Baltic Regional Programme

**BALTIC REGIONAL PROGRAMME: IMPLEMENTATION AND MEDIUM-TERM OBJECTIVES**

*This note contains medium-term objectives for the activities of the Baltic Regional Programme. The authorities of the Baltic countries are being invited to confirm their endorsement.*
BALTIC REGIONAL PROGRAMME: IMPLEMENTATION AND MEDIUM-TERM OBJECTIVES

1. The reasons for establishing medium-term objectives

1. The CCNM’s Baltic Regional Programme (BRP) was established on 12 March 1998. Over the past two years, it has evolved into an intensive programme of co-operation with Lithuania, Latvia and Estonia. For specific activities, such as competition policy and the development of entrepreneurship, it also includes certain contiguous regions of the Russian Federation, in particular Kaliningrad, Karelia and Saint Petersburg.

2. The programme has been formulated to meet three basic objectives:

(i) to assist the Baltic countries in the completion of their transition to market economies;

(ii) to promote the stable integration of the Baltic region into the global economy;

(iii) to encourage the use of best practices of OECD in developing policies and strategies in the Baltic region, in order to promote long-term sustainable economic growth and political stability.

3. The Programme has largely been funded by grants or voluntary contributions from ten countries. The donor countries have stressed the importance of a thorough evaluation of the Programme. The Baltic countries and the donors, together with other Member countries, meet regularly to assess the programme of work and its value in terms of mutual interest. The Secretariat has prepared and published an annual report for the first programme year; a second one will be released early in 2001. Furthermore, two annual evaluation meetings have been held, which were open to all OECD Members, the latest one on 5 May 2000. At this meeting, medium-term objectives for the programme were discussed, aimed at underpinning the future evaluation process. As a rule of thumb, “medium term” is to be read as a three-year period.

4. This note reflects the outcome of the May 2000 discussion, except that, at this stage, no new activity in the field of environmental policy is proposed, as had been suggested by one of the Baltic Delegations. The reason for this is that the Baltic countries already participate in the Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe, which should be the most efficient way of meeting their policy objectives in this field with the limited resources available. Additional activities might be contemplated if voluntary contributions were provided for this specific purpose.

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1 Denmark, Estonia, Finland, Iceland, Ireland, Latvia, Lithuania, Norway, Poland and Sweden.
2 The annual report can be obtained in print from the Secretariat and is available on the Internet at http://www.oecd.org/sge/ccnm/about/baltic.htm.
3 The summary record of this meeting is available on OLIS [CCNM/BALT(2000)7].
5. There are several reasons to consider the establishment of medium-term objectives.

− First, such objectives will afford a sense of direction and longer-term purpose to the Programme, which might be less evident if the planning horizon were short.

− Second, they will make it easier to put a meaningful evaluation process into operation by providing yardsticks to gauge the performance of the activities over time. The evaluation of the OECD’s co-operation with non-Members (held in 1999) has confirmed the importance of appropriate evaluation mechanisms.

− Third, the establishment of medium-term objectives should help to strengthen the commitment by all parties involved to the continuation of the Programme and the achievement of its objectives. This is particularly important for a grant-funded Programme, of which the budget has to be determined annually on the basis of bilateral discussions with each of the donors. It is hoped that a medium-term commitment to the programme’s objectives will also imply a moral commitment to ensure that the resources are provided to make the achievement of these objectives possible.

− Fourth, the medium-term objectives will provide detailed information on how the Baltic countries intend to use the activities to reform and develop their administrative capacities.

− Fifth, the establishment of these objectives will help to avoid a duplication of activities through co-ordination with other international organisations and sponsoring countries’ bilateral programmes.

6. The Baltic countries have actively contributed to the preparation of the medium-term objectives. In each of the Baltic capitals there is a working group, co-ordinated by the Ministry of Foreign Affairs, which is regularly consulted. The members of these groups are representatives from different ministries, governmental organisations and institutions. In Lithuania, the group has been established by a resolution of the Prime-Minister. The members are also involved in the co-operation with other international organisations, such as the EU and WTO. Members of the working groups will also share the responsibility for the implementation of the objectives.

7. The objectives should be seen as voluntary commitments or benchmarks agreed among the OECD and the Baltic countries. It should be stressed that the objectives will not have a contractual value: they are not a form of conditionality. However, the Baltic countries’ active participation in the Baltic Regional Programme and their interest in developing the Programme, including the medium-term objectives, demonstrate their interest in a closer integration with the OECD. The objectives should be adaptable in the light of changing circumstances; assessments at future evaluation meetings should indicate whether any adaptations are called for.

8. The discussion of the objectives of this Programme is separate from that of the possibilities for future accession of new OECD Members. The objectives will be aimed at a closer association of the Baltic countries with some of the OECD’s “best practices” or “rules of the game”, including those embodied in the Organisation’s instruments.

2. The Baltic countries’ EU accession

9. The European Union is facing major structural challenges in two dimensions: its deeper integration (particularly the EMU) and its horizontal integration, in the form of enlargement. Negotiations
on accession were started in 1998 with the so-called “first group” of countries considered to be more advanced in their reforms: Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia. At the Helsinki summit of December 1999, the European Council decided to open negotiations with six other countries: Bulgaria, Latvia, Lithuania, Malta, Romania, and the Slovak Republic. Furthermore, Turkey was recognised as a candidate for Membership.

10. The policy priorities in the EU’s pre-accession strategy have been laid down in Accession Partnerships with each of the candidate countries. Together with the National Programmes for the Adoption of the *Acquis Communautaire* and the Europe Agreements, they address the challenge of preparation for adopting the *acquis*. They set out concrete steps to be taken, together with timetables. The main priority areas presume the candidate’s fulfilment of the Copenhagen criteria.

11. Estonia has opened negotiations on 25 chapters out of 31 in the *acquis*. Some lighter chapters among these 25 have been completed, but more complex ones, such as agriculture, environment, energy, transportation and trade in services will take more time to complete. Estonia’s aim is to complete its negotiations by the end of 2002.

