Baltic Regional Programme

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Website: http://www.oecd.org/sge/ccnm/about/baltic.htm
FOREWORD

1. The year 2000 marked the second operational year of the Baltic Regional Programme, implemented under the co-ordination of the OECD’s Centre for Co-operation with Non-Members. Whereas its first year constituted the Programme’s start-up phase, its second one was characterised by the release of its first products in the form of publications and the creation of platforms for policy dialogue in a number of fields.

2. The most comprehensive work published in 2000 was *The Baltic States - A Regional Economic Assessment*, a study which has met with widespread acclaim, both in the Baltic countries themselves and elsewhere. Other important reviews issued in the reporting year were those on competition law and policy, on education policy and on foreign direct investment. Policy dialogue has been pursued in a wide range of other areas covering *i.a.* taxation, capital markets, insurance and pension reform, entrepreneurship and enterprise development, trade and agricultural policies. Furthermore, assistance is being provided in the field of statistics, particularly for the improvement of the Baltic countries’ quarterly national accounts.

3. In 2000, medium-term objectives were established for each of the activities under the Programme. Although the objectives are voluntary, they will strengthen the commitment by the Baltic countries, the OECD Members and the Secretariat to pursue the Programme and to achieve its goals. A leading principle in designing the objectives has been to help the Baltic countries in emulating the OECD’s standards and legal instruments, in a number of cases implying formal adherence.

4. Negotiations on accession to the European Union have been opened with all three Baltic countries. The OECD’s Programme supports the reform process in the Baltic countries in a way that complements or supplements the activities the Baltic countries undertake to achieve the EU’s *acquis communautaire*. Furthermore, the OECD’s programme differs in nature from the EU accession programme in the sense that our work is demand-driven, whereas the EU’s programme is driven by the demands of accession, in particular the adoption of EU regulation.

5. The CCNM is grateful for the considerable intellectual, moral and financial support received for this programme from the Baltic countries, OECD Member countries, the European Commission and other international organisations. This support has been of vital importance for securing its past achievements and will continue to be essential for achieving its medium-term objectives.

6. This report is published on the responsibility of the Secretary-General of the OECD. It does not necessarily represent the opinion of the governments of OECD Members or any other countries.

Eric Burgeat
Director
Centre for Co-operation with Non-Members
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I. PROGRAMME OVERVIEW

1. ORIGINS OF THE BALTIC REGIONAL PROGRAMME

1.1 The Centre for Co-operation with Non-Members (CCNM)

7. The OECD assists its 30 Member countries in achieving high sustainable economic growth by providing multilateral surveillance as well as a forum for discussion and peer review of macroeconomic and structural policies. Given the increasing economic interdependence between Members and non-Members, the Organisation has developed its co-operation with non-Member economies, creating platforms for policy dialogue with various groups of non-OECD Members.

8. To manage this policy dialogue with non-Members, the OECD has established a Centre for Co-operation with Non-Members (CCNM). The CCNM has incorporated the former Centre for Co-operation with Economies in Transition (CCET). Its work programme includes country programmes for Russia, China and Brazil, as well as regional programmes in Asia, South America, South-Eastern Europe and the Baltic countries. As of 2001, these regional and country programmes have been supplemented with a substantial thematic programme in the form of eight “Global Forums”, covering sustainable development, governance, the knowledge economy, international investment, trade, taxation, agriculture and competition.

1.2 The Baltic Regional Programme

9. Before 1998, the CCET co-operated with Estonia, Latvia and Lithuania in the context of its general work with the transition countries in Central and Eastern Europe. On 22 October 1996, the Governments of Lithuania, Estonia, Latvia issued a joint declaration, appealing to the Council of the OECD to examine the possibility of establishing a Special Regional Programme for these three Baltic states. This declaration also contained a statement of the States’ intention to become members of the OECD (although the governments did not formally apply for membership). The OECD Council established the Baltic Regional Programme at its meeting on 12 March 1998 and the programme became fully operational as of October 1998.

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

1. to assist the Baltic countries in the completion of their transition to market economies;

2. to promote the stable integration of the Baltic region into the global economy;

3. 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.
11. Since its inception, the Programme has enjoyed the active support of the three Baltic governments. This commitment has been reaffirmed and elaborated in strategy papers by each of the governments, which were presented at the first and second annual evaluation meetings of the Baltic Regional Programme, held in April 1999 and May 2000. These papers are available on the Internet, at http://www.oecd.org/sge/ccnm/about/baltic.htm.

12. All activities under the Programme are open to participation by any OECD Member country and the European Commission. Other relevant international organisations can be invited to participate in individual activities; indeed, there have been exchanges between OECD experts and organisations like the WTO, Eurostat, the International Monetary Fund, the World Bank, the International Labour Organisation, the Council of Baltic Sea States, the European Bank for Reconstruction and Development and the European Central Bank. Furthermore, the activities of the Baltic Regional Programme cover all three Baltic countries, Estonia, Latvia and Lithuania, all of which do indeed participate actively in all activities. These countries use the programme to reform their national legislations and administrations. The Baltic Regional Programme offers an important platform to the Baltic countries to share and exchange experience with the OECD Member countries and one another.

13. In some activities there has been participation by a few North-western Russian regions. Thus, Kaliningrad, Karelia, Novgorod and Saint Petersburg have been invited to participate in the Baltic Forum for Entrepreneurship and Enterprise Development (FEED). Karelia, Kaliningrad and Saint Petersburg are participating in the activities on competition policy (see section IV, 6).

2. MAIN ACHIEVEMENTS OVER 1999 AND 2000

14. In its second operational year, the Baltic Regional Programme generated its first tangible products. The most conspicuous of these was the Regional economic assessment of the Baltic states, published in February 2000 (an extensive summary is presented in chapter III). This macroeconomic and structural survey of the three states has been welcomed in each of the countries as one of the best of its kind and as a study of lasting value.

15. The first publication produced under the Programme was an evaluation of Competition law and policy in the Baltic region (OECD Publications, 1999), which included policy recommendations. Subsequent work in the field of competition policy has been focused on law enforcement against hard-core cartels and abuse of dominance.

16. The year 2000 also saw the completion of comprehensive Reviews of national policies for education for each of the Baltic countries, which were discussed at a special session of the OECD’s Education Committee in Helsinki, in June. Publication is envisaged in the first half of 2001. A follow-up seminar in Riga attracted broad attention from Latvian education experts and government officials, as well as from the media.

17. The Guidelines and recommendations on entrepreneurship and enterprise development in the Baltic region were agreed and published in the early months of 2000. The 57 specific recommendations relate to enterprise development policy, small-business regulation, financial instruments, business advisory services and related issues. A start has been made with the examination of the three countries’ measures and practices in the field covered by these guidelines, with the aim of embedding the “best practices” the guidelines represent in their governments’ policies.

18. Two platforms were established to foster policy dialogue with the Baltic countries on capital market reform: the Annual Forum of government debt managers from Baltic and Nordic countries, and a
working group on private securities markets. Their objective is to promote the adoption of best practices in accordance with international standards. A policy dialogue with the Baltic countries on insurance and pension reform has also been launched, also with a view of fostering the adoption of internationally recognised standards and best practices, including those embodied in OECD recommendations and guidelines. The Baltic countries have been integrated into the International Network of Pension Regulators and Supervisors, established in Prague in April 2000.

19. Reviews of foreign direct investment (FDI) policies of the three countries were prepared for, and discussed, at two seminars, one focused on private sector development, the other on fiscal incentives and competition for FDI. Policy reviews of Latvia and Lithuania have been published as working papers, pending the completion of more definite reviews of the three countries in the context of their adherence to the OECD Declaration on International Investment and Multinational Enterprises, in the course of 2001.

20. In the field of agricultural policy, the OECD’s producer and consumer support estimates (PSEs/CSEs) for each of the Baltic countries have generated considerable interest, as has the comprehensive agricultural database for these countries.

21. The series of workshops on taxation has been continued in 2000; it has been aimed at assisting the Baltic countries in countering international tax evasion and avoidance and has involved the countries in the fight against harmful tax practices. Ultimately, this work will result in closer association of the countries with the OECD’s tax-related instruments, such as model tax treaties and transfer pricing guidelines, as well as with the OECD’s work on taxation and electronic commerce.

22. The OECD has established co-operation with Eurostat (the European Commission’s statistical agency), with a view to assisting the Baltic countries in developing their quarterly national accounts (QNAs). Workshops have been organised and technical assistance has been provided on a number of selected issues.

3. A LOOK INTO THE NEAR FUTURE

23. Future work under the Baltic Regional Programme will be guided by the medium-term objectives which have been established for each of the various activities. With these objectives, the Baltic countries are encouraged to associate themselves with many of the OECD’s standards, represented by the Organisation’s recommendations, guidelines, declarations and other instruments.

24. New work will be launched in the field of trade in services and agricultural goods, aimed at identifying technical, legal and other obstacles. Another new activity, for which funding is presently sought, will be a “Baltic Integrity Plan”, to be undertaken together with the Council of Baltic Sea States as part of the fight against corruption.

25. The year 2001 will see the publication of the three Reviews of national policies for education. A new and major activity, started at the end of 2000, is the review of labour market and social policies, completion of which is foreseen by the end of 2001.

26. It is expected that Estonia, Latvia and Lithuania will adhere to the Declaration on International Investment and Multinational Enterprises. This Declaration by OECD Governments is open to accession by non-Members and the OECD Council has invited the Baltic countries, as well as a number of others, to adhere. The adherence will include an examination of the countries’ policies on foreign direct investment, the results of which will be published.
27. The examinations of the Baltic countries’ performance against the Guidelines and recommendations on entrepreneurship and enterprise development will be completed in 2001. The results will be published under the title Promoting enterprise development in Latvia (Lithuania, Estonia). Furthermore, draft policy guidelines on government policy to support venture capital will be prepared and published.

28. The OECD will be an international organisational partner for the Baltic Sea Region E-business Forum, to be held in September 2001, in Riga.

29. The work of the Forum of government debt managers and the working group on private securities markets will be continued. There will also be a round-table to discuss regulatory issues on insurance and pension fund management.

30. The series of workshops on taxation, originally planned for the period 1999-2001, is expected to be continued beyond 2001. In the field of competition policy, the emphasis in 2001 will be on merger control.

31. In early 2001, a description of QNA Sources and Methods in the Baltic Countries was published. In July 2001, a one-week seminar will take place on a number of aspects of QNA compilation, such as estimation of gross fixed capital formation, quarterly estimation of non-observed activity, and assumptions about input-output relationships. A joint workshop with Eurostat on seasonal adjustment is planned for late 2001. Technical consultancy projects will also continue during 2001, on country-specific priority subjects.
II. PROMOTING THE BALTIC COUNTRIES’ INTEGRATION INTO THE GLOBAL ECONOMY

1. MEDIUM-TERM OBJECTIVES OF THE BALTIC REGIONAL PROGRAMME

32. The CCNM’s Baltic Regional Programme (BRP) was established on 12 March 1998 and became operational in October of that year. Since its inception, it has engendered an intensive co-operation between the OECD and Lithuania, Latvia and Estonia and, for some activities, a number of contiguous Russian regions.

33. 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. To bolster this evaluation process, medium-term objectives for the programme have been formulated among the donor countries, the Baltic countries and the OECD Secretariat. As a rule of thumb, “medium term” is to be read as a three-year period.

