

EBRD Alumni Association

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An interview with Daud Ilyas, former EBRD Senior Legal Adviser and Deputy Secretary General

Daud Ilyas has had an extraordinary legal career, of which some 30 years were spent at international financial institutions (IFIs), including the EBRD. In addition to his positions at the Bank, he was Assistant General Counsel at the Asian Development Bank (ADB), and General Counsel of the Black Sea Trade and Development Bank (BSTDB) in Greece. He is now a practising Barrister at Temple Court Chambers in London.



You were here when the Bank was first established. What brought you to this very new institution?

In 1990, having left the ADB, I was in law practice in London when I was contacted by staff of the EBRD President-designate with a view to assisting with the preparatory work for the formal establishment of the Bank in April 1991. I

joined the Bank's preparatory team in February 1991, both to advise on legal issues and to assist the Secretary General-designate with the preparation of documents and other work related to the Inaugural Meeting of the Board of Governors, followed shortly afterwards by the inaugural meeting of the Board of Directors. Although I had the requisite specialist knowledge and experience for this kind of work, I did feel hugely privileged to be invited to participate in it.

1991 was a year of momentous changes affecting the former USSR and some other members of the Bank. What was the impact of those changes on the young EBRD?

The immediate impact of those changes was to bring about a huge expansion in the membership of the Bank. Before dealing with the membership and shareholding of the 12 successor states of the former USSR, the Board of Governors in November 1991 decided to admit Estonia, Latvia and Lithuania to membership. This was followed in March 1992 by the Governors' decision to admit to membership all 12 successor states resulting from the dissolution of the former USSR and to reallocate among them the shareholding of the former USSR. At the same time the Board decided to do away with the limitation on financing and operations that had previously applied to the former USSR under Article 8.4 of the Charter, thus clearing the way for the Bank to carry out operations in these countries in the same way as in other recipient countries. I was responsible for developing the legal framework to accommodate these developments.

The dissolution of the former USSR was followed by the disintegration of the former Yugoslavia. In October 1992 the Board of Governors decided that each of the five

countries resulting from that disintegration was eligible and could apply for membership, but it took another three years to decide on the final reallocation of the shares of the former Yugoslavia among the five successor states. The dissolution of the former Czechoslovakia into two countries, the Czech Republic and the Slovak Republic, was however quite straightforward. In accordance with the Board of Governors' decision, they were both admitted to membership in early 1993 and the shares of the former Czechoslovakia were reallocated among them as had been agreed between them.

Membership matters were clearly some of the major highlights of my work at the Bank. I drafted all documents and resolutions on these matters for the Board of Governors. From a legal point of view, this was some of the most interesting, exciting and enjoyable work I did during my time at the Bank.

Were there other issues in those first years?

A major achievement was the first general capital increase, authorised by the Board of Governors in 1996. I drafted the Board of Governors' Resolution and was responsible for the legal and procedural aspects of putting that exercise together and for the steps leading to the eventual effectiveness of that increase.

I was involved in many other interesting matters and issues. For instance, I drafted various procedures for dealing with staff grievances and was responsible for running the appeals process. I also drafted several implementing orders to clarify provisions of the Code of Conduct, and regularly advised on conflict of interest issues with reference to the Code of Conduct. In addition, I drafted agreements for the establishment of the Bank's resident offices in some of the recipient countries, as well as cooperation agreements with various international institutions such as the Council of Europe, the Nordic Investment Bank and the OECD.

You have worked at other IFIs – the ADB and the BSTDB. Is there a difference – what makes the EBRD unique?

In early 1999, I left the EBRD to take up the position of General Counsel at the newly established Black Sea Trade and Development Bank (BSTDB) in Thessaloniki, Greece. I was the first General Counsel of this new IFI. This was a truly exciting opportunity as I had the task of establishing a legal department from scratch, to develop model documents for the Bank's largely private-sector operations, and to advise the management and Board of Directors on a variety of constitutional and legal issues arising at that early stage of the Bank's existence.

There are many similarities in the work of all IFIs, but the EBRD is unique because of its mandate to foster the transition towards open-market oriented economies of the recipient countries committed to and applying the principles of multiparty democracy, pluralism and market economics. Anyone looking at the Preamble and Articles 1 and 8 of the Bank's Charter could be in no doubt about the unique nature of the Bank's mission.

What have you done since leaving the EBRD and BSTDB?

After nearly four years at the Black Sea Trade and Development Bank, I returned to law practice in London as a barrister. Much of my work has an international flavour. For example, I have assisted the Nordic Investment Bank with the revision of their statutes and helped them set up an ombudsman function. I also drafted the charter for the establishment of the

Commonwealth Education Centre at Cambridge University.

I am currently on the International Law Association's international committee on the law relating to recognition of states and governments. As a member of the Bar European Group and the European Circuit of the Bar of England and Wales, I also endeavour to keep up with developments in the EU and in some aspects of European law.

The man who breached the Iron Curtain

An interview with former EBRD Vice President Miklós Németh



Miklós Németh was Vice President for HR and Administration at the EBRD from its inception in 1991 to 2000, serving under the Bank's first three presidents. He is still fondly remembered by many staff members – and he will always be remembered by many, many more for what he did before he came to the Bank. An economist by profession, he became Hungarian prime minister in November 1988 where, as BBC Radio 4 put it, he “proceeded to tear up the rule book for leaders of communist bloc countries”. In March 1989, he visited Gorbachev and informed him of his government's decision to start dismantling the border between his country and Austria, part of the infamous “Iron Curtain” that separated East from West. With the border fully open in September, thousands of East Germans left for Austria and the West without exit visas. This breach of the once impenetrable border was the death knell for the German Democratic Republic (GDR) and within weeks the Berlin Wall had fallen.

You were recently in Berlin for celebrations marking 25 years since the fall of the Berlin Wall. What was that like and what are your thoughts today?

Yes, there were eight of us in Berlin in front of the Brandenburg Gate, including Mikhail Gorbachev, Angela Merkel, Lech Walesa, Joachim Gauck and Berlin Mayor Klaus Wowereit, at a moving commemoration of that historic day when the Wall fell. Instead of a Wall, there were some 14.5 kilometres of illuminated balloons released with messages of peace – quite a difference!

When I opened the border between Hungary and Austria, I didn't foresee that that action in itself would lead so quickly to the fall of the Berlin Wall and the reunification of Germany. It was such a momentous event and it happened peacefully. This is something we should never forget. And we should never, ever forget that freedom is not guaranteed. You and future generations should bear this fact in mind. You must fight for freedom in every way you can. This was the message that was in my balloon.

The commemorations had begun at Bernauer Strasse on what was the inner German border – at a moving ceremony in memory of those Germans who had died trying to scale the Wall. Angela Merkel and Mayor Wowereit remembered these victims and in the same breath remembered the victims of Kristallnacht. They remembered German victims and they took responsibility for the victims of the Second World War. This has, I believe, ramifications for the present – it was a clear-cut outcry against fascism, racism and intolerance.

