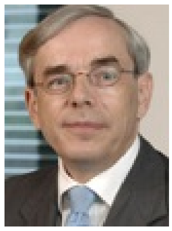
Twenty years after assisting former communist countries after the fall of the Berlin Wall, the European Bank for Reconstruction and Development faces new challenges in helping the emerging democracies of the Arab Spring



Set up to support former communist countries in their transitions to the free market, the European Bank for Reconstruction and Development now faces a renewed mandate to assist the Arab Spring countries in their path to democracy and free markets. In the first of two blogs, Thomas Mirow, President of the European Bank for Reconstruction and Development, warns that despite the calls for change from post-revolution countries, the slowdown in the Eurozone's economies means that there are far less funds available and fewer people in Europe who can afford their exports.

\`It was the best of times, it was the worst of times\`. Those are the opening words of one of the most famous works in the history of fictional literature. They were penned by Charles Dickens in his novel, *A Tale of Two Cities*, set during the French Revolution. More than two centuries on from that revolution, those lines would still have resonance for many people if they were asked to describe the revolutions and evolutions that they have lived through during the Arab Spring or indeed the wave of eastern European revolutions which swept this continent, and began sweeping away communism, after the fall of the Berlin Wall in 1989.

The peoples of Egypt and Tunisia, or Russia and Romania would, probably, also find truth in the sentences that follow, as *A Tale of Two Cities* unfolds: \`It was the season of light, it was the season of darkness. It was the spring of hope, it was the winter of despair. We had everything before us, we had nothing before us\`.

In other words, revolutions are a time of conflicting emotions. They offer the chance of a better future but also great turmoil and upheaval. They are a time of uncertainty. I want to tell you a tale of two revolutions. The European Bank for Reconstruction and Development (EBRD), the organisation that I have the honour of leading, has now had more than two decades of dealing with the aftermath of revolution. The Bank was part of the international community's response to the fall of communism in 1989. It was set up to support the transition from central control to the free market – to help ease the traumatic shift from dictatorship to democracy.

The desire for a more optimistic future wasn't unique to the peoples of Eastern Europe. We hear that very same hope echoed, today, in parts of the southern and eastern Mediterranean. It is a call, just as in 1989 that the world cannot ignore. It is a call that the European Bank for Reconstruction and Development is responding to, just as we have been responding for the past two decades in Southern, Central and Eastern Europe, as well as the Caucasus and Central Asia.

We have learned a great deal from those two decades of hard won experience. Firstly, we know that it is dangerous to focus only on the similarities between the events after 1989 and what is occurring now. We also need to accept that the world is a very different place in 2012 than it was in 1989. Then, the international community had probably more money to be generous, compared to the age of austerity which constrains many governments and organisations today. Yes, there will be funds to help the emerging Arab democracies but, certainly not the significant transfers that gave change in the former communist world such a boost. The truth is that the Arab world has chosen a bad time to revolt. The difficulties in the Eurozone and the slowing economies in the European

Union do make it harder for international policy makers to justify transferring huge amounts to these countries and make it harder for those nations to export their goods to the troubled EU.

Despite that, the EBRD will be helping. We have been encouraged by our shareholders to extend our mandate to the southern and eastern Mediterranean region, adding Egypt, Tunisia, Jordan and Morocco to the 29 countries where we already invest. We will focus on trying to develop the private sector in the emerging Arab democracies. Our emphasis will be on encouraging the growth of small and medium sized enterprises – the drivers of job creation. The potential is huge in a country, for example, such as Egypt, where 20 per cent of the population live on less than two dollars a day and where youth unemployment can be as high as forty per cent. We have already begun technical assistance activities there and we hope to begin our first proper investments, later this year, as long as Egypt shows that it is committed to following a democratic path.

Across the whole of the southern and eastern Mediterranean region, we have the capacity to invest, eventually, as much as two and a half billion Euros a year. We don't do these investments alone. For every Euro that we put in to a project, it attracts, on average, more than two Euros of private sector money. So, two and a half billion Euros could mean seven or eight billion Euros worth of investments. This is money that can make a real difference but we should be clear that it is still only a fraction of the huge amounts of funding that is required to modernise economies and bring them into the global supply chain. The money for this region will be on top of the commitments we have made to continue investing heavily in our existing 29 countries of operations.

These sums sound a lot, and indeed they are. But so are the demands of the people in the aftermath of revolution. They want change and they want it now. The expectations are huge – impossibly huge. Across the region, it was the lack of opportunities and the inequities in the economy which brought about the demise of some governments and the clamour for change in other countries. In Egypt, the economy has greatly suffered, damaged by the revolution. Companies are reluctant to invest, because of the uncertainty, and tourists, a mainstay of the economy, are staying away. The revolution there has inspired strong demand for more jobs and higher wages – demands that are impossible for the new government to meet as the economy's capacity continues to decline. It is for that reason that we are telling our interlocutors across the southern and eastern Mediterranean that there is a need to start managing expectations.

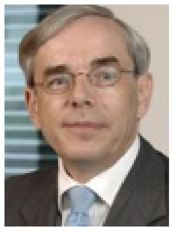
We are saying that because we know well, from our Eastern Europe experience, that change – the process of transition – is a very long and winding road. It is better to be straight with citizens – telling them that jobs cannot be conjured up overnight but that real economic change requires patience and unfolds over generations. Even now, more than twenty years after the fall of the Berlin Wall, we have a huge amount still to do in our existing countries of operations. A survey that we published last year, *Life in Transition: After the Crisis*, underlines that our task in the countries of South-Eastern, Central and Eastern Europe, the Caucasus and Central Asia is unfinished. We took soundings from 38,000 households across the region. More than half of those that we spoke to said the aftermath of the 2008 economic crisis had affected them a great deal or a fair amount. In our countries of operations, 70 per cent of households, who reported being affected by the crisis, said they had to cut back on staple food purchases and spending on health care – that is the twice the proportion of crisis affected households in western Europe.

The survey lays bare the impact of the economic crisis on countries which are only a small distance down that long road of change. Yet, despite this dramatic deterioration in material well-being, life satisfaction levels were remarkably resilient. 43 per cent of respondents considered themselves as satisfied with their lives – only a one per cent drop on the answer from our last such survey, in 2006, when economic times were much better. Remarkably, optimism about the future remains higher than amongst their counterparts in Western Europe. There is no room for complacency, though. We also noticed, in many of our countries, a fall in support for both the free market economy and democracy. It is an important reminder of why there must be no fall off in our existing commitments in the former communist east, even as we take on new ones in the Arab world.

This article is based on a talk that Thomas Mirowgave at the LSE's Capstone Showcase ,"Where next for the Arab Spring? Learning from EBRD engagement in Eastern Europe" on 15 March. *Listen to the podcast.*

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

About the author



Thomas Mirow – *President of the European Bank for Reconstruction and Development*
Thomas Mirow is the fifth president of the European Bank for Reconstruction and Development (EBRD). Mr Mirow has worked as the Assistant and then as Chef de cabinet to former German Chancellor Willy Brandt, then Chairman of Germany's Social Democratic party, and served as Director of the Press Office of the city-state of Hamburg, Mr Mirow held several senior positions within the Hamburg administration between 1991 and 2001, including state minister for economics. He also held several senior management and advisory positions in the private sector. More recently, Mr Mirow was Director General for Economic Policy in the Federal Chancellery in 2005 and appointed State Secretary at the Federal Finance Ministry in November 2005.

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