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Chapter 2

Creating the EBRD's DNA

1. Balancing the Governance of the New Institution

Against the odds and in record time for an international institution the EBRD had been established. This was the institution that would reach out to address the global challenge of a whole system that was disintegrating across a vast geographical area.

The challenge was global because the collapse of communist rule had immediate economic and social consequences, and was of a geopolitical relevance that spread far beyond the borders of its western European neighbours.

The response was also global. This was to be a bank whose shareholders stretched across five continents and whose owners included the countries it was created to support. It would have a unique business model that put a primary focus on the development of the private sector, while allowing for investment to flow to the public sector to help with immediate infrastructure demands and provide quality public services to improve the lives of millions across eastern Europe.

The EBRD would ultimately be designed to invest according to three criteria: i) it would support “transition”, the transformation to functioning market economies; ii) it would be “additional” by investing only when the private sector either would not or could not; and iii) its investments would be “bankable”, allowing it to make a profit and to continue investing on the basis of its income. It would also put a strong emphasis on environmental sustainability, a focus that would become even more significant in the EBRD's later years.

When the EBRD was being set up, Attali suggested it might take 20 years for the eastern European nations to catch up with their more prosperous

western neighbours. While many of these countries indeed made remarkable progress over the next 20 years, that timetable turned out to be optimistic.

In 1990, however, the immediate challenge was to make the Bank operational as soon as possible. The key to successfully addressing this challenge lay in forging compromise and consensus among its broad sweep of more than 40 disparate shareholders.

Translating the common interests of the EBRD's founding members into operational reality was, of course, not straightforward. The West was in principle capitalist, with institutions based on the rule of law, but differences of interpretation existed, for example over the extent and role of the state, or between common law and civil law. However, debate among the members led to effective compromise.

Indeed, the fact that the creation of the Bank and its rules of operation was not dominated by any one country or institution meant that the parties *had* to work together. While the EC held a majority and, acting in concert, could exert an effective veto, this was not the same as the power vested in the USA at the World Bank and Inter-American Development Bank, or in Japan at the ADB.

Many differences in approach existed between EC member states. As with Brussels' European committees, compromises among individual country positions had to be found throughout the process. This contributed to a greater balance of interests across a wide spectrum of views—something that continued throughout the EBRD's history and became a unique institutional strength.

Common positions also had to be forged between shareholder countries and the new management of the EBRD. As a public institution, ultimately funded by taxpayers, the Bank needed to be accountable to the senior officials representing the shareholder countries. These officials were the appointed Governors of the institution, most of whom were finance ministers or central bank governors.

This was a time of vocal civil-society criticism of existing IFIs. The Governors were therefore keen to ensure that the new institution would have adequate oversight to prevent risky or unjustified decisions. Other development banks at the time were geared towards development impact, such as poverty reduction and lower mortality rates. A development bank which aimed to invest in and do business with the private sector was thus a very unusual creature.

At the same time, the EBRD was designed by its creators to make an adequate return on capital, meaning that the shareholder countries expected to see profitable operations. Hence, it needed to operate in many ways similar to a private bank. The management wanted the new institution to embody a private-sector ethos, have maximum flexibility and make investment decisions based on the fast-changing needs of the market, rather than seeking formal approvals for each move.

This chapter details the ways in which compromise was sought and achieved.

2. Maintaining Momentum and Developing an Ambitious Agenda

In setting up the EBRD there were many aspects to consider, from office location, staffing and administrative arrangements to the organisational structure, business plans and financing of operations. Moreover, while agreement on the AEB had set the key parameters defining the Bank, there was still a need to agree by-laws, rules of procedure for the Board of Governors and Board of Directors, and staff regulations. Not only would these texts need to meet formal legal requirements, they would also have to cover sensitive issues such as salaries, retirement plans, and the expenses and tax arrangements of Board Directors, the costs of which would be borne by the Bank's administrative budget. Then there was a Headquarters Agreement to be negotiated with the UK authorities to cement the EBRD's status as an international organisation under the United Nations (UN) system. In short, there was a daunting set of tasks ahead before the EBRD could be formally inaugurated and its operations begin.

In one respect, however, the EBRD was fortunate. It was not the first IFI to face many of these tasks. While none on this scale had been created since the ADB¹ more than 20 years earlier, and none with a mandate like that of the EBRD, there was much to glean from the legal documentation surrounding these institutions, as well as from the practices that had evolved over time to support their operability. Good use was made of these materials in marshalling the relevant building blocks quickly.

¹ The ADB was inaugurated in 1966.

Creating a new IFI from scratch would present a major challenge, even for a President with a strong administrative and executive background. It was a particularly formidable task for Attali, an intellectual and adviser with no banking or managerial experience.

Undaunted, he approached the matter with characteristic energy and enthusiasm. He was particularly keen to ensure that the EBRD did not meekly slot in among the existing main multilateral players or become a means for the EC or Washington to pursue their own ends. He wanted the EBRD to push boundaries and develop an independent voice.

“I deliberately chose to make the European Bank [EBRD] a political as well as an economic institution, a spokesperson for the East, refusing to make it an annex of the Commission, as with the EIB, or of the World Bank as with the other regional development banks. I was aware that in doing so I would create an enemy a day.”²

The major shareholders agreed that the EBRD was indeed something new and different from its predecessors. A multilateral public-sector organisation, it was to focus primarily on private-sector development. It would use innovative financial instruments to achieve its transformative mission of helping the newly democratising countries of central and eastern Europe on the difficult reform path forward.

From the operational perspective, however, there was an enormous amount of work to be done, barely any staff to do it and more than 40 countries and institutions to manage in the process.

3. Early Preparations and a Transitional Team

One of the first tasks was ensuring that all members ratified the Treaty signed in May so that the EBRD could begin investing in its target countries. Potential members had to submit legal documents confirming that they had completed the steps required by their domestic legislation to give legal effect to the immunities and privileges of the Bank. Ratification required the submission of these so-called instruments of approval by signatories representing two-thirds of total subscriptions, including at least two countries from central and eastern Europe.

² Attali, *Europe(s)*, p. 82.

Since each tier of national government would be involved, it was clear that ratification would take time. This was reflected in the deadline of 31 March 1991 set in Article 62.

France was first off the mark, obtaining the necessary approvals in the National Assembly and the Senate by the end of June. After depositing the relevant instruments, it ratified before the summer break. The UK was next, meeting the requirements on 10 August, followed at the end of November with ratification by the two European institutions. Elsewhere progress was slow, but by the year-end nine members—including Germany, Bulgaria, Hungary and Romania—had ratified. Notably, it was a united Germany that had ratified, following the unification of East and West Germany on 3 October 1990. The USA made slower progress, partly because of a reluctance by Congress to countenance financial support for the Soviet Union.