My thought then and now is that this is the real essence and meaning of transition: freedom and respect for people, cutting the chains that bind, letting people express themselves as free men and women, whatever their background, whatever their profession. That is my message even today, based on my experience of 25 years ago. Young people should be reminded of this from time to time, to not take this for granted. The rule of law, the market economy and democracy itself are precious and may not last if you are not smart enough, sensible and strong enough. Power corrupts; centralised power corrupts more, absolute power even more. One must keep an eye on what is going on. Unfortunately, I am sad to say that in some EU countries there are certain political parties and politicians who are gradually undermining basic elements and pillars of democracy, not to mention freedom of the press.

How did you come to join the EBRD?

In 1991, there were phone calls from Bonn, then from Downing Street, then Paris, asking me to join. They wanted someone in senior management with direct experience in transition; they wanted someone from the region. At that point the former USSR still existed, and no one expected it to collapse so fast – nor did people expect the former Yugoslavia to collapse. At that point there were seven former Warsaw Pact countries including the GDR. My thought was that there should be some sort of Marshall Plan for the region, as there had been for western Europe after the Second World War. This idea of mine for a Marshall Plan for the East remained simply an idea.

The initial idea for the EBRD was a compromise and we started with a development banking arm and a merchant banking arm – a structure which didn't last. In 1991, the collapse of the USSR and the beginning of conflict in Yugoslavia meant that the young Bank was confronted with unexpected and daunting challenges. In the winter, I was asked by the Board to recruit all the former Soviet republics as members of the EBRD. The President at the time, Jacques Attali, convinced the Board to do this without a capital increase and without more money on the table and the Board agreed.

The French government sent a private military jet to collect me and a small delegation (including Mahir Babayev who is still here), and we set off to recruit 10 more shareholding countries, flying in one trip to Dushanbe, Frunze, Alma Ata, and so on. We had a day's discussion in each capital, convincing them to join this institution, and so I came back with 10 signed documents and presented them to the Board.

What are your reflections on economic progress over the past 25 years – on economic transition to market economies?

After 25 years, there is of course still a gap between West and East. Unfortunately, we find increasing levels of

economic and social inequality in the East, something which destroyed the belief of ordinary people in democracy. In some countries, we have a small percentage who got really, really rich, with many people still living under the poverty line. In a word, there is still much to be done in central and eastern Europe.

Beyond the challenges of the transition process, what other projects have you been involved in?

Many things. In 2007, I was commissioned by UN Secretary-General Ban Ki-moon to investigate North Korean activities – counterfeiting, abuse in the United Nations Development Programme (UNDP) in North Korea, and other issues. I led a three-member inquiry committee which uncovered the unauthorised use of funds, resulting in a 380-page report published in June 2008. On another front, news just reached me that the third edition of my autobiography has been printed in Hungarian – with a German version on the way. It is about my life, but it focuses on the transition process, my experiences at the EBRD and at the UN as well. And I am proud to say that I collaborated on a feature-length creative documentary by Danish Director Anders Østergaard entitled “1989” – a film which explores the high-risk political game that led to the fall of the Wall and the reunification of Europe.

Alumni attend the Transition Report 2014 launch event

The leap from Stuck in Transition to Innovation in Transition couldn't come more timely as 'red warning lights are once again flashing' over the state of the global economy. “The overall message of this year's report is a hopeful one,” Erik Berglof, the Bank's Chief Economist told a wide audience listening to a panel discussion on the findings of the Transition Report 2014.

“Innovation by companies is a powerful lever that can galvanise growth in emerging countries and help bring their economies in line with their more prosperous neighbours,” continued Erik. He then did what he preached by showing some of the report's findings through an innovative 3D presentation, thus fleeting a curious audience from the Auditorium straight to Silicon Valley.



[The Transition Report 2014: Innovation in Transition](#)

builds on last year's report, which was in many ways a wake-up call. It showed how economies were “Stuck in Transition”; the transition process had run out of steam, slowing productivity growth and economic convergence in many countries where the Bank works. This year's report draws on unique data to examine why some companies are more innovative than others and identify what drives innovation and what stands in its way. The data comes from two surveys, polling almost 16,000 firms in 30 countries and holding face-to-face interviews with CEOs from 600 banks.

The report points specifically to the role that innovation can play in boosting economic productivity. It analyses how individual companies across the transition region innovate – how they adopt and adapt products and processes from international markets. The publication provides ample evidence of how innovation by firms can help increase productivity, boost economic growth and re-energise transition.

“We have to innovate continuously to be able to survive. If we stopped innovating for six months, we would be out of business,” said one of the panellists, Murat Sarpel, General Manager for R&D at Vestel Electronics Group.

This year's report stresses that innovation should not only be seen in terms of ground-breaking new inventions but also, especially in less developed economies, in terms of companies introducing products or processes that are new to that firm but were already available elsewhere.



The panel

“For any company to grow over a longer period of time, it has to focus on tapping into the existing knowledge. Innovation isn’t about producing computer chips but producing potato chips of the right quality,” said Beata Javorcik, Professor of Economics at the University of Oxford and one of the panellists at the event.

The research that underlies the report shows that innovative firms are particularly sensitive to the business climate and, in order to promote innovation, authorities have to make sure that they address bottlenecks affecting innovation, such as corruption, inadequate skills among the workforce, limited access to finance and lengthy customs and trade regulations. “If transition countries are to reach full convergence with the advanced countries, the focus has to be on professionalising and reforming the public administration,” said Martin Bruncko, former public policy leader and a technology entrepreneur and investor.

But “getting unstuck” requires a double act: firms willing to innovate and governments to facilitate innovation, working closely with the private sector.

Just as the EBRD seeks to approach projects in an innovative way, governments also play an important role in shaping the business environment in which firms operate. But they can also promote innovation more directly through specific policies. The Transition Report 2014 recommends that like firms, governments must not only copy policies, but also adapt them to local circumstances, taking into account where particular industries are placed relative to global technology leaders.



Erik Berglof unveils findings of the report with an innovative 3D presentation

Erik ended the event by telling the audience that a report like this would not have been published nine years ago, when he joined the Bank. The focus then was on getting governments out of the private sector’s way. “That focus has now shifted and there is an important role for the EBRD to play by bridging the gap between the private sector and governments,” concluded Erik.

Twentieth anniversary series: Chris Holyoak



As the fourth staff member of the EBRD, former Corporate Director for IT & Administrative Services Chris Holyoak was the longest-serving professional-level employee in the Bank until his departure in 2012. By accident, Chris almost missed out on the chance of joining the Bank, but 20 years later he had his fair share of stories

to tell on the Bank's initial years.

When I first started working with the EBRD, I had to be employed by the UK government for a few months, as the Bank didn't officially exist. Broadgate was still being built and everything in Bishopsgate, and the City in general, looked completely different at the time. So when I went to my job interview, I almost didn't pass the first test as initially I simply couldn't find the building.

We were about 50 people in the office, which consisted of a series of desks, sometimes with two or three people per table, and French seemed to be as much the working language as English. When I arrived on my first working day as the Bank's Controller, I just took one of the seats, but someone quickly headed over to me and told me that it belonged to him. I was briefly considering insisting on my spot, but then he presented himself as former Hungarian PM Miklós Németh, so I let it go.

A blank canvas

Starting with the Bank right from the beginning presented everyone involved with an opportunity to create something from scratch. When I went out for my first working lunch with a few consultants and asked afterwards how to claim back my expenses, I realised that one of my first tasks needed to be the development of a suitable claims form and process.

