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Part I

Post-Cold War Pioneer

Chapter 1

A New International Development Institution

Introduction

Mitterrand's original proposal for a new institution, the EBRD, to support the integration of central and eastern Europe into the European and global economy was endorsed in early December 1989 at the Strasbourg European Council by all 12 EC countries. The speed with which leaders decided to create a new international financial institution was unprecedented in European Council history and reflected the urgency of the situation. There was no doubt in the minds of the key actors about the potentially grave consequences for Europe of failing to support their eastern neighbours.

A variety of forces lay behind these events. The old certainties of the Cold War had begun to falter with the arrival of Mikhail Gorbachev as General Secretary of the Soviet Communist Party in the mid-1980s and his adoption of a reformist stance through *perestroika* and *glasnost* in the Soviet Union. This was followed by the visible abandonment of the Brezhnev doctrine and a new-found willingness to allow Soviet satellite states more independence, quickly built upon by populations eager to catch up with the West, as well as a more open approach to detente and relations with western leaders.

In western Europe too it was a moment of internal change. As envisaged under the Treaty of Rome, the EC was embarking on the next stage of integration and had begun to set out concrete steps to achieve economic and monetary union. Political union was also on the table, under which lay a schism with the United Kingdom which was to fester and undermine European unity. Despite this, there was full agreement that the adoption

of sound market practices and democratic values was the right way forward and that the East should be encouraged to follow this path.

For Frenchman Jacques Attali, who was to become the first President of the EBRD, the circumstances offered a unique opportunity to create a unified Europe, which could include the Soviet Union and in which the common values of the different parts of the continent could be pooled and strengthened. If successful, the enlarged marketplace would provide a region to match the major global players of the day, the USA and Japan. At its centre could be a “Bank for Europe” with a remit to invest in projects that could bring benefits to both East and West. For other observers, the situation offered the possibility to instil ideas of market economics, the rule of law and multiparty democracy in a region where these qualities were absent and to populations brought up under communist rule. An international bank offered a convenient mechanism to achieve these goals.

The idea of the EBRD emerged at a time of momentous transformation and the pace of change would not slow over the coming months and years. Of the eight original beneficiary countries identified by the EBRD—Bulgaria, the Czech and Slovak Federative Republic (CSFR), the German Democratic Republic (GDR), Hungary, Poland, Romania, the Union of Soviet Socialist Republics (USSR), and the Socialist Federal Republic of Yugoslavia (SFRY)—East Germany would be absorbed into a unified Germany even before the EBRD’s inauguration in 1991. The following years would see the division of the CSFR into two states, the dissolution of the Soviet Union and the violent breakup of Yugoslavia.

It would not be long before the EBRD was investing in more than 20 countries. But before all that could happen, and before the Bank could even take shape, there were to be many complex and sometimes tough negotiations.

This chapter looks at the background to the emergence of the EBRD, its establishment and early development and, in particular, the debates and arguments behind the work that led to the signing of the Agreement Establishing the Bank (AEB) on 29 May 1990.

1. The Historical Context: The 1980s in the West

During much of the 1980s, most advanced western countries enjoyed a period of steady economic expansion. This was in marked contrast to the previ-

ous decade, which had seen interrupted growth and high inflation. Once the shock therapy of the interest-rate hikes deployed by Federal Reserve Chairman Paul Volcker at the start of the decade had worked its way through the system, the countries of the Organisation for Economic Cooperation and Development (OECD) saw a strong expansion of output. Gross domestic product (GDP) grew at an annual average rate of 3.75 per cent between 1982 and 1989. The USA experienced its strongest period of growth for two decades, with GDP increases averaging almost 4.5 per cent per annum. Stock markets around the world reached peaks as the decade drew to a close.

These years represented the culmination of several trends that had emerged over the previous decade, including the relative decline of industry and the rise of services in western economies, a rebalancing of the state towards private enterprise, and in several countries a shift away from collective decision-making towards individual responsibility. The practical application of technological innovation dramatically reduced the cost of communications and shipping, increasing the ability of more mature economies to access cheap foreign labour and other resources. Meanwhile, the steady growth in incomes that these advances produced allowed citizens in the West to access an ever-expanding choice of consumer goods and services.

The decade had also seen fundamental developments towards market reform and the espousal of liberal democracy. In the USA the election of Ronald Reagan as President in 1980, a year after his British comrade-in-arms, Margaret Thatcher, was elected as prime minister of the UK, resulted in an ideological shift towards an anti-state, pro-enterprise culture. The “Reagan-Thatcher era”, as it became known, marked a clear break with the immediate past.

The “Thatcher revolution” in the UK led to the privatisation of major state enterprises, a general rolling back of the state and significant labour-market reform, most notably in a reduction of trade-union power.

In the USA Ronald Reagan’s presidency ushered in a period of radical deregulation, especially in the financial sector, which led to a spurt of restructuring and financial innovation. The rapid increases in lending and other financial products fuelled growth. This was echoed by the “Big Bang” financial reforms in the UK from the mid-1980s. The changes also helped to accelerate the global integration of financial markets and confirmed London and New York as the pre-eminent international financial centres. By the late 1980s, the Anglo-Saxon competitive financially-driven model appeared to reign supreme.

Developments in continental Europe were different, mainly focusing on intra-European trade and integration, but growth was also strong. Here, too, a path of opening up the state sector could be seen, with privatisations in France, Germany and later Italy. A steady low-inflation growth path also seemed to be universally in place in Europe, a welcome contrast compared with the 1970s.

The liberal market-based model seemed to be working well. By the end of the decade there had been no serious negative macroeconomic shock for several years. Indeed, there had even been a positive oil shock in the middle of the period. Oil prices dropped sharply in 1986, boosting growth.

By the end of the 1980s, the “Reagan-Thatcher era” had effectively come to a close. Reagan’s presidency ended in January 1989 and Thatcher was ousted from the leadership of the Conservative Party, and as prime minister, in November of the following year. By the end of 1989, the political and economic ideas they had spawned were in many ways at their zenith in several leading western nations, but rapidly spreading across the globe—just as the EBRD was being conceived.

2. The Historical Context: The 1980s in the East

For countries behind the Iron Curtain in the East, and in Yugoslavia and Albania, life was nothing like as rosy, in either absolute or relative terms, during the 1980s. Direct comparisons between East and West were hampered by missing or unreliable data. However, most analysts of the Soviet economy conclude that growth rates were falling over time. One estimate puts the average gross national product (GNP) growth rate during the 1980s at 1.4 per cent, versus 2.7 per cent in the period 1971–80 and 5.1 per cent in 1961–70.¹ By the second half of the 1980s it was obvious that the centrally planned economies were failing to deliver rising living standards on any significant scale.

While the trends seen in the west in the 1980s were far more muted behind the Iron Curtain, some parts of eastern Europe² and Yugoslavia at least

1 G. Turley and P. J. Luke, *Transition Economics: Two Decades On*, London: Routledge, 2011, Chapter 1.

2 During this period ‘eastern Europe’ or ‘central and eastern Europe’ usually referred to the GDR, the CSFR, Hungary, Poland, Bulgaria, Romania and Yugoslavia (although Yugoslavia was treated separately on occasion). The USSR was also sometimes included in these groupings. When the EBRD started, the use of ‘central and eastern European countries’, as in the AEB, referred to the countries it sought to help, i.e. its ‘countries of oper-

were not immune from these influences. Trade links with the West were improving and a number of joint ventures had been established involving western companies in countries such as Hungary and even in the Soviet Union. But if some of the advantages of market economics were being glimpsed in the Eastern Bloc, and enjoyed by some of its citizens, the same could not be said of political freedoms.

Political pressure was, however, building in the East. The vast majority of the population, whether silently or more vocally, sought a more open franchise and were demanding the right to strike, freedom of the media, freedom of movement and the formation of political parties. Above all, there was a desire to break away from what was increasingly seen as a failed political and economic system, whose leaders seemed increasingly remote from the realities of everyday life and who remained immune from the hardships facing the wider population.

Despite some earlier attempts to bring about reform behind the Iron Curtain and the emergence of Solidarity in Poland in 1980, relatively little progress had been made until Gorbachev took over as leader of the Soviet Union in 1985. He introduced policies of *perestroika* and *glasnost* in an effort to improve the situation while maintaining control through the Communist Party apparatus. Economic reforms were also introduced, mirroring to an extent the New Economic Policy adopted by Lenin in the early 1920s and the reforms of Deng Xiaoping in the early 1980s in the People's Republic of China.

Gorbachev also followed a more outward-looking approach in Soviet relations with the West, embarking on tours of western capitals and forging good relations with Reagan and Thatcher, in particular. Of great significance was his prominent rejection of the Brezhnev doctrine, which had already fallen into abeyance. Soviet satellite states were no longer required to bend unerringly to the will of Moscow and were allowed a greater degree of independence in relation to political reform.