At the same time, prospective shareholders were eager to finalise details concerning the governance of the institution, including a definition of the respective roles of the Board and management. This was a priority now the AEB had been signed. Everything had to be in place by the time of the EBRD's inauguration. Shareholders had also flagged the need for the Board of Directors to oversee the Bank's operational policies and procedures, including its structure and staffing.

Consideration of the principles guiding the Bank sought by shareholders did not stand in the way of Attali preparing the Bank for the start of its operations.

Under the AEB, the election of the President could only be made by the Board of Governors so formal confirmation of Attali's appointment had to wait until the Treaty was ratified. As President-designate, however, he began to assemble a small team. On 1 June 1990, he announced the appointment of Pierre Pissaloux³ from the Trésor as his Directeur du Cabinet and Sylvia Jay⁴ from the UK's Overseas Development Administration as Directeur du Cabinet Adjoint. Both had served as part of the Secretar-

3 Pissaloux, like Attali, was a *pied noir*, in his case born in Tunis (Attali was born in Algiers). He later became global head of MENA at HSBC private bank, manager of wealth management at Emirates NBD bank and founded Elyseum Capital Partners, based in Dubai.

4 After becoming director-general of the Food and Drink Federation of the UK, Lady Jay became chairman of L'Oreal UK, a director of Lazard Group and held director positions at Alcatel-Lucent and Saint-Gobain. She is currently High Sheriff of Oxford.

iat for the preparatory conferences. Pissaloux was the key point man for Attali,⁵ while Jay served as the main link on the political mandate and with the British authorities.

At this stage, the embryonic Bank was being financed by the French and British governments. The EIB had also agreed to extend an ECU 10 million start-up loan for recruitment, rent and other initial expenses. A small office at 28 Avenue Hoche in Paris was made available by the French government. In London, the Bank of England provided space for EBRD staff before arrangements for temporary offices at 6 Broadgate in the City of London were in place. The team was thus split between Paris and London for a while.

Despite the high-level legal requirements of some of the agreements with shareholders, a large part of the work to be carried out in the near term was practical and administrative. There was a need for staff of all kinds, financial and operational arrangements, further temporary office space (since staff numbers were expected to outgrow the premises at 6 Broadgate before long), and forging contacts with governments and enterprises in the recipient countries.

The core work was put in the hands of the capable small team that had been assembled. They were to prepare papers describing the way forward, go on missions to the region and draft legal documents, while Attali focused on broader strategic questions and relationships with key players in the region. The President-designate continued to reside in Paris and remained Mitterrand's economic adviser. However, he became increasingly involved in the work of the EBRD, especially in the recruitment of senior staff. He also made a series of trips to central and eastern Europe and the Soviet Union.

Attali visited Gorbachev in Moscow in September. According to John Flemming, who was present at the meeting: "[Attali] spoke of the role of the Bank of Europe as an institution of which the USSR was a member—the first realisation perhaps of Mr Gorbachev's idea of a joint common European 'house'." Attali also offered to help in the training of Soviet specialists. "This seemed to strike a chord," Flemming commented.

Discussing the scope for the EBRD to participate in joint ventures, the President-designate asked Gorbachev: "What kind of projects would cap-

5 He had wanted Anne Le Lorier, an official from the Trésor who had acted as secretary to the preparatory conferences, but she turned him down.

ture the popular imagination? A TGV link from the West to Moscow? A communication satellite?" The Soviet leadership's demands were apparently more modest, as Flemming's summary records:

The people had had their fill of grandiose schemes. What was needed was something to make the market mechanism, and its potential, intelligible to ordinary people, e.g. something to ensure regularity in the supply of meat. The area of distribution emerged as the most pressing..⁶

A little later, Attali toured Hungary, the CSFR and Poland to hold exploratory talks on the EBRD's role in helping eastern European countries make the transition from central planning to free-market economies. At a news conference in Budapest, he made clear that the job of bringing eastern Europe's economies up to the level of their western neighbours would require trillions of dollars in investment:

If we want to see all the countries of Eastern Europe, including the Soviet Union, reach the level of France or Germany, you have to invest 2,000 billion ECUs (2,700 billion dollars). This will give you an idea of the task that has to be undertaken.⁷

4. The Soviet Study

The first Post-Signature Conference of prospective members was scheduled for mid-July 1990, six weeks after the signing of the AEB. However, just ahead of this was the annual G7 Heads meeting, which would mark the EBRD-in-waiting's first appearance on the international stage alongside the IMF, the World Bank and the OECD.

Throughout the first half of 1990, concerns over the future of the Soviet Union had been mounting. Its economy was not yet in freefall, but it was deteriorating rapidly. Export and tax revenues were weakening, as was production. The budget deficit, already at an estimated 8 per cent of GDP, was in-

6 Preliminary minutes of the meeting on 19 September 1990 between the President of the USSR and the President-designate of the Bank of Europe (EBRD), recorded by John Flemming, 20 September 1990.

7 'Trillions seen needed for East Europe investment'. *Reuters News*, 9 October 1990, Budapest.

creasing, and deteriorating supplies of goods and a huge monetary overhang meant that only rigid price controls were holding back inflation. Moves to switch to payments in hard currency among the members of the Council for Mutual Economic Assistance (Comecon) were also beginning to take their toll. Gorbachev was in even greater need of financial assistance. At home he was facing challenges to his programme from both hard-liners and the new Russian president, Boris Yeltsin, who was advocating faster reform.

Under the US Presidency, the G7 Summit was scheduled for early July in Houston. Gorbachev had indicated earlier to Bush his need for financial support, first at their meeting on the Soviet cruise ship *Maxim Gorky* off Malta towards the end of 1989, and then in his US visit in May 1990. Despite his plea, the USA remained reluctant to provide finance, citing the need to see reforms first. Bush was cautious about the chances of comprehensive reform given the uncertain Soviet political and economic outlook. While his Secretary of State James Baker was moderately optimistic, Secretary of Defence Dick Cheney and Deputy National Security Adviser Bob Gates were more hawkish.⁸

Most other G7 members were equally wary, not least as they perceived little clarity on how funds would be spent in delivering reform.⁹ Like the USA, Japan and the UK were not prepared to go beyond technical assistance and pre-existing bilateral programmes for the Soviet Union. The EBRD was not in a position to offer funding, not only because it was not yet operational but also because of the restrictions that had been placed on lending to the USSR. Significant financial aid was therefore not forthcoming. Instead, the G7 decided to commission a study of the Soviet Union to assess its reform needs and make recommendations, including criteria for economic assistance in support of reform.¹⁰

The remit was handed to the IMF, in conjunction with the World Bank, the OECD and the EBRD. Being asked to be involved was a feather in the cap

8 Bush and Scowcroft, *A World Transformed*, p. 44, p. 154.

9 Kohl had offered to help Gorbachev (although specific amounts were not forthcoming until the following year), and Mitterrand was also urging colleagues to stump up large sums, without success. See Bush and Scowcroft, *A World Transformed*, p. 270; M. R. Beschloss and S. Talbott, *At the Highest Levels: The Inside Story of the End of the Cold War*, Little Brown, 1994, p. 188, pp. 236–238; and W. Taubman, *Gorbachev: His Life and Times*, Simon & Schuster, 2017, pp. 569–570.

