

An Interview with Tadeusz Kościński

Minister of Finance of the Republic of Poland

Nomination for the Presidency of the European Bank for Reconstruction and Development

Mikaela Gavas:

Welcome to our conversations with the candidates for the presidency of the European Bank for Reconstruction and Development. At CGD, we hope to contribute to the EBRD presidency election process in the best way we can by offering this opportunity for the candidates to discuss their visions for the future of the bank. It is therefore a great pleasure to welcome Poland's Minister of Finance, Tadeusz Kościński, nominee for the EBRD presidency. Minister Kościński, welcome and thank you very much for agreeing to take part in this conversation.

Tadeusz Kościński:

Thank you very much, and thank you for this opportunity, of course.

Mikaela Gavas:

So let me start by asking you what you think the strengths and the weaknesses are of the EBRD as we stand today in the midst of this unprecedented global health and the economic crisis?

Tadeusz Kościński:

The strengths are undoubtedly the biggest asset of the EBRD is its staff, its multinational dedicated staff. So undoubtedly, that's its greatest asset. The EBRD has 30 years of unique experience. Who would have thought 30 years ago, when the Berlin Wall was falling, that so quickly the Central European countries could actually move away from the under the Soviet Bloc regime into a normal free market. So absolutely, a unique experience, which can be used in other places in the world. Of course, not in the same context of moving out from a centrally planned regime, but a lot of the solutions we use in other areas.

Tadeusz Kościński:

Perhaps one of the things that the EBRD should be doing more is actually using the staff on the ground, in the transition countries, especially in the advanced transition countries, to actually learn from them what's been working? What doesn't work? Because when you manage a project from a distance you see the KPIs and the project's hopefully successful, but you don't know some of the byproducts. Sometimes the KPIs don't show some of the byproducts being caused. The staff on the ground can see that and can implement, or guard against these products in other areas.

Tadeusz Kościński:

Another great asset, of course, is the shareholder base. It's a tremendous shareholder base. So a lot of information can be tapped in and taken from the shareholders. I think shareholder involvement should be much, much stronger than it seems to be at the moment because that's a tremendous pool of knowledge, which can be tapped in to.

Tadeusz Kościński:

Of course, most important, as usual in any business, is the customer, is the EBRD using enough feedback from the customers that it's been serving to see how that they can actually leverage that knowledge in other areas.

Mikaela Gavas:

So what is your vision for the future of the EBRD, and in particular, how would you use this period to start thinking about the shape of things to come?

Tadeusz Kościński:

As a banker, once a banker, always a banker, unfortunately for my sins, the first thing you look at is that who are you talking to? So you look at their P&L, and the EBRD has a tremendous record. Just last year, they had 1.4 billion euros profit, which from the documentation that comes from projects which are in alignment with what the founding fathers of EBRD wanted, to help countries in their transition to a modern, free democratic environment.

Tadeusz Kościński:

So at the macro level, if you look, the EBRD has been very, very successful. The countries, especially in Central and Eastern Europe, over the last few years, their GDP has been growing above average for the EU. So if you look at it from that point of view, the EBRD is a tremendous success. So it's making significant profits, and the countries of operation are actually having above average GDP growth.

Tadeusz Kościński:

But there is a problem. Now something which should be looked at is, why are people migrating out of these countries? The time when the EBRD was extracting value of 1.4 billion, we, in Central Europe, have had the biggest brain drain in our history. Something's happening there which has to be addressed. Really, what the issue seems to be is that, just creating a democratic society, and putting in projects to make sure that it's sustainable and inclusive is not enough. As we can see from the experience in Central Europe, that what's actually happened is the help has actually pushed Central Europe into the middle income trap.

Tadeusz Kościński:

The people have got jobs, it's free and democratic. So from a distanced perspective, it looks like everything's fine. But what's happened is that we've moved into the imitation environment, as I call it. So we're doing the same as someone else is doing here in the world, we're just competing on price, and very, very difficult then to move out of that middle

income trap. As soon as people want to earn more, they price themselves out the markets and lose their jobs.

Tadeusz Kościński:

So the EBRD should be doing a lot, lot more to move the transition countries, not just into inclusive, sustainable growth, but into what I call the innovative economy. So people should not so much be working and competing on price, but on talent. There's a massive pool of talent outside the Western developed countries, which needs to be developed. Now, one of the best ways, of course, is to make sure that the EBRD is working together with the universities.