As a result, domestic pressures for change grew, particularly among countries closest to western Europe. By 1989, real change was underway in central Europe, while difficulties at home meant Gorbachev became heavily focused on trying to manage internal strains within the Soviet Union.

ations'. Initially, these were the full set of countries mentioned above. The GDR disappeared with German reunification, while Albania became included (as a country of operations) by the end of 1991. Later nomenclature identified CEB (Central Europe and the Baltics) and CIS (Commonwealth of Independent States).

As people began to realise the new situation in the Eastern Bloc, momentum for reform built up throughout the year.

Among the first notable developments was Solidarity's landslide victory in the first round of Polish elections on 4 June 1989. The party won 92 out of 100 Senate seats and 160 out of 161 seats in the *Sejm*.

The election coincided with the events in Tiananmen Square in Beijing where the Chinese authorities, facing similar growing public restlessness over the lack of political freedoms, had decided to exert firm political control to prevent further sedition, resulting in many deaths.

There were serious concerns that a similar response by the Polish authorities might ensue. General Wojciech Jaruzelski, the Polish head of state, had imposed martial law in 1981 in response to the rise of Solidarity. This time, however, he accepted the situation, not least because Moscow was no longer ready to support a crackdown as it had in the past. The second-round election on 18 June confirmed Solidarity's success and the resulting government introduced a package of radical economic reforms early in the following year, known as the Balcerowicz Plan.

Poland was not alone in seeing an acceleration in demands for reform. On 16 June 1989, 200,000 people assembled in Heroes' Square in Budapest³ to commemorate the reburial of Imre Nagy, a Hungarian reformer who had been executed for leading the uprising in 1956. On 23 October, a huge crowd heard the proclamation of a new Hungarian Republic outside parliament.

In September 1989 Miklos Nemeth,⁴ the Prime Minister of Hungary, decided to open the border with Austria. This allowed citizens from the GDR to transit through the CSFR via Austria to West Germany, and by the end of October some 50,000 had left by this route. Separately, the West German Foreign Minister, Hans-Dietrich Genscher, negotiated with Moscow and East Berlin the transfer of thousands of GDR citizens, many of whom had taken refuge in West German embassies in central European countries, by train to the Federal Republic.

In the GDR itself, demonstrations grew during the year, albeit slowly, with numbers reaching around 70,000 by October. With the feared security service, the Stasi, still fully operational and the Communist Party leaders supportive of the Chinese authorities' response to the Tiananmen Square

3 Viktor Orban, the current Prime Minister of Hungary, was last to speak.

4 Miklos Nemeth became a Vice President of the EBRD in 1990, the first from a country of operations.

protests, a showdown was expected. However, when news emerged from Moscow that there should be no bloodshed, protesters came out in force, with some half a million gathering in Alexanderplatz in East Berlin on 4 November.

The decisive change came on 9 November when the regime announced, at a confused and sometimes rambling news conference, that GDR citizens could now travel to West Berlin and the Federal Republic of Germany. When East German official Guenter Schabowski explained that the new measures would take place with immediate effect, the response was electric. Spontaneous and euphoric celebrations began on both sides of the Berlin Wall.

East Germans arrived in their thousands to cross that most concrete symbol of the Iron Curtain dividing East and West. Border guards gave up all attempts to check documents, which were still needed even under the new rules. Crossing points opened. West Berliners were waiting with a welcome of flowers and sparkling wine.

West German Chancellor Helmut Kohl told a midnight news conference: "This is an historic moment. There is no doubt that world history is being written now. We Germans will rise to the challenge."⁵

In other Soviet satellites the change was less readily accepted by the communist authorities. In the CSFR, police attacked protesting students on 17 November. Nevertheless, the demonstrations continued and grew in strength. One week later, three-quarters of a million people gathered in Prague's Wenceslas Square. This was followed by a well-supported, two-day general strike. Government attempts to keep control by reshuffling the cabinet were unsuccessful. Members of the Civic Forum, a new party formed by dissident playwright Vaclav Havel, were appointed to the cabinet on 10 December. Less than three weeks later, the Federal Assembly voted unanimously to appoint Havel as president of the CSFR.

In Bulgaria, change was more gradual. Petar Mladenov, who in November 1989 succeeded long-standing leader Todor Zhivkov as Chairman of the State Council, was a Communist Party member. Nonetheless, Mladenov supported Gorbachev's reform programme. He implemented the separation of Party and state, and gave workers the right to strike. Following widespread protests, the State Council in December also announced plans to hold free elections.

5 Reuters Report, by Mark Heinrich. 10 November 1989.

Opposition to the communist authorities had built up in Romania too, but a particularly brutal and repressive regime held it back until late in 1989. Protests escalated after a blockade to prevent the deportation of a priest, and on 17 December several protesters were killed by shots fired into the crowd by the authorities. Nicolae Ceausescu, the Romanian leader, attempted to restore order by addressing a rally on 21 December but was booed by the crowd, which was again attacked by the army. A second address given from Communist Party headquarters the next day was so badly received that Ceausescu and his wife fled by helicopter. A short time later they were located and court-martialled, before being executed on Christmas Day.

The death of Ceausescu marked the end to a tumultuous year. It would be another two years before the Soviet Union was dissolved but the tide was turning. In the words of Ian Kershaw, one of Britain's most eminent historians: "What happened between 1989 and 1991 was no less than a European revolution—and, amazingly, unlike earlier revolutions it was (largely) free of bloodshed."⁶

It now became the task of the EBRD to battle with the consequences of this revolution.

3. Ideological Issues: Market Economics and Liberal Democracy

The idea of the EBRD thus emerged against a backdrop of fundamental change. Before looking at the institution itself, it is useful to review briefly the ideological debates that prevailed at the time. Two were of direct importance to the formation of the EBRD: one concerned markets, the so-called "Washington Consensus"; and the other concerned democracy, the debate epitomised by the "End of History".

The economist John Williamson, who developed the concept of the Washington Consensus in the second half of 1989, defined it⁷ as a 10-point list of policies then widely supported by policy actors such as US government agencies, notably US Treasury officials, and think-tanks.

6 I. Kershaw, *Roller-Coaster: Europe, 1950–2017*, Allen Lane, 2018, Chapter 9, 'Power of the People'.

7 J. Williamson, 'What Washington Means by Policy Reform', in John Williamson (ed.), *Latin American Adjustment: How Much Has Happened?*, Institute for International Economics, 1990, Chapter 2.

Several of the policy prescriptions, which were primarily aimed at development in Latin America, were macroeconomic ideas such as fiscal discipline, a competitive exchange rate, and tax and public-expenditure reform (for example, the introduction of a broad tax base, moderate marginal income-tax rates and a reduction in subsidies). Other suggestions concerned market liberalisation, such as trade and interest-rate liberalisation, privatisation, deregulation and openness to inward investment.

Williamson's list neatly summarised mainstream economic thinking in the USA and UK at the time. It chimed well with the views of supply-side adherents and the successful period of privatisation and deregulation that had been witnessed in the preceding period.

For senior officials dealing with international economic issues it provided a convenient template against which to assess policy. As such, it was a natural point of reference for those charged with establishing a new international financial institution (IFI), particularly one focused on transforming former state-controlled economies. As we will see, the precepts behind the Washington Consensus approach were influential in the design and operations of the EBRD.

Meanwhile, also in mid-1989, a little-known official in the policy-planning department of the US State Department published an article entitled "The End of History?" in a relatively obscure foreign policy journal.⁸ The author, Francis Fukuyama, set out a Hegel-inspired assessment that history, viewed in terms of a dialectical ideological struggle for freedom, had reached a certain finality now that free elections were being held in former totalitarian states and their populations were embracing the ideology of the West.

Fukuyama summarised his argument as follows: "What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of postwar history, but the end of history as such: the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government."⁹

This thesis proved hugely popular, to the extent that Fukuyama appeared in *Time* magazine within weeks of its publication. It appeared to validate the liberal market-democracy model as the victor in the battle of ideologi-

8 F. Fukuyama, "The End of History?" *The National Interest*, no. 16, 1989.

9 Ibid.

cal ideas that had dominated political discourse since the Russian Revolution 72 years earlier.

Ironically, perhaps the most significant counter-argument to Fukuyama's thesis occurred at almost exactly the same moment he published it: the reassertion of political control by the China's Communist Party Politburo. History took a radical turn in 1989 but it clearly did not end.

These underlying themes influenced the design of the EBRD and lay behind a clash with those who did not readily or fully buy into the new liberal world order. Nonetheless, belief in the power of markets and liberal democracy was sufficiently widespread to support the emergence of central and eastern Europe from its Cold War hibernation and help these countries embrace the western model of political and economic development.

4. Central and Eastern Europe Reaches the International Stage: the 1989 Paris Summit

For the G7 and the 12 EC members, the events of 1989 posed significant challenges and uncertainties. How should the West respond to events? Who should lead and who should do what in this fast-moving game? Where was assistance best deployed? How could the Soviet Union be supported on a reform path when it remained a nuclear-armed adversary?