10 Asked at a press conference following the Houston Summit whether the study was a way of delaying a political decision on aid, Bush replied: "... it's not an effort to forestall anything, it's an effort to move forward ... and be helpful to the Soviet Union in terms of reform." 11 July 1990, G7/8 Summits, Munk School, University of Toronto.

of a new institution that had not even formally come into being. At the time, however, the Bank did not have the internal resources to cope with the task.¹¹

Attali therefore recruited a team of external specialists, starting with Jean-Paul Fitoussi, a long-time friend and professor of economics at Sciences Po in Paris, and Philippe Aghion, back in Paris after a stint at the Massachusetts Institute of Technology (MIT) as assistant professor of economics. Fitoussi had been working closely with US economist Edmund Phelps on unemployment issues and brought him into the fold, along with Nobel laureate Kenneth Arrow from Stanford.¹²

As well as a team of economists, the head of each organisation involved in the Soviet Union study was asked to appoint a personal representative to manage the coordination process. Attali's first choice, Larry Summers, was about to take over as chief economist at the World Bank and was not interested.

Attali next turned to John Flemming, at the time the chief economist at the Bank of England, who was on holiday in the Pyrenees by the time Attali contacted him towards the end of July. After a series of messages left at a local post office, Flemming agreed to take on the role. The Bank of England was already providing administrative help to set up the EBRD and, as a guardian of the UK financial system, had an interest in ensuring the new Bank was a success.

The EBRD subsequently hired more consultants, including Paul Hare of Heriot-Watt University and Jacques Le Cacheux, an economist at the Observatoire Français des Conjectures Économiques and Sciences Po, as well as drawing on members of the expanding transitional team. The Bank was asked to lead the sectoral work, covering transportation, telecommunications, distribution and mining. In addition, the group led on the role of economic information and market behaviour and, with the OECD, foreign direct investment. A small team involving Hare was also associated with the World Bank's work on price reform, market structures, privatisation, decentralisation and financial markets.

11 A lack of staff did not prevent Attali from pushing for a more prominent role at the first coordination meeting of the four heads of institutions. His suggestion that the EBRD lead the study resulted in a clash with Michel Camdessus, the Managing Director of the IMF.

12 Arrow received his Nobel Prize (with John Hicks) for contributions to general equilibrium economics and welfare theory in 1972. Edmund Phelps would also receive a Nobel Prize in 2006 for his analysis of intertemporal trade-offs in macroeconomic policy.

The Soviet Study was substantial. It took up three volumes, amounting to well over 1,000 pages in total. The authors delved as deeply as they could into the state of the Soviet economy, travelling to Moscow to meet representatives of institutions including Gosplan, Gosbank, the ministry of finance, Vnesheconombank (Bank for Foreign Economic Affairs) and many others.

Phelps described the trip as “a wonderful experience”.

Our signature ... was the assortment of beat-up taxis from which six or seven of us would spill out in front of the ministry we were visiting, in the style of the old circus shtick, while the more venerable international agencies favoured their black limousines.¹³

He was also inspired by the “energy and zeal” of reformist Soviet policy-makers:

After you have met some of them you cannot but help feel confident—maybe unreasonably—that the drive for individual liberty and free markets is quite strong in Russia.

The study provided a comprehensive picture of the dire state of the Soviet system and concluded by noting the enormous challenge facing the authorities, including a need to decide on a division of responsibilities between the Union and the republics and the expectation that output and employment would fall as adjustment towards a market economy progressed. The four institutions urged the authorities to pursue a rapid path towards comprehensive price and trade liberalisation and to tackle the rapidly increasing general government deficit. The study described the need for the absorption of excess money holdings and, in the short run, for an incomes policy and social safety net. It advised unification of the exchange rate for current account transactions within a year. Establishment of private-ownership rights and elimination of controls was advocated along with the privatisation of smaller firms. For larger state-owned enterprises, commercialisation was seen as the first step, to be accompanied by the imposition of hard budget constraints.

13 E.S. Phelps, *A Life in Economics*, Columbia Education Press, 1993. Phelps and Arrow's assessment was subsequently published as 'Proposed reforms of the economic system of information and decision in the USSR: Commentary and Advice', *Rivista di Politica Economica*, 81, November 1991.

The Soviet Study did not put a figure on the appropriate degree of financial support for the reform process or what the West should provide, but recommended that funding should focus on technical assistance, along with some humanitarian aid. On the macro side, balance-of-payments finance was seen as useful, but only once “a comprehensive program of systemic reforms has begun to be implemented”.¹⁴ Some of the detailed analysis provided by the EBRD team, for example on sectoral needs, price signals and privatisation, was to provide a useful basis for operational considerations at a later stage.

The study was submitted to the G7 in early December and was well received. In its first task the EBRD had demonstrated that the organisation was up to the standards of leading global institutions and a significant player, intellectually at least, in the business of transition. The academic economists who had worked with the EBRD were to play a role in the Economics Advisory Committee which was set up shortly before the Bank’s inauguration in 1991, helping to build its image as a thought leader on transition matters.

5. Deciding the Organisational Structure

One of the priorities ahead of the first Post-Signature Conference was the development of an organisational structure for the Bank. Emerging ideas were reflected in a draft paper of 23 June, which described the organisation and its context for members attending the conference. The aim was to decide on a structure that would best support the needs of the Bank’s countries of operations and build linkages with investors interested in exploring opportunities in the new markets of the East, while at the same time developing an internal culture focused on transition and sound banking.

The paper noted the organisational implications of the fast-changing and unpredictable region in which the Bank would be operating: “a special character [of the] institution [will be] that [it] will have to adapt permanently to change” in order to “play a leading role in helping to establish the salient features of a market economy as well as changes in attitudes and institution building”.

The need for a compact, unbureaucratic and flexible institution was emphasised. To support this, an adequate degree of delegation of authority was recommended, including from the Board.

¹⁴ ‘A Study of the Soviet Economy’, IMF et al., 1991, p.2.

Management should have the authority to approve investments and loans up to a certain financial threshold provided that the Board of Directors is informed of all agreements ... in order to ensure flexibility, efficiency and, where necessary, speed in Bank operations.

Emphasis was also laid on the catalytic role that the EBRD was expected to play by focusing on the private sector and putting less emphasis on sovereign-guaranteed lending to the state and other public institutions. This would mean mobilising domestic and foreign capital, as well as supplying management experience to a region that was sorely lacking such skills. The paper's authors also highlighted the need to develop well-functioning capital markets in the Bank's countries of operations and to provide advice on financial restructuring, privatisation, project preparation and policy frameworks affecting the private sector.

