

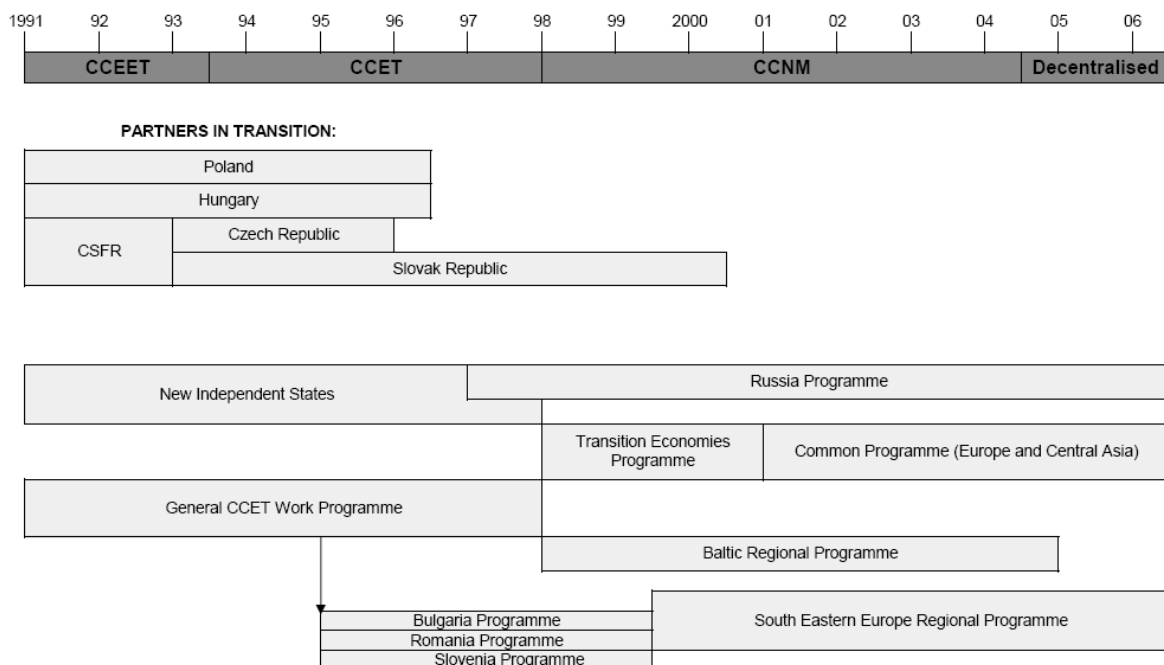
THE OECD'S WORK WITH NON-MEMBERS IN EUROPE, THE CAUCASUS AND CENTRAL ASIA¹

I. HISTORICAL CONTEXT

The OECD's co-operation with the non-Members in Europe, the Caucasus and Central Asia has its origins in a strategic decision by the OECD Members that the Organisation should engage itself to the maximum of its capacity in assisting the historic transition processes unleashed between 1989 and 1991. Alongside a general programme addressing the formerly centrally planned countries in Europe, a series of country programmes with Partners in Transition ("PITs") was established: Hungary, Poland, the CSFR (Czech and Slovak Republics as of 1993). In 1995, country programmes were launched with Slovenia, Bulgaria and Romania; the latter two were incorporated into the broader South-East European Regional Programme as of 1999. However, contrary to the PIT programmes, these were not meant to assist these countries in preparing to meet the conditions for membership. This was also the case for the Baltic Regional Programme, which was operational between 1998 and 2004.

Following the demise of the USSR (December 1991), the OECD initiated a programme of technical assistance to the Newly Independent States (NIS) which had sprung from it. The co-operation with the Russian Federation under this programme would eventually be consolidated into a country programme with Russia, which was given additional momentum by Russia's 1996 request for OECD membership and the OECD's subsequent response that Russia's accession was a shared ultimate goal.

The flow diagram below shows the evolution of the various programmes². Their general objective was to help these countries achieve a successful transition to a market economy, in particular through macroeconomic stabilisation, structural reform and greater reliance on market incentives and mechanisms.



¹ This note presents the state of affairs at the end of 2006.

² The acronyms CCE(E)T and CCNM refer to the Centre responsible for general programme management before this was decentralised as of 2004.

II. PAST AND PRESENT WORK

The following sections present an overview of the past and present work in the three regions. The substantive areas are presented according to the OECD's agreed strategic objectives.

1. Strategic Objective 1³

A. Economic Surveillance

Apart from Russia, no economic surveillance has been undertaken recently in these regions. The latest output results were the regional economic assessment of the Baltic states (2000) and the economic assessments of the Federal Republic of Yugoslavia (2002) and Romania (2002).

B. Entrepreneurship, SMEs and Local Development

In the early 1990s, the Local Economic and Employment Development (LEED) Programme focused on entrepreneurship development in the Visegrad countries, on employment and job creation in Russia and other NIS. Several publications appeared, such as *Microcredit in Transitional Economies*, *Small Business in Transition Economies*, and *Transition at the Local Level*. In 1998, the OECD's Forum for Entrepreneurship and Enterprise Development (FEED) was set up as a mechanism for exchange of information on entrepreneurship policy for NIS and Black Sea region officials. Similar Forums were established for the Baltic region, and South-East Europe.

From 2001 non-OECD economies and invited international organisations have been allowed to join the LEED Programme as full participants. Since then, Slovenia, Romania, Latvia, Lithuania, Chile as well as the EBRD-CEI, the World Bank and the Inter-American Development Bank have joined LEED.

A specialised structure: OECD LEED Trento Centre for Local Development

In 2003, the OECD Council in co-operation with the Italian Government and the Autonomous Province of Trento created an OECD LEED Centre for Local Development, based in Trento, Italy. Its main objective is to strengthen local development capacities in the target countries of Central, East and South-East Europe (SEE and CEE) by fostering entrepreneurship, job creation and sustaining social cohesion through locally-based initiatives.