12. At the EU’s Helsinki summit of December 1999, it was decided to start accession negotiations with six other applicant countries (Latvia, Lithuania, Romania, Bulgaria, Slovak Republic and Malta). The talks were to cover five basic areas with all countries: (i) small and medium-sized enterprises; (ii) science and research; (iii) education and training; (iv) external relations; (v) common foreign and security policy. With Latvia and Lithuania, additional negotiations would be opened in three areas to reflect the progress these countries have made in their membership preparations: (i) competition policy; (ii) cultural policy; (iii) statistics. Latvia and Lithuania are also aiming to finish their negotiations by the end of 2002.

13. For the OECD, the Baltic countries’ future EU accession means that it has to take the objectives of the EU accession into account when establishing those for its Baltic Regional Programme. This is in line with the conclusion of the CCN’s recent self-evaluation that the role of the OECD should be reconsidered in view of the increasing action by EU institutions with European non-OECD Members. At the very least, the OECD’s objectives should not interfere with the EU accession, which is a high-priority goal for all the three Baltic countries. More importantly, however, the OECD should see to it that the Baltic Regional Programme has its own place in supporting the reform process in the Baltic countries.

14. The EU Phare programme is the main financial and technical instrument to prepare for the accession of the Baltic countries to the EU. In contrast to the accession-driven focus and conditionality of the Phare assistance, the OECD’s Baltic Regional Programme is demand-driven in the sense that the programme of work is established on the basis of suggestions by the Baltic countries themselves, followed by discussions between the Baltic countries and the OECD about the possibilities and priorities. The OECD’s approach is the development of the best practices for policy formulation, strategic planning and increasing institutional capacities through the provision of a variety of well-tested policy options of the OECD Member countries rather than single, ready-made solutions.

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4 These criteria state the following requirements for membership:
- The candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- The existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the European Union;
- The ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

It is important to note that the *acquis* should not merely be incorporated into national legislation; it is necessary to ensure that it is actually applied.
15. To secure the Baltic Regional Programme’s own place alongside the EU programme of work, its activities will have to be *supplementary* or *complementary* to those related to the EU accession. Supplementary means that the activities deal with issues not covered by the EU accession, such as direct taxation. Complementary means that the activity does cover issues also covered by the *acquis*, but that it is focused on other work under this header that provides added value. For example, if the OECD provides advice in the economic analysis and investigative skills that are needed to enforce EU-type rules on competition, its activities are complementary to the EU work on these rules. In the activity descriptions below, it is indicated what their role is compared to the EU programme of work.

3. **Medium-term objectives per activity**

*B7.1.1 Regional economic assessment*

16. The Programme’s flagship publication *The Baltic states: A regional economic assessment* was published in February 2000. In late April 2000, the OECD organised one-day seminars in each of the three Baltic countries which provided an opportunity to support the OECD’s policy dialogue with the Baltic countries in the areas of macroeconomic policies and key structural reforms, focusing on the best way to co-ordinate different types of policies, notably in terms of macro-structural links.

17. The regional assessment covers both macroeconomic and structural policies in the areas of banking, pension reform, labour and social policy, trade and foreign direct investment, enterprise reform and agriculture in Estonia, Latvia and Lithuania. The principal aim of this comparative study is to draw the lessons from a decade of Baltic transition, notably by highlighting the links between macroeconomic stabilisation policies and ongoing structural adjustment, as well as requisites for sustainable growth in the Baltic region.

18. After the April 2000 seminars, no follow-up of this activity has been planned. However, the findings of the study are relevant for many of the specific activities under the Programme and have been used in identifying priorities and objectives.

*B7.1.2 Macro-economic statistics*

19. The aim of this activity is to work with officials in the Baltic countries to develop their macro-economic statistics in areas that they view as priorities. The activity is complementary to those in the context of the EU accession: as EU candidates, the Baltic countries already have extensive programmes of technical co-operation with Eurostat, so it is vital that OECD maintain close contact with Eurostat to co-ordinate work programmes. At the suggestion of the Baltic national statistical offices, and in agreement with Eurostat, it has been agreed that OECD’s main focus should be on the development of quarterly national accounts - an area not yet covered by Eurostat in any depth. In addition to Eurostat, close links are maintained with other international agencies, notably the Statistics Department of the IMF, particularly with a view to reducing any duplication in the collection of metadata (methodological information).

20. National accounts is also an area where the OECD’s recently published *Regional Assessment* has identified a number of problems, notably:

- Measurement of inventories;

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5 These numbers correspond with the activity numbers in the CCNM’s 2000 programme of work [CCNM(2000)17].
- Inconsistency between stocks of assets and gross fixed capital formation, and poor investment data for the agricultural sector;

- Poor estimates for the imports and exports of services;

- Weak procedures for estimating agricultural production;

- Estimates at constant prices (the main problems being the deflators of services, allowance for productivity change and the deflation of agricultural production).

21. Below is a summary of the medium-term objectives of this activity, broken down into overall objectives and expected outcomes. The products of this activity, i.e. the planned publications and meetings, are also mentioned.

**Overall objectives**

- To help the Baltic national statistical offices to prioritise the development of their macro-economic statistics so that they meet the needs of policy makers.

- To accelerate the improvement in the quality of priority statistics - notably gross domestic product (GDP) broken down by category of final expenditure at current and constant prices.

- To facilitate compliance with the statistical requirements for EU membership.

**Envisaged outcomes**

- The national statistical offices will have a better understanding of the use of macro-economic statistics by policy makers in finance ministries, central banks and the business community.

- The national statistical offices will learn best practice in OECD countries for compiling national accounts statistics.

- More complete coverage of the national accounts (including non-observed activity) and more reliable estimates of GDP volume changes.

- The national statistical offices will be better equipped to meet the EU statistical acquis communautaire.

- The national statistical offices will be better able to provide reliable macro-economic statistics for the monitoring of their economic development by the OECD Secretariat and by other international organisations.

