Chapter 3

Arab Spring

Introduction

When the EBRD started operating in Turkey in 2009, the Bank’s management and its shareholders were keen to stress that it was not a precedent for rapid further expansion. It was introduced very much as a one-off step, with Turkey the obvious gap in a region that spanned Europe and Asia. There was a clear logic in developing a continuum of coordinated economic integration.

That the EBRD might venture across the Mediterranean—into a third continent—to embrace yet more economies that were culturally and historically distinct from its traditional post-communist, east European stamping ground was not seriously on most shareholders’ agenda.

Yet, just as the EBRD had been born out of a huge and sudden sweep of socio-political change across an entire region, it was another tsunami of demands for democratic freedom, dignity and economic improvement that triggered the next move.

Those demands started with the suicide on 17 December 2010 of a Tunisian street vendor who could no longer stomach his daily ration of harassment and humiliation from public officials. In response, protests spread across Tunisia and then right across North Africa and into the Middle East, toppling some autocratic leaders and securing pledges of economic and political reform from others.

The EBRD would very quickly become part of the response of the international community to calls to support this new wind of change, the ‘Arab Spring’. That had not been on the cards when Governors gave a green light for a review of expansion to Turkey at the 2008 Annual Meeting in Kyiv. The refrain there had been “Yes to Turkey. And no further”.

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Three years later, meeting in the then Kazakh capital Astana, Governors gave the EBRD the go-ahead to embark on another journey to a new geography, the southern and eastern Mediterranean. For the EBRD, 21 years on from the creation of its charter, it was as much a rebirth as a coming of age.

The Middle East and North Africa (MENA) had traditions in many ways vastly different to the legacy of the Soviet communist era encountered initially by the EBRD. Its young and fast-growing population, poor regional integration and long-standing and deep cultural heritage contrasted with the Soviet experience. But there were commonalities too, in the need to break the stranglehold of state regimes—whether bureaucratic, militaristic or monarchist—find productive jobs for a well-educated but underused workforce, and introduce democratic freedoms so long suppressed by feather-bedded plutocrats.

It was indeed a new challenge for the EBRD. But it was one that was entirely in keeping with its transition mandate.

1. **Before the Arab Spring**

**Egypt’s early request**

At the 2008 Annual Meeting in Kyiv, when most delegates said there should be no further expansion beyond Turkey, one voice stood out from the crowd.

Fayza Aboulnaga, Planning and International Cooperation Minister under Egyptian President Hosni Mubarak, said Egypt supported Turkey’s change of status and saw it as a “positive precedent,” adding:

As Europe extends partnership and the EuroMed union to the south, southern partner countries that are EBRD members, such as Egypt, are also eligible to benefit from the Bank’s assistance and operations.²

She repeated the call the following year, when the EBRD was holding its Annual Meeting in London, the first under the presidency of Thomas Mirow. Aboulnaga spoke of the effort Egypt had been putting into

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1. On 20 March 2019, the capital was renamed from Astana to Nur-Sultan.
delivering economic and social reforms. But the country still faced a num-
ber of challenges:

The Egyptian economy therefore remains in need of the EBRD’s unique 
set of skills and experience that the Bank has built up over 18 years of help-
ing countries of operations develop market economies and strengthening 
private enterprises, especially in light of the global financial crisis, which is 
turning into a real economic crisis.3

With operations in Turkey growing and the global financial crisis affect-
ing all economies, including Egypt, the call became formal in 2010 when 
shareholders met in Zagreb to agree a 50 per cent capital increase to bol-
ster the Bank’s resources to stave off the impact of the crisis. Aboulnaga pre-
sented Egypt’s case to the assembly:

As a founding member of the EBRD, Egypt is quite familiar with, and 
indeed appreciative of, the Bank’s support to its countries of operations—
including its role during the crisis—and thus we strongly believe that 
extending the EBRD’s operations to Egypt would support our development 
endeavours.

She listed the areas where the EBRD could be particularly useful with its 
specialised skills and expertise, in sustainable energy, climate change miti-
gation, information and communication technology, infrastructure and 
agribusiness:

Changing the status of Egypt to an EBRD country of operations is in our 
view a win-win prospect, as it will definitely generate benefits for Egypt as 
well as for the Bank and its members.4

Closing the Annual Meeting, the Vice Chair of the Board of Gover-
nors, Slovak Finance Minister Ján Počiatek, was non-committal but said, 
“...the interest in becoming a country of operations expressed by Egypt and,

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3 Speech to 2009 Annual Meeting.
4 Speech to 2010 Annual Meeting.
possibly, other countries, will need analysis and discussion”.5 “Other countries” referred specifically to Morocco, another founding shareholder of the EBRD. The Alternate Governor from Rabat, Abdeltif Loudyi, had aligned his authorities with Egypt telling the conference: “Joining the countries of operations affords an opportunity for our two countries, Morocco and Egypt, to benefit from the expertise acquired by the Bank in specific areas.”6

The Zagreb Annual Meeting triggered a review process for Egypt’s request. Mirow told journalists at the end of the conference that the EBRD would certainly look into the Egyptian request. “What I’ve said here to the Board of Governors is that they deserve a serious consideration,” Mirow said. But he was making no promises. “We will need to make an assessment of any possible step and then put this on the table for discussion ... I made a commitment in procedural terms but made no commitment in substantial terms.”7

France considers a European Mediterranean Bank

Just as the EBRD was preparing its response to Egypt, even if there was little real sense of where the review might end, the Bank was drawn into a parallel debate about European development plans for the Mediterranean region.

A French-led initiative was looking into the creation of a European-Mediterranean (EuroMed) Bank that appeared to be developing in the image of the EBRD itself. The proposed bank was a product of the 43-nation Union for the Mediterranean (UfM), a brainchild of French President Nicolas Sarkozy. Launched in 2008, the aim of the UfM was to create a more balanced dialogue between the wealthy EU and the poorer states that line the Mediterranean including in North Africa and the Middle East.

One year later, Sarkozy wanted to back up that dialogue with financial support. He charged Charles Milhaud, former Chairman of the Board at the Caisse Nationale des Caisses d’Epargne, the French mutual banking group, with forming a Working Group to “assess the opportunity of creating a bank dedicated to the financing of co-development in the Mediterranean”.

Milhaud’s group comprised high-ranking officials from both sides of the Mediterranean, and included a Vice President of the European Investment

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5 Closing address to 2010 Annual Meeting.
6 Speech to 2010 Annual Meeting.
Bank (EIB), Philippe de Fontaine Vive Curtaz, as well as Jean Lemierre, the former EBRD President and then Adviser to the Chairman of BNP Paribas.\footnote{Lemierre would later take the Chair of BNP Paribas.}

Milhaud’s report was published in May 2010. It recommended the creation of a Euro-Mediterranean financial institution for co-development, by establishing a dedicated subsidiary of the EIB, encompassing the EIB’s existing Mediterranean activities which were then headed by de Fontaine Vive.\footnote{‘The Financing of Co-Development in the Mediterranean’, Final Report, May 2010. https://www.bassanini.it/wp-content/uploads/2020/10/Final-Report.pdf.}

The attributes of the institution they were proposing tallied closely with the programmes and instruments the EBRD had been applying to its regions over the previous 20 years. The report said:

This new institution would focus on supporting the private sector, in particular through assistance for long-term financing, helping SMEs gain access to bank credit, developing guarantees, stimulating financial markets, supporting innovative investment funds and transferring financial technology through technical assistance.

It added:

The value of any new institution would be conditional upon the implementation of institutional and economic reforms propitious to private initiative. It should have a complementary role, offering services that other institutions do not provide to any great extent or very well, without worsening coordination issues. It should be subsidiary to the private sector and not replace it; finally it should be an instrument of transition and support.

The report, which proposed the EIB as the “reference shareholder” of the new institution, taking approximately one third of the bank’s capital, was presented to Sarkozy in August. Media speculated at the time that de Fontaine Vive would be tapped to lead the Euro-Mediterranean Bank. There was also media speculation of German opposition to the project.