During the pilot project phase (2003-2005) the Trento Centre programme of work focused on three fields: local governance, entrepreneurship and social economy. In each of these fields, the core activities comprised a one-week capacity building seminar for policy-makers and practitioners (2004) and an international conference (2005). Specific projects were carried out:

- *Study on Local Integration of Immigrants into the Labour Market:* Albania and Bulgaria have been reviewed as part as part of a LEED cross-country comparative study. The research examined the results of national and local initiatives aimed at: (i) promoting local development to avoid the "brain drain" problem and attract talents, (ii) devising specific measures aimed at re-integrating returning migrants in the labour market, and (iii) effectively fighting illegal migration.

³ Promoting sustainable economic growth, financial stability and structural adjustment.

- *Entrepreneurship development at local level:* a series of workshops assessed the current situation and developed recommendations on ways to support SME development at local level in Bosnia-Herzegovina, Bulgaria, Romania, Serbia and Montenegro.
- *Study on Integrating Skills, Employment and Economic Development:* case studies on Romania, Bulgaria and Croatia identified ways to co-ordinate labour market policy, training and economic development strategies designed at local and regional levels. Further research will analyse the shortcomings identified and develop policy recommendations. National/regional round tables will help build capacities and monitor the progress made in the implementation of recommendations.
- *Employment, Economic Development and Local Governance in the Baltic region:* a series of international seminars have helped identify obstacles for better co-ordination of employment and economic policies at local level in Latvia, Lithuania, Estonia and North-West Russia and developed country specific recommendations on ways to improve local governance.
- *Study on FDI and Local Development:* FDI policies of St. Petersburg and Leningrad Oblast (Russia) and Lviv Oblast (Ukraine) have been reviewed as part of the LEED cross country comparative study. Work in each region assessed the effectiveness of local policies and programmes on FDI attraction, after-care and embedding. Preliminary results indicate that authorities can do more to develop coherent, integrated regional development strategies.
- *Evaluation of local development programmes:* In 2004, an Evaluation Unit was set up in the Centre with the objective of promoting a stronger evaluation culture amongst governments and agencies responsible for local development programmes in CEE and SEE countries. The Evaluation Unit conducts research, prepares information material and carries out capacity building activities.

An external evaluation of the Trento Centre programme by A.T. Kearney in 2005 concluded that the Trento Centre has been very satisfactory in terms of relevance, design, execution and effectiveness. Following this evaluation, the Centre's activities for 2006-2010 are structured around the following axes: (i) capacity building for local development practitioners and policy makers; (ii) research and policy advice; (iii) networking and information dissemination.

In seeking to promote effective design and implementation of local development policies in the target countries, the Trento Centre Programme of Work builds on the thematic activities in the wider LEED mandate: (i) employment, skills and local governance, (ii) entrepreneurship, (iii) social inclusion, (iv) local authorities and development agencies, (v) evaluation of local development policies. The activities are implemented in co-operation with local development policymakers in the target countries, practitioners and researchers. The Central European Initiative, the EC, ETF, ILO, UNDP and USAID make active contributions.

OECD Bologna Process on SME and Entrepreneurship Policies

Under the auspices of the OECD Bologna Process on SME and Entrepreneurship Policies, many countries in Central and Eastern Europe, the Caucasus and Central Asia can participate in the activities of the OECD Working Party on SMEs & Entrepreneurship (WPSME). In particular, Albania, Azerbaijan, Bosnia-Herzegovina, Bulgaria, Croatia, Romania, Kazakhstan and Kyrgyzstan all actively participated at the Second OECD Ministerial SME Conference in Istanbul on 3-5 June 2004.

At the 26th Session, on 7-8 November 2005, Romania requested observership to the WPSME. This request was favourably received by the Working Party and Romania now participates on a regular basis in

Working Party meetings and activities. In particular, Romania participates in the WPSME activity on the *Role of SMEs in Global Value Chains* and is planning of preparing three case studies on the tourism, software and automotive industry.

C. Nuclear Energy

The Nuclear Energy Agency co-operates with several non-member countries in (Transition Economies of) Europe and Central Asia, and South-East Europe. Specifically, Slovenia is an official observer in all NEA standing Technical Committees, while Bulgaria, Lithuania, Romania and Ukraine are ad-hoc observers in the Nuclear Law Committee.

Nuclear experts from some non-Members from Europe and Central Asia have participated in NEA working groups on an ad-hoc basis.

2. Strategic Objective 2⁴

A. Education

Europe and Central Asia

The Secretariat participated in the World Bank Higher Education mission in January 2006 to assess the possibilities of further co-operation with Ukraine.

At the request of the Kazakhstan authorities and with funding from the World Bank, a review of tertiary education will look at the structure of the tertiary system; issues of access and equity; finance; governance and management; quality improvement and quality assurance; research and innovation; and the role of tertiary education institutions in regional development.

A review of vocational education in the North Caucasus region requested by the Russian authorities and financed by a grant from the United Kingdom has been delayed due to security concerns in the region. This review, which is being carried out in co-operation with the British Council, European Training Foundation, UNICEF, and National Training Foundation, will focus on vocational education for regional economic development and provide an overview of the system in place with recommendations for both the local and federal education levels.

Baltic Countries

Comprehensive reviews of education policy in Latvia, Lithuania and Estonia were carried out at the early stages of the Baltic Regional Programme, with EC Phare support for the Latvia review. The Ministers of Education and other officials of Estonia, Latvia and Lithuania have repeatedly emphasised the important role which the reviews have played in reforming education policy. Follow-up activities were organised, beginning at an annual congress of Latvian educators (1500 participants) with extensive media coverage in Riga (2000). Two smaller seminars were organised with Estonia in 2002 and in November 2002 a joint conference with the Parliament of the Republic of Lithuania was held in Vilnius on the role of parliamentary committees in policy formulation.

⁴ Provide employment opportunities for all, improve human capital and social cohesion and promote a sustainable environment.

The World Bank and European Training Foundation (ETF) participated in the policy reviews and follow-up activities. The recommendations have had an impact on a number of their programmes as well as on bilateral partnerships with OECD countries in the region. In addition, the reviews were helpful for the countries in the *acquis communautaire* process for European accession.

Estonia became an Observer to the Education Committee in 2003 and participates in many activities of the Directorate for Education. Latvia and Lithuania also applied for Observer status. All of the countries participate in the Programme for International Student Assessment (PISA) and have expressed strong interest in joining the Students with Disabilities, Difficulties and Disadvantages – Statistics and Indicators for Curriculum Access and Equity Network.

