad Hoc Group that legal action was a real threat. Mr. Danino said he thought it was a good idea to avert that.

Fifth, all parties – including Mr. Coll and Mr. Danino -- recognized at the time that this was a unique and unprecedented situation. Mr. Coll signed an agreement that explicitly says that. It says: “There is no precedent of this kind and no personnel policy that clearly applies to resolve it.”

I want to pause and focus you on something very important. The Ad Hoc Report says that Mr. Coll told me the agreement was “outside the rules.” You should of course look at the report, but I would also ask you to look at a few

things that Mr. Coll wrote at the time of the actual events. Here are copies of the documents so you can see for yourself. [HAND OUT EXHIBITS]. These statements – Mr. Coll’s own words and writing – confirm that, at the time, he told me there were no personnel policies that clearly governed Ms. Riza’s unusual situation:

- First, at Tab 1, there is a draft of the Riza agreement. There are edits on it in Mr. Coll’s handwriting. In the upper right he wrote: “There is no precedent to this kind of situation and ***no policy that could clearly apply to resolve it.*** Therefore this is a proposal that clarifies a set of actions and guidelines to help resolve this ***unusual*** circumstance.”
- Second, at the time of these events, Mr. Coll wrote a memo to himself. It is at Tab 2 in your packet. He wrote on it “Strictly Confidential and Personal – for Xavier Coll’s eyes only.” In this memo, which was written only to himself and which therefore has another watermark of credibility, Mr. Coll wrote this: “We were in ***a very difficult situation – with no precedents at the Bank*** – and that it had enormous potential to damage the bank’s reputation. In balance, I [Coll] thought ***the situation required more***

flexibility than in other past cases and that there was great risk to the Bank if we could not come to a workable agreement in a few days.”

- He also wrote: *“I felt comfortable that I had raised points of concern with the President and that he had taken these seriously and given due consideration”* to them.
- Mr. Coll also noted at the time that the decision -- which I agreed with -- to make any promotions contingent on evaluation and peer review “brought the process for potential promotions *more in line with current practice* at the Bank.” Mr. Coll wrote that he *“felt that, on balance this was a reasonable way to move forward and find a solution given the very complex and difficult set of circumstances.”*

This, I respectfully submit, is what the Board should conclude as well: that the agreement reached with Ms. Riza was a reasonable way to move forward and find a solution in a very complex and difficult set of circumstances.

This is also very important for you to understand –

The agreement with Ms. Riza was not simply an employment agreement. It was a practical resolution of legitimate grievances by a Bank staff member whose career was seriously damaged as a result of the advice of the Ethics Committee. It was in the nature of a settlement agreement.

At the time, everybody – including Mr. Coll and Mr. Danino – thought she had legitimate grievances and that steps should be taken to avoid the potential for litigation and reputational risk for the Bank.

The Ad Hoc Group's Report also expresses concern that I allegedly cut Mr. Danino out of the process. This is a highly skewed mischaracterization of events. I did ask Mr. Coll to keep the *negotiations* confidential and not involve Mr. Danino during the short period the negotiations were on-going. But I always assumed that Mr. Danino, as legal advisor to the Committee, would participate in the Ethics Committee's review of the matter once the agreement was reached. I did not take any steps to preclude the Committee or Mr. Danino or anyone else from reviewing it in due course. This was not a secret agreement. The terms were

entered into the appropriate HR computer systems. I did not have the agreement locked up in a drawer somewhere.

I think it is important to stress here that confidentiality – which means limiting improper leaks and unauthorized disclosures – does not mean precluding oversight by appropriate parties. I was very conscious of the need for confidentiality in these sensitive personnel negotiations, but I never intended that the matter would be kept secret from parties exercising legitimate oversight.

I sincerely believe that the Ethics Committee wanted me to take responsibility to resolve the matter rather than handling it themselves. After I received the Committee's informal advice in late July, 2005, that I should instruct Mr. Coll to carry out the terms of Ms. Riza's external placement and promotion, I objected to being involved in any way. The response I got, from Mr. Melkert, is reflected in his memo of August 8, 2005 which is at Tab 3 of your packet. In it, he tells me that "The EC cannot interact directly with staff member situations, hence Xavier [Coll] should act on [my] instructions." The memo did not say that I should or could delegate the matter to Mr. Coll. It said he should act on my "instructions." It did not suggest I could delegate that task to anyone else. The memo also said that I should tell Mr. Coll to meet with Ms. Riza as early as

possible, that Mr. Coll should report back to me, and that I should report back to the Ethics Chair. And all this was to be done within a matter of days.

Another member of the Committee, Otaviano Canuto, was asked by the Ad Hoc Group what this instruction to me meant. He says it meant, “Get it out of the way. Do it.”

Mr. Melkert communicated this sense of urgency to me on several occasions. We all recognized that it was in the Bank’s interest to resolve the matter as promptly as possible, as there was the potential risk to the Bank’s reputation if it was not quickly resolved.