The key western actors in this drama—the USA, France, the UK and Germany—each had their own historical perspective and interpretation of the situation and how to deal with it. Many aspects of the complex geopolitical negotiations that were involved as the world order became reset spilled over into the debate on the creation of the EBRD.

Not only was 1989 a critical moment in central and eastern Europe, it was also a crucial point in the history of the European Union (EU). France was a key driving force trying to piece these elements together. The EBRD provided one piece of the jigsaw, while at the heart of both developments was the reunification of Germany. This was to be a key factor in what subsequently transpired.

That year, France was Chair of the G7 and preparing for the Heads of State Summit scheduled to be held in Paris on 15–16 July. These gatherings had become an annual showcase of multilateral solidarity and coordination among the leading nations, with each holder of the rotating Presidency keen

to project an image of the world and its future as they would like to see it. The bicentenary of the French Revolution also fell in 1989, and to mark the occasion a huge celebration was arranged alongside the Summit.

For this Summit, Attali, a personal adviser to and confidant of Mitterrand, was the French Sherpa, one of the senior government officials who prepare for summits on behalf of the heads of state or government. It fell to Attali to send invitations to representatives of the EC to attend the celebrations, as well as to heads of state from developing countries, such as Egypt and India, so that a North-South element could be added to the G7 event.

As usual, the Sherpas had prepared the Heads' agenda a long way in advance. For that summer's Summit, this was shaping up to be a by-now traditional mix of international economic and global issues: the state of the world economy; increased coordination and surveillance, especially on exchange rates; trade (the next steps in the Uruguay Round); debt strategy towards the most highly indebted countries; combating drugs; tackling environmental issues, notably chlorofluorocarbons (CFCs) and the depletion of the ozone layer; and, following earlier devastating floods, assistance to Bangladesh.

Events in the communist countries could not, however, be ignored. Preparations therefore turned to the question of statements on Tiananmen Square and, by way of counterpoint, welcoming words and potential assistance for central and eastern Europe.

Shortly before the Summit George Bush, who had replaced Reagan as US President in January, had visited Poland and Hungary to show support for market reform and the steps being taken towards multiparty democracy. He was also under pressure from these countries' US diaspora to provide material assistance. Bush proposed a "consortium of the seven" to coordinate aid to Poland, reduce its external debt and initiate a publicly endowed US\$ 100 million enterprise fund.¹⁰

Meanwhile Kohl, realising that funds for central and eastern Europe would be discussed at the Summit and wanting support that went beyond what the Federal Republic was already providing, had written to suggest that the G7 set up a mechanism to coordinate aid to Poland and Hungary.

As the main coordinator of the event, Attali was unhappy that the proposed consortium would in effect be under the control of the USA. He believed that it should be open to other European states to contribute and

¹⁰ G. W. Bush and B. Scowcroft, *A World Transformed*, Alfred A. Knopf, 1998, pp. 113–115.

should not be set up in a manner that appeared to be directly confrontational to the interests of the Soviet Union.¹¹ Furthermore, as host of the Paris Club, the group of creditor nations which dealt with official debt, France would have wanted any discussion of debt relief to be considered by the Club rather than the G7.

Gorbachev also saw an opportunity in the Summit. A few days before it began, he wrote to Mitterrand pushing for the involvement of the Soviet Union in these discussions to create a “multilateral economic partnership” and reach a “true equilibrium”, rather than surging ahead with a West-centric solution and excluding the East from the decision-making process. He noted: “Multilateral East-West cooperation on global economic problems finds itself manifestly behind in comparison to the development of bilateral and regional ties ... which does not seem justified ... considering ... the responsibility [our States] have for the good of each country’s citizens and of the world community in general.”¹²

A G7 communiqué, entitled “Declaration on East-West relations”, welcomed the move towards freedom and democracy in central and eastern Europe and encouraged the process of reform. It also pledged support to Poland and Hungary. Rather than placing the coordination of this support with the G7, the European Commission under its President, Jacques Delors, was invited to bring together “all interested countries”—thus not ruling out the Soviet Union—to develop an assistance package. The group of participants asked to assist was subsequently enlarged to include OECD member countries and became known as the G24.¹³

Requesting the Commission to coordinate activities was an unprecedented step for the G7. It appears that US Secretary of State James Baker had concluded, to no objections from others, that it would be advantageous to put the Commission in charge of this exercise, partly with a view to making the Commission more outward-looking in its general approach, but also to lock in European financial assistance should agreement be found to go ahead.¹⁴

11 Attali telephoned Brent Scowcroft, Bush’s national security adviser, on 8 July to register his objections. Attali, *Verbatim III*, Fayard, 1995, p. 278.

12 Letter from Gorbachev to Mitterrand, 14 July 1989, G7/8 Summits, Munk School, University of Toronto

13 ‘Declaration on East-West Relations’, 15 July 1989, G7/8 Summits, Munk School, University of Toronto

14 J. Baker III, *The Politics of Diplomacy: Revolution, War and Peace, 1989–1992*, G.P. Putnam’s Sons, New York, 1995; and S. Weber, ‘Origins of the European Bank for Reconstruction and Development’, *International Organisation*, Vol 48, No 1, Winter 1994, MIT Press, p.10 and p.12.

Bush had also recently met Delors and knew that he had good contacts within the Catholic Church and with Solidarity.¹⁵

Attali was nonplussed that the Commission should be given this role, as this would normally fall to the relevant Presidency, in this case France. He protested to Mitterrand, urging him to intervene to reclaim the coordinating role, but was rebuffed. “The US prefers the Brussels imp to the French devil! A novel choice, more divisive than constructive. The President, to whom I speak to suggest, as host country, we reclaim the secretariat, refuses firmly: ‘One can’t have everything.’”¹⁶

Mitterrand clearly did not want a row to cloud a successful summit or get in the way of the celebrations of two centuries of the French Republic. Attali, however, was determined not to be outmanoeuvred by the Commission.

5. The Looming Issue of German Reunification

The first follow-up aid coordination meeting took place the following month (August), with members of the OECD in attendance, and began to prepare a substantial programme of assistance. Significantly, this was to be made conditional on commitment to democratic reforms and liberalised markets. In parallel, the EC’s own aid programme, PHARE (Poland/Hungary Assistance for Reconstruction of Economies), emerged from the discussions. This amounted in due course to billions of dollars in financial and other assistance.

Meanwhile in Germany events were moving quickly. With the exodus of people from the GDR growing by the day there was an increasing awareness of the possibility of German reunification. While this was still not expected in the short term, the key players nonetheless exchanged views in bilateral discussions on the potential consequences of such a development.

Kohl saw reunification as an historic opportunity for Germany. Gorbachev, Mitterrand and Thatcher were less enthusiastic. Gorbachev was worried about how Soviet troops stationed in the GDR might react if the desire for unity overwhelmed political control. Bush was more relaxed with the idea, seeing reunification as primarily a matter for German self-determi-

¹⁵ Attali, *Verbatim III*, p. 261.

¹⁶ Attali, *Verbatim III*, p. 284.

nation. He was more concerned with the consequences for NATO and US troops stationed in the Federal Republic.

Thatcher was uneasy at the prospect of a resurgent Germany dominating Europe and irritated by the approach adopted by Kohl, which she saw as overly eager. She believed it was vital to engage the Four Powers, the architects of post-war Germany, who still controlled Berlin and the eastern German border: the Soviet Union, the UK, the USA and France.¹⁷ In her view, if care was not taken, "... all the fixed points in Europe would collapse: the NATO front line; the structure of NATO and the Warsaw Pact; Mr Gorbachev's hopes for reform."¹⁸

As part of the preparations for the December European Council, Mitterrand visited Thatcher at Chequers on 1 September. While politically they were poles apart, the meeting generated a rapport between them, notably through their common view on German reunification and NATO's stance. They shared an annoyance with Kohl's approach and were both concerned over Gorbachev's likely reaction.

Mitterrand, like Thatcher, was nervous at the prospect of a strong Germany.¹⁹ He feared it could upset the balance in Europe and impact progress towards economic and political union. In due course, Kohl was able to allay these fears by committing fully to the single currency and the EU. But in 1989 the future of Germany, the EU, NATO, the Warsaw Pact, the Soviet Union and, more generally, the outlook for peace and stability in Europe was far from clear. Those most closely involved were acutely aware of this and of the need to ensure the continuity of the successful post-war period.

6. Attali's—and France's—Vision for Europe, Including the East

The summer of 1989 was also formative for Attali. Valuable though the OECD contribution to financing improvements in the East might prove to be, Attali felt it was insufficient. He believed what was needed was an institution that could provide a link between the "two halves of Europe", while

17 M. Thatcher, *The Downing Street Years*, HarperCollins, 1993, pp. 796–799.

18 C. Powell to S. Wall, 8 December 1989, National Archives, Kew, London.

19 C. Powell to S. Wall, 8 December 1989; Attali, *Verbatim III*, pp. 368–371.

ensuring no deflection from the course towards ever-closer union on which the EC was embarked.

