

Foreword

This *Transition Report*, with its special topic of energy in transition, is the eighth in an annual series. Taken together, the Reports chart the progress of transition from a command to a market economy in each of the 27 countries of central eastern Europe and the Baltic states (CEB), south-eastern Europe (SEE) 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 27 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* therefore take 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 economic performance. 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. It also highlights the pitfalls in transition that have impeded reforms in other countries. Central to this analysis

is an assessment of the role of economic liberalisation and democratic political processes in helping to sustain progress in market-oriented reform. It is also recognised that progress in international integration can complement – but not replace – these domestic factors in underpinning progress in reform. This effect can be seen most clearly in the strong reform progress and macroeconomic performance in those transition economies that are EU accession candidates. A key challenge for the region is to strengthen the process of international integration in those countries that are not EU accession candidates, in particular through accelerated accession to the World Trade Organization (WTO) for the large CIS economies.

Each *Transition Report* also has a special theme. These themes have developed a detailed analysis of the transition and the forces shaping its progress. They have also examined 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;
- 1999 – Ten years of transition (a special issue); and
- 2000 – Employment, skills and transition.

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

Part II of this year's *Transition Report* contains an analysis of the primary and

secondary energy sectors of the transition economies. Recognising the importance of energy resources as a potential source of future economic prosperity in Russia and the Caspian region, the Report highlights the policy challenges that must be addressed to fulfil this potential. It emphasises in particular the importance of a stable investment regime, a redefinition of the role of the state in the energy sector, including macroeconomic management of energy resource income and environmental protection, and improvements in access to transport infrastructure on a competitive basis. Addressing the last challenge will require regional cooperation and international assistance.

The Report also analyses progress in the reform of the electric power sector. It shows that improvements in energy efficiency are closely linked with energy price reform. However, for this price reform to be sustained, there must be a regulatory and institutional framework that supports private investment in the secondary energy sector and that protects the most vulnerable segments of the population from price adjustments. With appropriate policies, both net energy-producing and net energy-consuming countries in the region are likely to emerge with higher standards of living, more energy efficient technology and a cleaner environment.

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 early October 2001.

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