Within this context, the EBRD was expected to operate largely on a private-sector basis, supported by high-quality staff drawn from that sector. In order to attract top talent, the Bank introduced incentive systems similar to those used by investment banks and venture capital firms, including bonuses geared towards results. This was an innovative model and one which was more or less unheard of in the public sector at the time.

The suggested organisational structure, as depicted in a draft EBRD organigram, was nonetheless broadly conventional for a regional development bank. The main exception was the proposal for two Vice Presidents in the operational area. The Vice President in charge of Project Lending and Programmes was expected to formulate lending policy, develop country programmes, prepare economic and sector work, and oversee project lending. The Vice President for Corporate Finance, Privatisation and Investments was to be in charge of equity financing (including joint ventures), investments in state-owned companies slated for privatisation, and the provision of advice on financial techniques, especially restructuring and privatisation.

This division of areas of responsibility reflected the dual nature of the EBRD's remit. As well as private-sector investments, the Bank was permitted to make infrastructure and energy sector loans to public entities under the agreed 40:60 public-to-private ratio. As the Soviet Study had indicated, investment in basic infrastructure—including power, transport and telecommunications systems—was urgently needed to support the creation of a functioning private sector in the EBRD's countries of operations.

Such activities would require a high degree of interaction with the authorities on policy and regulatory issues, and would therefore be largely country-led. They would also involve relatively large sums of money and the use of sovereign guarantees where these were justified. Attali wanted a department that dealt with this area to sit alongside an investment banking unit covering the private sector, restructuring and privatisation.

Attali was also keen to separate the lending and equity investment functions of the Bank. He expected finance for public-sector projects to be predominantly sovereign and debt-based, whereas by contrast the private sector would involve equity as well as debt. Equity was also seen as a more complex product requiring specialist commercial expertise, particularly in relation to privatisations, while treating it separately from debt provided room (at least in theory) to avoid potential conflicts of interest.

A key reason for Attali's insistence on two Vice Presidents in Operations was political. During the establishment of the Bank, he had to accept a US citizen as his second-in-command. By creating a second Vice Presidency, and ensuring it was filled by a European, he hoped to limit US influence within the organisation.¹⁵

A wide range of skills was certainly needed to cover the broad variety of activities the EBRD planned to undertake. Furthermore, with programme lending to governments prohibited by shareholders, the focus was inevitably on bespoke deals in specific sectors, which placed more emphasis on the investment banking side. Sector knowledge was therefore essential.

At the top of this structure sat the Executive Committee, involving all senior management.¹⁶ Its remit was clear: to deal with policy and institutional issues, plans and budgets, as well as be the final arbiter of difficult investment decisions. However, the responsibilities of the two other senior committees that were initially proposed, each chaired by the respective banking Vice President, were less well-defined. An Investment Committee, chaired by the Vice President Corporate Finance, had the task of deciding new investments and policy on equity participations, while a Lending Committee, chaired by the Vice President for Project Lending, was to be the forum for lending policy and operations. The overlap between the

¹⁵ Attali, *Europe(s)*, p. 86.

¹⁶ Attali's control of the organisation was nonetheless maintained effectively through his 'cabinet', especially via Pissaloux. A number of counsellors were also hired to advise the President on political matters and were managed by Jay.

two committees' responsibilities for the operational work of the Bank created confusion.

To add to the confusion, separate working groups were proposed to deal with the preparation of country assistance strategies, which would then be examined by one of the three committees depending on their relevance.

An attempt to marry two radically different cultures—development finance and investment banking—was never going to be straightforward. Many staff had worked at the World Bank, an institution known at the time for its bureaucratic procedures, while others had cut their teeth in deal-driven investment banks.

More positively, having analysed the experience of other development banks (particularly the IFC) and several large corporations, the EBRD's management foresaw clearly from the outset that a local presence would be essential to the success of the Bank. They recommended the establishment of branch offices in order to create efficient and effective ways of identifying investment opportunities and working closely with recipient countries in an advisory capacity.

The early organisational structure of the EBRD also envisaged the creation of a Business Advisory Panel, to be chaired by the President, which was expected to meet three times a year.¹⁷ The aim was to bring together the chief executives of some 15 major industrial and banking firms to help the EBRD develop close relations with western investors interested in the markets opening up in central and eastern Europe. This could help the Bank learn about the pitfalls of investing in the region, as well as provide opportunities for co-investment and other forms of support, such as trade finance.

6. Efforts on High-Level Appointments

In the run-up to the first Post-Signature Conference in July, prospective members were naturally expecting to hear about progress in attracting senior staff. The US administration had proposed Ernie Stern¹⁸, a Senior Vice

¹⁷ A parallel Economic Advisory Panel was established later. This comprised a number of leading academic economists and aimed to meet twice a year to discuss major topics of interest facing the transition economies. It spawned *Economics of Transition*, an academic journal co-managed by the EBRD's Office of the Chief Economist, but with an independent editorial board.

¹⁸ This was first put forward by Bush at a bilateral meeting with Mitterrand in Key Largo on 19 April, 1990. Attali, *Europe(s)*, p. 75.

President at the World Bank, for the number two position, which had been relabelled as the Vice President for Country Programmes and Lending. From July of that year, he began advising the EBRD from Washington DC while still at the World Bank.

As head of operations, Stern had effectively been number two at the World Bank for seven years before moving to the finance division in 1987. He was therefore ideally suited to help prepare operational and budget plans and financial projections for the EBRD, as well as to suggest knowledgeable consultants to do the hard graft. His involvement underlined the EBRD's status as a serious newcomer to the multilateral fold. Attali announced to members at the July Conference that an American would be the first of five Vice Presidents, although his intention to appoint Stern was not mentioned formally until the autumn.

Stern's credentials placed him firmly on the development side of operations. To complete the picture, a senior banker—or, in the City parlance of the time, a merchant banker—was required. Attali wanted a European to fill the role, “an Italian if possible”.¹⁹ Giulio Andreotti, the Italian Prime Minister, recommended Giuseppe Garofano. As president of Montedison and managing director of the Italian food and chemicals conglomerate Ferruzzi, Garofano was an industrialist rather than a banker. Nonetheless, Attali was keen to sign him up, impressed by his role in taking control of Enimont, a joint venture between Ferruzzi-Montedison and ENI, the Italian state energy company. Garofano did not take the job, however, and the position remained vacant for another year.²⁰

7. The First Post-Signature Conference

Procedural issues were still being discussed as large delegations representing each of the EBRD's 42 prospective shareholders gathered for the Bank's first conference after the signing of the AEB. Many details still had to be thrashed out on diverse topics, ranging from the establishment of branch offices and arrangements for committee meetings to conditions of service for Governors and Directors and senior management. One key outstand-

¹⁹ Ibid., p. 86.

²⁰ Garofano became embroiled in the ‘Mani Puliti’ affair.

ing element was the balance of responsibility between management and shareholders, whose interests would be represented by a London-based resident board.