Attali put his idea to Mitterrand at the beginning of September: “Why not create an institution which brings together all European countries, both East and West, including the USSR? ... This institution, to be credible, should not be solely an assembly or forum, but must be equipped with real resources. France ... could propose the creation of a bank which would finance projects of common interest. We could call it a ‘Bank for Europe’.”²⁰ Mitterrand, seeing potential in the idea, asked Attali to develop it further.

Initially, the proposal was greeted with scepticism, even in the French administration.²¹ Many of Attali’s colleagues believed that the World Bank, which was already active in Poland and Hungary, should remain the primary vehicle for development support. They also noted that Europe already had its own IFI, in the form of the European Investment Bank (EIB). Why create another institution which would inevitably be criticised as adding to the development bureaucracy and which in the end might not reflect fully the interests of the countries to be helped?

Attali’s response was to position his proposal in a global context. He viewed the world at the time²² as being dominated by the USA and Japan, then the major powerhouses of growth, productivity and innovation. He saw a need for Europe to improve its economic performance, along with its geopolitical standing. Integrating the two halves of Europe to create a market of more than 500 million people would, he argued, allow the region to match the major players in the global arena.

This perspective was not new. The French establishment had a long-held aversion to US dominance in many spheres: economic, political and cultural. Since the end of the Second World War they had seen the value of European unity, not only in keeping the peace and creating a large, protected market but also in giving ample room for French influence over the continent’s future shape and direction.

An opportunity to strengthen France’s position over Europe had arisen in April 1989 with the publication of a report by the Delors Commission on the measures required for the establishment of the Economic and Monetary

20 Attali, *Verbatim III*, p. 298.

21 Attali, *Verbatim III*, p. 315; Jacques Attali, *Europe(s)*, Fayard, 1994, p. 33.

22 Illustrated in a series of essays published in *Lignes d’Horizon* (1990).

Union (EMU). Discussion on how to deliver the three stages of EMU followed, with the Madrid European Council in late June affirming the EC's "determination to achieve EMU progressively".

The 12 European Community member states thus formally embarked on the final path towards one of the ultimate goals set out in the Treaty of Rome: establishing an economic and monetary union as part of an "ever closer union". The plan for EMU—a single currency and the creation of a European Central Bank—pooled sovereignty over monetary-policy decisions and thereby diluted the power of the Bundesbank, potentially increasing French influence.²³

As part of the debate on EMU, a number of participants brought up the question of political union. Under Delors' leadership, there was pressure from Brussels to accelerate this discussion, although it only emerged formally at the Council level under the Irish Presidency in the first half of 1990.

7. The Launch of the Idea of a Bank for Europe

Behind the scenes, Mitterrand had lamented earlier that France lagged behind Germany on commercial ties with the East. He believed that promoting the "Bank for Europe" with a French imprimatur could benefit French companies wishing to exploit new opportunities in central and eastern European markets, including the Soviet Union.

With France holding the Presidency of the EC for the second half of 1989, there were further good reasons for launching a bold new French initiative. The central objective for the Strasbourg European Council (scheduled for 8–9 December) was to agree the timing of the Intergovernmental Conference (IGC) for EMU. But as the autumn progressed, it was clear that the EC's response to events in the East would have to feature. The launch of a "Bank for Europe" would be a political triumph for France, while if the proposal was rejected, it would still demonstrate commitment to the East, including the Soviet Union, and emphasise the French establishment's belief in European unity.

During September, Attali began to work up the idea more seriously, looking into the statutes of various international organisations and prepar-

²³ The Bundesbank ultimately accepted the proposal but only, at the insistence of its President, on the basis that the future European Central Bank would be independent.

ing draft articles for the new institution. His efforts, which he discussed with Mitterrand towards the end of that month, were mainly based on legal texts that applied to the World Bank, the International Finance Corporation (IFC) and the Asian Development Bank (ADB). He was supported in his endeavours by Jean-Claude Trichet, then director of the Trésor, but found few other advocates.²⁴

Events in eastern Europe by now were gaining momentum. Every day seemed to bring a new step on the escape route from communism and new proposals to help the liberated economies. At the Annual Meeting of the International Monetary Fund (IMF) and World Bank in Washington DC in September 1989, former French president Valéry Giscard d'Estaing proposed the establishment of a Euro-Polish bank (and a similar one for Hungary). At the same meeting Alfred Herrhausen, president of Deutsche Bank, argued in favour of an institute for the modernisation of Poland.²⁵ Then on 9 October European finance ministers agreed that the EIB should make loan finance available to Poland and Hungary from its own resources.²⁶

None of these ideas met Attali's vision for the future financial architecture of a wider Europe. He remained sceptical of any solution based on the EIB, believing that would require bringing countries in the East into the Common Market—which at that point seemed a remote possibility.²⁷ Moreover, the EIB focused on public infrastructure rather than the private sector, where there was clearly a major need for support across the Communist Bloc. Mitterrand, speaking to the European Parliament later, was similarly dismissive of a role for the EIB.²⁸

24 Attali, *Verbatim III*, p. 315.

25 Alfred Herrhausen was assassinated two months later on his way to work by a bomb detonated remotely by the Red Army Faction in Bad Homburg, outside Frankfurt.

26 It was agreed that the EC would guarantee the EIB against losses under loans for projects in Hungary and Poland. The EIB Board of Governors subsequently authorised loans of up to ECU 1 billion to these two countries, with the first loans made in July 1990: ECU 20 million to the Polish railways and ECU 15 million for power grid improvement in Hungary. *Source*: EIB Annual Reports, 1989, 1990.

27 Attali, *Europe(s)*, p. 35. The EIB was an EC institution and provided funds on a large scale primarily to its members, who needed to be EC member states.

28 Mitterrand said "Simply this is not a role for the EIB. The task of the EIB is basically linked to the structural funds, it is oriented to another part of Europe; the EIB consists of only the twelve Community countries." Debates in the European Parliament, 22 November 1989, Bulletin, No 3-383/154. P. Menkveld in *Origin of the European Bank for Reconstruction and Development* (Springer, 1991, p. 38) argues ulterior motives may have been to secure assistance for the Soviet Union and to encourage a coming together of European states.

Nor did bilateral initiatives promise enough for Attali. Such arrangements had been in place during Cold War times and seemed too piecemeal to have much bite. Many of these arrangements took the form of export credits linked to western companies, with limited impact in the importing countries. Other ideas such as a parliament assembly seemed no advance on the Council of Europe, for which these countries were not yet ready given the democratic requirements of membership.

Attali believed any solution should be political as well as economic, involving genuine partnership and mutual commitments to development and democratic reform. He continued to think a new bank was the best vehicle to anchor western Europe with central and eastern Europe and the Soviet Union. His view that the bank should invest in projects of common interest harked back to Robert Schumann's call in 1951 for the creation of the European Coal and Steel Community: a view that multilateral ownership more than national sovereignty can achieve a common good more productively than on an individual basis, and one that lasts.

Without prior consultation with his EC counterparts, Mitterrand floated the development bank idea in an address to the European Parliament on 25 October, ahead of the Strasbourg Summit.

For my country I have been thinking of a Franco-Polish investment promotion centre ... What can Europe do? So much more! Why not set up a Bank for Europe which, like the EIB, would finance major projects and have on its board of directors the twelve European countries. Not to mention the others, such as Poland and Hungary, and why not the Soviet Union and yet others? ... The creation of a Bank for Europe is a highly political decision.²⁹

Marc Boudier, the adviser in charge of international economic issues at the Elysée, having received lukewarm reactions from other ministries to this section of Mitterrand's speech, had decided to cut out the section on the Bank for Europe and replace it with a vague reference to the Euro-Poland bank proposal. He told Attali: "No one in the administration believes in your idea!" Attali stood his ground and convinced Mitterrand to present his

29 Address by President Mitterrand on the 'Upheavals in Eastern Europe', 25 October 1989, Strasbourg. Bulletin of the European Community, 10–89, November 1989, pp. 79–86 and reproduced at cvce.org

suggestion noting: “for me, it will act as a bank for all Europeans, including the Soviets. And only Europeans.”³⁰

But there was a rationale for designing a multilateral institution, rather than a solely European one or one dominated by any single country. In terms of geography the problem being addressed was indeed primarily a European matter. Three EC members (Germany, Italy and Greece) and three other European nations (Austria, Finland and Norway) shared borders with Eastern Bloc countries. Moreover, while historical, ethnic, religious and cultural ties between these countries had been dormant or fractured over the decades of the Cold War, they remained close beneath the surface.

