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# IMF Probes Chief Over Tie to Worker

## Inquiry Intensifies as Fund Battles Crisis

*By Bob Davis*

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WASHINGTON -- The International Monetary Fund has launched an investigation into whether its chief, Dominique Strauss-Kahn, abused his position in connection with a sexual relationship with a subordinate, in a case that could roil a key global institution at a crucial moment in the world financial crisis.

The IMF said it has retained the firm of Morgan, Lewis & Bockius LLP to conduct the investigation, which is expected to be completed by the end of the month. The probe was sought by the longest-serving member of the IMF's governing board, A. Shakour Shaalan, who represents Egypt and other Arab countries, with advice from the representatives of Russia and the U.S.

"There was an allegation concerning improper behavior of a personal nature on the part of the managing director," said Masood Ahmed, the IMF's chief spokesman. "All allegations, particularly relating to senior management, need to be investigated."

In a statement, Mr. Strauss-Kahn said: "I have cooperated and am continuing to cooperate with outside counsel to the Fund concerning this matter." He said the "incident which occurred in my private life" took place in January 2008. "At no time did I abuse my position as the Fund's managing director."

Mr. Strauss-Kahn, a 59-year-old former French finance minister, is regarded as one of Europe's most accomplished economic policy makers. In September 2007, he was elected managing director of the IMF, which provides economic advice and sometimes loans to its 185 member countries.

The handling of the investigation of Mr. Strauss-Kahn is provoking sharp criticism within the IMF because not all of the 24 members of the board had been made aware of the allegations and the investigation until Friday, after this newspaper made inquiries. Some internal critics charge that the members who had knowledge of the

allegations could have been in the position to use that information as leverage in policy and funding disputes with Mr. Strauss-Kahn.

An IMF official said it was necessary to limit the number of people who knew about the investigation in order to protect privacy.

The probe comes 15 months after the president of the World Bank, Paul Wolfowitz, resigned under pressure because of alleged favoritism to a World Bank employee with whom he had a long-standing relationship. The imbroglio deeply split the World Bank staff -- as well as finance ministries around the world -- into Wolfowitz supporters and detractors.

The IMF investigation concerns Mr. Strauss-Kahn's relationship with Hungarian-raised Piroska Nagy, at the time a senior official in the IMF's Africa department. According to several individuals familiar with the matter, Mr. Strauss-Kahn in December 2007 began approaching Ms. Nagy, who is married, for an affair. The two exchanged emails about a possible intimate relationship, which these people said commenced early this year during a conference in Europe.

Shortly afterward, Ms. Nagy's husband, Mario Blejer -- a prominent Argentine-born economist who has worked at the IMF, the Central Bank of Argentina and the Bank of England -- found email evidence of the affair, they said, and the relationship apparently ended. Mr. Blejer and his wife hoped to keep the incident quiet while they worked out their problems, said several individuals with knowledge of the incident.

Robert Litt of Arnold & Porter, Ms. Nagy's lawyer, said his client "doesn't comment on her personal life."

## **'Definitely Has Merit'**

After word of the affair became known within the IMF, Aleksei Mozhin, Russia's representative, spoke with Mr. Blejer. Mr. Shaalan, the Egyptian board member, was notified around July, an IMF official said.

Mr. Shaalan conferred with Mr. Mozhin, as well as with Meg Lundsager, the U.S. representative on the IMF board, and IMF general counsel Sean Hagan.

In late August, the IMF retained Morgan, Lewis. By mid-September, Mr. Strauss-Kahn had formally informed the law firm that he would cooperate with the investigation and encouraged others at the IMF to do so. Ms. Lundsager and Mr. Mozhin declined to comment. Mr. Hagan was unavailable.

The probe is intensifying as the IMF is trying to focus its energies on helping developing countries withstand the global financial crisis. One issue for investigators is whether Mr. Strauss-Kahn showed favoritism to Ms. Nagy at the IMF, or sought retribution. Ms. Nagy resigned from the IMF in August as the IMF was reducing the size of its work force by nearly 600 slots. She is now working as an economist at the European Bank for Reconstruction and Development in London, a regional development agency.

The investigators are looking at whether Ms. Nagy's severance package was outsized for a person of her position and tenure. Ms. Nagy was an Africa specialist, and in April 2008 led an IMF mission to Ghana to discuss that country's economic policies.

In the World Bank controversy, the question of whether Mr. Wolfowitz's girlfriend received a big bump in salary as a result of their relationship was at the heart of the dispute.

The size of Ms. Nagy's severance package couldn't be determined. An individual familiar with the investigation said the investigating law firm hasn't found evidence that the severance payment was inappropriate.

Mr. Litt, the attorney for Ms. Nagy, said she wasn't pressured to leave the IMF and took a buyout package that was available to others of her pay grade and seniority. "She received no special treatment of any kind, either favorable or unfavorable," he said.

Investigators continue to examine whether she was pushed to leave, the person said. They are also investigating allegations that Mr. Strauss-Kahn had showed favoritism

to another female employee.

## Heading Off Controversy

By quickly moving to probe the validity of the charges against Mr. Strauss-Kahn, the IMF is hoping to head off some of the controversy that struck the World Bank. But that may prove to be a difficult task. "If the allegations [that he abused his position] are true, I think [Strauss-Kahn] would have to go," said Michael Mussa, former IMF chief economist now at the Peterson Institute for International Economics.

Once the investigation is completed, a report will be delivered to the 80-year-old Mr. Shaalan, who has served as board member since 1992. After that, it will be distributed to the board, said an IMF official.

*—David Gauthier-Villars contributed to this article.*

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