The initial plans drawn up by the transitional team described fairly accurately the broad outlines under which the Bank subsequently operated. At the first Post-Signature Conference, however, concerns arose not only about Attali's style but also more importantly about the balance of power between the Bank's management and the Board of Directors who would represent the shareholders. The plans met with a hostile reception.

Attali turned up an hour late for this first meeting in London, keeping delegates waiting at the Queen Elizabeth II Centre next to Parliament Square. A lengthy speech focusing on how he intended to run the organisation raised the spectre of a presidential administration that would leave little scope for the Board to exert any influence.

A certain unease about how the EBRD was developing was reflected in a number of media reports at the time.

A report in *The Economist* magazine (28 July 1990) said:

...it is more than just the Attali style that bothered some of the people at the London meeting. They worry about what they see as his grab for power: too much of it for himself as president, too little for the board of directors. True, the bank's constitution ensures that any loans have to be approved by the board. But within such constraints, say the worriers, Mr Attali seems to want to make the bank as 'presidential' as possible; they see a risk of creating a monster that will be hard to control.

The US delegation was also irked that no precedence seemed to have been accorded to the American second-in-command.

On 30 July, a Reuters report²¹ quoted US officials as saying Attali was being urged to revise his proposals to centralise power within the Presidency and set up an extensive branch network. Unless those changes were made, they said the Bush administration could have trouble winning congressional approval for US participation in the US\$ 13 billion bank.

There remained discernible differences in expectations over how the Bank should be run. Most members had assumed that the EBRD would follow the

21 'U.S. seeks changes in East European Bank', *Reuters News*, 30 July 1990.

standard regional development model. In this set-up, a group of Vice Presidents from a range of (mostly major) countries would effectively run the key parts of the organisation—operations, policies and finance—and would report to the Board of Directors via the President. All policies, projects and major decisions would be discussed and signed off by the Board. When Attali's remarks suggested a different set-up, some shareholders saw in it a rejection of the established approach and a ploy to grab power by centralising control.

Three main areas of contention arose in the ensuing discussions: the use and extent of presidential powers; the proposed creation of resident offices; and the extent to which a resident Board was needed during the first phase and subsequently.

On the first issue, several shareholders felt the draft proposals²² placed too much power in the hands of the President.²³

A proposal to open branches of the EBRD in each borrowing country also proved controversial. Some delegates were wary of the potential cost of the initiative, given that seconding headquarters staff typically required generous allowances on top of already high salaries. There were also concerns that local offices would be able to agree financing with less oversight. The critics wanted to see a concrete, costed business plan before agreeing to the proposal.²⁴

On the question of the resident board, US officials especially rejected any suggestion that it was not needed or that its creation could be put off for two years until the EBRD was properly up and running.

After turning up late for his own conference, Attali left shortly after the lunch break, a move not necessarily designed to bring the shareholders around to his way of thinking. Many delegates were less than happy. Nonetheless, in his absence during the rest of the meeting some progress was made, helped by effective management by a team led by Anne Le Lorient, the high-ranking official from the French Trésor, which formed the secretariat to the conference. This included a redressing of the balance in favour of the Board Directors.

22 In particular, there had been concerns over Section 8(b) of the By-Laws where an early draft had proposed: "The President shall have full authority to take all steps as may in his or her opinion be necessary or expedient for the efficient conduct of the business of the Bank." This subsequently became: "The President shall conduct, under the direction of the Board of Directors, the current business of the Bank. The Board of Directors shall establish conditions ... pursuant to which the President may submit various types of matters to it for consideration under an expedited procedure." By-Laws of the EBRD, Section 8(b).

23 *Institutional Investor*, September 1990.

24 *Financial Times*, 30 July, 1990.

8. Between Conferences: Gearing Up

The summer break allowed time to reassess the situation ahead of the next conference, which had been scheduled for October, and to renew efforts to put in place the building blocks for the EBRD to function effectively. Following a call to the EBRD's members for recommendations on potential recruits, the Bank's staff grew with progress made in the appointment of bankers and experts. Officials from Ireland and the UK provided personnel and administration support, while Guy de Selliers,²⁵ a Belgian banker from Lehman Brothers with earlier World Bank experience in metals and mining, led the banking side. He was soon joined by Thierry Baudon,²⁶ an infrastructure specialist from the World Bank, among others. Legal advice was provided by Dick Goodman, a senior counsel at the US Treasury, and externally by Adrian Montague²⁷ from Linklaters & Paines. The bankers were initially based in Paris while the London staff focused primarily on administrative aspects, including recruitment. They were helped by the accelerating availability of commercial bankers in the City as the UK economy entered recession. In August, the transitional team transferred fully to premises at 6 Broadgate. By the end of October, the team had grown to around 45 from less than 20 in July.

Two more Vice Presidents were lined up. Anders Ljungh, a Swedish banker at Svenska Handelsbanken, was put in charge of Finance. A little later the services of Miklos Nemeth, the former Hungarian prime minister who had played a pivotal role in the previous year's momentous events, were secured. Nemeth took charge of Administration, but the appointment was more significant than the title suggested. Not only did he represent a recipient country, becoming one of the first senior officials from the former Communist Bloc to hold a senior position in an IFI, but he also subsequently played an important role in opening doors for the EBRD in its countries of operations. Bart le Blanc, a Dutch former civil servant who had moved to the private sector as deputy chairman of F. van Lan-

25 Guy de Selliers de Moranville became a board member of Robert Fleming & Co, director of Ivanhoe Mines and president of corporate advisory firm HCF International Advisers.

26 Baudon became founder and chairman of Mid Europa, a private equity company specialising in central and eastern Europe.

27 Sir Adrian Montague became chief executive of the PFI Taskforce, chairman of British Energy and chairman of Aviva.

shot Bankiers, also joined. He would later become the Bank's first Secretary General. It was not until December that the Bank's first General Counsel, Andre Newburg, a New York attorney at Cleary, Gottlieb, Steen and Hamilton joined the Bank. Newburg, a German émigré from Berlin who had arrived in the US in 1939, was fluent in Russian, German, Dutch, French and English.

During this period thoughts turned to the image of the EBRD. A competition was launched to design a logo for the new organisation. Designers from the Bank's member states were invited to submit ideas on how best to visually depict the new institution. The judging panel included the Irish President Mary Robinson, CSFR President Havel, and Karl Otto Pöhl, President of the Bundesbank. The competition was won by a New Zealand designer, Bret de Their, whose symbol of two interlocking white flamingo-like shapes²⁸ against a blue background, one reflected by the other, symbolises the EBRD's role in bringing together West and East.

The search for a permanent headquarters building also got underway, with property consultants Frank Knight and Rutley winning a competitive tender to conduct the process and handle negotiations. The UK authorities wanted the EBRD to locate in Canary Wharf, a rundown former docklands area that had been redeveloped, but which had sunk into the doldrums with the downturn in activity in the financial sector. Attali had very different ideas. His first preference was Grand Buildings in Trafalgar Square, close to Parliament and the West End, but the deal fell through.