The gap between West and East, however, was not just a European problem, nor even simply an economic one. There were fundamental and ideological differences between western capitalist societies and eastern communist ones. Even more important from a global security perspective was the nuclear dimension of the Cold War. Collapse in the East could lead to unforeseen consequences for all countries, should the handling of nuclear weapons and the materials needed to manufacture them become uncontrolled. As proponents of a policy of containment, and with some 300,000 troops deployed in the Federal Republic, the USA had a direct interest in the situation in Europe and the future of nuclear weapons in particular. From the US administration’s perspective, all options to influence outcomes in the East, especially when it came to the Soviet Union, were worth pursuing. Thus, despite Attali’s vision of a European bank to deal with wider Europe’s problems, the continent was never going to be able to “go it alone”.

Finding a post-Cold War accommodation of East and West to ensure peace, growth and security required a global multi-dimensional effort, including in the political-economy sphere. Europe had the biggest economic interests in central and eastern Europe, but the USA still dominated the global financial architecture and was reluctant to cede or dilute this influence. A united front was also consistent with post-war cooperation in relation to the Eastern Bloc and through NATO. And all had a political interest in supporting markets and democracy. So aligning the political-economy approach to changes in the East through a multilateral, not just European, development bank made sense for both the West and the East.

³⁰ Attali, *Verbatim III*, pp. 325; Attali, *Europe(s)*, p. 36.

8. Preparations for Strasbourg

With the idea of a Bank for Europe now formally in the public domain, time was of the essence to get wider buy-in to the idea before the European Council in six weeks' time. There had been passing interest in some capitals, but the general reaction to the new bank proposal was mostly lukewarm. Fortunately for Attali and Mitterrand events came to their assistance.

Two weeks after Mitterrand's speech to the European Parliament, the Berlin Wall fell. German reunification was no longer a distant prospect but an imminent possibility. Moreover, the Soviet economy, already in bad shape, continued to stagnate. Visible economic and political support to the East was looking essential to stave off outright collapse or the reversal of reforms.

As President of the EC, France called European leaders to a special European Council on 18 November to assess the situation. The meeting was designed to allow an early reflection on the momentous events taking place on western Europe's doorstep, ahead of what promised to be a heavy and difficult Council agenda dealing with the timing of the IGC for EMU.

Proceedings began with a dinner for Heads of State (plus Commission President Delors and French Foreign Minister Michel Rocard), hosted by Mitterrand at the Elysée. The French president outlined the situation in eastern Europe. Kohl followed with a 20-minute briefing on the German situation, which provoked a lengthy discussion on the question of German reunification.

At a parallel dinner for foreign ministers, Sherpas and lead foreign affairs, officials also considered the implications of German reunification. When discussion turned to the European Bank idea, it was not received with enthusiasm.³¹ The rapidly evolving situation in the East and the lack of convincing alternatives, however, left sceptics with little room for manoeuvre. To publicly refuse the French President's initiative would have been politically and diplomatically embarrassing, as well as raising questions as to whether there were any viable alternatives to support communist countries seeking to tread a democratic path.

At the Elysée, Mitterrand introduced the subject of the Bank, now called the "Modernisation and Development Bank for Eastern Europe",³² towards

³¹ Attali, *Europe(s)*, p. 40.

³² It had been renamed after German objections to the "Bank for Europe" as being reserved for the European Central Bank.

the end of dinner. After some initial mild support, Dutch Prime Minister Ruud Lubbers was the first to express opposition, arguing that plenty of institutions—including the Council of Europe—were available already. Thatcher echoed his objections. “It will be one more bureaucracy,” she said.³³

Nevertheless, Mitterrand wound up proceedings by suggesting that the Troika—the previous, current and future Presidencies (in this case Spain, France and Ireland)—plus the Commission, study the idea and report their findings to the Strasbourg Council in December. There were no formal objections but Thatcher stated pointedly that the Bank might be “something for the long term”.³⁴

In firming up the proposal ahead of the Strasbourg Council, there was a growing consensus that any such bank should focus on facilitating the transition of Eastern Bloc countries towards a market-oriented economy and accelerating the necessary structural adjustments. At this stage the shareholding of the institution was expected to comprise the 12 EC member states, the Commission, the EIB, other European countries including those in central and eastern Europe, and the Soviet Union. The supposition was that the EC 12, together with the Commission and the EIB, would hold a majority stake.

9. The 1989 Strasbourg European Council

The Strasbourg European Council took place on 8 and 9 December 1989. From the French point of view, the key goal was to set a firm date for the IGC and thus expedite preparations for stages two and three of EMU. The UK had the opposite objective and was keen to delay the decision on dates. The German position was uncertain, with the Bundesbank—and many Germans—unwilling to see an early end to its control of domestic monetary policy and the Deutsche Mark. Kohl was also preoccupied with reunification, on which he had wrong-footed everyone by announcing a 10-point plan a week or so earlier.

In the run-up to the meeting, Mitterrand had conducted a number of bilateral visits to capitals. His most recent journey, two days before the Stras-

33 Attali, *Verbatim III*, p. 344; Attali, *Europe(s)*, p. 39.

34 Her briefing indicated that the project could be emasculated by remitting the idea to the EC’s Monetary Committee where officials could ‘grind it to death’.

bourg Council, had been to Kyiv where he met Gorbachev. The Soviet leader had spoken harshly of Germany and Kohl's rapid pursuit of reunification. On the first day of the Council, Mitterrand held two bilateral discussions in the margins of the meeting with Thatcher and conveyed his concerns.

Thatcher was similarly worried about recent developments and stressed that under the post-war arrangements, the Four Powers—the USA, the UK, France and the Soviet Union—needed to be part of the decision on Germany's future. Taking a map from her handbag, she emphasised the importance of maintaining the post-war borders, notably the Oder-Neisse line under which some areas in the east, which used to be part of Germany, had been allocated to Poland. Mitterrand agreed that the reunification of Germany could not happen by diktat. "At moments of great danger in the past France had always established a special relationship with Britain. Such a time has come again," he said.³⁵

That afternoon the G7 Heads discussed the draft paragraph on the Bank, prepared as a result of the Troika work. It did not start particularly well. Lubbers remained against and Thatcher sceptical, while Kohl was uncommitted. According to Attali, Mitterrand was preparing to concede defeat when Thatcher agreed to consent to the proposal, provided the communiqué stated that all OECD countries, not just the Europeans, could be admitted as shareholders.³⁶ Since all were ready to support the revised proposal, Mitterrand had little choice but to agree.³⁷

It was Danish Prime Minister Poul Schlüter who suggested that the new institution should be called the European Bank for Reconstruction and Development, using the model of the World Bank's original name, the International Bank for Reconstruction and Development (IBRD).³⁸ The following day the Council conclusions were settled and published without further ado. The final communiqué of 9 December read:

"The European Council approved the creation of a European Bank for Reconstruction and Development [whose] aim will be to promote ... productive and competitive investment in the States of Central and Eastern Europe, to reduce ... any risks to financing their economies, to assist the

35 C. Powell to S. Wall, 8 December 1989, record of the Strasbourg European Council; Attali, *Verbatim III*, pp. 369–370; Thatcher, *The Downing Street Years*, p. 796.

36 Attali, *Verbatim III*, p. 370; Attali, *Europe(s)*, pp. 45–46.

37 At this point there was no specific mention of the Soviet Union as a member.

38 At present, the IBRD is an institution which forms part of the World Bank Group.

transition towards a more market-oriented economy and to speed up the necessary structural adjustments. The States of Central and Eastern Europe concerned will be able to participate in the capital and management of this Bank, in which the Member States, the Community and the European Investment Bank will have a majority holding. Other countries, and in particular the other members of the OECD, will be invited to participate.”³⁹

10. An International Institution and Not a Solely European One

The concept of a development bank to support the transition of socialist countries to market-oriented democracies was thus on the way to becoming a reality. Nonetheless, it was not altogether to Attali’s liking, since the institution endorsed by the Council was no longer a purely European construct. Somewhat disheartened at the outcome he wrote in his diary: “the end of our dream of a strictly European institution. Under American influence the European Bank will become a development bank like the others.”⁴⁰

The collapse of communism in eastern Europe and the evolution of a new world order was not, however, just an issue for Europe. The Soviet Union had not yet disappeared and, although it was under strain, few were expecting its imminent dissolution. The USA still had a significant number of troops stationed in West Germany, as well as strategic concerns over the USSR’s nuclear weapons. Bush’s earlier economic initiative had also shown US desire to support the region, notably Poland and Hungary. Other non-EC countries such as Japan and South Korea were geographically far removed from central Europe, but close to the Soviet Union and its sphere of influence (and missiles).

Attali stated later that he had never been certain whether the outcome at Strasbourg was the result of a carefully planned coup by the British or simply a last-minute decision.⁴¹ British diplomatic telegraphic traffic in advance of Strasbourg, however, records that Mitterrand was looking for agreement to the Bank for political reasons and that there would be no French objection to participation by the USA and Japan should it be raised.⁴²

³⁹ European Council, SN 441/2/89.