34. The objectives should be seen as voluntary commitments or benchmarks agreed among the OECD and the Baltic countries, i.e. not as a form of conditionality. Their existence should help to strengthen the commitment by all parties involved to the continuation of the Programme and the achievement of its goals. It should also show the way in which the Baltic countries use the Baltic Regional Programme to achieve their own policy aims.

35. The common thread of the medium-term objectives is to achieve the Baltic countries’ closer association with OECD standards and legal instruments; in a number of cases implying formal adherence. The objectives will also help to avoid a duplication of activities with other international organisations, in particular with those of the European Union, and the Baltic countries’ bilateral programmes with the Nordic countries. These two issues are worked out in the next two sections, and in chapter IV, on the operational activities. The full text of the medium-term objectives is available on the Website of the Baltic Regional Programme: http://www.oecd.org/sge/ccnm/about/baltic.htm.

2. ASSOCIATING THE BALTIC COUNTRIES WITH OECD STANDARDS

36. Over the years, OECD Members have jointly developed standards for government policy, laws and regulations, as well as law enforcement. These standards -- often collectively referred to as “best practices” -- exist in a wide range of policy areas, many of which are included in the Baltic Regional Programme. Some of these take the form of legally binding instruments, such as the Convention to combat bribery of foreign public officials. Others are declarations or recommendations which are not legally binding, but which do imply political commitments by the adhering countries. Such instruments exist e.g. in the fields of international investment, competition policy and insurance. Often, Member countries’

1 Denmark, Estonia, Finland, Iceland, Ireland, Latvia, Lithuania, Norway, Poland and Sweden.
policies and regulations will be examined against these standards by the OECD Membership in a process referred to as “peer pressure.” In a number of areas, such as taxation, the OECD has developed models for treaties or national legislations. Finally, the OECD has developed standards in the field of statistics, e.g. foreign direct investment and agriculture.

37. One of the basic objectives of the Baltic Regional Programme is to encourage the Baltic countries to emulate these “best practices”. In a number of cases, this will imply formal adherence to a legal instrument. The medium-term objectives of the Programme name a number of specific OECD instruments and other standards which the Baltic countries have agreed to adopt or associate with. This section will identify the most important ones. However, it should be noted that not all “best practices” are embodied in instruments such as those mentioned below. In several areas, the Baltic Regional Programme offers a platform for exchanging experiences and expertise between the OECD Members and Baltic countries without reference to formal instruments.

38. In February 2001, the OECD Council invited Estonia, Latvia and Lithuania to adhere to the Declaration on International Investment and Multinational Enterprises, originally adopted in 1976 and revised on several occasions since. By adopting this policy declaration, Member countries commit themselves to co-operate to improve the climate for foreign direct investment, by according national treatment to foreign-owned enterprises, avoiding conflicting requirements on multinational enterprises, co-operating in the field of investment incentives and disincentives and by promoting a code of conduct for multinationals, the OECD Guidelines for Multinational Enterprises (last revised in 2000). The Declaration is not legally binding, but it is accompanied by a number of procedural Council decisions which are. It is expected that the three countries will adhere to the Declaration in the course of 2001.

39. A closer association of the Baltic countries with the OECD efforts to combat bribery is also envisaged. Eventually, this may lead to their formal adherence to the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which entered into force in 1999 and has the status of a legally binding treaty. The European Commission asks from the countries that they adhere to this Convention before acceding to the European Union as Member States.

40. A set of tailor-made guidelines for the development of entrepreneurship and small and medium-sized enterprises has been developed at the Baltic Forum on Entrepreneurship and Development (FEED). Published in early 2000 under the title Entrepreneurship and Enterprise Development in the Baltic Region – Guidelines and Recommendations, these guidelines will serve as benchmarks for reviews and examinations of the three countries in 2001.

41. In the field of competition policy, the OECD Council has issued Recommendations on International Co-operation (1995) and on Effective Action against Hard-Core Cartels (1998). Furthermore, there are documents (such as Areas of convergence in competition policy and law, 1994) which reflects the OECD Members’ consensus on best practice. One of the aims of the Baltic Regional Programme is to assist the Baltic competition authorities in reaching or approximating these standards. The Recommendation on hard-core cartels is open to association by non-Members and the OECD will recognise such associations if a non-Member’s laws and policies on hard-core cartels appear to reflect a commitment to move in the direction of effective, efficient and co-operative enforcement.

42. In the area of taxation, the OECD has promulgated standards in the form of a number of guidelines for legislation: the Model Tax Convention (lastly updated in 2000), the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (originally dating from 1995 and progressively extended since). The Baltic Regional Programme is aimed at applying these standards to the tax legislations of the Baltic countries. The countries are also involved in the OECD’s work on taxation
and electronic commerce and in the fight against tax havens, and will be associated with the recommendations of the OECD Forum on Harmful Tax Practices.

43. A number of benchmarks have been developed for the reform of insurance and pension policies and the Programme will assist the Baltic countries in reforming their policies in line with these standards. The Insurance Guidelines for Economies in Transition (1997) specifically address non-Member countries, and include issues such as the need for compulsory insurance. Another relevant recommendation is the Council Recommendation on Assessment of Reinsurance Companies (1998). The regulatory and supervisory frameworks for pension funds are addressed in the Basic Principles for the Regulation of Private Pensions (1999). Investment regulation is dealt with in the Principles for the Regulation of Investments by Insurance Companies and Pension Funds.

44. In the field of education, the Programme for International Student Assessment (PISA) must be mentioned. PISA has been developed collectively by OECD Members and is aimed at monitoring a broad range of curricular and cross-curricular learning outcomes in an international comparative framework. Latvia participates in PISA and the participation by Lithuania and Estonia is an objective.

45. Finally, the Baltic Regional Programme addresses a number of statistical standards. Among these are the indicators of Producer Support Estimates and Consumer Support Estimates (PSEs/CSEs), which are used to assess the value of gross transfers from consumers and tax payers to agricultural producers (PSE) and that of gross transfers to consumers of agricultural products, and to allow international comparison. The OECD has presented calculations of these estimates for all three Baltic countries. In the field of foreign direct investment, the OECD Benchmark Definition of Foreign Direct Investment will set the standard for the improvement of FDI flow and stock statistics in the Baltic countries. Other work is aimed at the improvement of quarterly national accounts statistics.

3. THE OECD PROGRAMME AND THE BALTIC COUNTRIES’ EU ACCESSION

3.1 EU enlargement

46. 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 the EU’s enlargement 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.

47. 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 (i.e. the existing body of EU rules and regulations) and the Europe Agreements, these address the challenge of preparation for adopting the acquis. The Partnerships set out concrete steps to be taken, together with timetables. The main priority areas presume the candidate’s fulfilment of the Copenhagen criteria².

² 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;
48. As of 31 December 2000, Estonia had opened negotiations on 29 chapters out of 31 in the acquis. Of these, 16 had been provisionally closed, but more complex ones, such as agriculture, environment, energy, transport and trade in services, were to take more time to complete. Estonia’s aim is to complete its negotiations by the end of 2001.

49. 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 would 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. As of 31 December 2000, Latvia had opened negotiations on 16 chapters, of which 9 had been provisionally closed, while Lithuania had opened negotiations on 16 chapters, of which 7 had been provisionally closed. Latvia and Lithuania are aiming to finish their negotiations by the end of 2002.

50. The Baltic Regional Programme is separate from the SIGMA³ programme, a joint initiative of the OECD and the European Union’s Phare Programme⁴ in which Estonia, Latvia and Lithuania participate. SIGMA supports public administration reform efforts in thirteen countries in transition⁵, and is largely financed by Phare. Since most of the countries covered by the Programme are candidates for membership of the Union, in 2000 SIGMA gave priority in its work to assisting their preparations to meet the criteria for EU accession, with special emphasis on financial control, public procurement, budgeting and external audit. In addition, SIGMA worked on developing a professional civil service, as well as on strengthening policy capacities and administrative oversight.

3.2 The Baltic Regional Programme and the EU accession process

51. As the accession of the Baltic countries to the European Union is in process, the OECD has to take the objectives of this accession into account when establishing those for its own Baltic Regional Programme. 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.

52. One difference between the EU and the OECD as meeting forums is, of course, the broader Membership that the OECD offers, with the participation of non-European countries, and also eight European non-EU Members (including some EU candidates). A key difference between the EU accession

- 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.

Support for Improvement in Governance and Management in Central and Eastern European Countries. For more information, see the Internet at http://www.oecd.org/puma/sigmaweb.

The Phare Programme is a European Community initiative which supports the development the countries of central Europe through future membership of the European Union. Phare does this by providing grant finance to support its partner countries through the process of economic transformation and strengthening of democracy.

Albania, Bosnia-Herzegovina, Bulgaria, the Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.
and the OECD programme is that the latter is primarily demand-driven, whereas the former is driven by the demands of accession and the attendant *acquis communautaire*. The EC’s Phare programme is the main financial and technical instrument to prepare the Baltic countries for their accession to the EU. The OECD’s 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 essence of the OECD’s approach is the development of “best practices” for policy formulation, strategic planning and the building of institutional capacities. This is done through the provision of a variety of well-tested policy options of the OECD Member countries rather than single, ready-made solutions.

53. 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.

54. In the field of *data assessment and dissemination*, the OECD co-operates with the EU’s statistical agency, Eurostat. Helping the countries to meet the EU’s statistical requirements is a major aim of this activity, which addresses the compilation of quarterly national accounts in particular. Technical co-operation will take place on seasonal adjustment, the estimation of gross fixed capital formation, and on making assumptions about input-output relationships. The OECD also works on the improvement of foreign direct investment statistics.

55. The OECD’s analysis on obstacles to trade in *agricultural and agro-food products* complements the work on the countries’ EU accession by examining their broader trade policy interests in the context of EU commitments. It also supplements such analysis by placing these countries in the wider framework of the agricultural trade interest of transition economies, and topics likely to dominate the agricultural component of negotiations at the World Trade Organisation. Furthermore, the OECD’s work deals with issues outside the so-called three pillars of the Uruguay Round Agreement on Agriculture, such as technical barriers to trade, notably sanitary and phytosanitary regulations. There will be a particular emphasis on the impact of trade policies on the dairy sector in the Baltic countries.

56. The CCNM’s work programme in the field of *financial and capital markets* has traditionally been focused on some specific issues, such as the development of fixed-income securities markets, government debt management and institutional investors. Work in this area supplements the EU accession process. On *insurance and private pensions*, the OECD’s work complements that of the EU in several respects by offering policy dialogue and in-depth comparative analysis with experts from the leading countries in insurance, whereas the EU is more focused on training and covers a smaller range of countries which excludes the United States and Japan.

57. The Baltic countries have liberalised their *foreign direct investment* regimes with few exceptions. The standards of the OECD’s liberalisation investment instruments complement those of the EU by their broader geographical scope. Furthermore, the OECD offers supplementary instruments in the form of its code of conduct for multinationals -- the Guidelines for Multinational Enterprises -- and the *Convention against bribery*, which the Baltic countries have been asked to adhere to in the context of their accession to the EU.
58. The OECD’s work on taxation supplements that of the EU by concentrating on direct and international taxation, whereas the EU focuses on indirect taxes. The OECD has become the leading force world-wide to address taxation policy issues such as taxation in e-commerce and the fight against harmful tax practices. The Baltic countries are involved in these efforts.