A number of other sites, including Billingsgate and the Midland Bank premises in Poultry, were considered before the final choice of One Exchange Square, where the Bank remains today.²⁹

With the lease on 6 Broadgate due to run out towards the end of the year, another temporary location was sought. The EBRD moved to 122 Leadenhall Street in February 1991, sharing a building leased from stockbrokers Phillips and Drew (later part of UBS). It was here that the first Board meetings took place.

²⁸ In some versions, thin metallic scythe-like shapes would be an alternative description.

²⁹ In May 2019, the EBRD announced plans to relocate to Canary Wharf in 2022.

9. Developing a Business Plan and Operational Policies

As the team settled into the London offices, significant progress was made behind the scenes on more technical matters. In September, however, Attali again ruffled feathers at the IMF/World Bank Annual Meetings in Washington.

There was a long-standing convention that observers other than the European Commission were not admitted to IMF ministerial meetings. However, in what appears to have been a breach of protocol, Attali used his attendance as a member of the French delegation to present the outlines of the EBRD to a broad international audience and to promote the new institution he would ultimately lead. To make things worse he made continual reference to the “Bank of Europe” and “European Bank” rather than the EBRD.³⁰ This particularly annoyed the Germans, especially Bundesbank President Pöhl, who was concerned it would cause confusion with the soon-to-be-created ECB.

In an article from Washington entitled “Controversy over ‘Bank of Europe’ name”, British newspaper *The Independent* wrote:

Welcoming Jacques Attali, the new bank’s president, to the British Embassy party, the UK Chancellor [of the Exchequer John Major] referred to the institution as “the European Bank”. Perhaps he was merely shortening a cumbersome name, but it may be remembered that Theo Waigel, the German finance minister, and Karl Otto Pöhl, the Bundesbank president, were highly critical of Mr Attali’s attempt to rename his bank. They fear it would come to be confused with Eurofed—the European central bank—which the Germans want located in Frankfurt. Whatever the Chancellor’s motives, Mr Attali won’t mind. He has instructed all his staff to answer their phones saying: “Bank of Europe”.³¹

Despite these hiccups, the team at the EBRD pressed ahead with decisions on several substantive issues. Stern, as a First Vice President in-waiting, became increasingly engaged in discussions, feeding in ideas from Washington and helping to steer positions on a wide range of operational areas. With his input, papers were drawn up for the October conference covering,

³⁰ Internal EBRD document, ‘Annual Meeting News’, September 1990.

³¹ *The Independent*, 1 October, 1990.

among other things, a business plan and possible EBRD activities, financial projections, initial policy guidelines for treasury activities and operations, and documents on compensation, benefits and information systems. Work was also undertaken on negotiations for a Headquarters Agreement, covering areas including tax and residency status for Directors and staff.

The proposed business plan³² was ambitious. It began by noting the EBRD's aim of playing a leading role in the region to establish market-oriented economies and their integration into the international community. This was to be achieved by promoting a competitive private sector, especially through small and medium-sized enterprises (SMEs) and privatisations, as well as by facilitating a sound business climate, strengthened institutions and effective financial regulation.

In order to achieve this, the Bank would use “all the tools of modern finance”, including equity and hybrid instruments as well as loans. It would also seek to develop a “unique niche” in its products and approach, and avoid duplication of efforts with other market players. Above all, an acknowledged need to be responsive to changes in the marketplace fitted well with the hope for the EBRD to become “a small, flexible, agile institution”.

The business plan noted the challenges ahead, particularly the severe contraction likely to arise in former communist countries from stabilisation efforts and the closure of inefficient enterprises, the limited absorption capacity of corporates in the face of weak legal and accounting systems and inadequate financial intermediaries, the dearth of equity finance, non-existent capital markets and heavy external indebtedness. The tiny size of the private sector in central and eastern Europe—it was estimated that only 5 per cent of industrial value added in Poland was produced in the private sector, accounting for 2.5 per cent of the workforce—also drew attention to the time it would take to build up Bank business, especially given the requirement that at least 60 per cent of activity should be in the private sector. The paper's authors warned: “Progress is likely to be slow and jerky.”

On the other hand, they noted the Bank's “comparative advantage relative to other multilateral institutions [and] private sector lenders and investors”. It could respond quickly to market demand with tailored financial instruments to support growth. There were technical skills and entrepre-

32 Progress Report on Developing the Business Plan, staff paper for the Second Post-Signature Conference, 3 September 1990.

neurial potential in the region to draw on and, in the right environment, plenty of investment opportunities. Unlike the World Bank or IFC, the EBRD was well-positioned to act as both adviser and investor. It possessed sector expertise and would soon have strong and reliable country knowledge. As compared with private-sector investors, the Bank could take a longer-term perspective and, with its strong capital base and backing from the most advanced economies in the world, it could take on greater risk. Its preferred-creditor status and close links to relevant authorities were expected to increase investors' confidence in working alongside the Bank.³³

The economic soundness of investments, and profit in the corporate sector in particular, was cited as a primary criterion for operations. The principle of sound banking, voiced for the first time here in the operational context, has remained one of the three key principles of the EBRD to this day. In terms of activities that the Bank was expected to undertake, infrastructure development, environmental rehabilitation, joint ventures, privatisation, venture capital and capital markets development were highlighted. Separately from investing in equity on its own account, the EBRD could also play a role as an advisor to private investors during privatisations of state-owned enterprises.

The institutional culture was regarded as an important factor in setting the tone for the EBRD. Management wanted the Bank not only to be sensitive to the broader, political nature of its mission but also to adopt a client-driven, flexible and responsive approach. A leading idea was to help bring foreign capital and expertise into the region by leveraging the Bank's unique characteristics and to combine this with a strong local presence based in regional offices. To do this effectively, the EBRD would be required to speak the same "banking language" as its partners, placing an emphasis on sector knowledge and expertise in the use of financial instruments and financial engineering.

Although a formal risk department had not yet been suggested, the high risks associated with the region were clear, necessitating close risk assessment of proposed investments. The legacy of state-run systems meant that most enterprises in central and eastern Europe were in poor financial

33 Preferred-creditor status means that the Bank is excluded from sovereign debt reschedulings where the borrower's inability to service their debt is due to a general foreign exchange shortage in their country. These legal privileges are also extended to other banks participating in EBRD loans, incentivising local investors to co-finance projects.

shape and needed substantial reorganisation before they could become viable banking propositions. Legal systems underpinning private-sector activity were also weak and capital markets rudimentary or non-existent.

The value of working with financial intermediaries, particularly to reach a wide range of smaller businesses quickly, was noted but there were some concerns. While acknowledging the efficiency of channelling funds through domestic financial intermediaries, significant dangers could be associated with lending to weak institutions in a distorted financial system.