**Products**

- Publication of a report on the sources and methods for quarterly national accounts (QNA) focusing on the policy relevant components, in particular GDP by expenditure at current and constant prices.

- Annual workshops dealing with practical solutions to the problem of estimating QNA.
- Technical co-operation projects in specific areas, which will start in 2001, and will be conducted mainly via OECD staff or consultants visiting the Baltic countries and via the exchange of written material. This work will be aimed at improving the estimation of gross fixed capital formation (Latvia), improving estimates of government output (Lithuania) and developing the use of short-term indicators in QNA (Estonia).

- Workshops on specific issues raised by the Baltic national statistical offices -- a workshop on the compilation of price indices for use in the national accounts is planned for late 2000, and participation of Baltic national statistical office staff in OECD workshops on measuring the non-observed economy, and on agricultural accounting, will be funded.

- Regular publication of comparable economic statistics for monitoring short-term economic development.

### B7.1.3 Foreign direct investment statistics

22. Considering the significant role of foreign direct investment in the Baltic countries, OECD has begun to provide assistance for developing FDI statistics for all three countries. The quality of the statistics is, to a large extent, determined by the comprehensiveness, timeliness, reliability and international comparability of the data. The proper and timely measurement of FDI activity is crucial for the analytical needs of policy makers. FDI is also one of the main indicators for the analysis of global market trends. It is therefore indispensable to establish appropriate statistical systems for data collection and reporting and to train national statisticians to maintain these systems. It is equally important to train the officials to interpret the quantitative information and to provide analytical assessments.

23. Over the past decade or so, improving the statistical measurement of FDI has been given high priority by the network of OECD statistical experts. Within this framework, the OECD, under the auspices of its Working Party on Financial Statistics, has developed methodological recommendations for the statistical treatment of FDI flows and stocks. These recommendations are regularly revised to meet the analytical requirements and to ensure consistency with other national and international statistics. The OECD Benchmark Definition of Foreign Direct Investment (3rd edition) includes the most recent version of these guidelines.

24. The development of reliable FDI data collection systems, and the implementation of timely and comprehensive reporting methods based on international definitions and concepts, are the main objectives of this activity. As a first step, a workshop was organised in November 1999 for experts from the Baltic countries, as well as selected experts from the OECD area. In addition, a half-day training seminar on basic concepts was organised to complement the issues discussed at the workshop. Results of the discussions at both events allowed the Secretariat to provide the following medium-term objectives for the development of FDI statistics in the Baltic region. These are to be the joint results of efforts by the OECD and the EU:

- Improving the coverage of FDI flow and stock statistics (complemented by metadata) according to the concepts and definitions recommended by the OECD Benchmark Definition of Foreign Direct Investment, 3rd edition;

- Improvement of data collection and dissemination systems for FDI statistics in co-ordination with other national agencies;

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6 To provide the proper classification of FDI components according to recommendations; to implement the necessary steps for quality control; to achieve harmonisation with other national statistics, etc.
- Training of staff (i) to enable them to operate effectively as national compilers of FDI statistics; and (ii) to analyse FDI based on the quantitative information for regular briefings.

25. To achieve these objectives two complementary approaches are recommended:

- On-site assistance in individual countries (i.e. to national compilers);

- Presentations of conceptual issues and exchange of experiences through workshops and seminars.

B7.2.1 Integration of the Baltic countries into the multilateral trading system

Trade in services

26. In line with a Council decision (concerning specifically Lithuania) inviting the Trade Committee to develop its links and policy dialogue in this area, the Baltic countries will be more closely associated with the OECD’s work and discussions on trade policy issues. The Organisation will share its experience of the trade liberalisation process, including in the regional framework, and examine specific trade policy problems, such as those related to market access. This activity would be part of the ongoing work of the Trade Directorate on barriers to market access for goods and services, focusing in particular on the specific interests and concerns of non-Member economies.

27. The economic and business environment for trade in services in the Baltic countries will be examined, with the aim of identifying possible external and internal obstacles which inhibit the full exploitation of comparative advantages of the service sectors in these countries. The study will apply some methodological approaches developed by the OECD Secretariat in its work on market access and regulatory reform issues in OECD countries. In addition, the recent situation of services will be compared with the results of the previous studies on trade barriers in the Baltic countries undertaken for the OECD in 1994-1995 [see TD/TC/WP(95)36-38]. Thus, progress of the region in removing such obstacles could be measured.

28. Initially, the work will make an inventory of trade barriers in the Baltic countries as identified in previous OECD studies and of relevant OECD work on market access issues and regulatory reform. Existing business surveys and analysis of the service sectors and trade in services in the Baltic States will be reviewed. In the second stage, a business survey of the companies involved in trade in services and operating in the Baltic States (both domestic and foreign-owned) will be carried out, based on a questionnaire developed for this purpose. The results of the study will be discussed at a conference with the participation of Baltic trade officials and business representatives.

Medium-term objectives

29. The medium-term objective of this activity will be to assist the Baltic countries in identifying and removing obstacles to trade in services. By assessing the recent progress of the Baltic countries in eliminating remaining trade obstacles and in creating a business-friendly environment for trade in services, this work will be useful also for other countries, especially transition economies. This analysis and follow-

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7 E.g. enterprise surveys, international transactions reporting systems, complementary sources etc.
8 To establish or reinforce the co-operation between different agencies when data collection and processing are not the responsibility of the same agency; to establish links with agencies that can provide secondary source information, etc.
up discussions, also associating business representatives, will help the Baltic countries to foster the full exploitation of comparative advantages of their service sectors.

Agricultural trade and fisheries

- Agriculture

30. Agricultural trade reform is important to the Baltic States in view of the sector’s strategic economic importance. Each country is currently in the process of adapting its agricultural legislation to the acquis communautaire in anticipation of EU membership. At the same time, the process of WTO accession (complete in the case of Estonia and Latvia, but not Lithuania) has opened up a range of related policy pressures. These pressures further coincide with those deriving from the advent of a new round of trade negotiations under the auspices of the WTO.