⁴⁰ Attali, *Verbatim III*, p. 372.

⁴¹ Attali, *Europe(s)*, p. 46.

⁴² UK Ambassador to France, E. Fergusson, reporting telegram of an Elysée briefing by Mme Guigou and Msr Hennikine, 1 December 1989.

What is also evident from British records is that Thatcher was briefed by the Foreign Office and advised by the UK Treasury to resist the proposal but, if necessary, to ensure it included OECD countries.⁴³ The reporting note of the Council meeting by her private secretary, Charles Powell, on 9 December stated:

There was some quite brief discussion of the Development Bank for Eastern Europe, with the emphasis on extending it beyond Europe, to draw on capital from Japan, South Korea and the US. Hence the need to have an institution in addition to the EIB. There was a general disposition to agree to it in principle, while remitting the details to ECOFIN [the Economic and Financial Affairs Council] to ensure that it was operated soundly and effectively. The Prime Minister did not contest this conclusion (having had to contest many others during the day).⁴⁴

The communiqué did not however refer directly to any next steps.

In her memoirs, Thatcher notes in relation to the earlier meeting and Strasbourg:

at the Special European Council [in November] ... Mitterrand was pressing hard for the creation of an [EBRD] in order to channel investment and assistance to the emerging democracies. I was sceptical about whether such an institution was really necessary. The case had not been made that aid of this dimension had to go through a European institution, as opposed to national or wider international ones. I conceded the point in Strasbourg; but my wishes were eventually met because the EBRD now sensibly involves the Americans and Japanese, not just the Europeans.⁴⁵

While Attali may have been disappointed with the outcome, it was nonetheless an extraordinary feat to have garnered support to create a new multilateral development bank in a mere three months. To a great extent it reflected the times: the rapid and accelerating pace of change in the East, the great uncertainties ahead, the high stakes and the pressure on all to act. It would not have happened without the strong French strategic perspective,

43 FCO briefing paper, Charles Powell's handwritten comments.

44 C. Powell to S. Wall, 9 December 1989.

45 Thatcher, *The Downing Street Years*, p. 759.

their good fortune in holding both the G7 and EC Presidencies at the right moment, the timing of the fall of the Berlin Wall, and the unexpected realisation that German reunification was just around the corner.

When push came to shove the key actors knew they had to do something visible to match the needs of the moment and signal a longer-term commitment to help rebuild central and eastern Europe. The EBRD fulfilled this purpose.

11. The Preparatory Conference Negotiations

With the EC 12 having signed up to establishing the EBRD, the next task was to seek agreement on its articles and *modus operandi*. Since the Bank was no longer a purely European body, this meant inviting all other interested parties to the table to negotiate its charter.

Before the year was over, Lubbers wrote to Mitterrand to suggest that his Finance Minister, Onno Ruding, should coordinate and lead the process of preparing the Agreement Establishing the Bank (AEB). His letter appears to have crossed with Mitterrand's invitation to ministers to a conference in Paris in January to start the negotiations.⁴⁶ Mitterrand's letter had been silent as to who would lead the discussions and coordinate the results. But the intention was clear that this would be in French hands and that Attali would hold the reins.

The G7's approach to the negotiations was one of the items on the agenda of the first Sherpas' meeting of the year in Key West in early January 1990. This marked the beginning of the US presidency and was a preparatory meeting for that year's Heads' meeting in Houston. Believing that negotiations on the EBRD's arrangements would get bogged down if all countries became fully involved, the G7 had expected to negotiate the main parameters among themselves first. According to Attali's account, they were shocked to learn not only that other European countries had already been invited to Paris but also that the Soviet Union had been included.⁴⁷

Thirty-six delegations, headed by ministers or top officials, gathered at the Kleber Centre in Paris on the weekend of 15 January 1990. This was the first of what would become a series of high-level meetings over the follow-

46 According to Attali's account. See *Europe(s)*, pp. 51–52; *Verbatim III*, p. 379.

47 Attali, *Verbatim III*, p. 392.

ing months. The proceedings were introduced by Mitterrand and around the table for the first time were a large number of ministers and officials from West and East, including Soviet Central Bank Governor Viktor Gerashchenko, Polish Finance Minister Leszek Balcerowicz, and Vaclav Klaus, minister of finance for the CSFR. The atmosphere was one of excitement and curiosity, partly because the two sides of the Iron Curtain were meeting with the aim of working together to design a mechanism of mutual support rather than trying to undermine one another, but also simply because the information gap was so great that no one knew what to expect.⁴⁸

The meeting itself focused on the proposed Articles of the AEB, taking them one by one. But behind the detail of the legal texts were fundamental questions about how the Bank should operate, including: the amount of initial capital that should be provided; the relative size of shareholdings; the number of Board Directors and their role; the place of qualified majority voting; currency concerns; and whether the Bank should finance only the private sector or include some public-sector investments as part of its operations.

One of the most difficult matters to resolve from the start was the status of the Soviet Union. The US delegation was led by the Treasury undersecretary for international affairs, the mid-western David Mulford, who strode purposefully ahead of his team into the room wearing his Stetson. He made it clear that Congress would not allow a nuclear-armed enemy of the USA to become a member of, and borrow from, a new international institution that was financed with US capital.⁴⁹ Gerashchenko was unfazed and referred to the rapid changes underway in the Soviet Union under Gorbachev's reforms. He advised the USA not to be "too hasty". The situation nonetheless became deadlocked and the atmosphere tense. In response, Mulford suggested that the Soviet Union might be admitted as an observer. The two-day negotiations concluded without agreement, however, with a follow-up meeting set for 10 and 11 March.

Another key item on the agenda was political conditionality. The mandate for the EBRD given by the European Council had been exclusively economic in nature. There had been no explicit reference to democracy or other

48 The intense experience was clearly cathartic in the case of one Hungarian delegation member and his Dutch counterpart. They married before the AEB was signed!

49 The Soviet Union, unlike Poland and Hungary, was not a member of the IMF or World Bank at the time.

political elements such as the rule of law or human rights, and to that point IFIs had avoided explicitly conflating economic and political objectives. Moreover, the 12 EC countries were long-standing members of the Council of Europe, which had dealt with such political concerns since the Second World War. However, the USA, Canada and Japan were neither members nor observers in the Council of Europe at that point.⁵⁰ Furthermore, the earlier G24 aid effort had linked funds to reform efforts. In this context, in which there was a desire to see political as well as economic change in central and eastern Europe, there was wide agreement that the EBRD mandate should include a political dimension.

For the US administration, an explicit reference to the pursuit of democracy helped persuade a sceptical Congress that the Bank could add value. Some EC member states also shared US concerns over the potential role of the Soviet Union as a borrower in the Bank⁵¹ and it was by no means certain that the USSR would clear the political hurdle for membership. Importantly, in principle a reference to democracy in the mandate could provide a lever to hold back finance or even expel a member should they backtrack on their commitments to uphold democratic values, human rights or the rule of law.

Another topic that proved controversial at the January meeting was the amount of the EBRD's initial capital. France and Germany had suggested ECU 15 billion, whereas the USA argued for ECU 5 billion. A settlement was reached later on ECU 10 billion, a capital base considerably smaller than that of the World Bank and other regional development banks, and with a very conservative gearing ratio of 1:1. The Bank's lending capacity was a long way short of the "Marshall Plan" effort of which Attali had once dreamed.

Relative shareholdings and voting procedures were easier to reach preliminary agreements on, largely by following the rules and procedures of other multilateral development banks. With the prerequisite that the EC 12 plus the Commission and EIB should hold a majority, shares were allocated equally to the main players. France, the UK, Germany, the USA and Japan were each assigned 8.5 per cent, as were the Commission and the EIB. The remain-

⁵⁰ The USA became an observer in 1995, and Canada and Japan in 1996.

⁵¹ For example, it was noted that the USSR was an 'AAA-rated' borrower and it was questioned whether it was appropriate for a development bank to lend to such a country. Italy made this point forcefully at EC coordinating meetings. The USA was concerned about lending to a long-standing military adversary.

ing shares were distributed roughly on the basis of GDP. The method allocated at the first stage 53 per cent to the EC blocking majority and 13 per cent to the borrowing community. The Soviet Union was pencilled in to receive half of the latter amount. Double-majority voting procedures⁵² were agreed for the most serious matters, such as the admission of new members, an increase in capital or suspension of lending. Decisions in such cases would require the approval of two-thirds of Governors representing not less than three-quarters of total voting power. In the case of eligibility to borrow, three-quarters of Governors and 85 per cent of total voting power was required.