Tadeusz Kościński:

Universities in the transition countries tend to be just pure academic institutions as opposed to being partners to business. So I think a lot more should be done to actually move universities to be more business orientated. A lot more should be done for research and development in these countries, and that way that we'll try to avoid the middle income trap and go straight into a high tech future type of economy.

Mikaela Gavas:

If you were chosen to serve as president of the EBRD, what would be the top two or three things, against which you would like your term to be judged?

Tadeusz Kościński:

I think the most important, really, is in the countries where we operate, as I mentioned, it's the people that are the most important. It's not the KPIs that we have in the bank, how much money we've lent, and how many of our projects high on the transition scores, et cetera. Are the people migrating, leaving the countries where they are? Or are they staying and hopefully even attracting immigrants into their country, which would reflect that their life is much better and positive.

Tadeusz Kościński:

So it's not just that where we have the very nice, it's everybody has a job, and it's free media, and there's democracy and etc, but also are the people, are they voting with their feet to stay? Or are they voting with their feet to go? So listening to the people is very important.

Tadeusz Kościński:

Also, I think trade needs to be addressed as something which doesn't seem to be higher on the agenda. Let's face it, at the end of the day, countries are going to be rich when you spend less than you earn, and to earn, you have to export. Now, I think there's a lot of countries, both in the countries of operation, but also in the countries of the shareholders where there's non-tariff barriers, and I think that there is a space for the EBRD to be working there, to analyze why there are non-tariff barriers in the transition countries, what's actually happened, and what are they worried about? But also, through it's shareholder base to eliminate entry barriers.

Mikaela Gavas:

Then just looking at the current situation a little bit more, how do you think the bank's activities will need to differ from business as usual due to the crisis we're in? Do you see any short term or longterm changes to the bank's operations and activities stemming from the current crisis?

Tadeusz Kościński:

Well, first of all, the EBRD is one of the few banks, if not the only a multilateral development bank, which has a political aspect enshrined in its articles of association. But I think the COVID crisis, we can see, it's not a national crisis. It's not a crisis for our region or continent, it's a global crisis. So we all have to work together. I think that irrespective that the EBRD has this political mandate, it should be working with all other multilateral development banks, and financial institutions, and it should be prepared to sometimes take a secondary role rather than always competing to be the first. I think there's, as I say, horses for courses and we should be ready to work together.

Tadeusz Kościński:

Of course, where we work together is also going to be changed because the pandemic. There's, I think, two or three areas, which are obviously going to be changed in the future. One is the health sector and the other one is digital. The health sector, I think even the rich Western countries are having a problem with the health sector. So this has to be top of agenda for the transition countries because their problems are much exacerbated. We know we have to invest more and upgrade both the research and development, the production of health products, but also the medical services, they need to be upgraded. So I think it's very, very important that this is put on the agenda.

Tadeusz Kościński:

The second big fallout of the pandemic is that we're all going to be much, much more digital. So I think, again, going forward, the great divide between the poor and rich is going to be how they use the digital world. I think digital infrastructure is going to be very, very important. Education, make sure that everybody has a fair chance of working in the digital space. Cyber security, obviously, and to make sure that especially the poorer countries aren't under threat. And working together between countries because I think digital breaks down barriers, both local and national barriers, and I think a lot more will be done there.

Mikaela Gavas:

Just thinking a little bit about the climate agenda now, how would you make sure that the climate agenda remains front and center of the EBRDs investments in the COVID era?

Tadeusz Kościński:

First of all, it's not just people in the rich countries that want to live in a clean environment. Everybody wants to live in a clean environment. It's really what possibilities they have to influence the climate from their position. So I think it's a no brainer that climate is at the front of everybody and it's market driven, so any institution which is driven by the market will have climate at the top of its agenda.

Tadeusz Kościński:

It really is most important to look at the various projects, not only from a distance, but also from a local perspective. All transition countries have different starting points, for various reasons, either because of their geography or because of their history. Central Europe was unfortunately under the Soviet Bloc regime so they didn't have the choice which country was nuclear, which country was coal powered, et cetera.