South-East Europe

The Secretariat has been co-operating with the Stability Pact for South-East Europe⁵ since its establishment in 1999 and is a member of its Task Force on Education and Youth. It prepared individual reports on Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, Kosovo, Moldova, Montenegro, Romania and Serbia, as well as a regional overview which provides general recommendations and conclusions for education reform in the region. These reports were published in 2003 as *Reviews of National Policies for Education, South-East Europe*.

All of these countries (except Albania) also participated in a follow-up, the OECD *Reviews for Students and Risk and those with Disabilities in South-East Europe*, which was published in May 2006. The reviews provide detailed reports on the current situation and future challenges of special needs education, but also give a comprehensive synthesis report using the headings of legal frameworks, policy development, statistics and indicators and school organisation.

The OECD is currently supporting the implementation of policy recommendations in the framework of the *Project on Education Development for Disabled and at Risk Students in Southeast Europe* by offering a variety of interventions and support in the fields of training, data gathering and institutional capacity building.

All of these activities have been funded by voluntary contributions from a number of donor countries and institutions. Activities have been supported by the Ministries of Education of the region by substantial in-kind contributions.

There has been an increasing responsiveness among the Education Ministries to PISA. Countries of the region have been participating in both the 2003 and the 2006 PISA rounds (Albania, Bulgaria, Croatia, Montenegro, Romania and Serbia) and envisage participation also in 2009.

Currently, Croatia is engaged in the OECD Thematic review of tertiary education policies. This review addresses issues like governance, financing and quality assurance and its role for research and innovation.

B. *Employment Policies and Social Cohesion*

One of the principal areas of work has been the OECD's contribution to the Applied Economic Policy course of the Joint Vienna Institute, in the form of a segment on social and labour market policy, and one-

⁵ The Stability Pact for South-East Europe was adopted in 1999 by more than 40 countries and organisations. Its mandate is to support countries of the South-East Europe in their efforts to foster peace, democracy, respect of human rights and economic growth. It covers Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FORMER YUGOSLAV REPUBLIC OF MACEDONIA, Moldova, Romania and Serbia and Montenegro. More information is available at www.stabilitypact.org.

week seminars on varying subjects; in 2006, the seminar was on health care financing. In the past, migration policy was among the seminar subjects.

Over the period 1994-2003 eight country reviews were produced of labour market and social policies in Central and Eastern Europe, including four under the PIT programme; the others were on with Slovenia, Romania, Russia and the Baltic countries (under the Baltic Regional Programme). Work on a similar review for Serbia and Montenegro (South-East Europe Programme) has been initiated, with completion expected in 2007. Most of the completed country reviews have been followed by more activities in the countries concerned, especially concerning the four that have since become OECD members but also in Slovenia and Russia⁶.

Apart from country-specific work, the Secretariat occasionally participates in seminars and conferences organised by other institutions in order to discuss the OECD Jobs Strategy, and to compare it with similar strategies formulated by other organisations. During 2005, for example, it took part in a World Bank seminar about the Poverty Reduction Strategy in South-East Europe and in an EU-sponsored seminar in Budapest about the European Employment Strategy.

C. *Environmental Sustainability*

Co-operation with countries from the three regions takes place under the auspices of the Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe (EAP)⁷. The Action Programme was adopted by Environment Ministers at the 1993 “Environment for Europe” Ministerial Conference in Lucerne as a broad strategy to guide environmental reform in those countries. Ministers established the Task Force to facilitate the implementation of the EAP, and in particular to assist the non-Members involved in integrating environmental considerations into their economic and political reform process. The EAP Task Force brings together policy-makers from non-Members and donor countries, as well as international institutions active in the region. It also engages the business community, trade unions and other NGOs, and Regional Environmental Centres (RECs). It is co-chaired by the European Commission, together with a country from Eastern Europe, the Caucasus or Central Asia (EECCA, currently Kazakhstan) on a rotating basis. It works closely with the Project Preparation Committee, a network of donors and International Financial Institutions aimed at accelerating environmental investment. The OECD’s Environment Directorate has served as the secretariat for the EAP Task Force since 1993.

Since the 1998 “Environment for Europe” Ministerial Conference, the focus of the EAP Task Force work has shifted towards EECCA countries. Currently its main objectives are: (i) reform of the urban water supply and sanitation sector, (ii) public environmental finance, (iv) effective and efficient environmental policy, and (v) providing a framework to facilitate support for the achievement of the objectives of an Environment Strategy for EECCA countries adopted at the 2003 Kiev Ministerial Conference.

The work of the EAP Task Force receives a large part of its resources from voluntary contributions and grants. In recent years these have amounted to between €2-3 million annually. Networks have been established in the main areas of work to facilitate the exchange of experience and to oversee the development and implementation of activities. A wide variety of analytical reports, best practice guides, training manuals and other materials have been produced. Some of these have been generated through demonstration projects conducted jointly by the Secretariat and Member countries.

⁶ Concerning Russia, a second policy review is proposed in the OECD’s programme of work for 2007-08.
⁷ More information on its activities can be found at www.oecd.org/env/eap.

3. Strategic Objective 3⁸

A. *International Trade*

Europe and Central Asia

Trade policy reform is crucial for the development of a market economy and integration into the international trading system. Therefore, the OECD's dialogue with transition economies has been based on: (i) analysis of trade policy developments, (ii) active support for trade policy reform and (iii) adherence to multilateral trade disciplines.

From 1996 to 2004, the Working Party of the Trade Committee held special biannual meetings with the Russian Federation and other members of the Commonwealth of Independent States (CIS) on "Trade Relations with Economies in Transition". The OECD provided support for trade reform, drawing attention to the need for consistency between trade, macroeconomic policies and the implications of the Uruguay and Doha Rounds for transition economies. A road map for trade reform was developed and regional integration within the CIS examined⁹.

A Regional Trade Forum (Almaty, 2004) on "Economic and Trade Implications of WTO Accession" served to share experiences with the implementation of multilateral and regional trade disciplines, and with different methods for analysing changes in trade policy, such as WTO accession. Alternative approaches were considered to implement WTO commitments and maximise the benefits of integration into the international trading system.