31. OECD analysis complements work on the EU accession by examining the broader trade policy interests of the Baltic States in the context of their EU commitments. It also supplements such analysis by placing these concerns in the wider framework of the agricultural trade policy interests of transition economies, and topics that are likely to dominate the agricultural component of WTO negotiations.

32. The Secretariat has already undertaken a substantive analysis of the trade policy concerns of emerging and transition economies, focusing on how these countries would be affected by further agricultural trade liberalisation. So far this work has focused on the implications of possible reforms to the “three pillars” of the Uruguay Round Agreement on Agriculture (URAA); namely, domestic support, market access and export competition.

33. A key conclusion has been that the Baltic states, in common with most other transition economies, would gain from a more liberal agricultural trading environment, or, in some cases, in ensuring that a liberal trading environment is maintained, with resources allocated according to the pattern of comparative advantage. OECD will focus on achieving these potential gains in practice, however, requires a range of parallel reforms, including policy measures to assist with the process of structural adjustment.

34. The second thread of the Secretariat’s work focuses on issues not covered by the so-called three pillars of the URAA. These include technical barriers to trade (notably sanitary and phyto-sanitary regulations) as well as intellectual property rights (notably how international trade law can accommodate technological developments such as the adoption of GMO technology). Other issues of importance to the Baltic states include the implications of the shift to greater trade in processed products and the need to manage price variability and risks while conforming to international trade law. In this connection the impacts of trade policies in the Baltic countries on the dairy sector are of particular importance.

35. The Baltic states are committed to a set of regional and multilateral trading arrangements. The analysis would ensure that the interactions and implications of these various commitments are well understood and compatible.

- Fisheries

36. The work on Market Liberalisation is a key element in the Committee for Fisheries 2001-2002 Programme of Work. The primary objective of the study is to gather information on areas where further trade, investment and service liberalisation in fisheries may be feasible and to provide an in-depth analysis of the likely consequences on resources and trade of such liberalisation. No other institution has yet studied the linkages between further trade liberalisation and its effects on resources sustainability. Thus,
the information dissemination and analysis of the various linkages will be important contributions to a fisheries component in the next round of multilateral trade negotiations.

Medium-term policy objectives

37. The medium-term objectives for the work on agricultural trade and fisheries will be:

- To provide an improved understanding of how the agricultural trade policy interests of the Baltic States converge and diverge with those of other transition economies and their prospective partners in the European Union. From there, to assess how these concerns might be accommodated within a future WTO agreement.

- To help the Baltic States adapt their agricultural policies to a more liberal overall trading environment, ensuring that already liberal trading regimes are maintained or that more liberal policies are introduced, as appropriate.

- To undertake work for the fisheries sector, complementary to that on agricultural trade policy through a similar analysis for fisheries products. Through this, to contribute an important new aspect to the Market Liberalisation study with emphasis on the problems the Baltic fishing nations are facing.

- To the extent possible, to provide analysis that can also be drawn upon by other transition and emerging economies.

B7.3.1 Financial and capital markets

38. Public and private securities markets are taken up as two separate issues under this header. These activities are supplementary to the EU accession process.

Public debt management and government securities markets

39. This activity is aimed at the adoption of recommended best practices in a number of specific areas identified by policy makers from the Baltic countries in consultation with their counterparts from the Nordic countries and the OECD Secretariat. A programme of work has been agreed upon among Baltic and Nordic debt managers, including the decision to establish an annual OECD forum on Baltic-Nordic public debt management and government securities market operations. At this forum, views will be exchanged annually between debt managers from Baltic and Nordic countries on techniques, policies and on best practices in the area of public debt management and government securities market operations under the aegis of the OECD Working Party on Public Debt Management.

40. The medium-term policy objectives are to:

- implement best practices for the creation of more efficient primary markets (to emphasise: 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);
− implement best practices for more efficient secondary government securities markets (to emphasise: 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.

Private securities markets development in the Baltic region

41. This activity will deal with the following policy issues: (1) institutional structures applied to capital markets; (2) operations of securities markets; (3) the role and responsibilities of issuers of securities; (4) capital market legislation. The medium-term programme will be focused on the preparation of a report on best practices and policy principles for capital market development, taking into account the work in other fora. A Working Group on Securities Market Development in the Baltic region will be established to guide the drafting of the report, which will cover in particular: Securities market legislation; the relevant international standards and best practices; the institutional and administrative requirements (and attendant resource implications) for implementing capital market regulations.

B7.3.2 Insurance and pension reform

Summary of activities

42. Pension reform is among the most urgent policy issues in the Baltic countries. Meanwhile, insurance (life in particular) penetration, although gradually increasing, remains low. Delays in undertaking pension reform, among other factors, have constrained the expansion of the insurance sector. The implementation of the activity on insurance and private pensions within the framework of the Baltic Regional Programme is at an early stage. Since the launching of the Baltic programme in March 1998, three OECD experts missions to the Baltic countries have taken place, allowing high-level dialogue on the insurance market and regulation, and to the provision of technical assistance on country-specific requests.

43. Furthermore, a workshop on insurance reform in the Baltic countries was held, in Vilnius on 22 and 23 November 1999, at which key policy issues in insurance market reform were discussed on this occasion [DAFFE/AS/WD(99)21]. The second workshop on insurance will be organised in Riga, in mid-December 2000. Financial convergence and health insurance are among the issues to be examined. A Roundtable on insurance and pension in Baltic countries will be organised in the second half of 2001, devoted in particular to issues of investment policies of insurance companies and pension funds.

44. Private pension related activities were launched with the workshop on pension reform in the Baltic countries, held on 6-7 April 2000 in Prague. The second workshop on private pensions in Baltic countries will be organised in Sofia, Bulgaria, in April 2001. Main focus will be on implementation issues. An expert mission on pension reform in the three Baltic capitals will also be organised in 2001.