In an article headlined “Berlin Risks Burying Milhaud Report,” Maghreb Confidential\footnote{Lemierre would later take the Chair of BNP Paribas.} wrote:
Some fear Germany could torpedo France’s hopes of setting up a Union for the Mediterranean “bank”... According to our sources, the German government doesn’t seem keen on having 43 countries—members of the Union for the Mediterranean—having a say in decision-making at the bank.\textsuperscript{10}

At the EBRD, there was sufficient interest in the project—even from a distance—to consider the implications of the creation of a new financial institution very similar to the Bank itself. Mirow dispatched his head of office Hans Peter Lankes to a meeting on the new bank as an observer.

An EBRD “non-paper”\textsuperscript{11} looked at whether there might be a possible role for the EBRD in the Mediterranean and noted the similarities between the objectives and characteristics of the proposed new bank and the EBRD. These included “co-development”—the principle of joint ownership and determination by recipient and donor countries that was core to the EBRD’s own model—as well as the new bank’s focus on creating sustainable jobs via the private sector. Other key principles of the new bank like conditionality, complementarity with other IFIs, subsidiarity vis-a-vis the private sector and a transitional mandate were all part of the EBRD model.

The paper concluded that the EBRD could indeed fill an important gap in the financial architecture of the region, as part of a well-designed division of labour with the EIB and other development lenders. But it made equally clear that it only intended to contribute to the current debate. It was not a proposal and did not necessarily reflect the views of the Board and shareholders of the EBRD.

This debate was taking place just as the EBRD, in late 2010, was preparing its response to the request from the Egyptian authorities, as had been agreed at the Zagreb Annual Meeting. A draft work programme on Egypt was circulated to the Board in November, identifying a division of labour within management and listing issues that needed to be assessed, including the legal, economic and operational implications. That work was expected to be completed roughly one year later, in October or November 2011.

\textsuperscript{10} Maghreb Confidential report, 28 October 2010.
\textsuperscript{11} A “non-paper” is a document written by officials offering views which are not a formal position of an organisation.
2. The Arab Spring and Preparations for an EBRD Response

Tunisian street vendor’s protest triggers a revolution

Work on the EBRD’s response to Egypt and the elaboration of plans to create a new EuroMed bank suddenly and dramatically took on a new complexion, as a result of the death of the Tunisian fruit seller that triggered an explosion of protest across the Arab world.

Mohamed Bouazizi set himself alight on 17 December 2010 after facing yet more intimidation. Suffering from horrific burns, he finally died in hospital on 4 January 2011. Bouazizi became a cause célèbre for the people of Tunisia who sought dignity, rights and justice, and an end to humiliation and suffering. His solitary act of defiance unleashed a chain of popular revolt, first in Tunisia and then across the Arab world.

Protests spilled over to engulf Egypt, Syria, Yemen, Libya, and the monarchies of Jordan and Morocco, in what became known as the Arab Spring or Arab Uprising.

In Tunisia, the revolts spread rapidly through the whole country. On 13 January 2011, just days after Bouazizi’s death, hundreds of protesters ignored a curfew and fought running battles with police in the centre of Tunis. One day later, after dissolving his government and declaring a state of emergency, President Zine El Abidine Ben Ali, who had ruled over Tunisia since 1987, fled to Saudi Arabia.

On 17 January, a man in Egypt set fire to himself outside the parliament building in Cairo. Others followed suit in what appeared to be echoes of the Tunisian suicide of one month earlier. Just days later, demonstrators were gathering in their thousands in the Egyptian capital, clashing with police who responded with tear gas and water cannon. 25 January was known as ‘The Day of Revolt.’ 28 January erupted into a ‘Friday of Anger.’

Cairo’s Tahrir Square became a scene of violent clashes between the demonstrators and Mubarak supporters and the security forces.

The 18-day revolution ended on 11 February, when Mubarak handed over power to the military, leaving the Egyptian capital for the Red Sea resort of Sharm el-Sheikh. A statement from the military said the current government and regional governors would “act as caretakers of all businesses until a new government is formed”. It would look to guarantee “a peaceful transition of authority in a free democratic framework which
allows an elected civilian authority to rule the country, to build a free democratic country”.

US President Barack Obama hailed the event as a display of “the power of human dignity” and called on the Egyptian military to devise a clear path to fair and free elections that would make the transition “irreversible”.

Even before the removal of Mubarak, the request from the Egyptian authorities to the EBRD had taken on a new dimension as the world witnessed the people of a region demanding radical change. There was an unmistakable echo of the events of eastern Europe two decades earlier.

The EBRD considers Egypt’s request in a new light

When the Board met on 1 February 2011 to discuss the Egyptian work plan, it was against the radically changed backdrop of popular revolt on the streets of Cairo and other major cities. There was a new sense of urgency to the Board discussion, even though Mirow knew he had to be cautious about raising excessive expectations on behalf of the Egyptians and putting pressure on shareholders when the situation in the region remained unclear.

Some Directors had asked for the session on Egypt to be postponed. Mirow believed this would be a mistake, saying the EBRD had to be prepared to respond to changing circumstances. He conceded in his remarks to the Board that the situation in Egypt was fluid. However, he predicted that there might soon be a need for the international community, including EBRD shareholders, to engage rapidly and strongly. By then the EBRD needed to be ready. Any decision by shareholders should not be held up by an avoidable lack of preparation. Mirow circulated an updated timetable for the Egyptian review.

Views of the EU High Representative

The following day, Mirow shared the Bank’s reflections with Baroness Catherine Ashton, who had been appointed in 2009, on the recommendation of the UK Prime Minister Gordon Brown, as the EU’s first High Representa-

tive of the Union for Foreign Affairs and Security Policy. She was spear-heading the EU’s response to the fast-moving events in the Arab world.

In his letter, Mirow was replying to Ashton’s interest in clarifying the possible response of the international financial institutions to developments in North Africa. He made clear that the EBRD was reviewing the Egyptian request and that preliminary findings should now be available in the spring—not towards the end of the year as envisaged under the earlier work plan. He included the caveat that any decision to engage in Egypt would require unanimous support from the shareholders.

Already in February, the EBRD was considering possible ways of moving very quickly to deliver funding to the Arab region. While unanimous support was needed to open up the region to full-scale EBRD investment, the creation of a Special Fund for investment would need a lower threshold of support and could probably be achieved more quickly.

Mirow drew on the EBRD’s most recent experience in the expansion to Turkey, where annual investments were set to rise to around €1 billion after just three or four years in the country. A similar-sized engagement was possible for Egypt.

Ashton reached out publicly to the EBRD on 14 February in an impassioned article for the Financial Times, entitled “Europe’s downpayment on democracy”.

Scenes of jubilation from Tunis and Cairo had brought to mind earlier successful conquests of tyranny, whether in Paris in 1944, in Gdansk in 1980 or across eastern Europe in 1989, Ashton wrote. The EU stood ready to help, she said, and asked the EIB to mobilise €1 billion for 2011, initially for Tunisia. She explained she would call on member states to free up another €1 billion, to support democratic reform including in Egypt.

Ashton directly invoked the EBRD. In an apparent reference to the plans to create a new EU Bank for the Mediterranean, she continued:

Rather than reinvent the wheel, we need now to give these structures the new task of supporting the current democratic wave. If shareholder

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13 The Prime Minister’s Sherpa, Jon Cunliffe, was a former EBRD Alternate Director and knew the EBRD’s attributes well, and its potential in the circumstances. Like Ashton, he was heavily engaged with key officials involved, in this case working closely with France and the USA in preparing both a G8 and G20 response.

countries agree, the EBRD could—with its existing resources—provide at least €1bn of finance annually to underpin the transition in Egypt, for example. I shall shortly travel to Cairo to find out what the outside world can do to help. I shall work with other EBRD shareholders around the world to build agreement for this.