In the weeks following the conference events surrounding German reunification continued to develop. Gorbachev now acknowledged that reunification was inevitable and was prepared to accept it on the basis of the old Soviet ideal of a unified but neutral Germany.⁵³ However, at a meeting with Gorbachev in Moscow on 10 February, Kohl made it clear that neutrality was unacceptable. The impasse was critical. The Soviet economy was spiralling downwards, making western economic aid all the more attractive, and Gorbachev's control over the Soviet system was becoming more tenuous.⁵⁴

This enhanced the appeal of the EBRD for the USSR. Membership of an international financial institution, for the first time in Soviet history since their withdrawal from the Bretton Woods institutions in the 1940s, could help pave the way towards membership of the IMF, which could bring with it potentially billions of dollars of essential support.

During February, various bilateral and multilateral discussions on the EBRD took place behind the scenes, although even among the EC 12 consensus could not be reached on many of the big issues. Despite their earlier scepticism, it was becoming clearer that the USA was more willing to participate actively.

The US team began to accept the inevitability of Soviet membership.⁵⁵ With support from the UK, Japan and some others, however, they insisted that the EBRD should not provide finance to the USSR beyond what it contributed to the Bank as a shareholder.

52 These procedures, which consist of a combination of simple-majority and weighted voting (according to capital contributions), are used in multilateral development banks, but not in the United Nations for example.

53 'Historical events in the European integration process (1945–2014)', University of Luxembourg, cvce.eu database.

54 According to the first EBRD *Transition Report* (2000). GDP in the Russian Federation (as an approximation for the Soviet Union) fell by an estimated 4 per cent in 1990.

55 Weber, 'Origins of the European Bank for Reconstruction and Development', p. 18.

This was an extraordinary condition, but in order to make headway the head of the Soviet delegation agreed that the USSR would borrow no more than its capital contribution in the first few years. Moscow would also limit its overall borrowing capacity to no more than 20 per cent of the institutional total so as not to crowd out smaller central European countries. The “Gerashchenko letter” outlining these commitments was annexed to the Treaty in due course.

Eleven of the 12 EC countries were prepared to accept this arrangement. But at a meeting in London in late February, the US, UK and Japanese representatives decided to reject the Soviet offer and demand instead that borrowing by the USSR be limited initially to its paid-in capital, then 20 per cent of the total (approximately US\$ 150 million).⁵⁶ They also insisted that any move from one stage to another should require a supermajority of 85 per cent of voting power. In effect, this gave the USA with Japan, or with the UK, a veto on any borrowing by the Soviet Union.

As the date of the second conference approached, a number of new countries declared an interest in joining the EBRD. At Japan’s request, South Korea applied for membership, while Morocco, Israel, Albania, Egypt, Mexico and Liechtenstein also expressed interest. With more countries involved than originally envisaged, the share calculations had to be reworked. Importantly, the USA now insisted that they should have a greater share (10 per cent) than any other member in recognition of their economic position. This reflected an about-turn in the US stance towards the EBRD, which was aired publicly by Secretary of State James Baker III. He told the Senate on 1 March: “the Europeans absolutely want us in this institution; and we want to show leadership.”⁵⁷

The Paris Conference in March, which was now made up of 42 delegations, once again involved a line-by-line negotiation of the draft Articles of the AEB. This time much quicker progress was made and by the end of the weekend 50 out of 58 Articles had been agreed in principle. Nevertheless, several points remained unresolved.

The Soviet Union took issue with the use of the term “multiparty democracy” in the preamble to the AEB⁵⁸ and “applying the principles” of the

⁵⁶ The proportion of paid-in capital later became 30 per cent.

⁵⁷ Testimony to the Senate Committee on Foreign Affairs, 1 March 1990.

⁵⁸ EBRD archives. “Committed to the fundamental principles of multiparty democracy, the rule of law, respect for human rights and market economics”, Preamble to the Articles of Agreement Establishing the Bank, EBRD.

same in Article 1.⁵⁹ Issues also arose over the currency denomination of the Bank's finances. The European side wanted to use the ECU. This would be a symbol of the European character of the institution and a means of building support for the single currency. The USA argued for the use of the dollar, on the basis of it being the most widely traded international currency, but also because use of the ECU would mean the value of their dollar contribution would fluctuate with exchange-rate movements. Similarly, Japan wanted to use Yen denomination.

There were also still disagreements over how to characterise the role of the USSR. These often turned on the debating point of whether or not the Soviet Union was a part of Europe, but more substantively on the question of its commitment to democracy. Under pressure to respond, the Soviets withdrew their objection to the preamble and Article 1 language on multiparty democracy. Three days later, changes in Moscow rendered the point moot. On 14 March, Article 6 of the Soviet Constitution, which assigned the "leading and guiding force of Soviet society" to the Communist Party, was amended, effectively removing the Party's absolute right to rule and opening the door to multiparty democracy. The last remaining impediment to full Soviet participation was now its borrowing capacity.

As part of the effort to resolve issues surrounding the USSR, the French hosts organised a private dinner with the US and Soviet delegations on the Saturday night of the two-day meeting. It was an unusual moment. Top finance officials from the three countries had not had much experience dealing with each other during the Cold War, let alone in an informal setting. According to Attali, who was present, the atmosphere was initially very tense. He recounts the following anecdote which helped to break the ice:

The Soviet Central Bank Governor describes how they are about to decide in the coming days whether to privatise parts of their economy. Mulford in a deadpan manner aims to put Gerashchenko on the spot over his claim that the USSR has changed, and asks:

'Suppose you privatise your oil sector tomorrow, what would happen?'

Gerashchenko exclaims: *'Ah no, that's impossible.'*

'There, you see!', says Mulford triumphantly, *'You'll achieve nothing if you won't privatise the oil industry.'*

59 "...committed to and applying the principles of multiparty democracy, pluralism and market economics", Article 1.

'No,' responded Gerashchenko with a big smile. 'No, it's not possible because tomorrow, it's Sunday!'⁶⁰

Nevertheless, it was not until May that the borrowing issue was finally resolved.

One of the major decisions remaining concerned the type of activities that the EBRD should pursue. The USA, Japan and the UK wanted to limit the Bank to supporting the private sector and privatisation. There was a strong aversion on their side to financing any state entities of former communist countries.⁶¹ While the operational template for the EBRD envisaged investment in the private sector as a central feature, many of the Europeans present were concerned that establishing viable private enterprises would take time and would limit the amount of investment that could be undertaken initially. Equally important, they saw an urgent need to put in place the necessary infrastructure to allow the private sector to function effectively. They thus pushed for a role for the Bank in investing in public infrastructure.

The Europeans also wanted to provide balance-of-payments support and export finance, but this was rejected by the USA and others, again on the grounds of limiting the EBRD's involvement with the state. This ensured the Bank would not provide budgetary support or programme lending, unlike the World Bank and other regional development banks.

After very long discussions, a compromise was reached which would define the Bank's operational approach throughout its history. It was decided that investments in the state sector, in other words those involving public-sector entities and state infrastructure, should take up no more than 40 per cent of the EBRD's total business volume, initially over a two-year period and each year thereafter.⁶² In other words, the Bank would be a private sector-led institution, but would not exclude some public-sector activities.

In another first for an IFI, it was also agreed that the EBRD would be able to offer a full range of financial instruments, including loans based on market rates, guarantees, and equity participations covering both private

⁶⁰ "Everyone laughs and relaxes. The ice is broken." Attali, *Europe(s)*, p. 62, Attali, *Verbatim III*, p. 443.

⁶¹ An ODI Briefing Paper on the EBRD, published in September 1990, commented: "the Bush administration initially opposed any EBRD funds going to the public sector, arguing this would amount to subsidising failed socialism." Thatcher's objections to state activities were well known, epitomised by her 'Bruges speech' in September 1988: "We have not successfully rolled back the frontiers of the state in Britain, only to see them reimposed at the European level." EBRD, ODI Briefing Paper, September 1990, p. 2.

⁶² Provision was also made that for any country no more than 40 per cent of commitments should be provided to the state sector over a period of five consecutive years.

and public sectors. In essence, it would combine the competences of a commercial bank with those of a development bank.

The primary objective of the EBRD, as expressed in the draft of Article 1, was mostly agreed. In its final form it would read: “the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.”⁶³

The Bank was also given a prominent role in protecting the environment. This featured in Article 2: “To promote in the full range of its activities environmentally sound and sustainable development.” Concern over the environment was beginning to appear more frequently in G7 and other international agendas so it made sense to embed it as a permanent feature of this new institution.

There were other disagreements, mainly between the US and European participants.⁶⁴ The USA, for example, objected to the European Commission and the EIB becoming members, on the grounds that they were not sovereign states. They also wanted a resident Board of Directors, paid for by the Bank, to exercise control over management. This reflected the structure of institutions such as the World Bank over which the USA held considerable sway, including veto power. By contrast, most Europeans were happy with a non-resident Board, in line with the practice at the EIB, and agreed that it should be limited to 12 members. Despite the presence of the Commission representing the interests of the 12 EC member states, however, it was not possible to limit the number of European constituencies. After trying out many permutations for constituencies, the final number of resident Directors was settled at 23—one of the largest among IFIs—with single-constituency offices for the largest shareholders, namely the G7 countries, the EC and the EIB.