Tadeusz Kościński:

So we have to take that into perspective, and also, take into the perspective the local community, how ready they are, because a lot of education is required. Just putting in the clean energy, also needs a lot of education to make sure people appreciate that everybody can do something to help the environment. So for me, the environment, it's ... Everybody is not only talking and everybody's using it, it would be very odd if that wasn't top of the agenda or very high on the agenda.

Mikaela Gavas:

Now moving on to the EBRD's gender strategy, do you think it's being implemented well enough? Or do you think that the EBRD should be doing more to pay attention to gender, both in its external investments, and in its own internal policies and administration?

Tadeusz Kościński:

I think we have to, again, have to be very careful on these types of issues because very often the gender agenda means making sure that females have jobs. We have to be very, very careful that this is not just the one benchmark that we use for our gender perspective because very, very easy to push people, as I mentioned into the middle income trap. In fact, we can be causing more harm than good that way. Modern business is moving away from rational thinking. That was, say, 20, 30 years ago. You had IT departments who created various functionality and you sold your products. We competed on price.

Tadeusz Kościński:

Nowadays, the most important is the customer experience. This is why I think it's ever so important to have the right mix of staff on board to make sure you have a lot of people with rational thinking, a lot of people who have emotional thinking, but also other aspects, which I think are missing, mature societies look after the old and the disabled. I'm not sure that that's addressed enough on the EBRD agenda. We should also not only be looking at ensuring that there's a fair mix on the gender, but also are we addressing the needs of older people and the disabled, that's another point there.

Mikaela Gavas:

Okay, so let me then ask you, do you think the EBRD should set targets for measuring the implementation of both the external gender strategy, but also for narrowing gaps or improving the gender balance internally?

Tadeusz Kościński:

Absolutely. But as I said, we have to be very, very careful that we don't have a binary that we meet a sufficient number of women or there's a certain number of older people, or disabled

people. It has to go a lot, lot further than that to make sure that we don't have this false sense that we've managed our gender strategy. We have to make sure that we have to look forward and make sure that we don't push into the middle income trap. We have to create good quality jobs. If we were employing a disabled, it shouldn't be just the number of disabled that we've employed, but are they doing a very useful job and are they getting benefit from that as opposed to just having numbers on an Excel spreadsheet.

Mikaela Gavas:

Now moving onto the EBRD's countries of operation. So what is your view of the bank's proposed expansion into Subsaharan Africa? And what do you think-

Tadeusz Kościński:

[inaudible 00:17:13]-

Mikaela Gavas:

Sorry, just to add, what do you think is needed to enable the EBRD to be really effective in that region?

Tadeusz Kościński:

Well, first of all, I think the EBRD should continue to work in all the regions it's currently work in. I think that's very, very important. Obviously should focus more on, perhaps the Western Balkans, the SEMED region, Central and Southern Europe, etc. So these are areas which they should continue to focus on.

Tadeusz Kościński:

As for the Subsaharan region, well, we need a lot more analysis there, and a lot more deliberation about what we should be doing more, and we should be listening to what the shareholders are saying. I think the shareholders should have a much louder voice and we should be listening to the shareholders, what are they looking at?

Tadeusz Kościński:

As we know, the European Union is going through looking at the Wise Men's report analysis. So let's see what the proposal is on the new financial architecture for Europe will be, and what guidance the European Council will give. I think it's not really for the EBRD management to drive that agenda, it's more for us to fulfill the agenda put forth by our stakeholders.

Mikaela Gavas:

So you mentioned the forthcoming view on the European development finance architecture, and obviously there, there has been the Wise Persons Group report on the future of the development finance architecture, and in particular, around the debate of the roles of the EBRD and the European Investment Bank. What are your views on the future institutional composition of European development finance, and again, in particular, how do you see the role of the EBRD evolving in relation to the EIB?

Tadeusz Kościński:

I think most important is that for the EBRD not to compete. I think that there's limited resources in the world so I think the worst thing we can do is actually compete. We should be working together. We should be making sure that where we can take the leads, and then ...

The EBRD is one of the few, if not the only, MDB, which has got a political mandate. So where we can help various governments to change their policies, I think that probably, the EBRD should be really leading. But when it comes to public investments, I think this is more for the EBI, and it's where the EBRD should then be perhaps taking a secondary role. So I think the message I'm putting through is that we should be listening and we should be cooperating. We should not be competing.