59. The dialogue on competition policy in the OECD’s programme includes some topics outside the EU’s acquis, such as international enforcement co-operation. Other subjects may be covered by the acquis, but the OECD’s work is not focused on the rules as such, but on underlying policy issues and economic analysis. The OECD’s work on capacity building addresses economic principles, investigative techniques and enforcement policies that underlie the acquis without being part of it. It excludes certain EU issues, such as state aids.

60. The reviews of education policies in the Baltic countries can be seen as reinforcing EU policy objectives in this field, which the Baltic countries have largely accomplished. On several issues, such as regionalisation of management and finance responsibilities and student mobility, the reports offer recommendations that are complementary to the EU accession requirements. In addition, the Baltic countries are participating in the Programme for International Student Assessment, or are expected to do so in the future.

61. The European Commission participates in the Baltic FEED programme, represented by its Enterprise Directorate-General. The FEED adds value to the EC’s work by its multilateral policy dialogue and the exchange of experiences it offers, as well as the country examinations against the benchmarks provided by the FEED guidelines and recommendations. This will help the countries to strengthen their overall capacities in creating an environment conducive of entrepreneurship and assist them in their EU accession.

62. Finally, the OECD offers a visiting experts programme, allowing a number of officials from the Baltic countries to participate in the work of the OECD Secretariat.
III. REGIONAL ECONOMIC ASSESSMENT OF THE BALTIC STATES

1. INTRODUCTION

63. In 2000, the OECD published a regional economic assessment involving the three Baltic countries. It was the OECD’s first combined macroeconomic and structural survey of these countries. The assessment covers both macroeconomic and structural policies in the areas of banking, labour and social policy, trade and foreign direct investment, enterprise reform and agriculture. It does not provide country-specific policy recommendations, but aims to highlight the links between macroeconomic stabilisation policies and ongoing structural adjustment, as well as requisites for sustainable growth in the Baltic region.

64. The draft texts of the regional assessment were discussed at a seminar at the OECD’s Paris headquarters on 8 November 1999. After its publication in English and French, translations were made in Estonian, Latvian and Lithuanian with the considerable help of the three countries. To mark the release of the local-language publications, three follow up seminars took place in each of the Baltic States at the end of April 2000. It was welcomed in all the countries as balanced, comprehensive, and of lasting value.

65. The three seminars were well attended by officials, as well as by academics, representatives of business, international organisations and OECD Member countries. High-level officials in each country welcomed the publication and drew attention to the ongoing activities encompassed by the OECD Baltic Regional Programme. They emphasised their wish both to continue and to develop their relationship with the OECD.

2. SUMMARY OF THE REGIONAL ASSESSMENT

66. The two overarching themes of the Baltic regional assessment are that all reforms are interdependent, and that institutional reforms take time. These are followed by more specific headings that cover: (i) public expenditure, (ii) financial sector and banking supervision, (iii) enterprise restructuring, (iv) labour market and social policies, (v) regional integration.

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9 OECD Ekonominės apžvalgos -- Baltijos šalyse, Regioninė ekonominė analizė, OECD, 2000 m. vasaris.
2.1 Transitional reforms are interdependent

67. The experience of the Baltic countries confirms that the difficulty of managing a transition process is about the need to set up a coherent policy framework for mutually supportive macroeconomic policies and structural reforms, encompassing a vision of the dynamics. In retrospect, the critical advantage of a liberal policy package is its strong internal coherence. Indeed, most policy prescriptions are targeted towards the same aim: the use of market mechanisms to obtain the best possible allocation of resources, which in turn creates the conditions for sustainable growth and an improvement of living standards.

68. In the Baltic countries, differences in the management of transition have been concentrated in the approach to structural reform, both in terms of scope and timing. In most cases, transition countries need not only to solve the problems of stocks related to legacies of the previous regime, such as bad debts and unrestructured firms, but also to ensure that policies get the flows right, namely exit and entry of firms, new financing and investment. When the flow problems have not been solved, the stock problems tend to re-emerge, sometimes making their solution even more costly. The direction of causality is often difficult to disentangle.

69. External trade is the most important engine of growth for small open countries like the Baltic countries. However, the supply-side is generally the main structural weakness in transition economies, as the consumers demand more and better quality products. This is also the case for industry, which demands higher quality input goods that the local industries can not supply. The result is a widening trade gap and growing constraints on the balance of payments. The management of the transition is crucial in this context, because appropriate reforms in the enterprise and financial sectors can save time in restructuring supply. Lack of financial discipline and easy credit condition fuel excess demand and only aggravate the structural problems.

70. Where it is not possible, for whatever reason, actually to implement a well-focused and comprehensive liberal reform package, a second-best approach is to identify and prioritise the bottlenecks in the adjustment process.

2.2 Institution building takes time

71. Successfully making use of market mechanisms requires the development of new institutions, without which transitional reforms will be delayed or frustrated. In many cases commentators have underestimated the time and effort needed to develop the human capital to operate new institutions, and the bureaucratic complexities in getting them established. Good policy choices minimise the time taken to build institutions needed for a market economy, but there is a limit below which this time cannot be compressed.

72. Passing laws and amending rules can be done relatively quickly; giving people new skills is a more drawn out process. Training civil servants is not straightforward, particularly where a whole portfolio of reforms is making demands on their time. There is indeed the additional problem that attracting officials of the right quality, and in sufficient numbers, is not easy. Many of these institutions derive their authority from government legislation, and their actions must be based in law. To be effective they must operate in an environment where there is open and speedy civil justice. But it takes time to train judges, and for them to build up experience of dealing with complex civil cases.

73. Even once these aspects of institutional reform has been solved, encouraging people to make use of the new institutions is a cultural change that does not come quickly. And there is always the danger that
passing time weakens the pressure to ensure the process is taken to its conclusion. It is this aspect that demands ongoing government involvement, where relevant supported by international organisations, through monitoring and corrective action.

2.3 Public expenditure

74. The focus in public expenditure should be on developing mechanisms for making and enforcing (at all levels of government) policy choices in prioritising public expenditure. Control of expenditure has become more demanding as the initial targets of macroeconomic stabilisation have given way to a system of more decentralised decision-making, involving local budgets and off-budget funds. Given these issues, budget management needs strengthening, public spending needs to be made more efficient and it needs to be re-examined how expenditure is prioritised. The chosen monetary policy, in which all Baltic countries keep a fixed exchange rate regime, leaves only fiscal policy as an instrument to adjust to a current account shock. Further work needs to be done on Treasury systems and debt management.

75. In terms of general budget management, there seems to be some scope for increasing tax proceeds from personal income tax by broadening the tax base and synchronising corporate and personal income tax rates. Likewise, more could perhaps be done to reduce tax exemptions.

76. At a more technical level, the assessment identified a number of problems associated with the systems of national account used in the Baltic countries. More specifically, this related to:

- Different frequency of inventory valuation;
- Inconsistency between stocks of assets and gross fixed capital formation and lack of investment data for the agricultural sector;
- Poor estimates for the imports and exports of services;
- Lack of harmonisation in procedures for estimating agricultural production;
- Constant price estimates. Main problems are the deflators of services, allowance for productivity change and the deflation of agricultural production;
- Lack of uniform approach in balancing the accounts.

77. A final area for attention under this heading is tax evasion and tax arrears. These are significant in all Baltic countries. Tax evasion is in part a product of weak institutional co-operation, particularly among tax collection agencies. Legislation needs to be developed to allow cases to be brought to court. Legislation needs also be developed to balance the need to protect banking confidentiality, and at the same time get access to banks transaction details. Border controls should be refined to allow the passage of legitimate trade whilst clamping down on tax avoidance.

2.4 Financial sector and banking supervision

78. All the Baltic countries have made considerable progress in this area. Capital market deepening is gradually taking place, but the delays and uncertainty in undertaking pension reform has created unfavourable conditions for the development of an insurance sector, particularly life insurance, constraining the emergence of alternative financial intermediaries. There is still a high share of foreign
currency deposits, which may indicate uncertainty about the strength of the local currencies. This is also indicative of the need to increase the credibility and depth of the domestic financial systems. In order to support the developments of the capital markets in the Baltic countries, it is important to protect the rights of non-controlling shareholders. The legal provisions intended to protect minority shareholders are generally weak and enforcement is problematic.

79. The capacity of the capital market regulators to exercise fully their regulatory function is limited due largely to lack of clear, legal responsibilities, resources and experience. OECD countries have started to create unified structures for comprehensive financial sector supervision. Their experience could be helpful to the Baltic countries as they seek to develop their regulatory capabilities.

2.5 Enterprise restructuring

80. The assessment reaches the conclusion that concentrated enterprise ownership promotes restructuring, and that this can perhaps be achieved most quickly through sales to foreign investors. Sales to outsiders also seem to foster deep restructuring, though the cost of this seems often to be reduced profitability in the short run. The impact of foreign investment has been benign. Foreign investors play a significant role in promoting enterprise restructuring through their access to capital, managerial skills and technological knowledge.

81. By contrast, the role of government in privatisation has not generally improved the prospects or performance of the enterprises concerned. Whatever the original intention, where the state kept a minority stake it has been slow in selling its residual holdings. Where the state continued to play an active role in bankruptcy proceedings, whether or not state-owned enterprises or debts to the state were involved, this has led to misplaced incentives and a deterioration in financial discipline. In this respect, liquidation seems to have been a more effective tool than state-sponsored restructuring.

82. Ownership structure does not only depend on the chosen method of privatisation, but also on how, or indeed whether, ownership rights are tradable, and whether these rights are actually enforceable. Effective bankruptcy rules allow owners to enforce their rights, better capital markets to trade them. The judicial system in the Baltic countries is at an early stage of development, and still has limited resources and capacity. Judges have little training and experience in solving complicated commercial cases. As a result, shareholders have little confidence in the commercial courts. The capacity of the capital market regulators to fully exercise their regulatory function is also limited. So far, there has been little movement in transferring ownership between insiders and domestic and foreign outsiders. The main trend has taken place within the insider group, with ownership being transferred from employees to managers.

83. Adequate disclosure rules can be an efficient tool for influencing the behaviour of companies and for protecting investors. Efforts are being made in all Baltic countries to bring accounting and audit standards in line with international standards and EU directives. Practical implementation has, however, proven difficult.

84. A final point is that restitution of land has been slow, and ownership rights remain restricted. This has particularly affected restructuring in agricultural enterprises. This sector suffers from over-capacity, declining productivity and profitability, and is additionally hindered by the lack of access to long-term credit.
2.6 Labour market and social policies

85. Policy responses in this area have generally been market oriented. Though there have been some attempts from the government to protect jobs from the market forces, for example employment guarantees for three years after privatisation. More companies need restructuring, implicating further job losses in the future. A key policy challenge for the Baltic countries is to respond to legitimate demands for better social protection within acceptable budget limits, while, at the same time facilitating labour mobility and not compromising the necessary incentives and freedom for action for business enterprises. Companies will need to take difficult restructuring decisions over the coming years, often involving a need to dismiss workers. There is some evidence that an early adjustment in real wages and employment helped in promoting an early recovery.