From a claims form to the first financial statements, from engaging auditors to procurement rules – we had to set up the foundations of the Bank. Similarly, there was no logistical infrastructure for our first Annual Meeting overseas in Budapest. I was designated as the cashier for

the meeting and brought along a briefcase full of dollars to pay the interpreters, translators, drivers etc. Having just returned from a preparatory mission to Astana, I am really impressed by how much more complex and professional things are today in this area.

A unique place

Over the following years, my role was mainly an internal one and I have been very fortunate in how my career at the Bank has developed. I moved on from Controller to IT and Operations, to the Compliance Office, to Administration and then back to Finance to be responsible for the Budget. The Bank has always been an exciting and unique place to have a job and I have worked alongside former prime ministers, finance ministers and cabinet members and was even, in the early days, invited to a reception at 10 Downing Street.

I really didn't expect to stay for more than three or four years when I started in 1991. Frankly, I didn't necessarily expect the Bank to still exist 20 years later. I thought that we would invest in eastern Europe, the countries would develop over the next few years and then the Bank might cease to exist, with its job done.

However, our idea of what transition really meant developed over time. At the beginning, there were operational opportunities everywhere. Selecting and prioritising projects was therefore a demanding task. Furthermore, it was a real challenge to deal with the underdeveloped legal and institutional environment in the countries where the Bank worked and to explain what private sector development really entailed.

The full picture of the demands and needs in eastern Europe and the former Soviet Union became much clearer over time. It was only when I realised just what the Bank could achieve that I understood that the institution would be around for much longer than I had thought.

I think that the Bank will still be recognised and needed 20 years from now. Central Europe has already completely changed and will certainly be a different place in the future, but there are other places and regions that are still very much in need of the Bank's help.

Certainly, as I near the end of my career with the EBRD, I hope that others will be able to enjoy similar opportunities to the ones I have had and will themselves be able to look back with pride and a sense of contributing something to a great institution.

The fall of the Wall 1989 – special edition

Twenty-five years ago, the post-war division between eastern and western Europe ended as huge, hopeful crowds poured across the Berlin Wall that had, until the night of 9 November 1989, symbolised the divide. Those events not only created a new Europe but also gave the impetus for the creation of the Bank.

Timeline: How, where and when the old regime fell in 1989

As late as January 1989, East Germany's communist leader Erich Honecker believed that the Berlin Wall that symbolically divided Europe into communist and capitalist halves could stand for another 50 to 100 years – if the conditions that had caused its construction did not change.

But conditions were already changing, months before the Wall finally became defunct on 9 November. Glasnost to the east, in Mikhail Gorbachev's Soviet Union, had since mid-decade been stimulating a questioning of the status quo, leading ultimately to unrest and mass protests all across central Europe. From May 1989, the first visible cracks began to appear in the Iron Curtain when Hungary began dismantling its 150-mile-long border fence with Austria, opening a potential route West for the discontented.

Poland

Lech Wałęsa and Solidarity had long taken the moral high ground in Poland from President Wojciech Jaruzelski in his trademark dark glasses, and the first non-communist government for decades was approved by the country's Sejm parliament in August.

Also in August 1989, Hungary finally disabled its physical border defenses with Austria and, over the next month, more than 13,000 East German tourists escaped through Hungary to Austria. The Hungarians then prevented many more East Germans from crossing the border and returned them to Budapest. These East Germans flooded the West German embassy and refused to return to East Germany. The East German government banned any further travel to Hungary.

Hungary

In Hungary, meanwhile, the constitution was rewritten, bringing the formal end of the People's Republic by October.

More East Germans poured into neighbouring Czechoslovakia. From 3 November, the Czechoslovak authorities let all East Germans travel directly to West Germany, effectively lifting their part of the Iron Curtain.

East Germany

East Germany had been in uproar since September. Erich Honecker, East Germany's long-term leader, resigned on 18 October and was replaced by the more moderate Egon Krenz. The public demonstrations grew by early November. The movement neared its height on 4 November, when half a million people gathered at East Berlin's large public square and transport hub, the Alexanderplatz, for a rally for change.

Meanwhile, the wave of refugees leaving East Germany for the West had increased and had found its way through Hungary via Czechoslovakia (or via the West German Embassy in Prague), tolerated by the new Krenz government and with the agreement of the communist Czechoslovak government.

To ease the complications, the politburo led by Krenz decided on 9 November to allow refugees to exit directly through crossing points between East Germany and West Germany, including West Berlin. On the same day, the ministerial administration modified the proposal to include private travel.

The new regulations were to take effect the next day. But no one had explained the finer points of the timing to the party boss in East Berlin, Günter Schabowski, who announced the news at a press conference and said it was, "as far as I know, effective immediately, without delay."

A huge crowd of East Germans assembled, demanding to be let through the checkpoints in the Wall. At 10.45pm, the troops manning the checkpoints yielded, and the Ossis swarmed through, to be greeted by Wessis waiting with flowers and champagne amid wild rejoicing. Soon afterward, a crowd of West Berliners jumped on top of the wall, and were soon joined by East German youngsters. A night of dancing to celebrate freedom was followed by weeks of chipping away souvenir bits of wall, the demolition of bigger sections of wall to make new crossings, and, finally, the official dismantling of the Wall.

East German communist rule, like the Wall, imploded in a welter of talks and resignations after November 9. On 1 July 1990 East Germany adopted the West German currency, and East and West Germany were reunified less than a year after the fall of the Wall, on 3 October 1990.

The three final revolutions of 1989 occurred after the Wall came down.

Bulgaria

Autumn demonstrations in Bulgaria, had been suppressed, but on 10 November Bulgaria's long-serving leader Todor Zhivkov was ousted by his Politburo. He was succeeded by the more liberal communist Petar Mladenov. Opposition forces united as the Union of Democratic Forces and demanded an end to communist rule. On 11 December Mladenov caved in and the Communist Party abandoned its monopoly on power.

Czechoslovakia

The Velvet Revolution (sametová revoluce in Czech) or Gentle Revolution (nežná revolúcia in Slovak) was a period of mass protest and upheaval that started in mid-November. On 16 November, Slovak students demonstrated peacefully in Bratislava. The next day – International Students' Day – riot police suppressed a big student demonstration in Prague. The demonstrators came back throughout late November and for most of December, jingling thousands of keys to symbolise the unlocking of doors and tell the leadership, "Goodbye, it's time to go home." By 20 November, there were about half a million protesters in Prague. A two-hour general strike

involving all citizens of Czechoslovakia was held on 27 November.

The top leadership of the Communist Party, including General Secretary Miloš Jakeš, resigned. On 28 November, the Communist Party of Czechoslovakia relinquished power and announced it would dismantle the one-party state. Two days later, the legislature formally deleted the sections of the constitution giving communists a monopoly of power. Barbed wire and dogs were removed from the border with West Germany and Austria in December. On 10 December, President Gustáv Husák appointed the country's first mostly non-communist government since 1948, and resigned. Alexander Dubček was elected speaker of the federal parliament on 28 December and Václav Havel the President of Czechoslovakia on 29 December. (Czechoslovakia's Velvet Revolution was followed just over three years later by the Velvet Divorce. In January 1993, Czechs and Slovaks opted to peacefully split into two separate states).