Mikaela Gavas:

Thank you. I have one final question, really, and it's a bit about you. Can you tell us something about your own career and background and how your experiences have shaped you to be an effective president of the EBRD?

Tadeusz Kościński:

It's fortunately or unfortunately, although I've got a very Polish name, but I was actually born in London. My parents, landed up in London after the war because of historical reasons. So I was educated in London. I worked in the City of London for nearly 13 years. In 1989, when the political situation changed in Central and Eastern Europe, I decided ... At the beginning, it was only for three months, that was 30 years ago, so I decided, "Let's go for three months and have some fun in Central and Eastern Europe and help them on their transformation." So I came over.

Tadeusz Kościński:

Originally, something which everybody was talking about, but you rarely hear now is, everybody was a company doctor because most companies in Central Europe were state owned, and they didn't stand the test of moving from centrally planned economies to do a free market economy. So there's the core of the requirement for lots of company doctors to restructure companies, to find new shareholders for them.

Tadeusz Kościński:

I also worked in a many banks. So basically from 1991 to 2015, I worked in various banks, some banks, in fact, with EBRD equity stakes in them, doing a lot on ... I was working in treasury, and IT, trade and direct banking and Poland, again, this is so why it's so important to use people of countries of operation because countries of operation, in some aspects, have leap frogged the West. Poland is a global leader when it comes to consumer payments. In fact, every shop in Poland accepts card payments, it's contact less. 95% of transactions are without a pin. So very, very modern.

Tadeusz Kościński:

In 2015, basically my boss, the chief executive of the bank moved to the administration to become the deputy premier. I followed him and I was the deputy minister in the Ministry of

Development, responsible for foreign direct investment. There my claim to fame was that I changed special economic zones, which were present in Poland, a relic from the 1990s of the high unemployment. I changed that so the whole of Poland is now a special economic zone, and I've moved that the requirements to actually have the license of being economic zone are not the amount you invest, or how many jobs you create, but how much you work with universities, how you develop the supply chain, the good quality jobs you give.

Tadeusz Kościński:

For my sins, last year, and the beginning of the summer, I was moved to the ministry of finance. I was responsible for the tax legislation. My team, we implemented a new tier for corporate rate tax from 19% for everybody down to 9% for SMEs. We implemented a 5% tax rate for intellectual property, so the IP Box, one of the lowest in the world. We eliminated income tax for people under 26 years of age. So we zeroed that out.

Tadeusz Kościński:

I think, so a good track record there of listening to what our customers say and working with us. From November, I'm the serving Minister of Finance, so I had the pleasure of, in January, having the first balanced budget since 1989, and will probably be the minister at the end of the year who has the biggest deficit since 1989, but such is fun of being a minister of finance.

But I think one of the important things is the COVID response.

Tadeusz Kościński:

We gave, probably, the most money back into the economic environment, to our companies. So for people to save their jobs, for companies to not go into bankruptcy, and we can see now the benefits, hopefully the crisis won't be as heavy as in other European countries. So hopefully we could quickly come out of the crisis.

Tadeusz Kościński:

Going forward, if I become the president of EBRD, what can I bring? Well, three things really, listen to the most important asset the customers, and react, and do what they require. Listen to shareholders and react appropriately, and listen to the staff. I'm a firm believer in listening, the intelligence is on the other side.

Mikaela Gavas:

That's great. Thank you very much, minister. Is there anything you would like to add that we haven't covered? Anything at all you would like to end with?

Tadeusz Kościński:

No, not really. I wish all my competitors luck. I think the most important is to make sure that you don't sit in the chair in London and think everything's as rosy, or not as rosy, depending what you think of London, you actually use the staff that you have in transition countries. I think the agenda is totally different. 30 years ago, as I said, the agenda for EBRD was to move the countries out of the centrally planning economies.

Tadeusz Kościński:

I think we've shown that these countries have moved very, very quickly forward, some very, very talented people, and worth using them in other, especially early transition countries, to leverage the experience. That's going to be the real, I think, measure of the success of the EBRD. Are employees from transition countries, mature transition countries, managing and leading projects in early transition. That's going to show that EBRD is successful. Thank you.

Mikaela Gavas:

Super, thank you very much. Again, thank you for agreeing to set out your vision for the EBRD. It's been a real pleasure minister.

Tadeusz Kościński:

Thanks very much. Take care.