45. Other forms of co-operation between the Baltic countries and the OECD in the insurance and private pension area are being developed, for example the creation of a discussion group on insurance and private pension issues, which will be opened to Baltic representatives, and the granting of privileged access to the OECD insurance and private pension Web-sites, including papers and a comprehensive database on regulation, supervision and statistics.
46. In the insurance area, the *OECD Insurance guidelines for economies in transition* and the *OECD Recommendation of the Council on assessment of reinsurance companies* are used as benchmarks of the reform process. The insurance guideline n°16 was, for instance, the basis for a discussion on the relevance of compulsory insurance, a key topic of the November 1999 seminar on insurance. All OECD representatives took a clear stand in favour of the introduction of compulsory motor insurance in Lithuania.

47. Regarding private pensions, the *OECD Basic principles for regulation of private pensions*, will also be promoted in Baltic countries as best practices to assist them in the design of and adequate regulatory and supervisory framework for private pensions, and in the establishment of balanced three-pillar systems in order to ensure higher income replacement, adequate protection of the rights of retirees and the financial security of funded schemes. The *Principles for the regulation of investments by insurance companies and pension funds* are proposed as guidelines for investment regulation, a key issue in the narrow capital markets of the Baltic region.

*Medium-term objectives*

48. In the medium term, the main goals of the BRP for insurance and private pensions, will be:

- to assist Baltic countries in filling regulatory gaps in key areas:
  - implementation decrees of private pension legislation, establishment of appropriate supervisory framework,
  - private health insurance,
  - insurance intermediation, (distribution of insurance products, supervision of intermediaries),
  - accounting rules for insurance and pensions,
  - supervision of financial conglomerates,
  - compulsory insurance.

- to provide much needed improvement in other fields, and in particular:
  - to extend private pension coverage and increase the financial security of private pension schemes;
  - to improve the investment regulation of insurance companies and pension schemes;
  - to manage the reform of supervisory structures,
  - to develop appropriate regulation regarding the management of insolvency,
  - to increase the financial security of reinsurance treaties,
  - to promote the development of life insurance markets.
– to integrate Baltic countries into an international network of insurance and pension experts (and the related electronic discussion group), as well as into the insurance and private pension database.

**Supplementarity and complementarity with the EU accession process**

49. The negotiations on EU accession are leading to an incorporation of EU rules into the Baltic countries’ national laws. This mainly concerns the harmonisation of their legislative bases with the EU Directives aimed at providing free movement of financial services and capital, which will strengthen the protection of investors/depositors’ rights, as well as promote the stability of the financial system. In all Baltic countries, much effort has been made to bring the legislative bases into conformity with the EU rules on financial services (including insurance regulation and supervision, accounting etc.) and on capital movements. Yet in some areas further improvement is called for (e.g. the elaboration of legislation regarding the freedom to establish branches and provide services for foreign insurance companies in Latvia, the abolition of restrictions on investment by private pension funds in EU countries).

50. The activities on insurance and private pensions under the Baltic Regional Programme complement EU activities in various respects. Mainly, they allow for policy dialogue with experts from the leading countries in the areas of insurance (the OECD represents 95 per cent of the world insurance market) and pension, whereas the EU focuses more on training. Also, they provide for more in-depth comparative analysis, on a larger number of countries and systems. A good illustration of the latter was the mission organised in Estonia in November 1998 on the reform of insurance companies’ solvency margins. At the request of the Estonian insurance supervisory authority, a European supervisor and a US expert on the new US solvency system presented advantages and drawbacks of their systems, and lessons to be drawn from both experiences for Estonia.

51. The Baltic Regional Programme also tackles several issues that have not been so far covered by EU legislation. The most obvious example is the area of private pensions, where no EU directive has been issued so far. In this respect, the OECD offers two sets of principles that have been agreed by all Member countries: one on regulation and supervision of private pensions, and the other on the investment of pension funds.

52. For other major areas, and particularly contract law, intermediation, private health insurance, several aspects related to mandatory insurance and insurance companies investment, the OECD assistance is particularly welcome because the EU does not provide guidelines in these areas.

53. Reinsurance is also a field that is not fully covered by EU legislation and where the OECD has provided substantial assistance to the Baltic countries. The dissemination of the Council recommendation reviewing all information to be collected by insurance companies from their reinsurer was appraised as a very useful initiative.

54. Therefore, the accession objectives of the Baltic countries vis-à-vis the European Union in financial services and capital movement confirm the relevance of the advice provided by the OECD in the insurance and private pension areas.

**OECD instruments**

55. Main instruments:

– OECD Insurance Guidelines For Economies in Transition, OECD, 1997;

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56. Other relevant guidelines:

- Selected principles for the regulation of investments by insurance companies and pension funds;
- Basic principles for the regulation of private pensions [DAFFE/AS/PEN/WD(99)18].

B7.3.3 Foreign direct investment

57. Foreign investment has played an important role in privatisation and corporate restructuring in the Baltic countries. Assisting the Baltic States in developing a policy framework for foreign direct investment responsive to the challenges of a market economy has been a major element of the OECD work programme in the Baltic region. Between 1996 and 1998, Investment Guides were published for the three countries.

58. The three Baltic states have incorporated many of the basic OECD norms for FDI into their legislation. A self-assessment by each of these countries of their FDI-related regulations, carried out in the context of the MAI negotiations, showed that the number of restrictions on FDI is limited. Privatisation is either almost completed or advancing well. The remaining problems pertain to the implementation of the reforms and their resolution will take time.

59. The current policy focus in these countries lies with the adaptation to the acquis communautaire in anticipation of EU membership. The European Commission is providing the necessary policy and technical advice. It would be duplicative for the OECD to engage in a similar activity.

