

Foreword

This *Transition Report*, with its special topic of employment, skills and transition, is the seventh in an annual series. Taken together, the Reports chart the progress of transition from a command to a market economy in each of the 26 countries of central and eastern Europe and the Baltic states (CEE) and the Commonwealth of Independent States (CIS) in which the EBRD operates. They also identify and analyse the challenges of the coming years.

The EBRD seeks to foster the transition to an open market-oriented economy and to promote private and entrepreneurial initiative in all 26 of its countries of operations. It does this as a participant investor with a private sector focus. It works with its partners on projects that are financially sound and advance the transition, and that would be unlikely to emerge or to function well without its participation. For the EBRD to perform this task effectively, it needs to analyse and understand the complex process of transition and to share the Bank's analyses with its partners, other investors and policy-makers in the region. The EBRD's *Transition Reports* take, therefore, an investment perspective on the transition. They focus on both the climate for investment and the contribution that investment shaped by market forces can make to the transition and to overall economic performance.

The structure of the *Transition Report* follows from its purpose: to understand the dynamic process of market reforms in transition economies and the key requirements for a successful transition. Part I of the Report focuses on the impact of initial conditions, early reform choices and the political process, all of which have powerful consequences for the direction of future reforms and for aggregate economic performance and access to international capital markets. This analysis helps to identify the characteristics of countries that have pressed ahead steadily with reforms and that have realised the benefits of these measures

in terms of sustained economic growth and private capital inflows, as well as the pitfalls in transition that have impeded reforms in other countries. Central to this analysis is an assessment of how economic and political freedom and competition shape progress in reform. The analysis shows that where a private market economy has taken root through comprehensive liberalisation and privatisation, a partial basis for developing the institutions necessary to support a market economy appears to have been laid. However, the impact of these reforms on institutional performance depends strongly on the extent to which states are held accountable to their citizens through democratic processes and on the degree of state "capture" – or undue influence – exercised by powerful private interests.

Each *Transition Report* has a special theme. These have provided a detailed analysis of the transition and the forces shaping its progress, together with an examination of the policies that foster the development of the institutions and behaviour that are required to support well-functioning markets and private enterprise. It is important, therefore, to consider the Reports as a series in which each edition is complete in its own right but also inter-related and cross-referenced to previous editions.

The special themes of the previous *Transition Reports* have been:

- 1994 – Institutional reform and economic openness;
- 1995 – Fixed investment and enterprise development;
- 1996 – Commercial infrastructure and contractual savings institutions;
- 1997 – Enterprise performance and growth;
- 1998 – Financial sector in transition; and
- 1999 – Ten years of transition (a special issue).

This year's *Transition Report* draws from and builds on this previous work.

Part II of this year's *Transition Report* contains a detailed analysis of developments in the labour markets of the transition economies. It shows how people have coped with changing demands for different types of labour, including the pursuit of self-employment, multiple job holdings and participation in the informal economy. Self-employment tends to be associated with relatively high earnings, suggesting that entrepreneurship is a rewarding strategy. However, multiple job holdings and informal activities often represent subsistence strategies, especially in CIS countries where the formal economy offers few opportunities. The analysis also finds that there are significant gaps in the quality of employee skills in transition economies relative to industrialised countries. The gaps are particularly wide in CIS countries, where technological and organisational change has been slow. This finding qualifies the widely held perception that the region has abundant human capital resources owing to its history of high investment in education.

The assessments and views expressed in this *Transition Report* are not necessarily those of the EBRD. The responsibility for them is taken by myself on behalf of the Office of the Chief Economist. While we have attempted to be as up to date as possible, the "cut-off" date for most of the information in the Report is the end of September 2000.

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