Romania

Romania had the year's only violent revolution, with more than 1,000 people killed. Communist party leader Nicolae Ceaușescu suppressed rioting in Timișoara in mid-December. But at the subsequent mass rally he ordered in his own support in Bucharest on 21 December he was booed and jeered. Demonstrations spread through the country, even though – at first – the security forces obeyed Ceaușescu's orders to shoot protesters. But on 22 December, the military changed sides. Ceaușescu and his wife, Elena, escaped Bucharest by helicopter. It was only on Christmas Day that Romanian television showed the couple facing a hasty trial, then summary execution.

Poland: “An overwhelming feeling”

Zbigniew Kominek recalls the months that radically changed his country

What did you do in 1989 when the momentous changes happened and how did you experience them?

I had just started secondary school when the changes, somewhat unexpectedly, unfolded in 1989. I was living with my parents in Katowice, the capital of the Upper Silesia region in the south of Poland. Upper Silesia was at the time a coal mining and heavy industry centre (most of it is now long gone), with a strong trade union (Solidarność) presence, especially in large state enterprises.

What was the most exciting moment for you?

The most memorable part for me was the run-up to the first, partially free elections in June 1989. We had two free (Solidarność-controlled) newspapers and lots of energy and optimism. I remember running around and pasting posters with Solidarność candidates (we had a mini-distribution centre at our school). The degree of involvement and engagement was great. We did not know what the future would bring but there was an overwhelming feeling that something important and momentous was happening all around us. We had a lot of naïve optimism, but this no doubt helped us later in the turbulent years of early transition.

How did it change your life?

From my perspective, the opening of the borders was probably the most important change. It gave us the opportunity to pack up our rucksacks and explore the world, no matter how small the budget was. After living your young life with very little view outside the iron curtain, the appetite to explore the world was insatiable. Within a few years I managed to visit most of Western Europe and parts of Asia. If not for this opening, I would not be working at the EBRD today and I would not have met my wife.

How did it change your country?

Poland is a completely different place now. NATO membership and EU accession were the biggest political milestones, but lives are really changed by many small things: no more empty shelves in the shops; no more secret (or not so secret) police watching over you; access to consumer goods from anywhere in the world; rapid increase in purchasing power; fast modernising infrastructure; and revitalisation of cities. Although not everything has been easy and some have been left behind, Poland is by any measure a huge beneficiary of transition and the EU integration processes

Hungary: pressure and the vision of decision-makers

Zsuzsanna Hargitai looks back at “negotiated regime change”

In January 1989 I was in the foreign service of the People's Republic of Hungary and by the end of the year I was in the foreign service of the Republic of Hungary. In April I visited London for the first time in my life, participating in the Conference on Security and Co-operation in Europe (CSCE) Information Forum – where we included an “opposition member” in the official Hungarian delegation – what an uproar that caused in the Warsaw Pact caucus!

Then I went on to the Paris CSCE meeting on human rights, where for the first time we could talk about the plight of the Hungarian national minority in Romania and say “no” to an invitation from the Soviet delegation to a “tea party”, in other words, coordination among Warsaw Pact member states. And then I spent the summer as part of the Hungarian delegation negotiating, or rather communicating, the opening of Hungary's border with Austria – the Iron Curtain.

Breaking down barriers

By the way, the Iron Curtain did not fall. It had to be broken down, cut open – by peoples' pressure and by the bold and well-timed decisions of some politicians. Later, I received a piece of the barbed wire, duly framed, with a personal dedication from the Prime Minister of Hungary at that time, Miklós Németh.

In October I was part of the Hungarian delegation at the highest-level meeting of the Warsaw Treaty, the Political Consultative Committee. It was a last-ditch effort to bring some cohesion to its members. My mandate at the time was to prevent a joint statement on economic cooperation with a “constructive approach”. And so I used words which today are in the common vocabulary of the

EBRD: market integration, market incentives, encouraging private sector development and commercial banking. There was no chance of the other countries agreeing to this terminology.

On day three the news arrived: Hungary had shed the term “People’s Republic” and the 1956 counterrevolution was reassessed by an influential politician in power as a people’s uprising. Perhaps this was the moment I felt that the changes east of Vienna had become irreversible.

In November, as we were celebrating my birthday, which happens to fall on 9 November, I got a real surprise birthday present – the news about East Berliners cracking, crushing, breaking through the Berlin Wall! Then in early December we had foreign policy consultations with the State Department in Washington; a lot was on the table, ranging from the impact of a potential Soviet troop withdrawal from Hungary on the balance of conventional forces in Europe to the human rights situation in Romania.

Little did I imagine that on 24 December 1989, my last trip of the year – and this time not in an official capacity but as a private citizen with other volunteers – would lead me from my home town Debrecen to Oradea in Romania, bringing food and medicine to the people rising up against the Ceaușescu regime.

“Negotiated change”

Hungary had a “negotiated change of regime” as we used to call it, achieved through lengthy round-table talks between representatives of the democratic opposition and factions of the incumbent Hungarian Socialist People’s Party. The talks led to a fundamental change in the constitution and the free elections of March 1990. Some may think that this “negotiated way” to a new system did not lead to a “deep cleansing” of society and Hungary’s institutional structures. I respectfully disagree. Hungary for a good decade led the process of “transition” with bold steps – but then shied away from reforming its public spending, reconsidering the role of state institutions in a market economy and instead launched itself into a consumption-led growth, fuelled by cheap funding which was available from the largely foreign-owned banks in the early 2000s.

With the onset of the 2008-09 financial crisis soaring mortgage payments coupled with rising unemployment undermined the confidence of most Hungarians in the ability of market economies to provide better living standards.

I still hope that the liberal ideas and values that contributed to the changes of 1989 will come back to Hungary and take deeper roots. One day.

Memories of a tectonic shift in European history

Kamen Zahariev on Berlin, Bulgaria and existential upheaval

On 9 November 1989 I was sleeping peacefully in my bed about 1.5 miles from the Brandenburg Gate in East Berlin when the telephone rang and my sister-in-law called all excited from a telephone booth in the western part of the divided city. She said that she had heard a lot of noise in

the street (she lived in East Berlin close to a border checkpoint near Friedrichstrasse) and had joined the crowd moving towards the checkpoint. News of the botched press conference at which East German party officials had announced the opening of the border to West Germany had travelled fast. Her children were still asleep at home in East Berlin! I told her that she was crazy and went back to bed.

The next morning it became clear that this was not a temporary mistake: the Wall was crumbling; the border guards had given up. My wife Kathrin and I boarded our blue Trabant car and headed for Checkpoint Charlie. It was indeed open and on the other side there was a huge crowd of West Berliners who gave us the “Trabi patting” welcome: clapping on the roof of our car, while we were crawling towards the West.

The following days the phone did not stop ringing. Friends, colleagues and relatives from all over the world were calling to ask for our first-hand experiences. The following weekend I joined the “wall-peckers”, who were busily chipping away at the symbol of Germany’s and Europe’s partition.

From “wall-pecking” onwards

Needless to say, that the fall of the Berlin Wall changed my and my family’s life profoundly. The entire world around us was changing at lightning speed! Old truths became obsolete overnight. New and previously unthinkable opportunities were opening up, old certainties were disappearing fast and a new sense of excitement, but also fear of the unknown, were spreading. It was like being born again: an exciting, but initially traumatic experience of readjustment to a completely new environment! Ultimately, I was able to realise my dream of working in an international business environment and – beyond my wildest dreams – to contribute to change in my region.