60. As the EU accession progresses, however, there will be pressure to integrate the Baltic states into regular OECD work. The Baltic countries are already observers in the discussions on issues relating to international investment at the Committee on International Investment and Multinational Enterprises (CIME). Much of the CIME’s work is related to the OECD’s investment instruments, in particular the Declaration on International Investment and Multinational Enterprises and related Council decisions, as well as the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Important elements of the former are the National Treatment Instrument (a voluntary, i.e. not legally binding, commitment by the signatory parties, stipulating that foreign-owned enterprises should be accorded equal treatment, in like circumstances, with domestic enterprises) and the Guidelines for Multinational Enterprises, a code of conduct for MNEs which was recently revised to ensure its continued relevance in today’s circumstances.

61. The CIME has discussed its relations with non-Members and presented proposals to associate a wider range of countries to the CIME activities, if they are able and willing to apply the standards of the OECD’s investment instruments. Estonia, Latvia and Lithuania have confirmed their willingness to adhere to the Declaration. Adherence would be conditional on the outcome of a prior examination by the CIME of these countries’ policies and regulations on foreign direct investment.

62. Adherence to the Declaration and related decisions could indeed provide an appropriate framework of co-operation with the Baltic states over the medium-term. It would draw on the very useful work carried out so far under the Baltic Regional Programme. It would also establish a frame of reference
against which the three Baltic states could be monitored and examined in the future. Therefore, this possibility can be considered as a medium-term objective for the Programme.

63. The Baltic states are already being included in the OECD’s anti-bribery efforts through a Baltic Integrity Programme, currently in preparation. They have also engaged in a dialogue with the CIME Working Group on Bribery in International Business Transactions to determine ways to associate themselves further with the objectives of the OECD’s anti-bribery instruments.

64. It is recalled that the Convention itself is open to participation by countries that are admitted as full participants in the OECD Working Group on Bribery and that meet the criteria for accession. In particular, they will have to enact legislation that implements the obligations of the Convention in national law and take part in all the activities of the Working Group, including the process of self and mutual evaluations to assess implementation of the Convention and the Recommendations. It is envisaged that a non-Member will generally be accorded full participation in the Working Group on Bribery after a period of active participation as observer.

65. Against this background, the medium-term objectives for the programme would be:

- Removal of bottlenecks in the implementation of FDI-related laws and regulations;
- Adherence to the Declaration on International Investment and Multinational Enterprises; this would require a detailed examination of each of the countries’ policies;
- Adherence to the OECD Guidelines for Multinational Enterprises, with the completion of the necessary internal procedures, including the creation of a National Contact Point;
- Closer association with the OECD’s efforts to combat bribery through the Baltic Integrity Programme;
- Active participation in CIME activities with non-Members.

B7.4.1 Taxation

66. The regional tax programme for the three Baltic countries preceded the establishment of the Baltic Regional Programme. It was launched in December 1995 as a joint initiative of the OECD and Scandinavian countries. The first programme module ran for three years. It was designed to help the Baltic countries move towards self-sufficiency in tax system development by building upon the achievements of the multilateral tax centre programme and bilateral tax assistance programmes.

67. Phase two of the programme began in 1999, focusing on tax policy reform, particularly in international tax and related domestic tax issues. One of the principal challenges for the three countries is to counter the danger of major revenue losses through cross-border tax evasion and tax avoidance schemes. Furthermore, the Baltic countries are feeling the pressure from the international problem of harmful tax competition, and tax policy assistance is needed to help these countries find appropriate alternatives for engaging in harmful tax practices.

68. Assistance is concentrated in four areas: (1) counteracting international tax avoidance; (2) extending policy dialogue on core topics of the CFA; (3) development of property tax systems; and (4) improving the efficiency of tax administration.
69. This year, the OECD will be aiming at associating the Baltic countries more closely with the work of the OECD’s Committee on Fiscal Affairs and the standards it has developed. It will do so by offering tax policy workshops on tax competition, anti-avoidance rules and OECD model transfer pricing rules. In addition, the OECD organised a Baltic seminar on *Foreign direct investment and taxation* in May 2000.

70. This activity is supplementary to the work in the context of the EU accession process: the EU concentrates on indirect tax issues, whereas the OECD’s programme focuses on direct and international tax issues.

**Medium-term objectives**

71. The medium-term objectives for the programme are:

− Reduction of international tax conflicts through improved application of tax treaties based on OECD model tax guidelines.

− Successful implementation of transfer pricing guidelines based on OECD transfer pricing guidelines.

− Improvement in the quality and timeliness of exchange of information between the Baltic countries and Member countries.

− Independent expert reviews of draft laws by Secretariat and Member country experts.

− Association with the recommendations of the Forum on Harmful Tax Competition.

− Successful implementation of a market-value tax on land and improvement to valuation rules in the property tax system.

− Association with the CFA work on taxation and electronic commerce.

**B7.4.2 Competition policy**

72. The three Baltic countries have participated in annual OECD competition policy seminars at the Joint Vienna Institute since the early 1990s. The OECD held a seminar on competition policy in Tallinn as part of the Baltic Rim Economic Forum in June 1997. The current programme’s design and implementation reflect both this OECD experience, including continuing contacts with Baltic competition officials, and also certain information from OECD Member countries and the EC.

73. Based on informal expressions of interest by some Baltic competition officials in observership in the Committee on Competition Law and Policy (CLP), this programme was specifically designed to combine elements of the CLP’s policy dialogue, evaluation, and peer review with capacity-building activities targeting topics identified by the evaluation process. Thus, the programme is oriented on a regular process of mutually beneficial policy dialogue and of training in core skills.

74. To develop initial recommendations and identify areas for further work, the first year of the programme admitted the competition authorities of each country to a modified form of the Secretariat evaluation process that the CLP uses in its “regulatory review” examination of Members’ competition law
and policy regimes. Those reviews, and a summary of the meetings and training sessions based on them, are described in the Baltic Regional Programme’s annual report and set forth in *Competition law and policy in the Baltic region* (OECD, 1999). The Secretariat and the three competition authorities decided for the next 2-3 years to focus on one or two specific topics per year.