As well as seeking investment opportunities and working with countries to establish a suitable policy framework to foster the growth of the private sector, the priorities identified included developing a well-functioning financial infrastructure, integrating central and eastern Europe and the Soviet Union into the world economy, supporting interregional initiatives related to transportation, telecommunications and environmental clean-up projects, and transferring resources from the military to civilian sector. An important emphasis was placed especially on urban renewal and improving the level of services in order to have an immediate impact on people's lives.

It was acknowledged that, in the first phase, reliance on co-financing opportunities with the World Bank and IFC would likely be necessary while an independent project pipeline was being built up, and that this might put pressure on meeting the private-public sector ratio within the required timeframe.

Overall, the Bank foresaw business volume of ECU $1\frac{1}{2}$ – $2\frac{1}{4}$ billion in its first two years of operations. Noting that this looked modest, especially in relation to the enormous needs of the region, the authors cited multiplier effects from co-financing and stimulatory impacts on local economies and supply chains. Using a multiplier of six, an estimated project value of ECU 9–14 billion was obtained.

A further paper for the October conference set out the operational challenges and priorities in more detail. This depicted the practical realities facing the Bank in starting up operations and made clear to delegates the magnitude of the tasks ahead. Meanwhile, a paper on operational policies³⁴ elaborated the criteria for Bank financing. Within an overall framework of country strategies and prudent risk management, all types of projects were

34 A more complete version of the Bank's Operations Policies, based on discussions with members, was circulated on 15 March, 1991 ahead of the first shadow Board meeting.

contemplated and in any sector. However, financing was not to be provided where participation would crowd out other investors or lenders willing to provide financing on suitable terms and conditions and at the same standards of quality. This was the additionality principle, the second key tenet of EBRD operations. The third tenet, “transition impact”, was not adopted until much later.

Local costs of projects were assumed to be met by clients and profit potential was expected to be commensurate with the inherent risk. It was made clear that the EBRD would carry out a full economic and financial analysis of projects (including alternative designs and management or organisational needs), as well as assessments of their environmental impact. Procurement of goods and services financed by the Bank were to be on an arm’s-length basis and subject (in general) to competitive bidding, open to both members and non-members of the Bank so as to achieve efficiency and value for money. The importance of monitoring projects was noted, as was their later evaluation, and loan agreements were expected to stipulate that borrowers should prepare an evaluation within a reasonable period. Projects designed to optimise balance sheets, support management reorganisations and seek board representation in equity cases were considered positively, as were recycling of equity funds and selling participations in loans.

Encouragement was given to co-financing as a means of providing additional sources of finance for clients as well as reducing the EBRD’s exposure to obligors. Mobilisation of finance through the use of guarantees was also envisaged. In short, the paper provided prospective members with a comprehensive look at how the Bank intended to execute its operational activities once given the green light to do so.

In their preparations, the transitional team had drawn on long-established arrangements in other international financial institutions, especially the World Bank, ADB and IFC. There had been good collaboration with other international institutions, especially the EIB, Commission and the Nordic Investment Bank (NIB). The more novel aspects in the EBRD’s version of activities concerned the private-sector focus³⁵ and the desire to operate as a fast and responsive client-oriented institution.

35 In this respect the EBRD was most like the IFC, something a number of shareholders had been keen to emulate when discussing the origin of the Bank. The EBRD, however, had a regional focus rather than a global reach and a very specific mandate.

10. The Second Post-Signature Conference

The second Post-Signature Conference took place in late October 1990 at Lancaster House, an impressive venue close to St James's Palace. The UK overseas development minister, Lynda Chalker, opened the proceedings.

The main thrust of the EBRD's approach papers, along with the texts of the four draft regulations—the By-Laws, rules of procedure for the Board of Governors and Board of Directors, and the staff regulations—were broadly agreed by members. Some tension remained over the business plan. The USA was adamant that negotiations on potential projects should not take place until the Board had endorsed the operational approach. Many other members focused on the terms and conditions of service of Directors, their alternates and staff.

Attali announced to the conference that he had offered Stern the position of First Vice President in charge of Country Programmes. However, by the end of the year, Stern had turned the offer down. According to the *Financial Times*: “No reasons were given for his decision not to accept Mr Attali's job offer.”³⁶

No replacement had been found for Garofano, so the decision by Stern to turn down the other Vice President position meant the search for operational leadership became an urgent issue. Fortunately Mario Sarcinelli, the head of the Italian Tesoro, who had been involved in the original conference meetings, was willing to take on a vice presidency role. Sarcinelli's background as a finance ministry official was best suited to the development side, so he was appointed Vice President of Country Programmes. This meant Attali would have to find an American to head Merchant Banking to meet the requirements for a US “number two”.

The leadership gap in Merchant Banking continued to be filled by de Selliers, who was making good progress in recruiting bankers to build up that department. Despite the involvement of executive search firms, the role of First Vice President was not filled until the appointment of Ron Freeman from Salomon Brothers in the summer of 1991.

³⁶ ‘World Bank executive turns down EBRD’, *Financial Times*, 6 December, 1990.

11. Tying Things Up: The Final Post-Signature Conference and Shadow Board Meetings

By the turn of the year the EBRD's inauguration, now set for April, was looming and concluding the ratification process became a matter of urgency. Barely one-quarter of prospective members had completed the formalities by the time of the final Post-Signature Conference held at Lancaster House between 28 and 30 January 1991, where a further call for action was made. Delegates considered the substantive agenda for the first Board of Directors meeting, to be held after the inaugural ceremony, which would cover the action programme, technical assistance, operational and financial policies, the Bank's policies on human rights and the environment, its organisation, the Headquarters Agreement, and personnel issues such as housing allowances.

At this conference, members ruled that the Board would decide the EBRD's borrowing transactions in the start-up phase and emphasised the importance of evaluation, suggesting the establishment of an independent in-house capability to serve this function. Remaining details were concluded without much difficulty, although there was general pressure to hold back on negotiations with potential borrowers until the various policies, including individual country strategies, had been approved. The principal concern was over possible duplication of efforts with the World Bank—although this mainly related to policy advice rather than project operations—and private investors. There was a residual desire on the part of members to ensure a strong role for the Board of Directors and cost-efficiency in the establishment of field offices. Here management had provided a more detailed explanation of what was intended and offered reassurance that each case would be presented to the Board on its merits.

A report by McKinsey on the organisational structure, commissioned by the EBRD following the previous conference, was also presented. This simplified and clarified the earlier structure, particularly with regard to the two operational vice presidencies. The renamed Merchant Banking Vice Presidency was geared towards dealing with the bulk of operations, while the focus of the Country Programmes—now called Development Banking—Vice Presidency was to be country strategies, reform and the enhancement of public infrastructure and operations support, including the administration of technical assistance.

The number of internal committees was reduced to two: the Executive Committee, comprising the heads of departments, which would manage the EBRD as a whole; and an Operations Committee (OpsCom) responsible for country strategy execution and project management.