86. One way to increase labour market flexibility would be to increase mobility. Three tentative conclusions regarding the patterns of labour mobility are:

- Labour turnover (mobility by individuals to and from particular jobs) appears to have increased;
- Many of the long-term unemployed seem to represent a stagnant pool of people in all three countries, having too little contact with the labour market;
- Geographic mobility is markedly low in all three countries, apart from commuting.

87. Although the housing markets are essentially liberalised, their development is constrained by the low purchasing power of most households and by the difficulty of obtaining bank loans, using homes as collateral. Increasing unemployment also suggests a greater role for active labour market policies such as training and subsidising work. But as a general principle, employment offices should give the highest priority to ordinary job search, not to administering temporary measures like public works. Job training can be effective on a moderate scale if they address well-defined labour-market requirements, while large-scale training needs may be better addressed in a country’s general education system.

88. All the countries have taken steps to develop social insurance for employees, though many employees have insufficient insurance coverage. This especially affects the self-employed. In some cases there also seems to be an argument for increasing the level of unemployment benefits, as a complement to a strong policy commitment to accept lay-offs as a necessary part of the modernisation of the economy. It is also, in the longer (or medium-term) important to increase the minimum pensions, child benefits, and social assistance benefits up to the levels that would prevent poverty in most households. The most urgent reforms relate to pensions. A combination of demographic pressures and falling employment has rendered the inherited pension systems increasingly expensive in the Baltic countries. The average pension paid out in 1998 was barely sufficient to buy the minimum supply of consumer goods.

89. Several adjustments are needed in the area of education. However, the possible scope remains limited due to lack of financing and a lack of expertise. A structural obstacle to change is associated with the number of small rural schools, which often lack sufficient resources and experience to adapt to new demands. Teacher training needs to be enhanced. Attention needs to be paid to linguistic minorities, which need teaching in both their native languages, as well as an urgent need to enhance their skills in the respective national languages.
2.7 Regional integration

90. The potential benefits of economic integration with the European market seem obvious: access to a large market that can create a wide range of trade complementary investments and technology transfers. However the costs of membership, associated with fulfilling the requirements for EU accession, should not be underestimated. For example, the Baltic countries will have to raise the level of their agricultural protection in order to fit in with the common EU agricultural tariffs. The cost of protection might be a heavy burden.

91. The changes in trade specialisation have entailed sectoral shifts in employment and enterprise creation/destruction. Job destruction has been concentrated in large enterprises in heavy industries whereas the slack has been taken up by small and medium-sized enterprises in light industries. These companies have played a pivotal role in structural adjustment during the transition. Their success depends on a favourable climate for enterprise creation and an appropriate mechanism to enforce bankruptcy where this is warranted. Overall, trade liberalisation has proved to be a necessary, but not sufficient condition for economic and enterprise restructuring. But in order to accommodate the trade shock, other structural reforms need to be in place, unless the labour market is left to absorb the adjustment on its own.

92. Foreign direct investment (FDI) plays an important part in regional integration, both between the Baltic states and in the wider Baltic rim. The benefits of FDI are widely recognised, though some barriers still remain. One is the restriction on the availability of land. Even where in principle there are no restrictions, the market in practice is rather thin. There are also indirect barriers, such as the need to acquire visas, resident or work permits. Customs regulations have also been cited as impediments. It is very important to deal with those problems, since the possibility for trade is often a major reason for investing in the Baltic countries.

93. The countries of the region need to take care in co-ordinating their policy on ‘free or ‘special’ economic zones (FEZs). While the temptation to tackle structural problems by setting up FEZs is not unique to the Baltic countries, this issue deserves special attention, as there is potential for harmful competition among countries in the region. Where different FEZs engage in a ‘beauty contest’ to attract potential investment there may be significant negative externalities. This effect could become particularly pronounced where alternative sites are located in different countries, but serve the same market. This danger should not be under-estimated by the Baltic countries given, in particular, the regional perspective through which many outside investors approach the Baltic area.
IV. THE OPERATIONAL ACTIVITIES

1. TRADE, INVESTMENT AND ENTREPRENEURSHIP

1.1 Trade in services

94. Trade in services has been added to the Baltic Regional Programme as a new item, at the request of the Baltic and donor countries, made during the May 2000 evaluation meeting.

95. In 1999, the OECD Council invited the Trade Committee to develop its links and policy dialogue with the Baltic countries, so as to associate the countries more closely 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 will be part of the OECD’s ongoing work on barriers to market access for goods and services, focusing in particular on the specific interests and concerns of non-Member economies.

Services in the Baltic economies

96. In all three Baltic countries, the share of the service sector in GDP grew from 1993 to 1998. The service sector is remarkably large in Estonia, (72.7 per cent in 1998). In Latvia, the share was 68.9 per cent in that year. Reflecting the important role of agriculture, it was lowest in Lithuania (65.2 per cent), although it had grown faster over the previous years. There are significant differences in the three countries in the makeup of the service sector. Financial services appear to be most developed in Estonia, while transport and communication services play a relatively important role in Latvia, and construction services in Lithuania.

97. Services also play an important role in the foreign trade, particularly exports, of the three countries. Over 1999, services accounted for 21.6 per cent of imports in Estonia, 19.1 per cent in Latvia, and 15.0 per cent in Lithuania. For the same year, services comprised 37.8 per cent of exports from Estonia, while for Latvia the share was 35.3 per cent and for Lithuania 25.8 per cent. For all three, services accounted for a growing share of foreign trade during the period 1993-1999.

Objective and methodology of the 2001 work programme

98. In the final months of 2000, the Secretariat prepared a project proposal to survey service providers in the three countries on their experiences with obstacles to trade in services. A survey of literature had indicated that there is little research focusing specifically on the environment for trade in services in the Baltic countries. Hence, the project should fill an important gap in understanding the issues involved.
99. The project will include an examination of the economic and business environment for trade in services in the Baltic countries, with the aim of identifying possible external and internal obstacles that inhibit the full exploitation of comparative advantages of the service sectors in these countries. It will include an evaluation of recent developments in trade in services in the Baltic States and will identify specific issues of concern to foreign and domestic service providers. 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. Thus, progress of the region in removing such obstacles can be measured.

100. Over the medium term, this survey should assist the Baltic countries in assessing their recent progress toward creating a business-friendly environment for service industries and identifying and removing remaining obstacles to trade in services. An analysis of the experience of the Baltic countries in addressing such obstacles could provide a basis for comparing and evaluating the policies of other countries.

101. The results of the study will be discussed at a conference, to be held by the end of 2001, with the participation of Baltic trade officials and business representatives.

1.2 Foreign direct investment policy

102. The promotion of the Baltic States’ transition to a market economy and foreign direct investment (FDI) has been a core component of the OECD programme of activities in the Baltic region. Work initially (1996-1998) focussed on the publication of Investment Guides to inform investors of the investment opportunities into the region and the regulatory framework in these countries. Intensification of the policy dialogue on regulatory and administrative reforms was the major focus of the activities carried out in 1999. Last year’s work centred on ways to deal with the challenges of an increasingly competitive world for FDI.

103. The Baltic countries have also been involved in a number of activities of the OECD’s Committee on International Investment and Multinational Enterprises (CIME). They participated in the CIME discussions on international investment in 1998-1999. Estonia and Lithuania hosted events supported by the CIME in Tallinn (1999) and Vilnius (2000). In 1999, Latvia and Lithuania applied for observership status in CIME and made known their readiness to adhere to the OECD Declaration on International Investment and Multinational Enterprises10. In early 2001, Estonia indicated its willingness to adhere to the Declaration as well. These statements echoed the aspiration of the OECD Council at Ministerial level, which adopted the revised Guidelines for Multinational Enterprises in June 2000, expressing the wish to see the adherence to the OECD Declaration broadened. For the Baltic states, this will imply an examination of their measures and practices in fields covered by the Declaration, which is likely to be launched in the course of 2001.

10 The Declaration on international investment and multinational enterprises, issued by the Governments of OECD Member countries in 1976 and last revised in 2000, constitutes a policy commitment to improve the investment climate, encourage the positive contribution that multinational enterprises can make to economic and social progress and minimise and resolve difficulties which may arise from their operations. With the OECD Member countries, the European Communities, Argentina, Brazil and Chile have adhered to the Declaration. The Declaration consists of four elements, including the Guidelines for Multinational Enterprises, which constitute a set of voluntary rules of conduct, a National Treatment Instrument, and rules on conflicting requirements and on investment incentives and disincentives. See the Internet at http://www.oecd.org/daf/investment/guidelines/declarat.htm.
Main results in 1999/2000

104. The conference in Tallinn on 17 November 1999, was devoted to FDI policy and private sector development. The discussion in Tallinn confirmed the key role played by FDI in both enabling and promoting structural changes towards modern competitive economies. In many respects, the Baltic states are considered as model cases for other transition economies. A number of barriers to investment, notably administrative ones, were identified, but satisfaction was also expressed that these were being addressed in a meaningful way by the Baltic states’ authorities. Foreign direct investment has made a major contribution to private sector development during the privatisation process. At the same time, it was found that the linkages with the local economy still fall short of their potential and need further attention.

105. The conference in Vilnius on 30 May 2000 was devoted to Fiscal incentives and competition for foreign direct investment. It was generally acknowledged that the three Baltic states face strong competition in their efforts to attract foreign investment, as competition for foreign investment is increasing world-wide and privatisation is generally well-advanced in these countries. Doubts were expressed as to whether fiscal incentives provided the most suitable tool to attract increased investment. It was concluded that the Baltic states must continue to compete using their fundamental strengths of sound macroeconomic policies, good legislation, a facilitating business climate, a skilled workforce, and good export potential. A brochure presenting papers circulated at the conference has been published.

106. At the end of 2000, studies on Foreign direct investment impact and policy analysis were published on Latvia and Lithuania. The studies were issued in the series of Working Papers on International Investment of the OECD’s Directorate for Fiscal, Financial and Enterprises Affairs.

Future work

107. The remarkable economic recovery of the Baltic states after the Russian financial crisis of 1998, and the prospect of membership to the European Union, will facilitate these countries to associate themselves with, and contribute in an even more meaningful way to, the OECD’s mainstream activities. Adherence to the OECD Declaration on International Investment and Multinational Enterprises will result in a further deepening of the relationship between the OECD and these countries. This year, the OECD will be organising partner of the Baltic Sea Region e-Business Forum -- an initiative of the Government of Latvia -- in Riga, in September 2001. It will address to the contribution of FDI to the development of the information technology (IT) potential of the Baltic states and the way IT is affecting business in the region. As with the Vilnius seminar, this conference will be integrated into CIME’s analytical work, and more particularly in its study of foreign direct investment and the new technology.