63 At this point the relevant section read: “To promote the transition towards open market-oriented economies and private initiative in Central and Eastern Economies engaged in applying the principles of multiparty democracy and market economics.” Attali, *Verbatim III*, pp. 462–3.

64 Weber, ‘Origins’, pp. 16–19; Menkveld, *Origin*, pp. 63–65. Predictably one of the most fraught minor issues was over the official language for the internal documents of the Bank. It had already been agreed there would be four official languages: English, French, German and Russian. All the delegates apart from those from France and Germany, however, agreed that working documents should be distributed only in English. France tried to argue that using all four languages would be fair, but efficiency and economy won the day. *Source*: author interview with a senior Hungarian participant.

12. Sensitive Matters: The Location of the Bank and the Choice of its First President

The third constitutive conference, which was expected to be the last, was held on 8 and 9 April 1990. By now most elements were in place and thoughts were turning to a signing date for the AEB. To simplify matters, it was decided to aim for an OECD ministerial meeting in Paris on 29 May. Two important issues, however, had not yet been formally tabled: where the Bank's headquarters should be located and who should become its first President.

Many cities had offered to host the EBRD: Amsterdam, Berlin, Copenhagen, Dublin, London, Luxembourg, Milan, Prague, Vienna and Warsaw. In February, the UK had even produced a glossy brochure in three languages extolling the virtues of the City of London, which it claimed hosted more eastern European banks than any other western capital. Attali scouted a number of possible venues in Paris, alighting on an office in Boulevard Haussmann.

As with many such high-profile and politically sensitive decisions, the choice of the Bank's location would not be made in isolation. There were several other new institutions to locate at the time, including the European Trade Marks Office,⁶⁵ the European Environment Agency and the future European Central Bank (ECB).⁶⁶ Competition to become a winning city was fierce. Much later, Attali would describe the behind-the-scenes negotiations in a book of memoirs.

At the same time, among the international finance issues exercising the minds of senior officials was a long-running battle over IMF quotas. The ninth review of these quotas was long overdue and coming to a head for the IMF/World Bank Spring Meetings in late April 1990. The Japanese were arguing for a special quota increase to reflect the rise in their country's GDP. An adjustment on this basis would mean the UK's demotion from second to fourth place, behind both Japan and Germany. France was also insisting that, based on the size of its economy, it should be ahead of the UK.

There had been intense discussions for several months on how to resolve the impasse. British officials had put forward various solutions⁶⁷ but failed

⁶⁵ This became the European Union Intellectual Property Office, located in Alicante, Spain.

⁶⁶ The European Environment Agency went to Copenhagen and the ECB to Frankfurt.

⁶⁷ J. M. Boughton, 'Tearing Down Walls: The International Monetary Fund 1990–1999', IMF, Washington DC, 2012, pp. 870–875. The key official at the time designing the possible solutions was Jeremy Heywood, later Lord Heywood of Whitehall and Cabinet Secretary to the UK government for many years.

to achieve consensus. The G7 finance deputies finally managed to agree a formula which they would try to sell to ministers in time for the IMF/World Bank Spring Meetings.

The proposal was that Japan and the Federal Republic of Germany should become second equal in the IMF, with the UK and France sharing equal fourth place through an unprecedented quota leaseback scheme.⁶⁸ In addition, the G7 would support London as the location for the headquarters of the EBRD, with a French President for a single non-renewable term and an American as First Vice President, or deputy to the President.⁶⁹

Ahead of the final constitutive conference establishing the EBRD, the USA and the USSR also agreed the text limiting Soviet borrowing to ECU 180 million over three years before an increase could be considered.⁷⁰ The stage now seemed set for the signing ceremony of the AEB⁷¹ to take place on 29 May.

However, despite the preliminary agreement achieved by the G7, proposals from other member countries—including a Dutch candidacy for President—remained in play. Typically, such agreements in the world of international affairs are reached by consensus, but at the constitutive conference between 9 and 10 May, no consensus emerged on either the location for the Bank or the nationality of its President. With less than three weeks before the signing ceremony, there was little option left other than to put it to a vote. The Secretariat duly informed the member countries that this would take place on 19 May, the last meeting to be held before the signing of the Treaty on 29 May.

In the end, the original G7 proposal was supported, despite concerns from smaller EC countries such as Belgium and the Netherlands that the powerful G7 nations—including other Europeans—had effectively called the shots. Attali was elected President with 32 votes out of 40. (The Commission and EIB abstained for reasons of conflict of interest, not wishing to

68 As the relative GDPs of France and the UK fluctuated, a lend-and-leaseback scheme of around 0.5 per cent of quota would ensure the quotas could remain equal in any subsequent review. Although the positions of France and the UK fell to fifth equal following quota reform and the rise of China, the agreement remains in place.

69 Confidential note from the UK Chancellor's Principal Private Secretary to Charles Powell, Thatcher's Foreign Affairs Private Secretary, dated 7 May 1990. National Archives; Bank of England Archives.

70 At the time an increase required a decision of not less than three-fourths of Governors representing at least 85 per cent of voting power. It was enshrined in Article 8, paragraph 4 and was linked to the "Gerashchenko letter" on the Soviet Union to the Chair of the Conference.

71 www.ebrd.com/news/publications/institutional-documents/basic-documents-of-the-ebrd.html.

choose sides between member states.) London was selected as the location. The tidying up of the rest of the AEB was done overnight.

It had been a momentous week, and not only for the Bank. On 18 May, the treaty bringing about monetary, economic and social union between West and East Germany was signed in Bonn. One week later, Gorbachev agreed that the enlarged Germany could join NATO in exchange for western financial assistance, including ECU 3 billion from the Federal Republic to pay for the repatriation of the 365,000 Soviet troops stationed in the GDR.

13. The Signing of the Agreement Establishing the Bank in Paris

The Treaty establishing the EBRD was signed on 29 May 1990 at the Elysée by the finance and foreign ministers of all 42 members. Ratification by national parliaments, two-thirds of which were required before the Bank could begin operations, was expected to take up to a year.

The signing ceremony had fired the starting gun for the creation of an institution that delivered a truly multinational response to a global challenge. Its shareholders comprised the entire EC and two European organisations, as well as other European states, including the eight prospective recipients of EBRD finance. Crucially, there was a hefty non-European presence including the G7 powerhouses of the USA (the largest individual shareholder), Japan and Canada, as well as Australia, New Zealand, South Korea, and also Mexico, Morocco and Egypt.

Reflecting on the result, Attali concluded that the EBRD at its birth was more Anglo-Saxon than European in its philosophy and design, but that the Americans and British had had to accept the membership of the Soviet Union and a French President. It was not the beginning which he had envisaged. For most other officials involved, it had been a remarkable feat to achieve consensus and to have built the core of a new institution to support central and eastern Europe inside six months. Politically at least it was a great success. Practically, there was a lot to do before the Bank could become operational.

Table 1.1.

The 42 signatories to the AEB included the eight recipient countries, the 12 EC members plus the European Economic Community (EEC) and the EIB, as well as 11 “other” European and nine non-European countries.

	Number of shares	Capital subscription (in million ECU)
A – European Communities		
(a)		
Belgium	22,800	228.00
Denmark	12,000	120.00
France	85,175	851.75
Germany, Federal Republic of	85,175	851.75
Greece	6,500	65.00
Ireland	3,000	30.00
Italy	85,175	851.75
Luxembourg	2,000	20.00
Netherlands	24,800	248.00
Portugal	4,200	42.00
Spain	34,000	340.00
United Kingdom	85,175	851.75
(b)		
European Economic Community	30,000	300.00
European Investment Bank	30,000	300.00
B - Other European countries		
Austria	22,800	228.00
Cyprus	1,000	10.00
Finland	12,500	125.00
Iceland	1,000	10.00
Israel	6,500	65.00
Liechtenstein	200	2.00
Malta	100	1.00
Norway	12,500	125.00
Sweden	22,800	228.00
Switzerland	22,800	228.00
Turkey	11,500	115.00
C – Recipient countries		
Bulgaria	7,900	79.00
Czechoslovakia	12,800	128.00

German Democratic Republic	15,500	155.00
Hungary	7,900	79.00
Poland	12,800	128.00
Romania	4,800	48.00
Union of Soviet Socialist Republics	60,000	600.00
Yugoslavia	12,800	128.00
D - Non-European countries		
Australia	10,000	100.00
Canada	34,000	340.00
Egypt	1,000	10.00
Japan	85,175	851.75
Korea, Republic of	6,500	65.00
Mexico	3,000	30.00
Morocco	1,000	10.00
New Zealand	1,000	10.00
United States of America	100,000	1,000.00
E - Non allocated shares	125	1.25
Total	1,000,000	10,000.00

SOURCE: *Basic documents of the European Bank for Reconstruction and Development*, EBRD, 1991, pp. 37–38.