To say that the fall of the Berlin Wall “changed” the country of my birth – Bulgaria – and my adopted country – Germany – would be a huge understatement: it was a tectonic shift. One of them disappeared altogether and the other one was thrown into a traumatic decade during the 1990s which saw hyperinflation, collapsing banks, the rise of organised crime and the mass exodus of thousands of well-educated Bulgarians. What followed was the slow healing process of reorientation towards European values which culminated in the EU accession and still continues today.

The face of Bulgaria is changing before my eyes: it is getting more modern and European every time I visit: a process that is still painfully slow, and has yet to show substantial improvement in the lives of many ordinary people. Nevertheless, it is irreversible and even today it is slowly improving peoples’ lives and opening opportunities for younger generations.

Czechoslovakia: When anything became possible

Libor Krkoska remembers when the people shed their fear

What did you do in 1989 when the momentous changes happened and how did you experience them?

I was studying at the university in Prague and remember the changes during those months vividly. First, thousands of East Germans came, abandoning their Trabant and Wartburg cars all over the town and climbing over the fence into the garden of the West German embassy before the fall of the Berlin Wall. Then the police brutally attacked a student demonstration in downtown Prague in mid-November and mass demonstrations started together with a student strike lasting several weeks. We were getting out to the main square every night in freezing weather. We did not get much sleep in those days as we were discussing political developments late into the mornings in our dormitories. Within a few short months Václav Havel had become our president, we had the first free elections and took the first steps to reforming the economy and introducing private businesses, with previously banned books flooding the shops and filling my library. Many small independent bakeries appeared, and to date the smell of freshly baked bread always reminds me of the changes introduced after 1989.

What was the most exciting moment for you?

While there were many political and economic changes, the most exciting moment for me was the opening of the border with the rest of Europe. Together with tens of thousands of my compatriots, I applied for a passport and travelled to Vienna on a train provided by the Austrian government. Crossing the previously sealed border on a packed train in the middle of winter and then walking along Vienna's brightly-lit Mariahilferstrasse in the evening became for me the true symbol of the changes of 1989. Vienna has become my favourite city since, and I am always happy to return there again and again to recall the feeling of freedom we won in 1989.

How did it change your life?

1989 radically changed my life from how I had envisaged it only a few months earlier. Liberalisation did not only mean economic and political reforms, but also the freeing up of rigid university courses and the opening of new horizons. Like many of my classmates I switched my focus to study economics and pursue a career in finance rather than becoming a mathematician as I had planned when entering university. But more than that, 1989 showed me that anything is possible: whatever may seem eternal can disappear almost overnight, and seemingly worthless things, such as the knowledge of the English language in communist Czechoslovakia had been, can unexpectedly become highly relevant.

How did it change your country?

My country is now both very different and in many respects still the same as it was before 1989. Of course, my country as it was does not exist anymore, as Czechoslovakia split up in 1993. Today the Czech and Slovak Republics are members of the EU and NATO, and many of the issues we have been most concerned about

are now taken for granted. We have regular free elections, freedom of speech, freedom of movement to travel abroad and freedom to pursue private enterprise. Our cities and towns have been rebuilt, our air is cleaner, and our wallets are generally fuller.

At the same time many of our habits and ways of doing things have not changed much, and there are not just winners but also losers of the changes triggered by the 1989 revolutions. It will probably take at least one or two more generations until transition will be over and my country will have caught up fully with the rest of Europe, overcoming the remaining traces of real socialism from the period before 1989.

Working for the EBRD to make it happen reminds me of the historic days of 1989 every day, as our successes and achievements help us to demonstrate that the often painful reforms started then were worth the effort.

To Romania the revolution came last

Only after addressing the legacy of communism could real change set in

When communism fell in Romania, I had just entered high school at an age when one starts to become aware of politics. Looking back, the whole of 1989 was an incredibly exciting political year, with a clear crescendo and a peak in November and December for my home country.

Information was very difficult for us to obtain in Romania – I remember listening secretly to Radio Free Europe and Voice of America at a very low volume and with very poor quality reception. Foreign broadcasts were jammed and listening was heavily punished. But these were our only sources of credible information, although compared to what we have access to in today's internet age even this was a fragmented and incomplete depiction.

Coming soon to a capital near you

November was very eventful - the fall of the Berlin Wall, the Velvet Revolution in Czechoslovakia and then the change of government in Bulgaria – it all seemed very close, yet still very far from Romania, where state and party leader Nicolae Ceaușescu was re-elected secretary general of the communist party in November. Yet only a few days later, on 15 December, it all exploded in Timișoara and this was followed by ever-growing mass protests in Bucharest that finally led to the toppling of the regime on 21 December.

The first immediate change we felt was the liberation of the local media. Suddenly watching state TV, which for decades had been a despised, loathed and ridiculed propaganda tool, became de rigueur. More than just a way to obtain information, watching TV became a means of taking part emotionally in the dramatic events, especially for the vast mass of people living outside the large urban areas. My family, for instance, lived in a secondary town which had witnessed only limited protests, so the free media was crucial for us. It was not the accuracy that counted (and we learned many facts about the things that happened right before our eyes only years later), but the access to uncensored information and opinions which was crucial. Once the uniformed

world view was smashed there was no way of putting it back together.

Happy ever after?

The first changes occurred right after the fall of communism – Christmas became a public holiday, not just a private family holiday, the school curriculum was purged of the worst excesses of communist ideology, international travel was no longer restricted and people, especially the young, very quickly lost the fear of speaking their mind. The consumer economy arrived later and took most of the next decade to take root, particularly outside of the main urban centres.

Although we all hoped and expected sudden overnight changes, looking back on the events of this historic period we see that political and economic transformation is a long process, which is clearly not completed yet. It proved very difficult to build a solid political class, an independent media and a competitive economy. The legacy of communism, which had shattered trust in people and society, quickly translated itself into institutional weaknesses. These degenerated into corruption and a variety of other distortions in the economy and politics of Romania (and the wider region). It was only in the 2000s that these challenges began to be addressed properly.

On a personal level the past 25 years have been quite a journey. When the revolution happened in 1989 voting was still some years away for me – I first cast my vote in Romania's general elections in 1996. By then the key question had become how to turn the country quickly towards the West.

After completing my undergraduate degree in Romania I embarked on postgraduate studies in economics abroad which genuinely opened my mind professionally and politically. But they also made me realise how slow societal change is and how difficult it is to find policy solutions for the transition of the economy and – perhaps even more importantly – the political system.

As a citizen I understand that change is incremental. As a person I am grateful that I have lived through the most exciting time of modern history. This has been a fairytale, but many challenges remain and a lot of hard work still needs to be done.

Re-energising transition 25 years on

Emerging Europe still has catching up on income levels to do

Over the 25 years since the fall of the Berlin Wall the economies of central and eastern Europe have undergone an amazing transformation. Yet one of the ultimate goals of transition – achieving the income levels of advanced market economies – remains elusive. In fact, the speed of income convergence towards the levels of the core EU economies has slowed markedly since the 2008-09 financial crisis.