1.3 Agriculture

108. Excellent co-operation with Estonia, Latvia and Lithuania in the agriculture sector has concentrated on monitoring and analysis of agricultural and trade policy developments as a basis for policy dialogue between Baltic officials and experts, other non-members and OECD Members. The Secretariat’s Producer and Consumer Support Estimates (PSEs/CSEs) for all three countries have received considerable attention, not least from Baltic Ministers of Agriculture. This has resulted in fruitful

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12 PSEs are indicators of the value of gross transfers from consumers and taxpayers to agricultural producers, arising from policy measures which support agriculture. CSEs indicate the value of gross transfers to consumers of agricultural commodities arising from policy measures which support agriculture. For more information on this subject, see http://www.oecd.org/agr/policy/ag-pol/index.htm.
discussions and comparisons of results among countries, as well as improved understanding of the interpretation and policy implications of these support measures. Policy discussions have taken place mainly in the OECD’s Forum on Agricultural Policies in Non-Member Economies, a gathering of OECD Members and non-Members from across the world, which met three times during the period under review, with active participation from all three Baltic countries. Results of the work on Estonian, Latvian and Lithuanian agricultural policies have been published in the most recent editions of OECD’s *Agricultural Policies in Emerging and Transition Economies*\(^{13}\). A comprehensive, detailed agricultural database for all three countries was made available as an electronic data product for the first time in 2000\(^{14}\).

**Policy developments in the agro-food sector**

109. Developing a competitive agriculture and food processing sector remains a high priority in Estonia, Latvia and Lithuania, although the three countries have taken divergent policy approaches to reaching this goal. The main difference relates to the speed and methods of enterprise restructuring, privatisation and creation. Significant progress in macroeconomic stabilisation, structural, institutional and domestic policy reforms in all sectors, including the agro-food sector, has been achieved. Privatisation of the agro-food sector is completed in the region, and rationalisation and restructuring are ongoing in many sub-sectors. Low levels of investment in agriculture continue to impede modernisation of the sector, thus hampering productivity growth and improvements in farm incomes across the region.

**Monitoring of agricultural policies**

110. In 1998 and 1999, commodity prices in the Baltic states were adversely affected by depressed world markets, as well as by the slow recovery of the Russian market following the 1998 financial crisis. Lower domestic and foreign demand for food products translated into weak farm prices. The increase in oil prices has further contributed to the cost-price squeeze in the sector. As a result, agricultural producers have experienced a sharp decline in cash flows and, consequently, in incomes.

111. Agricultural policies in the three Baltic countries are strongly influenced by prospective EU accession, evidenced by a pronounced shift towards more EU-compatible policies and policy instruments. As potential EU members, Estonia, Latvia and Lithuania must harmonise their agricultural policies with the Common Agricultural Policy (CAP) by the time they join the Union. This involves establishing market intervention systems for the main agricultural products, adminstering prices, increasing the scope and amounts of direct payments to agricultural producers, and broadening structural and rural development programmes with a strong focus on environmental goals. Of the three states, Estonia will see the most radical change in its agricultural policies, moving from its current fully liberalised policy to an interventionist regime. Indeed, regulations on CAP-like market intervention instruments are under preparation in all Baltic states. At the beginning of 2000, for the first time since the restoration of its independence, Estonia introduced tariffs on agricultural imports, as part of its CAP-harmonisation process.

112. Several important developments in the preparation of the Baltic states for EU accession took place in 2000. The European Union approved the Special Accession Programme for Agriculture and Rural Development (SAPARD), under which the Baltic states will receive additional financial support to adapt their agricultural sectors to the common market. The three Baltic countries and the European Union progressed further in mutual liberalisation of trade in several agricultural products, with some important product groups subject to the “double-zero” agreement (involving the reciprocal elimination of export

\(^{13}\) For further information, and instructions on how to order this publication, see: [http://www.oecd.org/agr/publications/age_pute.htm](http://www.oecd.org/agr/publications/age_pute.htm).

\(^{14}\) See also [http://www.oecd.org/agr/publications/age_pute.htm](http://www.oecd.org/agr/publications/age_pute.htm).
subsidies and import tariffs). Accession negotiations on the agricultural chapter were formally opened for Estonia in June 2000, those with Latvia and Lithuania are expected to commence in 2001.

Watch on support (PSE/CSE estimates)

113. The OECD’s analysis of agricultural policy developments in the three Baltic states is underpinned by PSEs/CSEs, which the OECD first calculated in 1996 as part of the comprehensive reviews of agricultural policies in the three countries and which have since been updated annually. The PSE/CSE database is a unique source of information and statistics on the evolution of agricultural policies from year to year, going back to 1986. At the onset of transition (1992-1994), estimated PSEs were negative, indicating that policies in place during that period effectively taxed agriculture. This was mainly due to unstable macro-economic policies and, to a lesser extent, changes in agricultural policies and support. Since 1995, the PSE estimates have gradually risen in all Baltic countries reflecting the introduction of new policy measures, especially in Latvia and Lithuania. In 1998-1999, a marked growth in support was observed, with PSE estimates of 17 per cent in Estonia, 18 per cent in Latvia and 21 per cent in Lithuania. The rather high estimate of the PSE in Estonia largely reflects the weak transmission of world prices to farm gate level.

114. The PSE/CSE is a powerful tool for analysing the content and evolution of Baltic agricultural policies. Its underlying database allows for other types of analytical work, such as various price studies and assessing the effects of policies on production and trade. Introducing the PSE/CSE methodology has contributed to policy making capacity and enhancing local expertise in the three Baltic countries. They have benefited from the wide use of the PSE/CSE for international comparisons of levels of agricultural support by governments, industry, academia, NGOs, and organisations like the WTO.

Agricultural trade policy reform

115. Agricultural trade reform is important in all three Baltic states, as small, open economies with important agriculture sectors. Each country is currently in the process of adapting its legislation to the accquis communautaire in preparation for EU membership. Estonia, Latvia and, most recently, Lithuania have acceded to the World Trade Organisation and trade in agriculture and food products is subject to their commitments under the “three pillars” (market access, domestic support and export competition) of the Uruguay Round Agreement on Agriculture (URAA). The Secretariat has undertaken a substantive analysis of the trade policy concerns of transition, including the three Baltic countries, and emerging 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 URAA. The OECD analysis also examines the broader trade policy interests of the Baltic countries in the context of their EU commitments. The second stage of the Secretariat’s work (2000-2001) is focused on technical barriers to trade, notably sanitary and phytosanitary regulations, as well as intellectual property rights, also of major importance for developing the Baltic agro-food sector.

116. A key conclusion of the work is that the Baltic states, in common with most other transition economies, would gain from a more liberal agricultural environment, with resources allocated based on the principal of comparative advantage. However, in order to achieve these potential gains, a range of parallel reforms are required, including policy measures to assist with the process of structural adjustment.
Policy challenges for the agro-food sector

117. Food processing is an area of growing economic importance in the three Baltic states, as well as in other transition economies. The need to develop higher value-added food products, to increase efficiency and competitiveness, as well as to improve the transmission of world prices to farm level, is a top priority in Estonia, Latvia and Lithuania. Continuation of the dialogue on policies as they evolve in the lead-up to EU membership will remain critical. An examination of the policy issues related to developing the downstream agro-processing sector will usefully complement ongoing analytical work. A particular focus on the dairy sector and on identifying the existing and emerging challenges to the agro-food sector would greatly benefit all three Baltic states.

1.4 Baltic Forum on Entrepreneurship and Enterprise Development (FEED)

Outline of the programme

118. The Baltic FEED programme has been established to improve the environment for enterprise development in the Baltic region, recognising the vital role of small and medium-sized enterprises (SMEs) in economic growth, innovation, new employment creation and social cohesion. More specifically, the programme aims to:

- Encourage the adoption of the regulatory, fiscal and administrative systems that promote new business start-ups and lead to an expansion of formal sector SME activity;

- Facilitate the development of coherent and effective enterprise development policies and their institutionalisation through horizontal inter-ministerial working practices at national level, and sustainable regional and local delivery agencies.

119. The main output of the programme to date has been a series of enterprise development guidelines which were agreed at the Baltic FEED Working Committee meeting in Sweden in January 2000 and formally adopted at a special event held in Tallinn in March 2000. The guidelines have been published under the title of Entrepreneurship and Enterprise Development in the Baltic Region – Guidelines and Recommendations. They contain 57 specific recommendations relating to enterprise development policy, small-business regulation and the informal economy, taxation policy, financial instruments, business advisory services and regional and local enterprise development.

120. The medium-term objective for the Baltic FEED programme is to ensure that the “best practices” identified in these guidelines are embedded in government policies in the Baltic region and implemented effectively at national, regional and local levels in the form of sustainable initiatives which contribute significantly to the development of SMEs in the Baltic region.

121. To measure performance against this objective, an evaluation system has been developed based on a similar system used for monitoring the implementation of the OECD Jobs Strategy (Implementing the OECD Jobs Strategy - Assessing Performance and Policy, OECD Publications, 1999). The system is based on the assumption that performance measures must be quantifiable, measurable and acceptable to government agencies in Baltic states which will be responsible for collecting the relevant data to assess

their implementation. To focus more clearly on specific recommendations, the 57 recommendations contained in the guidelines have been distilled into 26 action points (see the box text). Progress against these action points is measured on a sliding scale which requires qualitative as well as quantitative judgements. The evaluation matrix will be used as a basis for the Country Assessment and Action Plans which will be prepared for each of the Baltic States.

122. The programme provides direct support to the Baltic countries’ EU accession process and is acknowledged by the EU Directorate-General for Enterprise as a major component of their regional approach to enlargement and the realisation of pre-accession economic coherence objectives.

Meetings held in 2000

123. Planning and co-ordination of the programme activities is undertaken by a Working Committee which held its first meeting in Jönköping, Sweden in January 2000. The Working Committee includes representatives of the European Commission, the European Bank for Reconstruction and Development and of Denmark, Finland, Norway, Poland, Sweden, the United States, Estonia, Latvia and Lithuania.

124. Since the formal adoption of the guidelines, two further meetings of the Working Committee have taken place. The first, held in Tallinn in June 2000, focussed on the adoption of the evaluation matrix for monitoring and assessing the implementation of the guidelines.

125. The second meeting, held in Riga in December 2000, focussed on the draft CAAP for Latvia, which aims to identify key gaps and issues in current government policies for SME development and provide a series of baselines for the subsequent deployment of the evaluation matrix.

Plans for the future

126. During 2001, a range of further activities will be undertaken. Following completion of the Latvia CAAP in May, a preliminary mission will take place to Lithuania to undertake consultation for the Lithuania CAAP. A draft of this CAAP will then be presented to a Working Committee meeting which will be held in Lithuania during June. A similar process will be followed for Estonia during the second half of 2001, resulting in the presentation of a draft CAAP of Estonia at a Working Committee meeting to be held in December 2001. The country assessments will be published under the titles: Promoting enterprise development in Latvia (Lithuania/Estonia): An assessment of current policies and practices.