**Medium-term objectives**

- **Applicable OECD standards**

75. The primary medium-term objective of the programme is to assist the Baltic competition authorities in implementing enforcement and advocacy activities in a manner that reaches or approximates international “best practice” standards as reflected in OECD instruments and other documents, including:

   - OECD Recommendations of 1995 (on International Co-operation) and 1998 (on Effective Action against Hard Core Cartels);
   - OECD regulatory reform reports on the role of competition authorities and reviews of the operations of OECD Member countries;
   - CLP consensus on best practice -- reflected most fully in *Areas of convergence in competition policy and law* (1994) and more recently in other documents.

76. To achieve this objective, the programme will for the next 2-3 years combine policy dialogue and training that applies the applicable OECD standards to one or two specific topics per year selected on the basis of discussions with the Baltic competition authorities. A second medium-term objective is to improve competition law and policy implementation in Russia’s Baltic territories and improve international co-operation in the area by including Russian competition officials in the programme’s policy dialogue and training.

- **Specific competition policy topics**

77. For 2000, the programme’s objectives are to:

   - Increase effectiveness of competition law enforcement through application of OECD best practice standards applicable to investigation, analysis, and remedial action in cases involving hard core cartels and cases involving abuse of dominance.

78. For 2001-2003, the programme’s objectives are to improve competition law and policy implementation in the Baltics by bringing OECD best practice standards to bear on other specific topics. Future topics have not yet been selected, but are likely to include:

   - Effective unilateral and co-operative action against **hard-core cartels**.
   - Efficient collection and accurate analysis of evidence to define markets and assess market power.
   - Increased enforcement effectiveness through **international co-operation**.
Improved government, business, and public awareness of competition issues through OECD-encouraged forms of “competition advocacy,” publishing and publicising agency decisions and guidelines, and meeting with stakeholders to explain competition law and policy.

Complementarity with the EU accession

79. Like CLP meetings, the programme provides opportunities for representatives from the EC, EU Member States, and EU accession candidates to engage in policy dialogue among themselves and with others on all competition policy topics. Some of those topics are not covered by the acquis (e.g., international enforcement co-operation). Other topics may be “covered” by the acquis, but, as in CLP meetings, policy dialogue focuses not on rules as such, but on underlying policy issues and economic analysis that are not a part of the acquis. Similarly, the programme’s capacity-building aspects focus on economic principles, investigative techniques, and enforcement policies that underlie but are not part of the acquis. The OECD programme does not include EU specific topics, such as state aids. Also, the EC does not provide a forum for OECD-style policy dialogue, although it will begin a capacity-building programme this year. The Secretariat and the EC are exploring co-ordination and co-operation possibilities in this area.

B7.4.3 Traineeships for Baltic officials at the OECD

80. Three to six-month trainee assignments at the OECD Secretariat are organised for a number of officials from Estonia, Latvia and Lithuania. These trainees are working on selected activities of the Baltic Regional Programme in various OECD Directorates. In 1999, an Estonian official was assigned for six months to activities on corporate governance and foreign direct investment. In 1999-2000, a Latvian official was on a six-month assignment on insurance and pension reform. Recently, a Lithuanian official was assigned to activities in the field of education policy for three months. Currently, another Lithuanian official is assigned to a three-month traineeship, working on trade issues.

81. The objective of this activity is to familiarise a small number of officials from the Baltic countries with the operations of the OECD and, through them, to raise the awareness of the OECD’s modus operandi among Baltic officials. Over a four-year period, at least two six-month, or four three-month, traineeships will be granted to each of the three countries.

B7.6.1 Labour market and social policy

82. A review of labour market and social policy in the Baltic countries will be launched, analysing these policies in a context of international comparison. The purpose is to provide advice to the Baltic governments and to present information of interest to OECD governments and to the international research community. There is a possibility of holding an ad hoc review meeting by the Committee on Employment, Labour and Social Affairs in the first half of 2001.

83. This activity is expected to be started in the final quarter of 2000. More detailed objectives will be formulated after an orientation mission and will be submitted to the Committee in an addendum to this note.
B7.6.2 Education policy

General

84. The three education policy reviews are deemed important by the authorities of each country on national, regional and international levels. National because the reviews address specific domestic policy issues which vary widely between the countries. Regional, as they offer recommendations on issues that are common to all three. And international, as they offer an overview of the system to the international community, address issues that are of concern to all countries and allow the three countries to gauge their systems vis-à-vis OECD countries.

85. The site visits and preliminary discussion on the draft reports have led to reinforcing policy initiatives and in some cases initiating policy. However, many of these are contingent on reforms in other sectors. The individual national reports and recommendations highlight these and will assist the governments in setting medium term goals:

- Public administration reform to reduce the number of administrative units for an effective regional structure for delivery of services to local schools.

- Optimisation in the areas of student teacher ratio, an increase of the percentage of graduates among pre-service graduates entering the profession, evidenced by a decrease in the average age of teachers and increases in the percentage of teachers participating in in-service training.

- Implementation of new, more efficient and equitable financing policies that provide institutions with incentives to respond to developing elements of the economy. Funding policies and raising teacher salaries to the average median wage, and commitment to a minimum percentage of GDP for education, are linked to overall fiscal reform and economic growth.

- Increasing the number of multi-profile schools offering general and vocational education options more closely linked to labour market needs.

- Measurable horizontal relationships between the non-university tertiary sector and social partners (e.g. increased evidence of apprenticeships) and with the developing economy (e.g. numbers of new programmes related to labour market needs).

- Higher education links with the national economy can be enhanced by indicators of the percentage of research output dedicated to emerging sectors versus traditional ones and student majors related to these same areas.

- Policies to increase the percentage of adults in tertiary education as a measure of lifelong learning.

