

Foreword

This *Transition Report*, with its special topic of agriculture and rural transition, is the ninth in an annual series. Taken together, the nine Reports have charted since 1994 the progress of transition from a command to a market economy in each of the 27 countries of central and eastern Europe and the Commonwealth of Independent States in which the European Bank for Reconstruction and Development (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 through investment with a private sector focus. The Bank works with its partners on projects that are financially sound and advance the transition, and that would be unlikely to emerge or to realise their full potential 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 business environment 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* mirrors 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, reform choices and the political process on the evolution of reforms and economic performance. It also examines the pitfalls in transition that have impeded reforms in some 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 and in laying the foundations for sustainable development in the region. The Report also recognises that the quality of the business environment in areas such as regulation, taxation, the rule of law and corruption can have a strong influence on the effectiveness of other structural and institutional reforms.

To assess the quality of the business environment, the EBRD and the World Bank implemented jointly in 2002 the second round of the Business Environment and Enterprise Performance Survey (BEEPS), covering close to 6,000 enterprises in 26 countries of the region. The survey provides useful insights into the quality of the business environment in the region and the ways in which firms seek to influence the environment and markets in which they operate. Preliminary findings from the second round of the BEEPS are reported in this *Transition Report*. The findings of the first round of the BEEPS, which was implemented in 1999, are reported in the *Transition Report* 1999.

Each *Transition Report* 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 practices 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 contributes in its own right to our understanding of the transition process and forms part of an inter-related and cross-referenced sequence of analyses.

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);
- 2000 – Employment, skills and transition; and
- 2001 – Energy in 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 agricultural sector and the rural economy in transition countries. Recognising the relatively slow progress in reforming the agricultural sector and in developing rural areas in most transition economies, the Report highlights the policy challenges that must be addressed. It emphasises in particular the importance of land reform and the creation of markets for agricultural land. The problem of low productivity in agriculture – caused by incomplete reforms – also remains a major factor limiting the export of agricultural products from the region.

The agricultural sector and the rural economy are held back by relatively poor physical and market infrastructure and lack of access to finance. A key requirement for rural development is the attraction of investment and skills, and a significant improvement in the rural business environment. One way to achieve this is through policies that strengthen linkages between rural firms and their customers and suppliers.

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 2002.



Willem Buiter
Chief Economist and Special Counsellor to the President

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