Letter from the Editor

One of the most important challenges developing countries will face over the next few decades is soaring demand for energy, as economic growth boosts energy consumption. Substantial new investment will be needed in the energy sector to keep up with demand, or growth could falter.

Although the developing countries have attracted the interest of international investors—they offer large new markets, the world's greatest concentration of proven oil and gas reserves, and an improved business environment following successful economic reforms—finance for energy projects is scarce. Many investors and financiers find the commercial and political risks intimidating. In his article, "Financing Oil and Gas Projects in Developing Countries," Hossein Razavi outlines steps that governments and project sponsors can take to mitigate these risks, and describes what the World Bank is doing to facilitate the flow of funds.

Charles McPherson's article, "Policy Reform in Russia's Oil Sector," focuses on the problems faced by one particular country. The world's largest producer of oil in 1990, Russia has experienced an annual decline in oil production of 7–14 percent per year over the past five years. Investments on the order of $50 billion to $60 billion will be necessary to halt this decline; even bigger amounts will be needed if the oil sector is to live up to its potential. Clearly, funding on this scale will have to come from the private sector. To attract private investment to its oil sector, Russia will need to stay the course with policy reforms. Although considerable progress has already been made under very difficult conditions, much remains to be done, particularly in connection with reforming the price structure, tax system, and legal framework of the energy sector.

Environmental damage is often the unintended by-product of increased energy production and consumption. But, as Dennis Anderson points out in his article, "Energy and the Environment: Technical and Economic Possibilities," pollution can be significantly decreased, even with the fivefold increase in energy consumption that is expected to occur in the developing countries over the next three decades. A number of instruments are already available for reducing emissions—for example, cleaner fuels, low-polluting technologies, and environmental policy measures such as taxes and environmental regulations—and promising new technologies are being developed. Moreover, the cost of less polluting environmental practices is low or declining—and is even negative in some cases, if environmental benefits are taken into account. The main barriers are policies and attitudes. Investment in research and development, demonstration of technologies, and education and training are therefore as important in pollution-abatement efforts as the other instruments at the disposal of governments and businesses.

The challenge is indeed daunting. To enjoy sustained economic growth and raise standards of living, developing countries need to pursue policy reforms that will enable them to attract sizable investments in their energy sectors. At the same time, they need to safeguard the environment for future generations. As these articles show, the difficulties are great but not insuperable.

ATTENTION READERS

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Your comments would be welcome. Please e-mail them to jlavin@imf.org

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