Officials from the CIS have been participants in the Trade Directorate's biannual Regional Trade Forums and some have participated in meetings of the OECD Global Forum on Trade. More recently, the OECD has redirected resources to other areas and wound down its work on transition economies.

Baltic Countries

Work with the Baltic countries was focused on the obstacles for trade in services and based notably on OECD business surveys. Specific studies have been undertaken on the economic and regulatory environment in four strategic network and trade-enabling sectors: telecommunications, banking, electricity and air freight. This activity addressed the role of autonomous liberalisation efforts and the contributions of multilateral disciplines and regional commitments in developing internationally competitive services. One important component of the activity was the analysis of the EU impact on the service regulatory framework and regional co-operation in the area of services within the Baltic region.

The Baltic countries' experience provides valuable insights of general relevance into the modalities of autonomous liberalisation and the interaction between multilateral and regional external openings in the service sector that have been implemented simultaneously and swiftly. The results of this project were summarised in the publication "*Promoting Trade in Services: Experience of the Baltic States*" issued in May 2004.

⁸ Contribute to shaping globalisation for the benefit of all through the expansion of trade and investment.

⁹ General findings of these analyses were summarised in the publication *Designing New Trade Policies in the Transition Economies*.

South-East Europe

Between 2002 and 2004, the OECD undertook the “Project on Trade in Services in South-East Europe” on behalf of the Stability Pact for South-East Europe (SEE). Its overall objective was to assess the prospects for enhancing regional co-operation in trade in services in eight SEE countries. In the final stage, the OECD developed policy recommendations on two main areas: (i) implementing a concrete framework for regional and multilateral co-operation in the area of services, (ii) facilitating the application of best practices and co-operation measures through training seminars. Seminars were organised in all SEE countries to assist in the implementation of the recommendations and measures proposed.

The main achievements of this project were: (i) providing quantitative assessments of trade in services in the SEE countries, (ii) creation of a comprehensive database of services barriers in all SEE countries, (iii) development of concrete policy options for regional co-operation on services, (iv) capacity building seminars for government officials and the private sector, (v) an Action Plan for future activities in the area of services.

To build on these achievements, SEE representatives created a Services Task Force whose mandate include further work to: (i) harmonise services regulatory frameworks on the basis of the EU *acquis communautaire*, (ii) enhance the region’s statistics on trade in services, (iii) promote services exports and create a regional network of services companies and associations, (iv) facilitate labour mobility for key personnel, (v) create adequate mechanisms to implement these tasks.

Important lessons learned from this exercise have been: (i) project design should take account of the real nature of the problems, (ii) all reforms must have the full support of the local leadership, (iii) the results of performance monitoring and programme evaluation should be systematically incorporated into the policymaking process, (iv) links should be established between the governments and training agencies in selecting the participants and adapting programmes.

B. Agriculture

Monitoring of Agricultural Policies

The OECD carried out in-depth *Reviews of Agricultural Policies* for Russia in 1998 and, jointly with the World Bank, for Ukraine in 2003. The Reviews¹⁰ have served as background for peer examinations of agricultural policies of the countries examined.

A regular monitoring process has been established to maintain and update the OECD’s initial investment in country studies and calculations of Producer Support Equivalents. The new EU Member states have been incorporated into the OECD monitoring exercise since 2005 under the umbrella of the EU member states, including the non-OECD Members.

The Secretariat also monitors agricultural policy developments in Russia, Ukraine, Bulgaria and Romania (besides Brazil, China, India and South Africa). A report on each country was prepared and discussed at the 20-21 November 2006 Global Forum on Agriculture in Paris, to result in a publication in early 2007. The use of local experts in the preparation of the reports and the participation of government officials in the Forum policy dialogue provides a strong capacity building dimension to the work. This work is supported by a grant from the European Commission.

¹⁰ Including those undertaken in 2005 for Brazil, China, South Africa and India.

C. *International Taxation and Tax Administration*¹¹

Europe and Central Asia

European and Central Asian non-Members participate in events at three Multilateral Tax Centres – Ankara, Vienna and Budapest. Over the years since 1993, all European transition economies have been invited to the *Ankara Centre*, as have Armenia and Georgia from the Caucasus region and Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan and Turkmenistan from Central Asia. The Centre has offered seminars and workshops on tax treaties, VAT, transfer pricing guidelines, tax avoidance and evasion, exchange of information (EoI) and auditing of multinational enterprises, among others. Over 3 000 officials have participated. There were eight one-week events in 2005.

Invitees to the *Budapest Tax Centre* have principally been European transition economies and, from the Caucasus region, Armenia. Almost 2 000 officials have taken part in a total of 97 weeks of seminars and workshops held at this centre since 1992. For example, in 2005 74 officials attended workshops on income tax, consumption tax and auditing multinational enterprises.

Since 1992, the *Vienna Tax Centre* has arranged more than 126 weeks of tax workshops and other events. These workshops have focused on matters such as managing tax reform, tax treaties, transfer pricing and international tax evasion and avoidance. More than 2 000 officials, mainly from European transition economies, and occasionally from the Caucasus and Central Asian regions have participated in these events. In 2005, the Vienna Tax Centre hosted four events on tax treaties, taxation of financial instruments, auditing small and medium sized enterprises and tax policy analysis.

Baltic Countries

The Baltic Regional Programme included an important series of seminars on taxation, which assisted the Baltic countries in realigning and modernising their tax policy and administration in line with international standards and the OECD's best practices. Its primary focus was on international taxation issues, including tax treaties, consumption taxes, exchange of information and transfer pricing. A significant number of tax rules and regulations in the Baltic countries have been based on OECD models such as the Model Tax Convention and the Guidelines on Transfer Pricing.

Besides these seminars, Baltic officials also participated in the Global Forum on Taxation and the seminars held at each of the above-mentioned Tax Centres. This has continued after the termination of the Baltic Regional Programme. In 2006, the Baltic countries were invited to four seminars in Budapest, seven in Ankara and three in Vienna.