EBRD Press Officer Axel Reiserer confirmed to the media on 15 February that the EBRD was aiming to finalise the technical study on Egypt by the spring. He said there had been no request by shareholders to speed up the formal processes; while there was political momentum and a sense of urgency the legal requirements on any decision remained the same.15

Different visions of financial support

That same day, the EIB’s de Fontaine Vive was continuing to raise the profile of the possible new EU Bank for the Mediterranean and the role it could play in financing for the Middle East and North Africa. He referred to calculations made for French President Sarkozy, who had championed greater EU support for the bloc’s Mediterranean neighbours, showing the new co-development facility could generate €10 billion of business a year. De Fontaine Vive said support for such a bank appeared to be growing, despite earlier resistance from northern European states.16

Mirow chose Oxford University as a venue to outline his own vision for the role the EBRD could—once again—play to support a whole region that was crying out for change.

There were clear parallels with the events of 1989 that had catapulted the EBRD into existence. The world was once again at a historical turning point. Reflecting on the point, Mirow said in his speech on 23 February to the Oxford International Relations Society: “What we saw then and what we are again witnessing today is people’s thirst for freedom, self-determination and democracy.”

Mirow pointed to the huge expertise the EBRD had gathered in the two decades in eastern Europe. This was experience that could “travel beyond

our existing areas of work”. Analysis of what the EBRD could do in Egypt was now proceeding apace and he confirmed the EBRD had sufficient funds to support annual investments of €1 billion in the country. Any decision to engage in Egypt would be a complex process. But, Mirow said:

Twenty years ago, the EBRD rose to the challenge posed by the collapse of communism. Today, in the Middle East, if called upon by our shareholders, we are ready to act, again—championing the values that we hold dear.17

### Agreement in Brussels

Mirow was in Brussels on 1 March for meetings with the EU’s top officials to discuss the EBRD’s potential contribution. It was an opportunity to clarify what the different actors could provide by way of support to the new and rapidly evolving developments on the EU’s southern borders. The focus was on concrete actions to deliver on Ashton’s plea for effective, coordinated assistance.

In parallel to the thinking on the EuroMed idea, work had been going on behind the scenes to update the operational relationship between the EBRD and EIB, led on the EBRD side by Horst Reichenbach, now Vice President Risk and Resources. The impact of the financial crisis and the arrival of the EBRD in Turkey had added momentum to the exercise. An agreed position between the two organisations was reached shortly ahead of the Brussels meetings and allowed the two presidents, Mirow and his EIB counterpart, Philippe Maystadt, to sign a Memorandum of Understanding (MoU) on EIB and EBRD activities outside the EU region. It underscored how they could cooperate more effectively in the relevant countries.

The new framework for cooperation, which was co-signed by European Economic and Monetary Affairs Commissioner Olli Rehn, aimed to:

Enhance the combined impact of the two banks’ operations in the interest of both the beneficiary countries and the banks’ shareholders. Strong cooperation and coordination will make the best use of the core competencies and comparative advantages of both organisations.18

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17 EBRD Press release, 23 February, 2011. ‘History can often move at breakneck speed’.
Reporting back to the Board the following day on his meetings with EU Commission President José Manuel Barroso, Ashton, Maystadt, Rehn and Enlargement Commissioner Stefan Fuele, Mirow said there was strong support for the EBRD’s involvement in cooperation in North Africa. Maystadt had in particular endorsed the MoU as a basis for the EIB and the EBRD to work together in Egypt, as they were doing already in Turkey.

That day, at a news conference in Brussels, Barroso set out the latest EU position on the North African developments and called for a “new political paradigm” for the EU’s Southern Neighbourhood. “We need a ‘Pact for Democracy and Shared Prosperity’,” he said.

There was no reference to the new Bank for the Mediterranean. The project was eventually dropped. It was clear, especially following the signing of the latest agreement between the EBRD and the EIB, that the two institutions would each make their own contributions to the transformation of the Arab region, while working more closely together.

Barroso spoke of using the leverage of EIB funds to prepare a stimulus package for the region, with a particular focus on SMEs to help create jobs and called on the EBRD to make its contribution:

I also believe the EBRD can do more, and be more active in the South. All this is the intention of the EBRD if the Member States that are members of this bank are ready to change the statutes. Yesterday I already spoke to the President of the EBRD who would support this change in the statutes of the EBRD so that they can use their great expertise of transition and in financial matters to support the Southern Mediterranean.19

Egypt again, and Israel

Aboulnaga, who had retained her position as planning and international cooperation minister following the fall of Mubarak, reaffirmed Egypt’s strong commitment to becoming an EBRD recipient country under the new administration. In a letter to Mirow on 10 March, she thanked the

President and EBRD management for the decision to accelerate the technical assessment process.

Aboulnaga said the interim government was working intensely on democratic reform as well as social and economic development. On the political front, Egypt was focusing on handing over power to a civilian democratic government through fair and transparent presidential and legislative elections. Social and economic development targets aimed to meet the demands of disadvantaged people, improve living standards, provide affordable housing especially for the youth and to foster job creation through a strong boost for microfinance and SMEs. She explained that the government believed the EBRD’s engagement in Egypt was “of the essence”.

“I hereby strongly reaffirm our request to become [an EBRD] country of operations,” she said, noting that she and the Egyptian Foreign Minister were in contact with G7 authorities with a view to receiving their agreement.20

One key non-G7 shareholder that Mirow was eager to bring on board was Israel, whose views were crucial in reaction to developments on its doorstep. He made a trip to Israel for talks in what the Jerusalem Post described as an effort to calm Israeli nerves ahead of any possible EBRD investment in the neighbourhood. The Jerusalem Post quoted Mirow as saying:

My own perception is that any effort to support the stabilization of Egypt and to increase the opportunities for young people could be helpful for Israel, too. ... We have not only an economic but a political mandate... Every taxpayer in Israel can be sure our money will not fund authoritarian regimes or corrupt elements in the economy.21

Morocco expresses interest in recipient status

In Morocco, popular protests had erupted in February, with thousands taking to the streets to demand constitutional reform and an independent judiciary.

King Mohamed responded in March by announcing plans for a new constitution and calling together political parties, trade unions and civil

20 Letter from Governor for Egypt regarding Egypt’s Request for Country of Operational Status, 10 March 2011.
society groups to draw up proposals that would be put to a referendum. The monarch’s proposals included an independent judiciary, a stronger role for parliament and political parties and a regionalisation programme to devolve more powers to local officials.

The plans were welcomed by foreign powers including the USA, France and the UK, as well as the UN Secretary General Ban Ki-moon who said that what had been seen in the King’s speech was a clear indication that he had listened to the voices of his people.

In April, the Moroccan authorities wrote to the EBRD President to express the country’s strong interest in becoming a country of operations of the EBRD. The letter from the Minister of Economy and Finance, Salahed-dine Mezouar, said:

We believe that this step would enable the Bank to complement the activities of other international and regional financial institutions to enable Morocco to meet the considerable challenges which it is determined to address.22

3. **The Extension of the EBRD’s Remit**

**Shareholder backing in Astana**

After useful discussions in April among heads of MDBs at the spring meetings of the World Bank and IMF on how they might respond to the situation, management prepared the ground for a decision by shareholders at the Annual Meeting in Astana. The goal was to be able to take clear steps towards an extension of the EBRD’s mandate not just to Egypt or Morocco, but across the wider Mediterranean region.

On the eve of the 20–21 May meeting, Mirow got shareholder backing for the plan from a very high source. In a keynote speech on the Middle East on 19 May, President Obama made a specific reference to the EBRD:

We will work with the allies to refocus the European Bank for Reconstruction and Development so that it provides the same support for democratic

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22 Letter to the EBRD President concerning Morocco’s interest in becoming a country of operations, 13 April 2011.
transitions and economic modernization in the Middle East and North Africa as it has in Europe.\textsuperscript{23}

Encouraged by this and other evidence of momentum building towards a MENA role for the Bank, Mirow laid out a strong case for EBRD intervention in the new region in his opening speech to the Astana meeting, saying:

Beyond the capacity, resources and expertise, I believe we also have a responsibility. The Romans called the Mediterranean “mare nostrum” and what happens in the region is indeed of fundamental importance for all of us. ... The experience with transition is something that can and should be shared. The people in that region, as in ours, deserve to see their political aspirations matched by palpable economic gains.\textsuperscript{24}

Following on from earlier comments by the US President, Washington’s Treasury Secretary, Timothy Geithner, set out the basis for the US position as he addressed the Astana audience:

This year, EBRD Governors have the opportunity to support a historic moment in a region that does not fall within the Bank’s geographical scope but does fall squarely within its fundamental mission. ... The EBRD is a powerful tool that we should draw upon.