Throughout the 2000s, the average rate of growth of transition economies was comparable to the emerging market average – a remarkable achievement taking into account that transition economies quickly became richer than the average developing economy. In recent years

though, the growth rate has dropped to barely half that of other emerging markets, for the first time since the transition recession of the early 1990s. On current projections this gap will persist.

To a large degree, the success of the 2000s was the result of implementing the easier aspects of transition. Countries in the EBRD region started the transition process with very low levels of total factor productivity; capital, labour and natural resources had been combined inefficiently within and across firms and sectors under central planning. As market forces drove the reallocation of these factors, economies enjoyed rapid growth. By the time the global financial crisis hit, levels of total factor productivity in the region had converged with those of other emerging markets that showed comparable levels of income. But making further improvements in productivity is far more challenging.

Labour, productivity and FDI

Emerging Europe, like many other emerging markets, has also benefited from an initial pool of relatively skilled yet underpaid labour. As wages have risen, this advantage has gradually eroded. Little or no growth has resulted from an increase in the labour force. In addition due to a lack of investment, the improved quality of human capital has made only a small contribution to growth. Labour remains the most important asset in most of these countries, but they have to invest more in upgrading skills to stay internationally competitive.

Productivity improvements during the 2000s were also largely underpinned by foreign direct investment (FDI), mainly from the core EU countries. It supported capital formation, the transfer of technology, improvements in corporate governance and growth. Since the 2008-09 crisis these FDI flows have weakened, and prospects of their return to pre-crisis levels look bleak given the challenges facing the core European economies. Moreover, a significant part of domestic investment was financed by banks that relied on cross-border funding. This, too, has stopped, as parent banks have been deleveraging since the crisis.

In addition, we now have the geopolitical uncertainty related to the crisis in Ukraine and sanctions against Russia. Apart from the immediate spill-over effects, this risks eroding the transition peace dividend by forcing governments to channel scarce budget resources to military spending, but also by distorting trade and investment. It will also raise the costs of energy supply as economies seek to diversify from dependence on Russian gas and build redundancy into the energy infrastructure.

The way forward

What can countries do to re-energise transition? A recent survey of over 16,000 firms in the region, the Business Environment and Enterprise Performance Survey by the EBRD and the World Bank, brought welcome findings. The survey showed that in all economies, no matter how difficult the operating environment, there are firms as productive as the best comparators in advanced markets. The challenge is to help firms adopt and adapt products and processes that are available on the global market. But they must also innovate and move closer to the technological frontier. In that way, productivity improvements within firms will add up to overall productivity growth.

There is no silver bullet here: it will require the liberalisation of service sectors, opening up to new sources of FDI, investing in skills in partnership with private firms, improving economic institutions and leveraging competition between regions within countries. These activities will help economies to undergo further structural transformation – and raise people's incomes.

There is also scope for policies directly targeted at promoting innovation. But such policies must recognise that innovation is a very broad concept, particularly when it is applied to emerging markets.

Innovation in emerging markets is not only, or even primarily, about introducing products and processes that are new to the global market. More importantly, innovation in these countries is also about adopting and

adapting existing products and processes to local conditions.

An examination of the innovation policies of countries in emerging Europe suggests that they are all very similar. Very little has been done to reflect where most sectors in these countries stand relative to global technological frontier. To raise productivity growth these countries must not only adopt, but also adapt, the policy frameworks of advanced economies. Indeed, they need genuine innovation in their policy instruments to accelerate economic convergence.

This sounds like a tough challenge – but, surely, one that is not beyond the same people who achieved the miracle of 1989.

NEWS FROM THE BANK

Overview

□ At the end of October 2014, annual Bank investment had reached €5.9 billion, 10 per cent higher than at the same time last year. The number of operations stood at 246. Expected transition impact at the end of October was 65.4, well above the floor of 60 set in the 2014 Business Plan.

□ The implementation of the Equity Participation Fund (EPF) and the Loan Participation Fund (LPF) were moved forward. The aim of the EPF is to bring in institutional investors and sovereign wealth funds. The LPF is a loan co-investment fund to enable risk-sharing with investors beyond the traditional universe of B-loan participants.

□ The theme of the EBRD's 2015 Annual Meeting (AM) and Business Forum is "Investing for Change". There will be a strong focus on the private sector. The AM will take place in Tbilisi on 14-15 May 2015, with associated events scheduled for 13 May.

□ The Board approved the ground-breaking Infrastructure Project Preparation Facility within the Infrastructure Business Group, to be funded by a €40 million net income allocation for 2015-17. It is designed to improve the efficiency, quality and replicability of project preparation through the use of framework consultancies, as well as providing dedicated policy dialogue support.

□ The Board approved Bank financing for various projects. In Moldova, €7 million in Bank financing will assist the upgrade of district heating services in Balti. Romania's Galati city will be able to invest in improving the urban transport infrastructure thanks to a €22.6 million Bank loan, which the Board approved. Osh in the Kyrgyz Republic is also set to benefit, with financing of €5.7 million and a capital grant of €3.1 million from the Shareholder Special Fund; the funding will be used for the purchase of new buses, trolleybuses and an upgrade of the transport infrastructure. The Board also approved a

financing facility, worth €30 million, for Banque de Tunisie to on-lend to private micro, small and medium-sized Tunisian enterprises.

□ Marking the largest equity investment by the EBRD in Turkey, the Bank became a minority shareholder in Pasabahce, the leading glassware producer in Turkey and one of the largest globally.

□ The Bank is lending US\$ 50 million to fund the construction of three solar photovoltaic generation plants in Jordan, near Ma'an city, in southern Jordan. The new plants will deliver 40 MW of much-needed generating capacity from a clean, reliable domestic resource, thereby reducing the country's dependence on hydrocarbons. After the signing of the 20 MW SunEdison Ma'an Solar Power Project in September, the Bank's total investment in Jordan's renewable energy sector reached US\$ 75 million.

□ Komercijalna Banka, a leading Serbian bank in which the EBRD has a 25 per cent equity stake, and EBRD signed a €10 million energy efficiency credit line. The credit line was structured under the Bank's Second Western Balkans Sustainability Energy Efficiency Facility for private sector and municipal energy efficiency and renewable energy projects. Clients of Komercijalna Banka using the facility will benefit from grant incentives funded by the European Union.

□ Moldova has joined the Eastern Europe Energy Efficiency and Environment Partnership (E5P) in a move to significantly boost support for energy efficiency and the reduction of harmful emissions. The very first project, worth €7 million, was also signed to finance the upgrade of district heating services in Balti, Moldova.

□ Financial Institutions (FIs) and the Belgrade Resident Office (RO) worked together to arrange a €200 million stand-by credit line for Serbia's Deposit Insurance Agency (DIA). The DIA is an independent, public institution designed to protect insured depositors and manage the

Deposit Insurance Fund (DIF), a special fund established to pay out insured depositors. The operation will enable DIA to make funds available to compensate insured depositors in accordance with the planned improvements to the deposit insurance legal framework in Serbia. In addition Luxembourg and the Bank's Shareholder Special Fund are funding institutional capacity-building technical cooperation that benefits the DIA.