127. Alongside these activities, work will continue on detailed policy guidelines that have been developed in response to specific requests from Baltic State participants. Following the formation of a Special Working Committee on Venture Capital, draft guidelines on government policy to support venture capital will be produced for discussion and agreement at the June 2001 Working Committee meeting in Lithuania. Work will also commence on e-commerce guidelines which will be available in draft form for discussion at the Working Committee meeting in Estonia in December 2001. At that meeting, further specialist issues will be identified for the 2002 work programme.
### ASSESSING THE IMPLEMENTATION OF THE BALTIC FEED GUIDELINES

**Assessment categories:**

- **N** No action has been taken since FEED Guidelines
- **R** Policy moved in the opposite direction of recommendations
- **F** Some action taken along previous recommendations but more action needed
- **M** Action taken. Monitor situation to identify any need for further action
- **X** New recommendation

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<tr>
<th>INSTITUTIONALISATION OF ENTERPRISE DEVELOPMENT POLICY</th>
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<tr>
<td>Obtain government approval for a small business development strategy</td>
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<tr>
<td>Provide a separate budget for the implementation of strategy</td>
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<tr>
<td>Establish clear division of responsibilities with regard to implementation of the strategy</td>
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<tr>
<td>Set clear and measurable targets for this strategy</td>
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<tr>
<td>Review and published the targets annually</td>
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<tr>
<td>Establish an appropriate regional structure to implement the strategy</td>
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<td>Set up a public mechanism for small business dialogue and consultation between government and private sector</td>
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<tr>
<th>RULE OF LAW AND REGULATION</th>
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<tr>
<td>Reduce the number of authorities dealing with licensing/ regulation of entrepreneurship</td>
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<tr>
<td>Set up a deregulation plan for each ministry or licensing authority</td>
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<tr>
<td>Assess the impact of new and existing laws and regulations on entrepreneurship</td>
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<tr>
<td>Take action based on the assessment</td>
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<tr>
<td>Train public officials on the role of entrepreneurship in the economy</td>
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<td>Improve access for entrepreneurs to legal and regulatory information</td>
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<th>TAX POLICY FOR SMALL BUSINESS</th>
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<td>Decrease the number of taxes on entrepreneurship</td>
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<td>Reduce the overall tax burden on entrepreneurship</td>
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<tr>
<td>Simplify tax returns for the entrepreneur</td>
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<tr>
<td>Evaluate tax incentives/allowances for entrepreneurship on regular basis (annually)</td>
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<tr>
<th>FINANCIAL INSTRUMENTS FOR NEW AND SMALL BUSINESSES</th>
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<td>Evaluate government sponsored financing schemes for entrepreneurship*</td>
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<tr>
<td>Increase the access of small businesses to micro-finance</td>
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<tr>
<td>Improve the provision of seed finance for start-ups</td>
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<tr>
<td>Improve the provision of venture capital for the development of small business</td>
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<th>ADVISORY SERVICES FOR NEW AND SMALL BUSINESSES</th>
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<tr>
<td>Set up a strategy to ensure adequate supply of advisory services to SMEs</td>
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<tr>
<td>Provide an adequate level of advisory services (public/private) at local and regional level</td>
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<tr>
<th>REGIONAL SMALL BUSINESS DEVELOPMENT POLICY</th>
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<tr>
<td>Set up a written regional development strategy approved by government</td>
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<tr>
<td>Set specific targets for regional SME growth set and monitor them on a regular basis</td>
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<tr>
<td>Review and publish the targets annually</td>
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* Including all non-commercial, i.e. government, international, non-governmental organisation schemes that provide credit, equity, guarantees and grants to entrepreneurs.
2. EDUCATION, EMPLOYMENT, LABOUR AND SOCIAL POLICIES

2.1 Education and training

Actions during this period

128. The principal activity over the past year was the completion of the Reviews of national policies for education for each of the three Baltic countries. The reviews were discussed at a special session of the OECD’s Education Committee was held in Helsinki, on 26 and 27 June 2000, hosted by the Ministry of Education of Finland. Delegations headed by the three Baltic Ministers of Education, twelve Member countries and observers from the Russian Federation, the European Training Foundation, the World Bank, the Nordic Council of Ministers, the Open Society Institute and UNESCO attended the meeting.

129. On 11 August 2000, the Secretariat presented the Latvian review (financed through a grant from the European Commission’s “Phare” programme) in Riga to an audience of over 1500 education experts and government officials. This event received wide media coverage and underscored the impact that the report has already had on Ministry policy makers, parliamentarians and other Latvian authorities. A similar event was organised by the Estonia Education Forum in Tartu on 7 and 8 December 2000.

130. The reviews will all be released in the first half of 2001 as publications for sale. Beside the English and French versions, translations of each report in the national language of the country concerned will be published.

Issues covered by the reviews

131. Pre-school and compulsory education. All three countries are implementing new requirements for pre-school education, national curricula and new testing/assessment requirements for pre-school through grade 9/10. Efforts are being made to ensure that all children are ready to begin school and to improve the quality of education for all students. The review discusses the goals for pre-school and compulsory education and lessons from recent reforms.

132. Upper secondary education and the interfaces between secondary general and vocational secondary education and higher education. Strategies to diversify upper secondary education, while at the same time retaining high expectations and options for all students, are looked at, as well as ways to achieve both improvements in quality and optimisation for rural schools. Ways in which to link secondary vocational education to general secondary education at the municipal and regional levels is discussed. Other questions include students with special needs, the relationship between school leaving and university entrance examinations and how these affect reform of upper-secondary education.

133. Systemic change. What are the conditions for systemic reform? Each of these countries has been aggressively pursuing new national curricula, standards, assessment and examinations. All have the problem of inadequate support for teachers and schools to implement the new reforms. The reviews suggest ways to ameliorate pre- and in-service training and foster policies and strategies to create a better

interface between pedagogical universities or other institutions through financing and governance policies to provide incentives for change and the support systems for change.

134. **Regional co-ordination of vocational education and training (VET), employment services and other education services.** Developing relationships between VET and regional labour markets and economic development is a priority. The review team studied the relationship between state employment and the formal VET system; the relationship between reform of general secondary and secondary vocational education; the financing and governing relationships changes needed to support these relationships; and the role of open/distance learning to support regional training networks.

135. **Tertiary education.** How should tertiary education systems change as they move from elite to mass higher education? The reviews discuss the appropriate balance between institutional autonomy and decentralisation as well as the state’s interest in national priorities and accountability. In the light of growing diversity in learning options at this level, design of quality assurance and accreditation standards and processes is important. As in many OECD countries, the region is seeking alternatives for financing of tertiary education and alternatives to traditional “budget and non-budget student” policies. Another aim is to achieve more transparent funding formulae, using a combination of costs by discipline, profession, level of study, and the number of students. These issues have implications for equity of student fees and loans.

136. **National leadership and the future role of Ministries of Education.** The reviews address the development of a general strategy for education (cutting across pre-school to higher education, adult learning, etc.), using principles of lifelong learning, and the changing roles of Ministers and Ministries of Education. There are recommendations on how countries can develop and sustain long-term agendas for reform. Other recommendations deal with the strategies that can be used to engage the general public, social partners, non-governmental organisations and others in support of improving education. These recommendations address the way to maintain a balance between decentralisation and the responsibilities of ministries in system co-ordination, supervision, quality assurance, and technical assistance.

**Medium-term objectives**

137. The relationship between education and economic development has been considered by OECD since its foundation in the early 1960s. Various reports and studies have emphasised the key role of skills and competencies in promoting not only higher productivity and faster economic growth, but also greater social cohesion and well being. Seminars aimed at assisting the Baltic countries in completing their transition to market economies are planned for 2001-2002. These seminars will address the following issues.

138. **Developing the human resources of the education system.** Continuing progress on education reform will depend fundamentally on the capacity of teachers to adapt, learn, and embrace new approaches to teaching and learning. Significant reforms have taken place, but human resource development needs such as pre- and in-service training, promotion and salary policies, gender balance and management techniques remain at every level of the system. For tertiary education, especially difficult challenges remain in developing the next generation of faculties for universities and the non-university higher education sector in order to accommodate escalating student demand.

139. **Achieving more with the same resources used differently.** The problem is rather one of how to make more efficient use of the existing resources than to increase their total. Without significant improvements in resource efficiency, systems will not be able to achieve goals for improving the quality of education. The national authorities clearly recognise this challenge, as reflected in their efforts to
consolidate or merge small institutions, create larger school complexes, and other strategies to achieve economies of scale and improve quality.

140. **Balancing decentralisation and institutional autonomy with a new role for Ministries.** Decentralisation of the governance and management of schools and institutions is consistent with progressive policy developments throughout the world. It is important to balance institutional autonomy and decentralisation with a new role for ministries in overall policy leadership and co-ordination, and in ensuring accountability. The ministries have been moving away from the historical role of operating and controlling schools and institutions – primarily by detailed control of inputs – to a broader role of supervision and monitoring of system and institutional performance. This is also contingent on promoting co-ordination across the government of functions that relate to education. This co-ordination is important not only for functions specifically identified as education (such as vocational education and training), but also functions and initiatives related to children, families, health, information technology infrastructure and public administration reform that have an impact on education policy. Other areas concern the promotion of public accountability by analysing and reporting on the performance of schools, institutions, and the system as a whole, and the further development of strategic alliances with non-governmental organisations, employers and international organisations to support and sustain reform.

### 2.2 Review of labour markets and social policy developments

**Review launched**

141. The final months of 2000 saw the start of a new initiative in the form of the launch of a labour market and social policy review of the Baltic countries. This review will be focused on the structure of the labour market, the incomes of the population, relative wages, productivity and labour mobility. Issues of active and passive labour market policy, social assistance, social insurance and health care as well as poverty will be considered. Furthermore, an analysis will be made of the non-observed economies in the three countries in co-operation with the Statistics Directorate. The aim is to describe current policies in the appropriate economic and social context and to consider possible options for reform, especially in the near future. The review will be carried out in a context of international comparison.

142. During 2000, the Secretariat began preliminary studies of literature, statistics, law texts and recent policy documents in the Baltic states. A fact-finding mission in November 2000 involved discussions with Ministries of Labour and Social Affairs, statistical agencies and other relevant bodies under the central governments, as well as a few municipalities, employer and employee associations and researchers. The review will culminate in an advisory report to the Baltic governments, to be presented at review meeting by the OECD’s Committee on Employment, Labour and Social Affairs in the first half of 2002.

**Recent trends in labour and social policies in the Baltic countries**

143. Workers in the Baltic countries suffered a dramatic loss of purchasing power during the initial transition years. But partial recovery of real wages got underway in 1993 in Estonia and Latvia and in 1994 in Lithuania, after which living standards have continued to increase more or less in line with the trends observed in Central European transition economies. The Russian economic crisis in the autumn of 1998 does not appear to have broken the positive development of real incomes, despite some job losses.
144. Estonian workers earn the highest real wages in the Baltic region, while recent improvements have been particularly strong in Lithuania. Nevertheless, due to the large size of the initial output drop, average real wages are still considerably below the estimated levels at the beginning of transition in any of the three countries. GDP per capita is approximately USD3,700 in Estonia, USD2,600 in Latvia and USD2,900 in Lithuania\(^\text{17}\).

145. Large parts of the employment reductions occurred in industry, and the distribution of jobs across industrial sectors has also been profoundly transformed. In connection with the re-orientation of trade towards western markets, companies producing wood products in particular have created many jobs. In the service sector, employment is buoyant in Estonia and Lithuania. As a proportion of total employment, the service sector now employs more than 50 per cent in each country. Employment data shows that all countries have suffered job losses in varying degrees compared with the beginning of the economic transition process.

146. Both demographic developments and changing work habits have contributed to a decline of the labour force. Most of the reductions in Estonia and Latvia were due to emigration by ethnic Russians, but the natural population increase has also become negative. The labour force participation rates for most age and gender groups is almost identical in the Baltic states, but with a tendency to be slightly lower in Latvia, and the overall unemployment rates are significantly higher in both Latvia and Lithuania, especially for youths.