There was broad, if nuanced, support from the other large shareholders. France described EBRD activity in the region as a “powerful political symbol.” Germany was slightly more guarded, but “willing in principle” to proceed, while insisting that any new EBRD country of operations had indeed to be committed to and applying the principles of democracy and market economy. Japan, too, insisted on the multiparty democracy element.

Italy said there was an historic opportunity to maintain the momentum of change in North Africa. “The EBRD, given its unique expertise in supporting transition through the development of the private sector, should rise to the challenge.”


\textsuperscript{24} Opening speech to the 20\textsuperscript{th} EBRD Annual Meeting, 20 May 2011.
The United Kingdom strongly supported the extension of the Bank’s geographical mandate to North Africa and the Middle East. The UK delegate said: “Events still unfolding in that region are of historic importance, and extending the Bank’s work should be part of a positive international response to support the ambitions of the people in these countries.”

Canada was supportive while encouraging the Bank to explore ways to follow through on the successes in its current region of operations, especially on pursuing the graduation of more advanced EBRD countries in the European Union.

The EU delegate, noting that the EU had been long supportive of concerted IFI action in countries of the south Mediterranean, welcomed the move saying, “most of these countries face challenges that directly concern the mandate of this Bank”, such as the “need to accelerate private sector development.” The EIB, however, while acknowledging “recent good examples of cooperation” between the two MDBs in Turkey, took a more cautious line. “The expansion into North Africa will require not just additional consumption of capital but ... perhaps a significant call on the EBRD’s management time,” said its delegate, adding: “Going beyond North Africa needs further deep analysis and calm reflection.”

Russia warned against “precipitate action” and saw serious risks and challenges. “This subject needs to be discussed thoroughly and openly, and it should be linked to the issue of graduation.”

The Astana conference ended with an agreement to review expansion into countries along the coastline of the Mediterranean, a region the EBRD would call the southern and eastern Mediterranean (SEMED). The EBRD’s Board of Governors tasked the London-based Directors to come up with recommendations on this extension of the geographic mandate.

There were conditions. Any expansion had to ensure that the EBRD would not require additional capital contributions and, just as in the case with the previous expansion to Turkey, that such a move should not compromise the scope and impact of the Bank’s operations in the existing recipient countries.

But there was now clear support for yet another EBRD expansion.

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25 Delegate speeches to the 20th EBRD Annual Meeting.
The G8 at Deauville

One week after the Astana Annual Meeting, leaders of the Group of Eight (G8) countries met in the northern French resort of Deauville under the French presidency of Sarkozy to discuss their response to the Arab uprising. Just as Baroness Ashton had in February, the G8 evoked memories of the backdrop to the EBRD’s creation 20 years earlier. The 26-27 May Deauville Summit Declaration on the Arab Spring opened:

The changes under way in the Middle East and North Africa (MENA) are historic and have the potential to open the door to the kind of transformation that occurred in Central and Eastern Europe after the fall of the Berlin Wall.

The aspiration of people for freedom, human rights, democracy, job opportunities, empowerment and dignity, has led them to take control of their own destinies in a growing number of countries in the region. It resonates with and reinforces our common values.

The G8 made a specific appeal to the EBRD to join in what was now being dubbed the ‘Deauville Partnership’ and once again to extend its reach. In any joint action by MDBs, the G8 wanted to “leverage the experience of EBRD in accompanying economic transition”. The statement continued:

We call for an appropriate regional extension of the geographic scope of the EBRD’s mandate, in order to support the transition in countries of the region which embrace multiparty democracy, pluralism and market economies.

The EBRD has been a unique instrument to help transform the economies of Central and Eastern European countries engaged in the same
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dynamics, with its focus on private and entrepreneurial initiative. The financial strength of EBRD makes it possible to extend its area of operation consistent with its current strategic commitments, notably in the existing countries of operation.

According to one senior G8 official involved in the preparations for Deauville, it was a time of unprecedented cooperation among leaders, where a coordinated IFI response was supported by a number of Sherpas with strong financial backgrounds and multilateral experience. France had intended to focus on common principles for the internet at Deauville but the challenge of a response to the Arab Spring very quickly took centre stage. Involving the EBRD was particularly attractive, not only because of the historical narrative and its mission to support the private sector—in its way responding to the pleas of the Tunisian street vendor—but it fitted leaders’ desire to do something new. And the EBRD could move quickly, unlike any new bank which would take time to set up. It helped too that the EBRD had capital available, which had been boosted only the previous year.

The G8 wanted the EBRD to move swiftly:

To fast-start EBRD support to and leverage its experience in private sector development and job creation in the region until the ratification of the extension is completed, we will work with the EBRD towards the creation of a dedicated transitional facility, to allow the bank’s operations to start as early as possible to the benefit of prospective recipient countries...

The EBRD had established by now that it would be able to make investments of around €2.5 billion a year in North Africa without seeking additional funding from shareholders.

Applications for EBRD membership and a three-stage plan

Following the requests for funding from Egypt and Morocco, other members of the Deauville Partnership also made applications to the EBRD for membership and recipient status.

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29 Ibid.
The authorities in Tunisia, where the uprisings around the region had begun, wrote to Mirow in June to say the country was unveiling reforms. The expertise of the EBRD would be “extremely useful in our current circumstances”, said Tunisia’s Minister for Planning and International Cooperation, Abdelhamid Triki. Tunisia had embarked resolutely on a path of political, economic and social reforms to achieve democratic transition and to meet the aspirations of the Tunisian people, he said. The government’s Recovery Plan, which had recently been approved after consultation with civil society, aimed to ensure transparency, good governance, and accelerate growth in order to stimulate social cohesion.30

Jordan would follow suit in September, saying the country had sought to accelerate measures to strengthen the country’s democratic governance. “The Government believes that the EBRD can play an important role in promoting and sustaining this important process.”31

The Astana resolution had called on the Directors to come up with proposals for expansion by 31 July. In their report, the Directors recommended a three-phase approach that would allow for a timely start to activities in the region even before securing unanimous agreement from all the shareholders on an extension of the remit.

In a first phase, the EBRD could offer technical assistance and similar activities funded by cooperation funds that could be available as early as the fourth quarter of 2011. Under the second phase, the Bank could provide investments to “potential recipients” financed from a Special Fund. The amendments of the Agreement Establishing the Bank to enable the creation of such a fund would only require the support of two-thirds of the Governors and three-quarters of the total voting power of the members. Full-scale investment, financed from ordinary capital resources, could follow in the third phase after an amendment of Article 1 of the Agreement Establishing the Bank, expanding the geographic scope of the Bank to include the new recipient countries.

The earlier decision on Mongolia32 offered a useful precedent for the expansion of the Bank’s geographic remit. Article 1 had to be amended by adding in the relevant places, alongside Mongolia, “and each of such [member] countries of the Southern and Eastern Mediterranean.”

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31 EBRD Press release, 21 September 2011. ‘Jordan requests membership of EBRD’.
32 See Kilpatrick, After the Berlin Wall, pp. 319–322.
Article 18 which deals with Special Funds also had to be amended, to allow for the creation of Special Funds for use in “Potential Recipient Countries” (not just recipient countries).

Finally, Governors were to be asked to confirm an interpretation that cooperation funds could be used in the countries of the region for technical assistance and the preparation of Bank operations, pending the amendments of Articles 1 and 18 of the Agreement Establishing the Bank taking effect.

The report and the three separate resolutions providing for these parallel steps, together with a request that Tunisia be admitted as a member of the EBRD, were sent to Governors on 3 August with a deadline for decision by 30 September 2011.

Regional boundaries

Publication of the report also followed debate about the geographic definition of any expanded area of activity.