South-East Europe

A Regional Flagship Initiative arising out of the Investment Compact resulted in the OECD's publication entitled *Tax Policy Assessment and Design in Support of Direct Investment, A Study of Countries in South-East Europe* (2003). It was followed by a regional meeting on the same subject. Countries from this region have attended seminars at each of the three above-mentioned Tax Centres.

¹¹ The latter item falls under strategic objective no. 4.

4. Strategic Objective 4¹²

A. Investment

Europe and Central Asia

Since 1994, the Secretariat has been operating a private sector development programme for Black Sea and Central Asian countries covering issues such as investment policy and promotion, corporate governance, fighting corruption and financial sector development. The programme was conducted through policy dialogue workshops at the Centre for Private Sector Development in Istanbul or through meetings in the region. It has been financed by voluntary contributions.

In this context, a specific initiative on investment and enterprise development in the Ukraine was conducted during 2004-2005 with support of the EU. A conference presenting the conclusions of this programme was held recently in Kiev.

An initiative on investment and development for Central Asia and the South Caucasus is being explored with interested countries and donor organisations. The OECD Development Centre would monitor the economic outlook for the region and workshops would address investment reforms needed to help create economic stability and a better investment environment.

Baltic Countries

The Baltic countries benefited from the OECD's first regional approach on international investment (1998-99). Its success inspired similar approaches elsewhere (including SE Europe, MENA). The countries' progress in economic transition and attracting investment resulted in their adherence to the Declaration on International Investment and Multinational Enterprises and active participation in related work of the Investment Committee. The 2005 edition of the National Treatment for Foreign-Controlled Enterprises has confirmed their position as one of the more liberal signatories to the Declaration. They have been active supporters of the OECD Guidelines on Multinational Enterprises (thanks in part to the tripartite structure – government, business and labour – of their National Contact Points) and the Policy Framework for Investment.

The Investment Compact for South-East Europe

The Investment Compact for South-East Europe aims to increase investment through a collaborative regional approach that involves peer review, benchmarking and coaching in implementation. It has four pillars:

- (i) *Monitoring and evaluation:* A comparative evaluation of investment reform and implementation in each SEE country through the Investment Reform Index (IRI);
- (ii) *Implementation support:* Support in design and implementation of reforms via regional and country specific projects that involve OECD experts;
- (iii) *Private sector support:* Support private sector by helping set up Foreign Investor Councils and structure the public/private debate through “reality check” sessions;

¹² Enhance public and private sector governance.

- (iv) *Political support*, mainly through an annual Ministerial Conference that brings together key ministers to reaffirm commitment to the reform process.

An independent evaluation has shown that over the last five years the Investment Compact has contributed directly to increasing growth, investment and employment in the region.

Over the next five years, the Investment Compact will focus on further helping the region to compete in the global economy and to increase ownership of the reform process. Working closely with other international organisations – in particular the EC, the EBRD and the World Bank – the Compact's focus of activity will be:

- Signing and implementation of a South-East European Regional Framework for Investment that covers all the main good practices in key policy areas, such as investment policy and promotion, tax, corporate governance, trade, regulatory reform, anti-corruption, competition and human capital;
- Comparative measurement and evaluation and definition of country priorities through the Investment Reform Index process;
- Support in implementation of reform through regional and country specific initiatives.

The Investment Compact is funded entirely by voluntary contributions and is managed by a Project Team housed in the Directorate for Financial and Enterprise Affairs.

B. *Anti-Corruption*

Anti-Corruption Network for Transition Economies (ACN)

The Anti-Corruption Network for Eastern Europe and Central Asia (ACN) supports its member countries in their fight against corruption by providing a regional forum for the promotion of anti-corruption activities, exchange of information, elaboration of best practices and donor co-ordination. Established in 1998, the ACN's regional and country coverage extends to Central, Eastern and Southern Europe, Caucasus and Central Asia, including: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, the Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Romania, the Russian Federation, Serbia and Montenegro, Slovenia, Tajikistan, Ukraine and Uzbekistan.

The ACN brings together national governments from the ACN countries and selected OECD countries, civil society and business associations and international organisations, including: UNDP and UNODC, World Bank and EBRD, EU and Council of Europe, OSCE. Transparency International, the Open Society Institute, the American Bar Association and other civil society partners also participate.

The ACN operates at the regional level through General Meetings and Steering Group Meetings, conducting thematic reviews on selected priority issues, including specialised anti-corruption agencies and international legal standards for the prosecution of corruption. Sub-regional initiatives include Stability Pact Anti-Corruption Initiative (SPAI) and the Istanbul Anti-Corruption Action Plan for the countries of the former Soviet Union.

Since its launching, the ACN has organised six General Meetings, to discuss priority issues and exchange information on best practices. The 2005 General Meeting addressed the following issues: monitoring of implementation of international anti-corruption obligations by the ACN countries and methodologies for

measuring the impact of anti-corruption efforts; international anti-corruption standards; experience of specialised anti-corruption agencies; and ways to control political corruption.

The sub-regional initiative for the countries of the former Soviet Union, known as the Istanbul Anti-Corruption Action Plan, was created in 2003 for Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan and Ukraine. Implementation involves reviews of anti-corruption legislation and institutions and endorsement of recommendations; and implementation of recommendations through national actions and with the international assistance. Reviews of all countries – except the Russian Federation – were completed in 2004-2005. The first round of monitoring is currently underway: Azerbaijan, Armenia, Georgia, Tajikistan and Ukraine were monitored in 2006.

The ACN has also provided an effective framework for the transfer of experience between the OECD and the ACN countries via policy makers and practitioners in the region, and helped donors focus on priority issues, and better co-ordinate their efforts. ACN discussion papers and publications have provided useful reference materials for ACN countries and donor agencies. The country reviews under the Istanbul Action Plan countries are published in the “Fighting Corruption in Transition Economies” series. A comparative study of models of specialised anti-corruption agencies is currently under preparation.

Future work includes additional country monitoring and thematic reviews. In addition, the authorities of Ukraine will continue to benefit from advice on reform options and models of anti-corruption law enforcement agencies.