147. As in most transition countries, trade unions have a weak position in the emerging private sector: their membership covers only around 10 per cent of the workforce in all three Baltic countries. However, in larger state-owned enterprises the labour organisation rate is significantly higher, especially in Latvia.

148. Various forms of underreported economic activities are also significant throughout the Baltic region. Estimates indicate that as much as one fifth of the workforce is active in the “grey” or “black” economy. However, estimates like these are likely to underreport income rather than employment.

149. Social insurance is obligatory for all employees and the self-employed. However, only in Estonia do practically all employees and self-employed persons seem to be covered at the moment. Between half and three-quarters of all spending on social income transfers is directed to pensions. The public pension systems in all three countries are either undergoing reforms or reforms are under consideration. Existing provisions for family support, paid from general revenues, include a monthly child allowance equivalent of about USD15-25 per child. Social assistance of last resort is means-tested and falls under the responsibility of municipalities.

3. **FINANCIAL AND CAPITAL MARKETS**

3.1 **Capital market reform**

150. The year 2000 saw the establishment of two platforms for the policy dialogue with Baltic countries on capital market reform: (i) the Annual Forum of government debt managers from Baltic and Nordic countries and (ii) a working group on private securities markets.

\(^{17}\) *Economist Intelligence Unit* country profile of Lithuania.
Public debt management and government securities markets

151. The Annual Forum focuses on policy dialogue among policy makers from the Baltic countries, their counterparts from the Nordic countries and the OECD Secretariat, aimed at the adoption of recommended best practices in these areas. The medium-term policy aims are to:

- implement best practices for the creation of more efficient primary markets -- the main subjects are: issuing strategy based on regular auctions, the issuance of benchmarks, the 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 -- the principal subjects have been: liquid markets with a large stock of outstanding benchmark issues and repo market financing, safe and sound clearing and settlement systems, transparent and equitable regulatory and supervisory framework, a market-making structure based on primary dealers;

- generate sufficient capacity to manage volatility and risk.

152. The first Baltic-Nordic workshop on public debt management and government securities market operations was held in Stockholm 8-10 February 2000. The meeting was organised by the OECD and hosted by the Swedish National Debt Office (SNDO). The Workshop was attended by a number of top-level representatives of the Ministries of Finance and the central banks of the Baltic countries, as well as senior officials from Nordic countries, including senior management of the Nordic Investment Bank.

153. The Workshop focused on:

- Portfolio strategy and risk management;
- Organisation of wholesale markets for government securities;
- Instruments for the retail sector;
- Organisation of debt management, including the use of computers and software;
- Policy and methods for communication with the markets.

154. The meeting concluded with the adoption of recommended best practices in these areas and the decision to establish the above-mentioned Annual Forum. This new institution will serve as a dedicated venue for the annual exchange of views among debt managers from Baltic and Nordic countries on techniques, policies and best practices in the area of public debt management and government securities market operations under the aegis of the OECD’s Working Party on Public Debt Management.

Private securities markets development in the Baltic region

155. The activity deals with the following policy issues: (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. The medium-term programme is focused on a report on capital market developments in the Baltic region, taking into account the work in other forums.
The first workshop on *Capital markets development in the Baltic region* was held in Riga on 3-4 October 2000, and hosted by the Securities Commission of Latvia. It brought together experts from the Baltic and Nordic countries and provided an important occasion for senior financial policy makers from the Baltic countries and their colleagues from the Nordic countries to discuss the present status of the main elements of the legal, institutional and regulatory framework required for capital markets and to enhance the development of these markets. It was decided that future work would focus on best practices for the operation and regulation of Nordic capital markets consistent with international standards and practice. To this end a working group with experts from Baltic countries and Nordic OECD countries was established.

The aim of this workshop was the dissemination of the shared expertise and knowledge of trends in securities markets, taking into account the consolidation of the European capital market. Major practical and technical implications for the Baltic securities markets were identified and analysed. More specifically, the Workshop focused on:

- Institutional structures applied to capital markets;
- Operations of securities markets;
- The role and responsibilities of issuers of securities;
- Securities and capital market legislation;
- Round-table discussion on policy conclusions and next steps.

3.2 Insurance and private pensions

The reform of the pension system and the introduction of supplementary private cover were seen as essential policy priorities in the Baltic countries, as in most of Central and Eastern Europe, given the twofold imperative of rebuilding the social protection system and reducing public expenditure. Furthermore, the Baltic governments are well aware of the key role which the insurance sector (the leading institutional investor in the OECD countries) plays in the development of economic activity, financial markets and social protection, even though they have to deal with the mistrust with which the general public and indeed some parliamentarians regard a still widely misunderstood activity. In addition, delays in undertaking pension reform, among other factors, have constrained the expansion of the insurance sector; the insurance penetration rate, although on the increase, is still low.

The activities concerning insurance and private pensions in the Baltic Regional Programme were launched in March 1998. The programme has had two main focuses: (i) continuing the reform of the insurance market and improving the regulatory and supervisory framework; (ii) implementing the reform of the pension system and private retirement plans.

*Continuing the reform of the insurance market: improving the regulatory and supervisory framework*

In this context, workshops providing an opportunity for high-level dialogue on the insurance market and regulation, and the provision of targeted technical assistance, were held on various aspects of insurance regulation which were identified as priority issues.
161. The questions raised by the Baltic countries concerning compulsory insurance, use of reinsurance -- still problematic in the Baltic countries where, being unable to turn in all cases towards the largest international companies, whose rates are regarded as too high, insurers occasionally rely on reinsurance concerns of uncertain solvency -- investment policies given the small scale of local financial markets, liberalisation and domestic and international competition, and the distribution of insurance products (types of intermediation authorised/supervision of intermediaries) were discussed at an initial workshop on insurance reform in the Baltic countries in Vilnius on 22 and 23 November 1999.

162. The following topics were examined in detail at the second insurance workshop (Riga, 14-15 December 2000): financial convergence, in terms of the market and of institutions -- Latvia for example is already engaged in merging the financial services control bodies and was keenly interested in reports on similar recent experiences such as those in Hungary -- means of developing the life insurance market, markedly thin in all three Baltic countries, insurance contract law, the advisability of developing a market in private health insurance, and various aspects of insurance risk analysis, company solvency, and management of insolvency -- a point which remains topical in the Baltic countries, in particular given the concentration process and higher requirements with regard to equity capital.

163. The various OECD insurance guidelines, which the Baltic countries have endorsed, were considered at each workshop: in particular the Recommendation of the Council on Assessment of Reinsurance Companies and the OECD Insurance Guidelines for Economies in Transition were taken as references for the reform process. Furthermore, in accordance with Guideline 16, all the OECD representatives present in Lithuania at the 1999 meeting took a clear stand in favour of the introduction of compulsory motor vehicle insurance in Lithuania, which has since become law.

164. A round-table meeting scheduled for late 2001 will examine various common aspects of insurance and private pension regulation, in particular the regulation of investment and solvency rules.

165. In addition to these activities, other forms of cooperation are being developed, in particular through the establishment of a discussion group on insurance questions and through privileged access to the OECD Websites on insurance, containing analytical reports and a comprehensive database on regulation, supervision and statistics.

**Implementation of the reform of the pension system and private retirement plans**

166. Two forms of action were established in this respect. While policy dialogue and technical assistance tailored specifically to the Baltic countries are continuing, all three countries have at the same time become part of the International Network of Pension Regulators and Supervisors (INPRS), set up in Prague in April 2000, with Secretariat services provided by the OECD.

167. Dialogue and technical assistance relating to private pensions are designed to fill the regulatory gaps in some key areas -- drafting of enabling regulations under the legislation on private pensions, establishing a supervisory framework and appropriate accounting rules -- and to adjust and improve some of the existing provisions, in order to extend private pension cover and to increase the financial security of private pension schemes.

168. Work was launched in April 2000, with an initial workshop devoted to the priorities set by the Baltic countries: importance and respective roles of the “second” and “third” pension pillars, particular issues relating to regulation and supervision, in particular regarding investment and guarantee systems (guarantees for returns, benefits and in the event of the sponsor failing). The first topic was of particular

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significance in Lithuania and Estonia, where the introduction of a compulsory private pension system was under discussion. The second workshop on private pensions in the Baltic countries will take place in Sofia, Bulgaria, in April 2001.

169. At the same time, the Baltic countries have become founder members of the International Network of Pension Regulators and Supervisors. They accordingly take an active part in meetings of the OECD Forum on private pensions.

170. Finally, the Baltic countries are involved in the exercise to identify best practices, one of the essential aims of the INPRS. The *OECD Basic Principles for Regulation of Private Pensions*, for example, were ratified in Prague. 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.

**Complementarity with the EU accession process**

171. In all the Baltic countries, considerable efforts have been made to bring legislative bases into line with EU rules governing financial services (in particular the regulation, supervision and accounts of insurance companies, etc.) and capital movements. In some areas, however, additional improvements are required (such as preparing legislation on freedom to establish branches and provide services for foreign insurance companies in Latvia, and the lifting of restrictions on investment by private pension funds in EU countries).

172. The activities on insurance and private pensions conducted under the Baltic Regional Programme complement the EU activities in various ways. First and foremost, they provide opportunities for dialogue with experts from countries which are leaders in insurance (the OECD area represents 95 per cent of the world insurance market) and pensions, whereas the EU focuses more on training. They also provide for more in-depth comparative analysis, covering a larger number of countries and systems.

173. The Baltic Regional Programme also tackles several issues that have not so far been covered by EU legislation. The most obvious example is the area of private pensions, where no EU directive has been issued so far.

4. **Strengthening the public sector’s capacity for economic management**

4.1 **Competition policy**

*Summary of goals, means, and plans*

174. Since the early 1990s, the OECD has conducted a dialogue with the Baltic countries and provided these countries with assistance in capacity building in the field of competition policy. The primary medium-term objective of the Baltic Regional Programme in this area has been to assist the Baltic competition authorities in implementing law enforcement and advocacy activities in a manner that approximates international “best practice” standards. Such standards are reflected in (a) the OECD Council Recommendations of 1995 (on International Co-operation) and 1998 (on Effective Action against
Hard-core Cartels; (b) OECD regulatory reform reports on the role of competition authorities in promoting market-oriented policies; and (c) reports by the OECD’s Committee on Competition Law and Policy (CLP) on various topics. A second medium-term objective is to assist the contiguous Russian territories (notably Kaliningrad, Karelia and Saint Petersburg) in these areas.

175. The programme’s design and implementation reflect both Baltic officials’ specific requests and the OECD’s extensive experience in this region. To develop initial recommendations and identify areas for further work, the programme first provided each Baltic competition authority with a modified form of the evaluation that the CLP provides to competition authorities of OECD Member countries. Those evaluations and recommendations, plus a summary of the meetings and training sessions based on them, were published in Competition law and policy in the Baltic region (OECD, 1999).

176. Programme activities in 2000 and beyond are continuing this successful methodology: (i) annual written evaluations of selected issues and (ii) seminars that combine elements of the CLP’s policy dialogue and peer review with capacity-building activities that target topics identified by the evaluations. In 2000, the Secretariat’s written evaluation and seminar focused on two major substantive areas of competition law: the three authorities’ law enforcement against (i) hard-core cartels and (ii) abuse of dominance.