Too narrow a regional definition might leave out current or future aspirant democracies and therefore dilute the international community’s offer of support for the Arab Spring. But anything too wide might reduce the EBRD’s ability to offer meaningful financing.

Directors agreed to propose an extension to the southern and eastern Mediterranean region, “consisting of the countries that have a shoreline on the Mediterranean as well as Jordan which is closely integrated into this region.” Use of the acronym SEMED soon became commonplace.

Iraq, which like Jordan does not share a Mediterranean coastline, was not included, despite some pressure from the USA. There had been a suggestion that the definition refer to countries on the Mediterranean, as well as Jordan—“and countries like Jordan.” This proposal did not receive support.

The SEMED region now technically covered the four original Deauville Partnership countries, Egypt, Jordan, Morocco and Tunisia, and also Algeria, Libya, Lebanon and Syria, as well as the West Bank and Gaza.

To qualify for full EBRD financing, individual countries would still have to be or become EBRD shareholders and subsequently apply for and be granted recipient status.

33 At its closest point, Jordan is about 40 miles from the Mediterranean coast.
The process for the West Bank and Gaza was different because of its particular political status, but there were ways to allow it to become eligible for finance.

Endorsement for EBRD activities

At a G8 finance ministers’ meeting in Marseille in September, the leading IFIs and MDBs threw their weight behind the Deauville Partnership. The EBRD took the opportunity to map out the progress it had made in extending its geographic remit and senior representatives from the four regional members of the Deauville Partnership attended the conference.

The IFIs strongly endorsed the economic framework of the partnership that they said was tailored to support the individual country economic programmes. These would be “home-grown” and driven by countries themselves. IFI coordination was also key to the external support. During the conference, the EBRD signed Memorandums of Understanding with the African Development Bank (AfDB) and the Islamic Development Bank (IsDB), outlining how the institutions would cooperate in the region in the future. It was very important that the EBRD be seen as a welcome partner in the region rather than as an intruder or competitor.

In their communique in Marseille, the Deauville Partnership Finance Ministers\(^\text{34}\) called upon MDBs and regional development funds to step up support for the partnership countries:

> The enlarged group of international and regional financial institutions supporting the initiative brings the total amount available for Egypt, Tunisia, Morocco and Jordan in 2011-2013 to $38 billion in support of suitable reform efforts, in addition to resources that could be available from the IMF.\(^\text{35}\)

A representative from Libya attended the Marseille meeting as an observer. Protests in Libya had begun in February 2011 and developed

\(^{34}\) In Marseille the Deauville Partnership, which focused on an economic pillar at the meeting, was extended to include Kuwait, Qatar, Saudi Arabia, Turkey and the UAE, as well as including the G8 countries and Egypt, Jordan, Morocco, and Tunisia. Nine international and regional financial institutions were also active participants.

\(^{35}\) ‘Deauville Partnership Finance Ministers’ Meeting Communique’, Marseille, 10 September 2011, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/DP%20Marseille%20communique%20version%20ENG.pdf. Much of the funding represented financing already earmarked for the region. Planned finance by the EBRD, as a newcomer to the region, was genuinely additional.
into a full-scale armed revolt against Muammar Gaddafi, who had been in power for four decades. Backed by Western and several Arab states, the rebels eventually captured and killed Gaddafi a month later. However, the subsequent civil war put on hold developments on support through the Deauville Partnership.

By October, the EBRD’s shareholders had overwhelmingly backed the plans for the three-stage expansion of investment activities into the SEMED region, in what Mirow described as “an impressive vote of confidence in our ability to deliver concrete projects that foster transition and improve people’s lives”.

The Article 1 decision by Governors still had to be formally ratified by national capitals, in most cases with a requirement of parliamentary approval. This was likely to prove time-consuming in some cases. But the earlier stages of the process could move forward even before ratification. The EBRD expected to provide technical assistance for Egypt, Jordan, Morocco and Tunisia in the following weeks or months in preparation for investment projects there.36

By December 2011, donors to the EBRD were making significant contributions to fund these technical cooperation activities. A total of nearly €60 million in grant funding, including financing from the EU, bilateral donors and via an allocation from the EBRD’s own net income, had been made available.37

The first donor-funded project was for a small local transportation company in Alexandria that helped it expand its services to Cairo and to improve its business model and management.

Early in 2012, Jordan and Tunisia had joined Egypt and Morocco as shareholders, as part of the process of becoming potential and then actual recipients of EBRD investments.

The Bank began to open temporary offices in the region, in anticipation of starting activities.

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36 EBRD Press release, 5 October 2011. ‘EBRD shareholders back expansion to support emerging Arab democracies’.
37 EBRD Press release, 13 December 2011. ‘The EBRD starts donor-funded activities in southern and eastern Mediterranean’.

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Transition-to-Transition

At this time, the EBRD launched a series of successful conferences in the new region that facilitated an exchange of transition and reform experiences between the Bank’s existing countries of operations and countries of the southern and eastern Mediterranean region.

The first of these Transition-to-Transition (T2T) events was held in Cairo on 24 October 2011. Aboulnaga welcomed high-ranking guests from eastern Europe, including Former Czech Prime Minister and serving EBRD Vice President, Jan Fischer, and former Polish Prime Minister, Jan Krzysztof Bielecki, who had been a long-serving Polish Board Director at the EBRD. Neither of the visitors played down the challenges of the transition process.

Fischer, whose country had graduated from the EBRD process four years earlier, said: “After 20 years, my country is still in a transition. The process involves intertwining economic and political issues, legal changes, as well as social aspects.” Bielecki told the meeting that transition inevitably brought instability and governments had to find time for strategic thinking.

The sessions had been developed under the leadership of EBRD Chief Economist, Erik Berglof, who stressed the peer-to-peer essence of the conferences that were opportunities for sharing from both sides, allowing all countries to understand the challenges of transition. Similar events were subsequently held in Tunisia and then Morocco and Jordan.

4. Building up Operations

Good governance at the EBRD

The stage was set for an important Annual Meeting in May 2012 in London, where Governors were due to endorse the Bank’s moves into SEMED and vote on the EBRD Presidency as Mirow’s term of office was due to end that summer.

A new German government, which had come to power after Mirow’s appointment in 2008, did not back his re-election for another term, which opened the door for candidates from other countries. Meanwhile, the traditional alternative country to lead the EBRD, France, was consumed by electoral campaigning in the dying days of the Sarkozy Presidency, and the
candidate they had endorsed, de Fontaine Vive, did not gain traction among several shareholders. Eyeing an opportunity, the UK’s Chancellor of the Exchequer, George Osborne, lobbied his finance minister counterparts to suggest the election be publicly contested, while also offering the senior UK civil servant Sir Suma Chakrabarti as a well-qualified candidate.

This was a neat ploy. No election for the position as head of an MDB had ever been openly contested. The suggestion that the EBRD do so was not only good governance, but it also had the added bonus that it might first occur in an institution dedicated to upholding democratic principles. The move was made more credible in the circumstances of EBRD expansion into the SEMED region by proposing a candidate who had strong managerial and development experience, rather than a candidate with the more typical long-standing finance or central bank background presented for the position up until then.38

Ahead of the meeting other candidates put their names forward, each with a statement of their future vision for the EBRD, including how they might improve the relevance and functioning of the institution. As well as Mirow, now forced to seek re-election, de Fontaine Vive and Chakrabarti, two others applied for the job: Božidar Đelić, Deputy Prime Minister of Serbia, and Bielecki, the former Polish Prime Minister. Sequential knock-out voting procedures meant that several rounds of voting took place that weekend, adding to the drama.

The end result was the election of Chakrabarti to replace Mirow. The decision was, among other things, notable for the accession for the very first time of a Briton to the presidency of the EBRD, signalling the end to a tradition—which some believed, harking back to the original negotiations, was an unwritten agreement—where the top position at the EBRD was divided between France and Germany.39 Two terms later, the EBRD presidency returned to French hands.