Baltic Anti-Corruption Initiative (BACI)

The Baltic Anti-Corruption Initiative (BACI, 2001-2004) was launched by Estonia, Latvia and Lithuania as a sub-regional initiative of the ACN, with the OECD as its secretariat. Its purpose was to promote capacity and institution building in fighting corruption and work towards meeting international anti-bribery standards, including those set by the OECD’s anti-bribery Convention.

The BACI was carried out in two stages. The first (2001-2002) involved (i) a government process which analysed and assessed the domestic legal and institutional framework, (ii) community-based surveys in the health sector and in the area of licensing and permissions to identify problems and make recommendations, and (iii) a visiting experts programme. The second (2003-2004) addressed three priority areas: public procurement, public sector ethics, and private sector governance and integrity.

BACI participants (government, the private sector and NGOs) felt that the BACI had improved their understanding of bribery issues, contributed to dialogue among all stakeholders and strengthened regional co-operation. Baltic representatives had acquired OECD methodology to identify strengths and weaknesses of their own national systems and those of partner countries. Legal reforms and better anti-bribery programmes were initiated. BACI provided a model for tackling corruption from different angles: “top down” by government-led legislative and institutional reform and “bottom-up” by involving the private sector and civil society.

In 2004 Estonia acceded to the anti-bribery Convention. The Working Group on Bribery examined accession requests by Latvia and Lithuania in 2002, but concluded that neither country was ready to accede to the Convention.

Stability Pact Anti-Corruption Initiative for South-East Europe (SPAI)

The SPAI was launched at the call of the Stability Pact for South-East Europe and engaged Albania, Bosnia and Herzegovina, Croatia, FORMER YUGOSLAV REPUBLIC OF MACEDONIA, Moldova,

Montenegro, Romania and Serbia. The Council of Europe, the EU, the World Bank and Transparency International were active partners.

The SPAI aimed to promote anti-corruption reform in the region and to help countries move closer to international anti-corruption and anti-money laundering standards. It addressed these goals through five action pillars: (i) adoption and implementation of international anti-corruption legal instruments, (ii) promotion of good governance and transparent public administration, (iii) strengthening of national legislation and the rule of law, (iv) promotion of integrity in business sector, and (v) promotion of active civil society participation in reform.

Results achieved included (i) country reviews and recommendations, (ii) capacity building and training, (iii) dialogue between national authorities, civil society and international organisations, (iv) structured donor co-ordination, (v) effective networking. The SPAI has achieved regional ownership and had a significant influence on the development of anti-corruption policies in the participating countries. This included legal reform and adoption of international standards, civil service reforms, such as conflict-of-interest legislation, institutional reforms and stronger anti-corruption institutions.

The project was funded by voluntary contributions from seven OECD Members. The OECD served as the SPAI Secretariat until its transfer to the Regional Secretarial Liaison Office (RSLO) in Sarajevo. The OECD has assisted the new Secretariat and will continue to co-operate with the countries from the region in the framework of the ACN.

C. Corporate Governance

Europe and Central Asia

The Eurasia Roundtable was launched in October 2000 in response to the growing awareness among policymakers and donors in the region regarding the importance of corporate governance. Participating countries are from the Caucasus (Armenia, Azerbaijan and Georgia), Central Asia (Kazakhstan, Kyrgyzstan, Mongolia, and Uzbekistan), and Eastern Europe (Moldova and Ukraine).

Roundtable participants include representatives of Eurasian regulatory authorities, professional associations, other private-sector bodies and academia, guests from other transition economies and experts from OECD countries. They now form a solid constituency for continuing corporate governance reforms in the region.

Six meetings have been held on a range of issues, including the role of boards of directors and stakeholders, shareholders' rights, transparency and enforcement. The OECD report "*Corporate Governance in Eurasia: A Comparative Overview*", was launched at a high-level regional meeting in May 2004.

Guided by the OECD Principles of Corporate Governance, the Roundtable has enhanced the knowledge and understanding of corporate governance throughout the region and has provided policy makers, companies and investors with a conceptual framework to address relevant issues. At the same time, it has raised the awareness of challenges specific to Eurasia and helped policymakers and private-sector leaders to improve corporate governance in the countries of the region. Results of the Roundtable have fed into technical assistance work undertaken by other international organisations, such as the IFC and EBRD.

The Roundtable will now focus on (i) corporate governance and banks, (ii) enforcement and dispute resolution, and (iii) governance of state-owned enterprises. Expected results include policy papers on

topical issues, regional updates on trends and developments, and support for a Eurasia Corporate Governance Network.

The Roundtable has benefited from the financial support of OECD Members and the co-operation of the World Bank and the International Finance Corporation, the Global Corporate Governance Forum, the Asian Development Bank, the Federation of Euro-Asian Stock Exchanges, and national stock exchanges and securities regulators.

South-East Europe Corporate Governance Roundtable

The SEE Roundtable was launched by the OECD in partnership with the World Bank Group as part of the Investment Compact in 2001. Participating countries of the SEE Roundtable include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FORMER YUGOSLAV REPUBLIC OF MACEDONIA, Moldova, Romania, Serbia and Montenegro. The SEE Roundtable serves as a forum for policy dialogue to raise awareness of the importance of good corporate governance and to formulate best practices for the region. Discussions have focused on shareholder rights and equitable treatment, transparency and disclosure, responsibilities of the board and the role of stakeholders, as well as enforcement of corporate governance rules. Its participants are the most influential corporate governance players in their regions, including stock exchanges and securities commissions.

The SEE Roundtable developed the White Paper on Corporate Governance in South-East Europe (2003), which set out practical recommendations and priorities for reform. It has also supported other regional initiatives, such as (i) legislative or regulatory changes in company law and corporate governance codes, (ii) voluntary application of best practices by companies, creation of corporate governance institutes or associations; and (iii) development of training programmes and curricula in corporate governance. Roundtable events depend on voluntary contributions.

Topics for future work include effective enforcement of corporate governance rules, commitment of the private sector (in particular of boards) to the corporate governance reform process and disclosure of financial and non-financial information. The next project concerns the establishment of a group of companies to serve as models and share experiences in putting principles of good corporate governance into practice (so-called “SEE Companies Circle”).