□ Almaty RO and the Agribusiness team signed a US\$ 20 million working-capital facility for the cotton trading operations of Louis Dreyfus Commodities in Kazakhstan. The financing will enable the company to source more cotton and to bring specialised equipment into the country for the firm's own and third-party use. The company sources cotton directly from small and medium-sized farms in the south of the country.

□ FI and the Energy Efficiency and Climate Change teams signed the first credit line under the Sustainable Resource Initiative with a €50 million loan to TSKB. The Turkish bank will on-lend the funds to private sector companies for the financing of resource efficiency investments, including water efficiency, waste minimisation and energy efficiency projects.

□ The same teams also launched the second Polish Sustainable Energy Financing Facility worth €200 million. For the first time, the facility will benefit from investment grants provided by the Polish National Fund for Environmental Protection and Water Management. The European Commission will also provide funding for technical cooperation activities.

□ The Bank and the Clean Technology Fund are providing further resources, worth €10 million, to modernise district heating systems in Ukraine, which account for 20 per cent of the country's total CO2 emissions. The latest project will be implemented in the western municipality of Lutsk, and will receive a €4 million grant from the E5P.

□ Almaty RO arranged a 30 billion tenge (€121 million equivalent) loan for Kazakhstan's national rail company. This is the Bank's largest local currency loan in the country. It will minimise the company's exposure to foreign exchange risk while financing the purchase of equipment for logistics and infrastructure maintenance.

□ The Moldovan Prime Minister, Iurie Leancă, and the EBRD President signed the Investment Climate and Governance Initiative memorandum of understanding. The Bank has agreed a range of activities to help the Moldovan government reform the business environment, encourage the development of the private sector and promote good governance.

□ Serbia's Prime Minister Aleksandar Vučić and the EBRD President launched a drive to make Serbia a more attractive destination for investment. They signed a letter of intent at the Bank's Headquarters in London under framework of the Investment Climate and Governance Initiative.

□ The EBRD-Ukraine Stabilisation and Sustainable Growth Multi-Donor Account, worth €11 million so far, became operational at the end of October. Grants from Finland, France, Germany, the Netherlands, Sweden, Switzerland, the UK and the US will assist Ukraine in its efforts to reform the economy and promote sustainable growth.

□ The Office of the Chief Economist (OCE) is continuing its engagement with the prestigious Capstone programme of the London School of Economics. A new project is set to enhance the Bank's understanding of the economic inclusion of youth, particularly in relation to identifying and assessing the transition of young labour market entrants from education and training into employment. Findings of the report will inform the Bank's inclusion projects and help clients to create strong partnerships with schools and universities.

□ The Small Business Support (SBS) and FI teams launched a Finance and Advice for Women in Business Programme in Turkey. This programme combines dedicated credit lines for women-led small and medium-sized enterprises (SMEs) with risk cover, advisory services, mentoring, networking and awareness-raising. In Armenia, SBS held a training course for SME owners on how to attract investors. In Romania, the team held a joint conference with AMCOR, the Romanian National Association of Management Consultancy Companies, to engage local consultants in encouraging innovation in their sector.

□ Three new policies, each introducing new provisions contributing to greater transparency and accountability, have come into effect at the Bank. These are the Environmental and Social Policy, the Public Information Policy and the Project Complaint Mechanism.

Vienna Initiative: a modern framework for policy-making

Colleagues from OCE, Banking and Communications participated in this unique platform

The EBRD won praise for its leadership in the Vienna Initiative in early November after the group met in Brussels, hosted by the European Commission. The first meeting focused on shoring up the financial sector in central and south-eastern Europe, and the second aimed to address challenges in Ukraine's banking sector where it now also plays an important role in supporting the country's banks, along with the IMF and the World Bank.

The Vienna Initiative provides a unique platform for cooperation and coordination between private and public-sector participants in the banking industry. The initiative brings together commercial banks as well as regulators from home and host countries, and key international financial institutions and authorities.

The EBRD was a driving force in the creation of the initiative at the height of the global financial crisis in 2009. At that time, western banks were considering the possibility of exiting central and eastern Europe and credit to the region's real economy had all but dried up. The initiative swung into action again after the region

began to feel the impact of the eurozone sovereign debt crisis.

Following the recent political changes in Ukraine, the approach was also applied to the Ukrainian banking sector, where the Vienna Initiative is working to support financial industry reforms and restoring stability.

On the first day of a two-day set of meetings, Eurogroup president Thomas Wieser spoke of the EBRD's role in the leadership and inception of the Vienna Initiative, describing Piroska Nagy from OCE as the driving force behind it. He went on to paint a picture of the formidable challenges remaining for Europe's nascent banking union – but also of the intolerable risks of not addressing them. In this setting he saw continuous need for the Vienna Initiative's credible public-private sector platform.

The head of its steering committee, National Bank of Poland Governor Marek Belka specifically highlighted the forum's special added value of public-private perspectives in central and Eastern Europe. There, it is monitoring credit and deleveraging trends and coming up with proposals to tackle the serious regional problem that is the high number of non-performing loans. EC Director General Jonathan Faull, on behalf of Commissioner Lord Hill, paid tribute to the Vienna Initiative's "important role in bringing together key people in the region". The commission shares the ambition to make policy initiatives more effective in participating countries.

Piroska Nagy warned that action had to be taken now to reduce the very high levels of NPLs. Participants highlighted the role that IFIs and specifically the EBRD could play through instruments such as supporting asset sales, participating in "bad banks", and assisting with corporate restructuring. The group also heard a proposal for IFIs to increase their role in helping to design as well as fund credit guarantee schemes that would help reignite the flow of credit to the region.

On the following day, there was a meeting of the Ukraine Financial Forum which brought together many of the same official sector players. It was attended by Ukraine's first Deputy Central Bank Governor Oleksandr Pyusaruk and Board member Vladyslav Rashkovan. Many of the same parent banks were also there, along with their Ukrainian subsidiaries, as well as some domestic state-owned banks.

In his opening address, EU Commissioner Hahn emphasised that although the EU's support to Ukraine is indeed unprecedented, it is conditional on the implementation of the reform agenda. Commissioner Hahn went on to praise the Ukraine Financial Forum, describing it as the "perfect platform for all main players to address the acute challenges jointly" and promised the commission would take the results of the forum into account in its work with Ukraine. EBRD Chief Economist Erik Berglof said that this was a meeting of historic significance which would not have been conceivable six months earlier. NBU official Rashkovan commented, "I am dreaming of a day when I could be here as a member of the EU and the mainstream of the Vienna Initiative."

Foreign and domestic banks active in Ukraine voiced their very strong support for the National Bank's commitment to banking sector reforms. They also called on the Ukrainian authorities to continue ensuring the operational

independence of the central banks. Francis Malige of the EBRD Banking team stressed that the EBRD has stepped up its efforts in Ukraine, but that its risk appetite rises with reforms.

The exchange between the NBU, the banks, the commission, the home-country authorities of parent banks and IFIs led to agreement on a number of points and the establishment of a set of follow-up actions for the period ahead. Banks said that they will be able to start lending to the real economy as reform progress and stability resumes.

EBRD takes a stake in Bucharest Stock Exchange

Investment is part of the Bank's strategy to promote the development of Romania's capital market

The EBRD is now a shareholder in the Bucharest Stock Exchange, the largest bourse in south-eastern Europe and Romania's main capital market operator.