38 Chakrabarti took a keen interest in development issues having been born in West Bengal and as a previous head of the UK’s development ministry, DfID.
39 Such unwritten agreements were not unusual among IFIs, with for example a longstanding arrangement between the USA and Europe over the top positions at the World Bank and IMF. When the EBRD was founded among the compromises made was that the headquarters of the institution would be located in London and its first President would be French (and that the initial First Vice President would be a US citizen). (See Kilpatrick, After the Berlin Wall, p. 38.) Practice thereafter was that the presidency alternated between France and Germany, until 2012. (In 2018 the arrival of a German national, Jurgen Rigterink, as First Vice President broke with the tradition of the previous 27 years.)
A €1 billion Special Fund and the first investments

The Bank also announced at the London meeting the approval of the €1 billion Special Fund that would signal the start of its investments in the Arab world.\textsuperscript{40}

Those investments started flowing in September, as the Board of Directors signed off the first three projects—but only for Jordan, Morocco and Tunisia. These three countries had requested “potential recipient” status in July and this had been granted in September,\textsuperscript{41} opening up the way for projects to be financed from the fund.

The initial projects included a US$ 30 million trade finance line for InvestBank in Jordan to promote lending to small- and medium-sized enterprises. There was a €20 million commitment to a private equity fund sponsored by AfricInvest-TunInvest, one of the leading local private equity firms in Tunisia and Morocco, and a loan and a trade finance facility for Morocco’s Société Générale Marocaine de Banques.

Egypt had formally sought potential recipient status shortly after the other three countries and it was granted in November, allowing it to be eligible for investments via the Special Fund. But it proved impossible to seal any investments at that time during a period of continuing political and social uncertainty. Divisions had remained in the country, pitching old guard supporters of Mubarak against the newly-elected, Islamist-backed President Mohamed Morsi amid concern about the persistent role of the military in Egyptian politics.

At his first main press conference after taking office, Chakrabarti addressed this issue head on. He told journalists in October:

On Egypt, it is very simple. The reason for the delay and the reason why Egypt is now a few weeks behind, if you like, is simply because of the political situation in June, July and August. We did not really have anyone to talk to at the time because the government was being re-formed, as you know. Those initial elections took place and a new government then had to be formed. We did not have a direct interlocutor.\textsuperscript{42}

\textsuperscript{40} EBRD Press release, 19 May 2012. ‘EBRD shareholders approve fund to start investment in emerging Arab democracies’.

\textsuperscript{41} Full recipient membership status, which had been requested the previous year by Tunisia and Jordan, would only come for each country once the amendment to Article 1 became effective in each case.

\textsuperscript{42} EBRD Press statement, 1 October 2012. ‘Speech transcript: Suma Chakrabarti at a Press Conference on 1 October 2012 in London’.
The new President said he hoped the first investment in Egypt would come the following month and certainly by the end of the year.

The first Egyptian project did not in fact come until early in 2013. And it would take longer for Egypt to become a full recipient of investments from ordinary EBRD capital than the other SEMED countries.

Morsi’s period in power was troubled from the start. Constitutional changes were criticised for putting the President above the rule of law. Violent protests continued. A year after his election, he was removed from power in 2013 in a military takeover driven by the country’s Defence Minister, General Abdel Fattah el-Sisi.

A further period of interim government followed, which included a crackdown on members of the Muslim Brotherhood that had supported Morsi. On 9 October 2013, the Obama administration suspended some military aid to Egypt in response to the crackdown.

The political developments in Egypt were not making it easy for the EBRD to carry out the mandate it had received from the international community two years earlier. At the same time, civil society organisations were critical of the Bank’s involvement.

But management made clear the EBRD’s shareholders wanted it to continue to pursue projects in Egypt that could make a difference to the lives of ordinary people there. In an interview during the Annual Meeting of the World Bank and IMF in Washington in October 2013, Chakrabarti said members were eager for the Bank to continue making investments in Egypt provided they pass “a socioeconomic test”. He told Dow Jones: “All agree it’s the sort of thing we should do. It’s not business as usual as if nothing’s changed, because clearly our major shareholders are thinking about this issue, but at the same time nor is it ‘stop doing what you are doing’.”

The subsequent political turmoil delayed Egypt’s formal admission as a country of operations. After General Sisi stood for election in 2014, won and was sworn into office on 8 June, there were yet further delays requiring another extension of the deadline. Egypt would only become a full country of operations, with access to the Bank’s ordinary capital resources, in November 2015.

The other three Deauville Partnership countries had already become eligible for full-scale investment out of the EBRD’s ordinary capital in November 2013.

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Gearing up

Even before the creation of the Special Fund that allowed investment in the region ahead of countries reaching full recipient status, key practical decisions had been taken, including the new appointment of a managing director for the region.

Hildegard Gacek, a German national who had held senior managerial positions in the EBRD in Serbia and Romania, as well as in the Caucasus and Belarus and Moldova, was appointed to the position in April 2012. She was no stranger to the EBRD’s newest region, having run operations for the Middle East, West and North Africa department of the German Investment Corporation (DEG) for eight years before joining the EBRD.44

Gacek led the operational rollout of the EBRD’s activities, initially identifying interim office space, appointing managers to run the operations in relevant cities and negotiating Host Country agreements between the EBRD and the national authorities that allowed the Bank to establish a permanent physical presence.

For Gacek, one very strong aspect of the EBRD’s early operations was the flexibility of the Bank’s three-phase approach which allowed activities to begin right from the word go. “We moved into interim offices. We started to hire local people and we began operations very quickly,” she recalled.45

There were, of course, challenges but also opportunities from the fact that the EBRD was a completely new face in the region. “We were a complete unknown but then again we also had no legacy,” Gacek said. “We really gave these four countries a lot of attention. Of course, we had to establish ourselves. We were brand new. No one knew who we were. We came demanding very high standards from local staff. In time we became an employer of choice.”

Gacek attributes the Bank’s success to the EBRD’s commitment to the new region right from the start, both by the top management with the support of the Board and through the dedication of the staff.

One of the most important differences between the SEMED region and the countries of the former Soviet Union and their neighbours, where the EBRD had invested for the previous 20 years, was in her view the fact that SEMED countries were already market economies. “We were certainly

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44 EBRD Press release, 2 April 2012. ‘EBRD appoints head of southern and eastern Mediterranean region’.
not here to build market economies,” she said. “Our role was to improve or enlarge the private sector and the market economy.”

To a large extent, she says, the Bank achieved this by insisting on conditions that were part and parcel of any EBRD project in any country across both the private and public sectors. This meant that the EBRD was able to have a much deeper impact through its projects than private or state investors, whether in terms of procurement in the public sector or by achieving far greater accounting transparency in the small and medium-sized enterprises that received loans either directly or via the banks. “This sort of conditionality was new and initially for us it was a challenge. But it worked. And it worked because we made it clear right from the start that we were not just a lender but a partner.”

As the countries across the new region moved towards full recipient status and negotiation of Host Country agreements proceeded, permanent offices were set up. First in Tunisia and then Jordan, both in 2013, then Egypt in 2014 and Morocco in 2015. Gacek had a choice in Egypt of whether to locate the EBRD’s office in prestigious, but hugely overcrowded, downtown Cairo in a building with spectacular views of the Nile or in the then relatively embryonic business centre of New Cairo.

She chose New Cairo, partly because the office space provided much better conditions for employees, but primarily because that was where business was headed. “Everyone, all the banks, were moving out to New Cairo. The staff had space, daylight, modern equipment and facilities. New Cairo was going be and became the commercial centre of the city.”

Jordan

After the very first operations began in September 2012, one major investment in Jordan aimed to address the country’s acute energy shortages with the construction of a power plant located 15 kilometres east of the capital, Amman. The project was approved in October in a country which had seen frequent power blackouts. Gacek said at the time: “We are determined to justify the confidence our shareholders have shown in us by doing our bit to support this region in meeting the urgent challenges it faces.”

The investment in Jordan’s Manakher power plant was a response to an immediately pressing energy challenge. But the EBRD’s long-term aim was to help wean Jordan off its dependence on foreign energy by developing its
own sources of renewable power. At the time, Jordan was importing over 95 per cent of its energy. Gacek highlights the EBRD’s work to deliver solar plants in Jordan as a major plank of the Bank’s contribution to the country. Over the coming years, sustainable infrastructure would assume the lion’s share of the EBRD’s portfolio in Jordan.