The agreement with Ms. Riza was signed on September 1, 2005. Seven weeks later, on October 24, 2005, the Committee wrote me a letter. It is Tab 4 in your packet. The letter said that the Committee had determined that the “outcome” was “*consistent with the Committee’s findings and advice.*” I ask you what you would have thought if you had received that. I respectfully submit that you would have thought that the Committee had deliberated over the final outcome and found that it was consistent with its advice. That is what I thought.

But that was not the end of it. A few months later, in January 2006, the Ethics Committee and all the other Executive Directors received an anonymous email about this matter. It is the second document behind Tab 5 in your packet. As you can see from the highlighted portion, the email was very detailed and specific about Ms. Riza's promotion and the size of her pay raise.

A few weeks after this email was sent, I received another letter from the Ethics Committee. It is in the front of Tab 5. In that letter, Mr. Melkert wrote that the Committee had "decided that the allegations relating to a matter which had been previously considered by the Committee *did not contain new information* warranting any further review. . . ." I ask you again: if you had gotten that letter, wouldn't you think the Committee knew about the salary increases already? Wouldn't you think that they had already reviewed the matter? That is certainly what I took it to mean.

Under these circumstances, I respectfully submit, to criticize my actions or to find them as a basis for a loss of confidence would be grossly unfair and would be contrary to the evidence we have presented to you, which I hope you will take the time to study. Rather, the appropriate conclusion would be, in the words of Mr. Coll, that the agreement with Ms. Riza was "a reasonable way to move forward

and find a solution in a very complex and difficult set of circumstances”. I could not put it any better. I think those words of Mr. Coll’s would be an appropriate way for the Board to conclude their deliberations on this matter. Rather than fix blame for something that wasn’t wrong, we should all acknowledge our responsibility as I have acknowledged mine.

That is where things stood until these old charges resurfaced last month.

I have said that I am not without fault in this matter. I have taken responsibility for my role. I think we all at the time – me, the Ethics Committee, Xavier Coll – we were all acting with the best of intentions to try to achieve what Mr. Melkert called “a pragmatic solution” to an unprecedented and difficult situation in the best interests of the institution.

I could go on about the facts, and I will gladly answer any questions you have about them. But it is quite apparent that this matter has ceased to have much to do with the case itself -- and everything to do with issues about my management style and my policy choices.

So let’s discuss what this is really about.

With respect to my leadership and management style, I have recognized both publicly and in many very frank meetings with staff, including all of my Vice Presidents, that there are some significant things that I need to change in order to regain the trust of the staff. Among the most important are:

- I relied much too long on advisers who came in with me from outside for managerial functions which should have devolved much more into the normal organizational structure. I realized even before this crisis that change in this regard was overdue and I intend to make it, and make it decisively.
- I have plans underway to restructure my front office to make it more efficient and to facilitate unimpeded access and communication between me and the Vice Presidents.
- I now have a team of vice presidents, including those who were at the Bank before me, and I am very comfortable empowering them and delegating to them, and working with them in a trusting relationship.

- That includes making a clear separation between managerial and advisory roles and ensuring that my advisors not cross over into managerial functions.
- I am aware of the concern that I need to place more trust in the staff. The truth is that I have extensive experience establishing relationships of trust with career staff in my previous jobs, and I am personally comfortable doing so. I truly believe that I can do much better in that regard going forward, provided I make a number of other changes.
- One of those changes needs to be more direct and frequent engagement with the staff on substance. I have been able to do that more successfully in the last year at the IFC, through systematically scheduled interactions, I think significant improvement is possible, on the World Bank side, in part by a different allocation of time – which will also mean more time in Washington and less time traveling.

Notwithstanding these problems, we have accomplished a great deal together for which we can all be proud. I would like on another occasion to detail all our successes, but there a few that stand out:

- MDRI

- Clean Energy Investment Framework
- Africa Action Plan
- Rapid Response – Fragile States policy
- Education for All – targets \$1.5 billion achieved
- Health Strategy – first update in decade
- Financial Sector strategy
- Record levels of IDA, especially for Africa in 2006 and heading for another record in 2007
- Gender Action Plan
- Lebanon and Afghan donors conference
- Liberia, DRC and CAR emergency action programs
- Avian Flu Initiative

In closing, let me say that I know some people may get some short-term satisfaction out of finding that I engaged in wrongdoing. I hope that none of you feels that way. But if you do, I ask you to stop and think about the long-term interests of the Bank.

I implore each of you to be fair in making your decision, because your decision will not only affect my life, it will affect how this institution is viewed in

the United States and the world. I fear that the way this recent inquiry is handled has the potential to do greater long-term damage to the institution than the alleged underlying ethics issue that was, in point of fact, put to rest over a year ago.

You still have the opportunity to avoid long-term damage by resolving this matter in a fair and equitable way that recognizes that we all tried to do the right thing, however imperfectly we went about it.

Thank you and I will be pleased to answer your questions.