The Bank acquired a 4.99 per cent stake in the exchange last month, demonstrating its backing for Romania's comprehensive efforts to strengthen local capital markets.

The Romanian government has embarked on a far-reaching programme which aims to improve the functioning of the local capital market, enhance liquidity and increase the availability of debt and equity offerings in local capital markets.

The authorities set a goal for the stock exchange to be upgraded to emerging market status – whereby Romanian stocks would be included in the MSCI Emerging Markets Index – from its current placement in the MSCI Frontier Markets Index. The EBRD will support legal and regulatory reforms to help achieve this goal.

First Vice President Phil Bennett, on a visit to Bucharest, said: "The Bucharest Stock Exchange aims to act as a catalyst in financing the country's economy. As a shareholder, the EBRD will assist in the further development of corporate governance at the bourse and in listed companies. Our goal is to establish the Bucharest Stock Exchange as the preferred exchange for Romanian issuers and traders, as well as for investors with an appetite for Romanian stocks and other financial instruments."

Noel Edison, EBRD Director for Insurance and Financial Services, whose team led the transaction, added: "We will work with the management of the Bucharest Stock



Exchange, other shareholders and the Government to contribute to the bourse's strategy, corporate governance and regulatory reform. The EBRD will also support optimisation of the exchange's tariff structure. In addition, the Bank will look into ways to improve the IPO process through innovative solutions that encourage more Romanian companies to use the Bucharest Stock Exchange to raise finance locally."

Ludwik Sobolewski, CEO of the Bucharest Stock Exchange said he was delighted with the news on EBRD shareholding. His plan is to build a modern, well-performing capital market, with the Bucharest Stock Exchange at its heart. "We want it to become the financial hub for southern and eastern Europe, a new centre for business and innovation, and thus to enrich the investment landscape of the region. I am proud that we have a new shareholder in the financial world who stands for values which are crucial for economic growth and sustainable development," he said.

The Bucharest Stock Exchange has been listed locally since 2010. As of September 2014 it listed 83 companies including the largest corporation in Romania OMV Petrom and also Romgaz, Fondul Proprietatea, BRD Groupe Société Générale, Banca Transilvania, Electrica and Transgaz. The total market capitalisation is almost €30 billion.

The EBRD's investment in Romania's capital market infrastructure is part of the Bank's long-term strategy to advance the development of local capital markets through investment, technical advice and support for reforms.

Cutting the ribbon in Cairo

The long-awaited opening of the Bank's Cairo office takes place



The music couldn't have been more appropriate. As Egypt's Minister for International Cooperation, and the EBRD Governor, cut a red ribbon to declare the EBRD office in Cairo officially open, a cellist played Vivaldi's Four Seasons. The notes from "Spring" were ringing out as metal cut through fabric – spring, the season of renewal, regeneration and hope. There could be no better symbol for the Bank's engagement in Egypt, a success story that

started just three years ago and has huge potential to deliver in the years to come.



Once the official ceremony was over, the entire office staff and ministerial delegation headed off to the cocktail reception at a nearby hotel, a chance to mix with clients and potential clients, government officials and colleagues from other IFIs.

Well over 150 guests, including many VIPs, had braved the terrible Cairo traffic to attend the opening reception. There, the EBRD's First Vice-President, Phil Bennett, told the crowded terrace, overlooking a golf course, that "Egypt has a great opportunity to develop its economy and the EBRD is proud to be part of that."

The Managing Director for SEMED, Hildegard Gacek, has been the driving force behind the Bank's efforts in the region. She underlined that the EBRD had a lot of plans in Egypt and thanked the authorities for all the support that they had given.

For Philip ter Woort, the Director of the Cairo Regional Office, the evening was the culmination of months of planning and hard work for him and his team, as well as another important milestone after two years of highly successful delivery by the Bank. "While Egypt faces many challenges, private-sector development is the key component to countering them," he said. "There is a lot of entrepreneurial talent here and it is our job to promote it and to help. But tonight we celebrate. Tomorrow we go back to work to contribute to Egypt's economic transition."

To judge from the reactions of the guests, the Egyptian authorities and private sector seem pleased with the constructive role the Bank has played so far in Egypt. The Minister of International Cooperation, Dr Naglaa El Ehwany, told the gathering, "I wish the new EBRD office and the staff future success."

SMEs always a priority

The day started earlier along the Corniche of the Nile where Phil Bennett signed a US\$ 30 million credit line with the National Bank of Egypt (NBE). This credit line is an extension of the first US\$ 50 million loan signed in December 2013 and both are dedicated to small and medium-sized enterprises (SMEs), an underserved sector in Egypt. "Providing financing to SMEs remains the Bank's priority to help promote economic growth and to create much-needed job opportunities in Egypt," Phil said.



The EBRD in Egypt

Egypt, a founding member of the EBRD, witnessed the first investment by the Bank in December 2012. What started with one colleague from SBS, Mamdouh Afia, in December 2011 has now grown to reach 18 employees

this year, led by Philip ter Woort as the EBRD's first Country Director for Egypt since 2013.

The EBRD's dynamic approach towards Egypt has been remarkable as teams from HQ and the Egyptian RO joined forces and were able to sign, to date, 16 projects worth over €600 million across a wide range of sectors, with more to come. These include projects to enhance the agribusiness value chain, promote renewable energy and energy efficiency, increase private-sector involvement in transport and upgrade municipal infrastructure and services.

On the back of these projects, policy dialogue initiatives were initiated such as SME development, a low-carbon trajectory for the cement industry and the reduction of associated petroleum-gas flaring. The Small Business Support team has facilitated direct technical assistance to approximately 175 Egyptian SMEs.

EBRD engages strongly on economic inclusion



The EBRD believes that economic inclusion – the opening up of economic opportunities to previously under-served social groups – is integral to development. If people are given a chance to succeed, they are more likely to participate in the workforce, pursue education, or engage in other activities that lead to economic growth. This, in turn, strengthens the transition process and generates wider public support for economic reforms.

For the EBRD, promoting economic inclusion has become imperative in view of growing youth unemployment, the low participation of women in the workforce – especially in southern and eastern Mediterranean (SEMED) countries – and the stark differences in economic performance between regions, particularly in south-eastern Europe (SEE). It also responds to the business needs of many clients, who increasingly seek ways to reach underserved groups such as women entrepreneurs or to tap underused human resources.

For these reasons, the EBRD has extended its transition methodology to incorporate economic inclusion into its assessment of structural transition gaps. Based on the concept of equal opportunity, the Bank now measures the extent to which economic institutions, markets and education systems extend economic opportunities to individuals regardless of their circumstances, such as their gender, place of birth or – with regard to young adults – social background. The resulting inclusion gaps then guide the identification of projects that are either already set to narrow these gaps or that could be developed further to do so.

Projects with inclusion components are now operational in many sectors across large parts of the Bank's transition region, particularly in the Western Balkans, Turkey, the SEMED region and Central Asia. This includes projects that promote credit lines for women entrepreneurs; retail developments that help young people gain skills and find jobs; agribusiness projects that link up schools and employers to facilitate the transition

routes for young people into jobs; and investments that create access to safe drinking water for rural communities. The main inclusion impact of these projects stems from their fostering of systemic changes that increase the economic opportunities available to women, young adults and people in rural areas.