D. Competition

Europe and Central Asia

The OECD has been heavily involved in work with non-Members in Europe and Central Asia. The scope of its work has included promoting competition at high political levels, helping officials to draft effective competition laws, building the capacity of officials and judges effectively to enforce those laws and promoting an efficient competition-regulation interface for network infrastructure sectors such as gas, electricity and telecommunications. OECD events have also promoted regional networking and strong links with OECD competition authorities.

This work involved non-Members from Eastern Europe through the Caucasus to Central Asia. Until recently, it has been carried out exclusively through annual two-week seminars at the Joint Vienna Institute (JVI). In 2005, however, a Regional Centre for Competition was established in Budapest under a partnership with the Hungarian Government. About seven events will be held annually for competition authorities, including those from Russia and other CIS countries and Central European countries.

Baltic Countries

Before the launch of the Baltic Regional Programme (1998), the OECD helped Baltic officials to draft effective competition laws (for Lithuania in 1992 and 1995 and Estonia in 1993). Under the Programme, seven annual meetings were held. The earlier meetings were designed to understand the competition issues in the region (and resulted in a publication describing the law and institutions), but most discussed the main elements of competition law and policy, such as mergers and cartels, as well as the interface between competition and regulation in sectors such as telecommunications. The three competition authorities always participated at high levels, and the Scandinavian competition authorities reliably supplied experts and occasionally high competition officials.

South-East Europe

Three capacity building seminars were held in 2001-02 under the aegis of the Regional Flagship Initiative “Competition Law and Policy in South-East Europe”. More recent events have been held in the OECD Regional Centre for Competition in Budapest.

E. Insurance and Private Pensions

Europe and Central Asia

Since 2000, the OECD has organised regional and pan-European conferences to support insurance and private pension reform in the Central and Eastern Europe (CEE) and the New Independent States (NIS) in close co-operation with other international organisations, such as the International Organisation of Pension Supervisors (IOPS), the International Association of Insurance Supervisors (IAIS) and the World Bank.

The main objective is to help the design and implementation of reform measures aimed at promoting sound and open insurance and private pension markets as well as efficient regulatory and supervisory frameworks in line with OECD principles and best practices.

Baltic Countries

In response to requests for assistance in drafting regulation on insurance and implementing pension reform, two expert meetings and six conferences were organised in the Baltic region (1999-2004). Analytical papers and policy recommendations were presented in two OECD publications, *Insurance in the Baltic States* and *Pension Reform in the Baltic Countries* (2004).

The objectives were to provide assistance in the design and implementation of reform measures aimed at promoting the development of sound and open insurance and private pension markets and to encourage efficient regulatory and supervisory frameworks for these markets in line with OECD principles and best practices.

F. Financial Markets

Baltic Countries

A range of policy dialogue events were organised in the field of public debt management and the development of securities markets, including government securities markets. An *OECD forum on Baltic-Nordic public debt management and government securities market operations* met annually (2001-2003) to exchange information on techniques, policies and best practices of public debt management and government securities market operations. Its objectives were to:

- implement best practices for the creation of more efficient primary markets (emphasising: issuing strategy based on regular auctions; the issuance of benchmarks; abolition of privileged access by governments; a transparent debt management framework; a primary dealer framework with the capacity to develop markets; improvement in the organisation of the primary retail market for government securities);
- implement best practices for more efficient secondary government securities markets (emphasising: liquid markets with a large stock of outstanding benchmark issues and repurchase market financing; safe and sound clearing and settlement systems; transparent and equitable regulatory and supervisory framework; a market-making structure based on primary dealers); and
- help generate sufficient capacity to manage volatility and risk.

Work on *private securities markets* dealt with (i) institutional structures applied to capital markets, (ii) operations of securities markets, (iii) the role and responsibilities of issuers of securities, (iv) capital market legislation. A report was prepared on proposals for producing an operational strategy for developing capital markets in the Baltic-Nordic region. A Working Group on Securities Market Development guided its drafting.

G. Public Governance

The OECD's work on public governance has concentrated on South-East Europe.

Regulatory Reform

The Regulatory Governance Initiative (RGI) of the Investment Compact for South-East Europe was established in 2002 to improve the regulatory framework in the region. Conducted with the Stability Pact, the World Bank, FIAS, and the EC, it generated a series of thematic workshops covering the main OECD work, introducing key concepts to country economic teams, and providing a regional platform for discussion.

Two regional reports (2003, 2004) assessed progress on regional regulatory reform. Political commitments for regulatory governance were included in the 2004 Ministerial Declaration of the Investment Compact. This Declaration was supported by an OECD report on regulatory reform in South-East Europe and by the preparation of action plans by all the countries in the region. Adequate capacity within public administration, the need for strengthened co-ordination across levels of government, reducing administrative burdens that encourage corruption and deter investment, and the implementation of Regulatory Impact Analyses have been flagged as issues that could deserve further investigation.

Senior Budget Officials (SBO)

Two meetings of Senior Budget Officials (SBO) in the South-East, Central, and Eastern European countries have been held, the latest in Ljubljana, in February 2006. In-depth discussions of such topics as top-down budgeting, performance-informed budgeting, and public-private partnerships, were held at the meeting. A third SBO meeting for countries in this region is planned for Vilnius, Lithuania in March 2007. Peer reviews have been carried out of the budgeting processes in Croatia, Slovenia and Georgia. The Secretariat will be working with the World Bank and interested Members in improving budgetary practices in the region.

Stability Pact Anti-Corruption Initiative

The Stability Pact Anti-Corruption Initiative (SPAI) was launched in 2000 at the call of the Stability Pact to move the fight against corruption to the top of the political agenda in the region and to strengthen the legal and institutional basis for fighting corruption.

The Secretariat was in particular involved in the project on management of conflict of interest in government and the public sector and in an assessment of conflict-of-interest laws and policies. The former project was designed to provide focused and practical support to the efforts of the SPAI countries in developing and implementing their national Conflict of Interest laws and strengthening institutions in charge of their implementation. The project drew on the “OECD Guidelines for Managing Conflict of Interest in the Public Service”, which is the primary international reference in this area.