Morocco

So as to be at the heart of the business world in its countries of operations, the EBRD opened its first and principal office in Morocco in Casablanca, rather than the administrative capital Rabat.

By the time this office opened in April 2015, the EBRD had invested close to €500 million in Morocco. One of the early projects in 2013 was to support access to energy for Moroccans, with financing for a programme of rural electrification. The EBRD’s investment helped link up over 1,200 remote villages to the electricity supply.

Later that year, a key EBRD investment in Morocco, according to Gacek, was in support of a debut Eurobond issue from BMCE, one of the country’s leading banks. Getting access to the Eurobond market was an important step for Moroccan financial institutions and corporations alike. As an anchor investor, the EBRD was instrumental in contributing to the success of this initial listing.

Tunisia

The EBRD office in Tunisia was opened in Tunis in June 2013. Gacek was back there shortly after the country unveiled its first post-uprising constitution in January 2014 and the subsequent formation of a new government. During the two-day visit in late February, Gacek had an opportunity to meet ministers from the new government for the first time and to reaffirm the EBRD’s support for Tunisia’s economic development and its transition towards democracy.

The new Tunisian constitution had been widely hailed by the international community as a step forward in strengthening the country’s political transition following the ousting of Ben Ali. The EBRD fully shared this view, calling the latest political development a “key milestone for Tunisia as it demonstrates the country’s commitment to transition”.

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Chakrabarti visited Tunisia four months later, reinforcing his support for the EBRD’s role in the country. By then, the EBRD had already provided financing worth over €140 million via projects that were designed to further promote the private sector, bolster the banking system and foster foreign trade.

One particular area Gacek highlighted in Tunisia was the EBRD’s local currency lending in the country. She signed an agreement in 2016 that allowed Tunisian companies to benefit from a new EBRD local currency lending programme. This gave small firms access to affordable local currency loans and also helped boost the availability of local sources of local currency funding.

Egypt

Further allocations were made to the original €1 billion Special Fund before it was wound up in November 2015 after Egypt became a full country of operations. By the time this step was taken, the EBRD had provided more than €1 billion in financing to Egypt, of which 77 per cent had been to the private sector.

Its first investment in Egypt, in a white goods firm, aimed to support the development of local manufacturing, but also to raise skills levels and provide job opportunities in a country where unemployment was an urgent challenge. Since then it has promoted small- and medium-sized enterprises, improved living standards across communities with higher quality wastewater services and helped tap into renewable energy sources.

The EBRD’s first investment in the financial sector was with National Bank of Egypt, the oldest and largest commercial bank in the country. That first deal was a credit line for small- and medium-sized firms, aimed at driving forward economic development, with a clear focus on sustainable job creation. Having established a good working relationship with the National Bank of Egypt, the EBRD was able to go further and launch, with its help, a successful Women in Business (WiB) programme in Egypt that strengthened the role of female entrepreneurs.

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Commensurate with the size of the Egyptian economy, the EBRD’s investments in the country grew strongly and quickly. By 2019, Egypt had topped the annual rankings of EBRD annual investments for the second year in a row, after moving narrowly ahead of Turkey. New financing rose to €1.2 billion in 26 projects in 2019, after €1.1 billion in 19 projects the previous year.

West Bank and Gaza

Following a request by the Palestinian Authority in January 2015, supported one month later by a letter from the Central Bank of Israel, the EBRD extended its activities to the West Bank and Gaza in 2017, after a careful assessment was made to be sure the Bank would be able to deliver on its transition mandate there.

While the transition case was strong, there were obvious difficulties in investing in this new territory. It was not a member of the EBRD, nor conceivably a potential member, since it was not a member of the IMF (a requirement under Article 6.1). That precluded the use of the EBRD’s ordinary capital resources or special funds for any investment.

Instead, and in order to be able to use its full range of its financial products, the Bank adopted a new financing instrument, a Trust Fund.47 Under the exceptional circumstances that applied in West Bank and Gaza’s case, and having established sufficient compatibility with the EBRD’s purpose and functions, as required by Article 57, two Trust Funds were set up in order to finance operations, to last for an initial five-year period. One Fund received an allocation of €30 million from the Shareholder Special Fund (SSF), the EBRD’s own fund for supporting projects, and the other was established as a multi-donor fund.

47 Under Article 20.1 (vii) permitting the Bank to fully adopt such rules and regulations as necessary to further its purpose and functions, and Article 29.3 allowing Directors to make general policy decisions. Hitherto, cooperation funds (i.e. donor funds) had been used in the territories of non-members for the purpose of early engagement ahead of membership, while the process towards recipient membership (allowing the use of ordinary capital resources) or potential recipient membership (allowing the use of special funds) was carried out. These funds were approved for use in Kosovo from 1999, then for Mongolia in 2001 and later the first four SEMED countries in 2011. This route was not possible for West Bank and Gaza as membership of the EBRD was not an immediately feasible option. Moreover, the nature of such cooperation funds is restrictive in that the Bank administers them on the behalf of donors and they are not available for loans, equity investments, guarantees or other financing by the EBRD nor are they covered by the Bank’s immunities and privileges.
Operations began early in 2018 with the EBRD mainly involved in the provision of support for small businesses in the West Bank areas, including financing for women-led businesses, carrying out its activities from its office in Amman. Continuing divisions within the political leadership of Palestine has had an impact on the scope of EBRD activities, which have so far been focused on the West Bank. By the end of 2020, the EBRD had signed eight projects in the West Bank and Gaza for a total amount of US$ 46 million.

Lebanon

In the same year that it began operations in the West Bank and Gaza, the EBRD also extended its activities into Lebanon.

The Lebanese Finance Minister had written to the EBRD President on 6 July 2015, saying the Bank could play an important role in assisting Lebanon’s process of democratic and free market transition. He requested membership with a view to Lebanon gaining recipient country status “as and when appropriate”.

Membership was approved in December 2015. But, against a backdrop of renewed political volatility in Lebanon, there was a delay before all the requirements of membership could be fulfilled to give the country shareholder status. Membership thus became effective only on 14 July 2017, with shareholders granting Lebanon recipient country status two months later, on 4 September.

Lebanon needed EBRD support for reforms that could boost economic growth and tackle widening inequality. The economy was under particular pressure from the conflict in neighbouring Syria, which had disrupted trade and tourism. Most specifically, Lebanon was suffering under a huge influx of refugees, an estimated 1.2 million, or about one third of Lebanon’s population.

The crisis was putting a major strain on labour markets, public infrastructure and government finances. It was also a threat to social cohesion in a country that was already polarised. Unemployment was a significant challenge, with over 20 per cent of young adults looking for work.

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48 Letter to the President from the Minister of Finance of Lebanon, 6 July 2015.
49 According to UNHCR, as at June 2015.
A number of other development banks were already working in Lebanon. The EBRD saw its particular niche—as usual—in supporting private sector competitiveness, promoting sustainable supplies of energy, fostering energy sector reforms and energy efficiency. It also aimed to improve the quality and efficiency of public services and to engage the private sector in public infrastructure.

On 15 March 2018, the EBRD launched its first investment in Lebanon, buying a stake in Bank Audi, with an acquisition of shares listed on the Beirut stock exchange. The transaction aimed to support the Lebanese financial market and help expand and strengthen the broader financial sector.

Chakrabarti was in Beirut to mark this first transaction and for discussions with the authorities. He used the visit to reaffirm the Bank’s commitment to addressing the enormous strain on Lebanon’s infrastructure caused by the influx of refugees escaping from the civil war in Syria.

As previously in both Jordan and Turkey, the EBRD’s response to the refugee crisis had been to help create an environment that would strengthen employment opportunities and improve the delivery of services for the benefit of refugees and the citizens of the host countries.

The EBRD continued to deliver investments in Lebanon, supporting small business via deals with the banking sector and promoting foreign trade. But the situation in the country became increasingly complicated for the Bank amid political divisions and a seriously worsening economic downturn.