A shadow Board of Directors meeting was held on 25–26 March 1991 to sign off on the 14 Resolutions to be put to Governors at the Inaugural Meeting, as well as on the final drafts of the rules of procedure of the Board of Directors and staff regulations. The group was informed that more than two-thirds of members would have ratified the Agreement by the end of March. In addition, three members—the Republic of Korea, Malta and Romania—wanted to increase their shares, and Brazil, India and Venezuela had applied to become members of the Bank. (India in fact only joined the EBRD as a non-recipient member many years later—in 2018. Brazil and Venezuela never joined the Bank.)

Albania also expressed interest in membership and its representatives were invited to attend the Inaugural Meeting as guests of the Bank. Finally, it was announced that External Affairs would no longer be a separate vice presidency, but Evaluation would become a vice presidency.³⁷

12. The Bank's Inauguration

The EBRD's inauguration was set for 15 April 1991, marking the successful launch of this brand new institution after months of sometimes painstaking preparation and the challenge of forging a common goal for more than 40 shareholders with sometimes very diverse views.

Crucially, it had brought the countries of eastern Europe into the international community, not only by reaching out to them with financial support but also by making them shareholders in the Bank that had been created to serve their interests.

It was all the more important now that the EBRD was moving towards its operational phase. West and East Germany had reunited, but the Soviet Union was on the brink of disintegration. An institution designed to bring former communist countries and western democracies together was

37 Dr Manfred Abelein, the chosen candidate for External Affairs, became Vice President in charge of Evaluation while External Affairs was effectively absorbed into the President's Office.

urgently needed. Finance and expertise was required to help drive through the economic reforms in eastern European countries that would underpin their path towards democracy.

The political and international importance of the endeavour was reflected in the high-level turnout for the 15 April inauguration. At the opening ceremony at the International Maritime Organisation (IMO),³⁸ UK Prime Minister John Major stood on the podium alongside Mitterrand and Attali, in front of more than two dozen heads of state and finance ministers. Also present were a large number of City grandees, international financiers including Salomon Brothers chief executive John Gutfreund, industrialists such as Gianni Agnelli of Fiat, several heads of IFIs—in particular the IMF's managing director Michel Camdessus—and top economists, including Phelps, Arrow and Janos Kornai. The ceremony concluded with a recital by Russian cellist Mstislav Rostropovich.

Major, opening the meeting, described the EBRD as “a unique institution ... special because it symbolises a new beginning for the countries of Eastern Europe”. In his inaugural address, Mitterrand hailed it as “the first institution of the new Europe, the first concrete proof ... of the solidarity that unites us”.³⁹

In keynote speeches over the next two days, Governors reiterated their belief in the values and purpose of the EBRD: to support a well-functioning private sector, promote enterprise and innovation, and encourage democratic institutions in recipient countries. Wim Kok, deputy prime minister of the Netherlands and Chair of the Board of Governors, said: “The EBRD is distinctive in its private-sector focus, its commitment to environmental protection and its political orientation ... and ... eminently suited for its task” given that the “political transformation to achieve political and democratic institutions ... and the economic conversion towards a market-oriented system ... are closely linked ... and will have to take place simultaneously.”

Among prominent statements by other Governors, Nicholas Brady, the US Treasury Secretary, emphasised the role of the private sector. “We believe strongly that the EBRD focus should be private sector development

³⁸ This venue was chosen as it was the only UN-connected presence in London.

³⁹ Governors speeches quoted here were published in Summary Proceedings of the Inaugural Meeting of the Board of Governors, EBRD, 1991.

and financing of infrastructure which directly supports private sector activity.”⁴⁰

His German and Italian counterparts, while agreeing with the importance of the private sector, also pointed to the political dimension of the new bank. “Not only must funds be raised ... but conditions must be created [for] the productive forces in the recipient countries themselves [to] develop. This is not a technocratic but a deeply political task,” said Waigel. Guido Carli observed: “The Bank certainly has an important political role as a forum for East-West cooperation.”

Havel summarised views from recipient countries: “We are glad to see that [the advanced countries of the world] understand how important it is for the political stability of the whole European continent to help our countries in their reforms in every possible way. The founding of the EBRD is proof of that understanding.”

The following day, Attali was formally elected as first President of the EBRD, along with the Board of Directors. The Bank was now authorised and ready to begin operations.

The newly-elected Board of 23 Directors and 18 Alternates—who are empowered to act on a Director’s behalf in their absence—began their tasks promptly on 18 April, starting with the appointment of Vice Presidents and the ratification of various administrative rules and procedures that had been discussed over the previous months. As well as an initial discussion of operational challenges, priorities and guidelines, the meeting set a budget for the Bank for the rest of the year of ECU 56.7 million and approved a paper on its financial policies. There was a general consensus that the operational papers were working documents to be improved as the EBRD’s understanding of its countries of operations developed. It was also agreed to submit the relevant papers to rating agencies, since a triple-A rating would be essential to any future borrowing programme; and, in the case of the operational challenges and priorities paper, for it to be sent to the Economic Advisory Council.

One other significant move at the first Board meeting was the approval of a paper describing the EBRD’s policy on environmental management.

40 Brady also made clear his view of the role of the Board: “The Directors, as personal representatives of the Governors must play a key role ... [in] guiding policy and approving operations. ... We do not view the activity of the Board as an advisory one, but instead a critical element of the Bank’s operations.”

This confirmed the Bank's intention to adopt sound environmental practices in all its activities. Its prominence reflected growing international concerns over environmental issues, and in particular the amendment to Article 130 of the Treaty of Rome under the Single European Act of 1987, which added a section on the environment.

Conclusion

In just under 18 months, the EBRD had gone from an idea tentatively put forward by Mitterrand to its first resident Board of Directors meeting. For a multilateral investment bank serving the interests of shareholders from 39 countries⁴¹ and two European institutions this was unprecedented.

Also ground-breaking was the inclusion of the countries of central and eastern Europe and the Soviet Union in an IFI as equal members, in terms of voice and debate (and in certain votes). More generally, the Bank's prospective shareholders provided a robust check on the proposals of management, as well as on budget and financial projections. The official community helped to improve policy ideas and the drafting of relevant legal texts.

Given the differences between the public and private sector-oriented approaches, what is notable is that an accommodation of different interests was reached by all parties by the time of the inauguration and that the resulting structure has broadly held for nearly 30 years. Achieving this was at times a difficult, even painful, process. But because the different parties had to find a way to realise a goal that all agreed was significant and appropriate within a tight timeframe—where, as each day passed, the consequences of failure to find ways to support central and eastern European countries in the face of their collapsing systems became clearer—a compromise was reached.

Now operational with a full Board of resident Directors in situ and a growing staff, the EBRD was ready to find companies to support, make investments in central and eastern Europe and deliver on its mandate.

⁴¹ The number of shareholding countries was reduced by one after the Bank's inauguration with the dissolution of the GDR following the reunification of Germany on 3 October 1990. For more details on the evolution of EBRD's shareholding membership, from 1991 to the present day, see the Appendix.