86. Following the review meeting in June 2000, which ended the first phase of the activity with discussions on specific policy issues, a series of events has been launched. The review meeting provided not only an opportunity for the three Baltic countries to share views and concerns with OECD partners, but also an occasion for them to cover regional issues. The first follow-up activity was a presentation of the review and discussion at the annual meeting of Latvian educators on 10-11 August 2000. A seminar for Lithuanian parliamentarians is planned for 2001. A meeting on Estonia will be held in 2002.
EU accession

87. All three reviews can be described as both supplementary and complementary to the issue of EU accession. The acquis communautaire has largely been accomplished for the education sector per se, but close co-operation with EU agencies during the review process has ensured that recommendations reinforce EU policy objectives. On issues such as regionalisation of management and finance responsibilities and student mobility, the reports offer recommendations that are complementary to accession requirements.

Participation in other OECD initiatives

88. Although there are no OECD instruments in the field of education, there are programmes that all OECD Member states adhere to such as indicators and statistics. One example is the Programme for International Student Assessment (PISA) which has been established collaboratively by OECD countries. Latvia already participates in PISA and Lithuanian and Estonian participation is a medium-term objective of both countries. The purpose of PISA is to monitor a broad range of curricular and cross-curricular learning outcomes on a regular basis and within an international comparative framework. While the assessment of reading literacy, mathematics and science is a core component of each PISA survey cycle, the most important features of PISA reside in a conceptual framework that aims to assess the extent to which education systems are preparing young people to play constructive roles as citizens in society and the economy.

89. PISA provides a new basis for policy dialogue and collaboration in defining and operationalising educational goals – in innovative ways that reflect judgements about the kind of skills that are relevant to adult life. It offers:

- an opportunity to identify and assess gaps in national curricula;
- inputs for benchmarking, standard-setting and evaluation;
- insights into the mix of factors which contribute to the development of knowledge and skills and how these factors operate similarly or differently among the countries; and
- a better understanding of the causes and consequences of observed skill gaps.

B7.8.1 Baltic Forum on Entrepreneurship and Enterprise Development (FEED)

Guidelines and recommendations

90. The Baltic Forum for Entrepreneurship and Enterprise Development (Baltic FEED) has been founded to improve the business environment for small and medium-sized enterprises (SMEs). As part of the OECD Baltic Regional Programme, it has a specific responsibility for recommending and overseeing the implementation of the Baltic FEED Policy Guidelines and Recommendations for the development of enterprise and entrepreneurship in the SME sector of industry in the three Baltic countries and the Russian regions of Kaliningrad and St. Petersburg.

91. Planning and co-ordination of the programme activities is undertaken by a Steering Group, which held its first meeting in Jönköping, Sweden on 17 January 2000 with participation from Denmark, Finland, Norway, Poland, Sweden, Estonia, Latvia and Lithuania. At this meeting, the Steering Group discussed and approved the final version of the Policy Guidelines and Recommendations, produced by the OECD
Secretariat on the basis of the Group’s on-going work. It also agreed that future work of the Baltic FEED should focus on monitoring progress and implementation and may result in the production of further guidelines to reflect emerging themes and issues of concern to the participants.

92. The Guidelines contain 57 specific recommendations under six general headings:

- **Institutional framework**: (i) Institutionalisation of enterprise policy and SME representation, (ii) Regulatory framework and the informal economy, (iii) Tax policy for SMEs.

- **Support services and financial instruments**: (iv) Financial instruments for start-ups and SMEs, (v) Advisory services for SMEs, (vi) Regional and local enterprise promotion.

93. These six issues are described in greater detail in section 4.3 of the 1998/1999 annual report on the Baltic Regional Programme. The Guidelines were launched at a meeting in Tallinn on 30 March 2000, chaired by the Estonian Minister of Economic Affairs.

**Medium-term objective**

94. The medium-term objective for the Baltic FEED is to ensure that the Policy Guidelines and Recommendations are adopted as policy at government level, and implemented at ground level in the form of concrete, sustainable measures which contribute to the development of entrepreneurship and enterprise in the region.

**Evaluation system**

95. To measure performance against this FEED objective, the Secretariat has developed a draft evaluation system, based on that used to measure progress in the implementation of *Implementing the OECD Jobs Strategy - Assessing Performance and Policy*, published in 1999. It has considered that performance measures must be quantifiable, measurable and acceptable to the Baltic states, which will have to collect the data and confirm or deny implementation. The system is based on a grid structure, used to measure progress in implementing the key recommendations. Progress is judged to be from positive to negative using five categories. To focus more clearly on the specific recommendations, the 57 recommendations were reduced to 26 action points, whose implementation can be judged in terms of whether the specific situation has improved or deteriorated. The judgements contain a qualitative as well as quantitative aspect.

96. The FEED evaluation process, which may be adapted as appropriate, provides a means of evaluating the implementation phase of the Baltic FEED project over the next two to three years. In response to demand from the participants, detailed country assessments of SME policy will be undertaken to provide baselines for the evaluation process.

97. A bilateral evaluation meeting will be held with each country every year, and the implementation process will be reviewed each year by the Steering Group.

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9 For the list of action points, see CCNM/BALT(2000)1/ANN1.
EU accession

98. On the European Commission’s recommendation, both Latvia and Lithuania started the EU membership negotiation process with several chapters of EU legislation, including that on small and medium-sized enterprises, in March 2000. As the only Baltic country in the former “first group” of accession countries, Estonia completed this chapter in 1998.

99. The European Commission has initiated a Third Multiannual Programme for Small and Medium-sized Enterprises in the European Union (1997-2000). This programme aims to maximise the full potential of European SMEs for employment, growth and competitiveness. At present, Estonia and Lithuania are participants in this programme, while Latvia is expected to join soon.

100. The EU Phare Small and Medium-sized Enterprise Programme has dealt specifically with SMEs in the Baltic countries (mainly in developing financial and advisory services). It has provided financial, training and technical assistance to help initiate specific projects, such as incubators or advisory service centres.

101. The Baltic FEED focuses on multilateral policy dialogue and exchange of experience, which will strengthen the overall capacity of the Baltic states in creating an environment conducive to entrepreneurship. This will help them in the EU accession process. This cross-fertilisation is also reflected in the long-standing participation of the European Commission in the Baltic FEED process. The EU has participated in all meetings, represented by the EC’s Enterprise Directorate General.