Political volatility continued in 2020 and a deadly port explosion in Beirut in August compounded an already devastating economic crisis. The blast killed over 200 people, injured thousands, caused billions of dollars’ worth of damage and left some 300,000 people homeless.

The Lebanese pound fell to unprecedented levels against the dollar, eroding the savings of ordinary people, paralysing the banking sector that traditionally had been a locomotive of the wider economy and triggering inflation above 100 per cent. The almost total economic stasis in the country made it difficult for the EBRD to operate normally via its traditional private sector channels.

The Bank continued to support trade, especially imports of essential goods, and looked into ways of becoming involved in rehabilitation of damaged energy infrastructure. But key to its involvement was the restoration of
a stable government capable of reaching an accord with the IMF that could unlock the reforms needed to facilitate EBRD intervention.

Iraq

The EBRD’s shareholders agreed to Iraq becoming a member of the Bank during the 2020 Annual Meeting, held in virtual session because of the Covid-19 pandemic. Baghdad had applied for membership in 2018, making clear it believed the experience of the EBRD could be applied to supporting Iraq address a number of different challenges.

As a shareholder, Iraq could subsequently make an application to change its status to become a recipient country. This request would be addressed by shareholders in a separate process but would involve a further amendment to the Agreement Establishing the Bank, as Iraq does not lie within the SEMED region.

The EBRD’s 2021-2025 strategy included a possible expansion of activities into Iraq within the scope of a wider potential extension of the Bank’s remit into sub-Saharan Africa. Shareholders were expected to review any such move in 2022, based on guidance from the 2021 Annual Meeting.

Other SEMED countries

Libya had first been accepted as a shareholder as early as 2014 after an application the previous year. But membership was not immediately formalised given continued political uncertainty in the country. Only in July 2019, did Libya officially become the EBRD’s 71st shareholder.

Algeria’s request for membership was approved in 2020 and it has requested recipient status. The latest EBRD strategy said progress on Algeria’s request to become a country of operations was likely early in the 2021-2025 period.

Of these MENA countries with a Mediterranean coastline, only Syria, where civil war has raged since 2011, has not yet applied for membership.

According to the strategy, political and security uncertainty in Libya and Syria make it highly unlikely they would be granted country of operations status before 2025, “though conditions in Libya may be conducive earlier”. The EBRD could however respond positively if the situation changed in either country.
Additional regional offices

In line with the EBRD’s increasing efforts to reach out to the more remote areas of the economies where it works, as part of its ‘inclusion’ agenda which accelerated with the Bank’s arrival in the region, it opened other regional offices. In Morocco, offices were established in both Casablanca and Tangiers and most recently in Agadir, while in Tunisia there are offices in Tunis and also in the south-eastern coastal city of Sfax. The EBRD also widened its reach within Egypt, opening an office in the Mediterranean port city of Alexandria in 2017, where the primary focus is on supporting the development of small firms.

5. Ten Years After

An ‘on the ground’ perspective

Heike Harmgart was the economist for SEMED during the very early days of the EBRD’s engagement in the region. She headed the EBRD’s first operations in Jordan, from where she later managed the Bank’s activities in the West Bank and Gaza and Lebanon and subsequently became Managing Director for SEMED.

Reflecting on the EBRD’s contribution, Harmgart said its real impact was made not just in financing individual projects but rather in the combination of investment and engagement with the authorities.50

The EBRD had fielded a strong mix of people that was capable of delivering solutions to complex developmental challenges. Local experts with a real understanding of the domestic markets worked hand-in-hand with highly technical teams with experience built up over many years in a winning combination that left a lasting positive impact across the private and public sectors alike. Harmgart said:

We did not just help finance a solar plant. We worked with the authorities on the development of the tariff systems that were need for solar energy across the country. Once the solar or wind power was becoming available, we worked on how it was linked up with the national electricity grid.

50 Interview, December 2020.
That was notably the case in perhaps one of the most visible EBRD projects across the southern and eastern Mediterranean: financing for Egypt’s Benban solar power park, the largest solar facility on the African continent.

Before the agreement on the Benban transaction, the EBRD worked for three years with the Egyptian authorities on creating the regulatory conditions for the development of solar power, providing policy advice and technical assistance that was as crucial as the funding itself.

By the same token, the EBRD’s support for tourism in resorts like Aqaba in Jordan was about much more than helping to build hotels. The Bank had used its projects to raise skill levels and training opportunities, often for young people for whom unemployment was a major problem.

Its work on cities helped improve the quality of services for the citizens of the region, while also supporting the local authorities’ ability to cope with the complex demands of urban financial management.

Some three-quarters of the EBRD’s investment had been in the private sector in Egypt. The remaining financing to the public sector had been money well spent. Harmgart recalled with particular satisfaction a project in Egypt, working with a local NGO and the national railway company, on a campaign to improve safety for women when travelling on trains. Without the Bank’s involvement, it would have been much harder to get this programme off the ground.

Post-revolution: challenges remain

Ten years after the eruption of popular protest across the Arab world, the EBRD had invested over €13 billion in the southern and eastern Mediterranean, putting a particular emphasis on inclusive sustainable development.

The 10th anniversary in December 2020 of the day Mohamed Bouazizi set himself alight was an opportunity for reflection on developments in the region since then. Some unsavoury leaders had been toppled. Clearly many political expectations remained unfulfilled. There was no quick path to democracy. Parts of the region remain wracked by violence.

The EBRD will continue to debate internally and with its shareholders its relationship with governments where the commitment to, and certainly the application of, democratic values is lagging or has suffered reversals.

Shortly after her election as the EBRD’s seventh President in October 2020, replacing Suma Chakrabarti, Odile Renaud-Basso said she believed...
the Bank’s focus on private sector lending helped strengthen civil society against repressive regimes. “If you cut off all financing I’m not sure that you will support the evolution of the country—and the democratic evolution of the country,” the former head of the French Treasury and first female head of any MDB told the *Financial Times* in response to a question about Egypt. The Bank, she said, wanted to “help countries move in the right direction”.

A decade on, there is no denying that hopes for the transition of the EBRD’s new region have waned. The political challenges and realities of development post-revolution in many respects echo the problems encountered in dealing with the aftermath of the Eastern Bloc.

Yet the EBRD’s drive for transforming economies for the better persists in this new geography. As in the early 1990s, the Bank has new and enthusiastic staff from the region who see its potential and want to make a difference. With its investment capacity and mandate for transition towards democratic and sustainable market norms, and with a proven business model, the EBRD remains an IFI of choice for the purpose—just as the G8 at Deauville, and other EBRD shareholders soon after, intended 10 years earlier.

### Table 3.1 Gross Domestic Product of countries in the SEMED region, 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>12,284</td>
</tr>
<tr>
<td>Jordan</td>
<td>10,517</td>
</tr>
<tr>
<td>Lebanon</td>
<td>15,196</td>
</tr>
<tr>
<td>Morocco</td>
<td>7,826</td>
</tr>
<tr>
<td>Tunisia</td>
<td>11,232</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>6,495</td>
</tr>
</tbody>
</table>

*Source: EBRD*

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### Table 3.2

EBRD’s Annual Bank Investment (ABI) in countries of the SEMED region, by share of portfolio, 2019

<table>
<thead>
<tr>
<th>€ million</th>
<th>ABI - Reported Rates</th>
<th>Portfolio (EBRD)</th>
<th>% of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>1,047</td>
<td>4,423</td>
<td>54</td>
</tr>
<tr>
<td>Jordan</td>
<td>73</td>
<td>1,016</td>
<td>12</td>
</tr>
<tr>
<td>Lebanon</td>
<td>28</td>
<td>242</td>
<td>3</td>
</tr>
<tr>
<td>Morocco</td>
<td>742</td>
<td>1,653</td>
<td>20</td>
</tr>
<tr>
<td>Tunisia</td>
<td>242</td>
<td>831</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>2,131</td>
<td>8,166</td>
<td>100</td>
</tr>
<tr>
<td>West Bank &amp; Gaza</td>
<td>30</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: EBRD*