In 2003, this project produced the *Toolkit for Managing Conflict of Interest*, a set of generic definitions, strategies and processes to put the Conflict of Interest legislation into practice in the SPAI countries. These tools provide practical solutions for specialists in legislative drafting, teaching and training as well as in developing by-laws and internal procedures on Conflict of Interest at different levels of administration. The Toolkit was discussed in a series of specialist workshops, a *High level Forum on Conflict of Interest* (Prague, 2003) and a Workshop for Investigative Journalists (Istanbul, 2003).

An assessment of Conflict-of-interest Laws and Policies was designed to review the effectiveness of policies, legal frameworks and implementation practices in SPAI countries. This project aimed in particular at: gathering evidence on progress made, mapping out areas and positions with a high potential for conflict of interest and supporting the implementation of conflict-of-interest laws and policies. In 2005, the project achieved the following results:

- (i) a review of conflict-of-interest laws and policies in Moldova, Romania, Montenegro and Serbia, providing the basis for discussion on strengthening the implementation of conflict-of-interest laws and policies;
- (ii) a regional thematic seminar on anti-corruption services and the implementation of conflict-of-interest laws (Serbia, 2005). The seminar highlighted that 6 of the 8 SPAI countries had approved a law on conflict of interest for public officials. Participants also identified the need to develop specific conflict-of interest standards for the political level and public officials in risk areas such as public procurement.

5. Strategic Objective 5¹³

A. *Development*

In the context of its outreach to non-OECD donors, the DAC intends to reach out to non-OECD EU Members, who by joining the EU have committed to undertake significant development assistance efforts. However, no specific regional activities or engagement have so far been envisaged for this. Moreover, Kyrgyzstan has participated in the DAC Working Party on Aid Effectiveness as a partner country.

*Experts' meeting on trade and investment inter-linkages for the countries of the Caucasus and Central Asia*¹⁴

An informal meeting of national experts, including research institutes, from the Caucasus and Central Asia regions was held at the OECD Istanbul Centre¹⁵ in February 2004. The purpose was to discuss the collaboration on strategies to facilitate the integration of these countries into the world economy, in particular through trade and investment inter-linkages. Among the issues discussed was the potential for establishing a regional network of experts with whom the OECD may collaborate in developing an analytical framework on the interplay between governance, trade, investment, and official assistance. Ways of strengthening the capacity of research institutes in the region for this purpose and the launch of pilot projects were also discussed.

*Regional forum on private sector development*¹⁴

A regional forum on private sector development in the Black Sea Region was held in Thessaloniki in February 2005¹⁶. Delegations from the Black Sea Economic Co-operation (BSEC) members were invited. It discussed the opportunities for enhancing trade and investment in the region and the necessary policy framework, and ways to enhance business co-operation in specific industries.

Throughout the Forum the discussions stressed the need to strengthen local institutions by building links to international intergovernmental and financial institutions. OECD models and policies can be used as reference. The result could be an Action Plan for the BSEC countries based upon a Comprehensive Framework for Trade, Investment and Development. In consultation with the EU in the context of its new Neighbourhood Policy (ENP), as well with regional partners, such an Action Plan would assess both regional and individual-country needs. It could highlight priorities for policy change in areas such as infrastructure development, knowledge-based services, SME development, financial deepening, regulatory reform, governance reform, environmental sustainability and the creation of financial hubs.

¹³ Contribute to the development of non-Member economies.

¹⁴ See the remarks on this meeting in par. 7 above.

¹⁵ Organised on the OECD side by the Development Centre and the Directorate for Financial and Enterprise Affairs. A summary report is available at www.oecd.org/dev/ist.

¹⁶ Organised on the OECD side by the Development Centre. All information and a full summary of the meeting are available at www.oecd.org/bsec.

6. Strategic Objective 6¹⁷

A. Statistics

Europe and Central Asia

National accounts statistics in many transition countries, especially, the CIS, are seriously distorted because they fail to adequately cover underground and informal activities. To redress this problem, the OECD produced, in 2002, a *Manual on Measuring the Non-Observed Economy*. The Manual identifies best practices in survey design, data collection and data editing to ensure that the basic economic statistics provide proper coverage of underground and informal activities.

Baltic Countries

The OECD worked with the national statistical offices of the Baltic countries to help them introduce quarterly national accounts. This project was agreed with Eurostat and the countries concerned and forms part of the statistical component of the *acquis communautaire*. All three Baltic countries are now compiling quarterly national accounts at current and constant prices, showing both value added by kind of activity and the final expenditures on the GDP. These accounts are consistent with the international standards of the 1993 System of National Accounts.

South-East Europe

The OECD's work on statistics in South-East Europe has been built up slowly over the last six years. It is orientated primarily towards the statistical agencies of the Western Balkan Region¹⁸. Initially, it also included Bulgaria, Romania and Slovenia with the aim of fostering interregional co-operation and assistance, but now only Slovenia is involved. The Programme focuses on two interrelated areas of economic statistics: national accounts and purchasing power parities. It is implemented in close co-operation with Eurostat and promotes conformity with the EU *acquis*.

Workshops organised between 2001 and 2003 revealed the need to improve the exhaustiveness of these countries' GDP estimates and their measurement of the non-observed economy. The Secretariat's efforts have since concentrated on the non-observed economy in the Western Balkan Region. The immediate aim was to help statistical agencies make "quick fix" adjustments for non-exhaustiveness to their GDP estimates. The long-term objective is to enable the statistical agencies to tackle non-exhaustiveness in a sustained and systematic manner so as to bring about fundamental improvements in the data collection systems underlying their economic statistics.

The OECD, together with the Statistical Office of the Republic of Slovenia (SORS), has extended the Eurostat-OECD Purchasing Power Parity Programme to include the West-Balkan Region. Price collection for the 2005 round started in May 2003 and finished in January 2006. The prices collected would not be finalised until the fourth quarter of 2006 when the Secretariat's direct involvement with the PPP Programme in the West-Balkan Region will come to an end. Price collections for the 2008 round have started. These are being organised by SORS and Eurostat.

¹⁷ Provide effective and efficient corporate management.

¹⁸ Albania, Bosnia and Herzegovina, Croatia, FORMER YUGOSLAV REPUBLIC OF MACEDONIA, Serbia and Montenegro and, in principle, Kosovo.