177. During 2001, the CLP will provide a thorough “best practice” review of the authorities’ work in the third major substantive area of competition law – merger control. All three countries are in the formative stages of this part of their competition policy. To some extent, the review will address the international co-operation issues that are so important in this era of multi-jurisdiction mergers, though a detailed review of international co-operation (in merger and cartel cases) is likely to be held only in 2002.

Activities from October 1999 through December 2000

178. The first programme activity during this period was the publication of the above-mentioned book on Competition law and policy in the Baltic countries. Thereafter, the Secretariat prepared an assessment of the Baltic authorities’ policies and cases against hard-core cartels and abuse of dominance in light of OECD best practice. The reports on these activities were discussed at a three-day seminar held in Vilnius on 10-12 October 2000. In addition to high-level officials from the three Baltic states, the event was attended by officials from the central office of the Russian Antimonopoly Ministry and its territorial offices in Saint Petersburg, Karelia, and Kaliningrad. The event was chaired by a former competition official from the United States. Germany, Norway, Poland and Sweden were also represented on the panel of experts.

179. The discussions were very informal, constructive, and informative. The agencies brought a number of cartel cases, though these generally involved local service providers who sometimes had not been aware that their activity was unlawful. The cases involving abuse of dominance in network utilities emphasised that competition enforcement is still hindered by the lack of effective, independent regulation of natural monopolies, especially in Russia. Cases involving abuse of dominance in non-network industries -- allegedly including one involving Lithuania’s dominant oil refinery, a “national champion” built in Soviet times that is still protected by the government -- emphasised the special issues facing

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19 A “hard core cartel” is an anti-competitive agreement, anti-competitive concerted practice, or anti-competitive arrangement by competitors to fix prices, make rigged bids (collusive tenders), establish output restrictions or quotas, or share or divide markets by allocating customers, suppliers, territories, or lines of commerce. More information on hard-core cartels, and in particular on these recommendations, can be found on the Internet, at http://www.oecd.org/daf/clp/recommendations.htm.


22 See http://www.oecd.org/daf/clp/publications.htm for instructions on how to order this publication.
transition countries and the importance of competition advocacy by the competition agency as a part of overall competition policy.

180. In addition to the seminar for government officials, the event included a session for the public on the importance of effective action against hard-core cartels. The opening speaker in the session was the Lithuanian Chancellor. The media coverage of this part of the event may help to mitigate public ignorance of cartels’ nature and harm, which the OECD’s own anti-cartel programme has identified as one of the main obstacles to effective reform of anti-cartel legislation.

181. Emphasising the importance of competition policy in its reform process, the Government of Lithuania applied for observership in the OECD’s Committee on Competition Law and Policy in 1999. The CLP had a dialogue on Lithuania’s competition policies with a Lithuanian delegation and recommended to the OECD Council that it admit Lithuania as an observer. Council agreed to do so in November 2000. Estonia and Latvia may apply for observership in 2001.

**Contribution to the Baltic region’s economic efficiency and growth**

182. Effective competition law and policy regimes are vital to economic efficiency and growth, not only for the three Baltic states but for the entire region. Only through competition law enforcement can the Baltic countries (and the contiguous parts of the Russian Federation) prevent anti-competitive action by enterprises from delaying transition to a market economy and undermining the political consensus necessary for that transition. For example, as OECD countries take increasingly effective action against hard-core cartels, the Baltic states must take similar action, both to prevent domestic cartels and to ensure that the Baltic region does not become a haven for international cartels. And indeed, in all transition economies, abuse of dominance by former state monopolies is one of the greatest threats to transition.

183. Similarly, just as the OECD urges its Members to call upon their competition authorities to supplement their law enforcement with competition advocacy, it is important that the Baltic competition authorities develop the skills, the independence, and the influence to serve as loci within their governments for the pursuit of regulatory reform that reflects competition principles. Indeed, since many transition country officials are unfamiliar with these principles, such competition advocacy has been particularly important.

184. The importance of competition law and policy in the Baltic countries has been widely recognised. The Baltic states have consistently regarded assistance in this area as one of their highest priorities. OECD Member countries around the Baltic Sea have recognised the importance of this work and have been generous in providing both financial assistance and the expertise of their competition officials. The importance of competition law and policy is also reflected in the importance it is given in the EU accession process. In this regard, the OECD programme complements EU programmes by focusing on policy issues and economic analysis that underlie, but are not a part of, the acquis communautaire and on other topics that are not covered by the acquis (e.g. international enforcement co-operation).

185. Activities since October 1999 have contributed to these long-term goals – and the Programme’s medium-term objectives – in several ways. As the first publication issued as part of the OECD Baltic Regional Programme and the first major publication on this topic, the OECD’s 1999 book on *Competition law and policy in the Baltic region* called the world’s attention to the improvements made by the Baltic states and their commitment to further progress. It also helped the Baltic authorities meet “best practice” standards and clarified and provided information on existing practice to the EU, national governments and the business community. The 2000 evaluation and recommendations on enforcement against cartels and
abuse of dominance has been more specialised and can be expected to have an even greater impact on the Baltic authorities’ emulation of OECD standards.

4.2 Taxation

Outline of the programme

186. The OECD has offered the Baltic countries a taxation programme since 1995. The first phase, which preceded the establishment of the Baltic Regional Programme, was a joint initiative by the OECD and the Scandinavian countries. It ran for three years and was designed to help the Baltic countries establish in-country training programmes for taxation officials. After the successful completion of phase one, phase two of the programme (originally scheduled to last for three years, but an extension beyond 2001 is envisaged) began in 1999 with a focus on tax policy reform.

187. Phase two is concentrated on issues that are important in the areas of international taxation and foreign direct investment. It helps the countries counter problems of international tax evasion and avoidance and prepares them to respond to major OECD initiatives such as combating harmful tax practices. It recognises that, although the Baltic countries’ tax systems have completed the first phase of transition toward market-based concepts, there remain many areas of technical policy development where the countries could benefit from exposure to OECD norms and practices. A multilateral framework ensures that the Baltic countries are exposed to a range of OECD practice. The opportunities for interchange among senior policy officials from the Baltic countries helps them to co-ordinate their policies and to avoid the pitfalls of inconsistent approaches to problems.

188. This part of the Baltic Regional Programme is concentrated in four areas: (i) counteracting international tax avoidance; (ii) extending policy dialogue on core topics of the OECD’s Committee on Fiscal Affairs; (iii) development of property tax systems; and (iv) improving the efficiency of tax administration. The work is supplementary to that 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.

189. The medium-term objectives of this activity include the closer association of the Baltic countries with the OECD’s tax-related instruments, such as the model tax treaties and the transfer pricing guidelines, as well as with the OECD’s work on taxation and electronic commerce.

23 Harmful tax practices may exist when regimes are tailored so as to erode the tax base of other countries. This can occur when tax regimes attract investment or savings originating elsewhere and when they facilitate the avoidance of other countries’ taxes. Further information on the OECD’s work on this subject is available at: http://www.oecd.org/daf/fa/harm_tax/harmtax.htm.


25 To determine their tax liability in each jurisdiction of multinational enterprises, the “right” price (the arm’s length price) has to be put on goods, services and intangibles traded internationally within multinationals. The OECD has issued transfer pricing guidelines for the determination of this arm’s length price. See for further information: http://www.oecd.org/daf/fa/tr_price/transfer.htm.

Meetings held in 2000

190. Four weeklong workshops were offered in 2000 in the areas of international and related domestic taxation and one workshop was offered in property taxation. The workshops allowed exchanges of views on difficult topics in taxation where other sources of information are not generally available. Examples of topics discussed included:

- Taxation of foreign direct investment;
- Analyse the existing intraregional tax treaties in light of Estonia’s new law that exempts corporate profits from taxation.
- Taxation of dividends and interest of foreign residents;
- Determination and attribution of income for permanent establishments;
- Limitation of benefits for tax treaties;
- Tax incentives;
- Taxation of intangibles;
- Insolvency of legal entities.

191. The programme is offered in the Baltic countries which host the events on a rotating basis. As a consequence, the same senior management personnel are able to attend the events under the programme, thus assuring its continuity and providing the best possible opportunity for regional policy dialogue. Topics are chosen by the officials from the Baltic countries, which ensures that the programme responds to their actual needs. The topics for each subsequent session are chosen during the final session of each workshop.

192. The examination of individual topics combines a number of presentations (written and distributed in advance), including those by:

- the OECD, on the policy and technical taxation issues raised by the topic, to provide a context for the discussion;
- OECD Member countries, on their approaches to the issue, to demonstrate a range of practical solutions to the problems under discussion; and,
- the Baltic countries, where they describe their current practices, note the problems that they are confronting and raise issues and concerns.

193. Considerable time is set aside for discussion on the issues raised. The Baltic countries benefit from a full exchange of views among themselves and with the OECD Member country participants.
4.3 Baltic Integrity Plan

194. Ministers of the Council of Baltic Sea States (CBSS) made the strengthening of the fight against bribery and corruption one of the six objectives of their 2000-2001 Action Plan, adopted in February 2000. In particular, the plan supported greater co-operation between the CBSS and the OECD. It also recommended the possibility of collaboration with the OECD Working Group on Bribery in International Transactions. This Action Plan included the development and implementation of the “Baltic Integrity Programme” (BIP). Finally, Ministers urged all Baltic Sea States to co-operate with the OECD with the aim of joining the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.27

195. The objective adopted in the Action Plan builds on earlier work carried out in the framework of the CBSS. Under the CBSS institutional framework, set up in 1998/1999, corruption was identified as having important negative economic and political implications. A joint workshop of OECD and CBSS, held in Riga in 1999, identified different anti-corruption initiatives undertaken by different constituencies in the region and established avenues for further possible actions.

196. In response to the CBSS Ministerial meeting, the OECD was invited to draft the “Baltic Integrity Programme”, taking account of the work carried out by the CBSS and building on the proposals in its Action Plan for 2000-2001. It also made use of the wide expertise of the OECD Secretariat in its fight against corruption. The OECD addresses corruption from the perspective of both the recipients of illicit payments, through work on public service ethics, and the providers of illicit payments, by taking action against active corruption. The BIP also seeks to build on the synergies the OECD has developed with other international public and private initiatives. The BIP foreshadows a strengthening by the Baltic countries of their legal frameworks for combating bribery and the reinforcement of their enforcement capacities, particularly on the investigation and prosecution of bribery cases.

197. Despite the political support of the CBSS, adequate funding has remained an obstacle to the implementation of the BIP. The OECD Secretariat will continue to explore all financial possibilities, with the aim of arriving at a solution before the next CBSS Ministerial, in mid-2001.

198. The three Baltic States have also individually indicated their desire to join different international standards to fight corruption, including associating themselves with the OECD fight against corruption in international business transactions.

199. Representatives of the Baltic countries participated in the information meeting for non-OECD Members on OECD Efforts to Combat Bribery and Corruption, organised on 5 June 2000. At this meeting, they were informed of the underlying commitments and obligations of the OECD anti-corruption instruments, in particular the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. By January 2001, the Baltic countries had all expressed interest in participating in the OECD Working Group on Bribery in International Business Transactions and submitted information on their legal and institutional frameworks to combat domestic and international corruption.

200. The OECD Working Group on Bribery in International Business Transactions will examine these requests to participate in its work, and provide a technical opinion to the OECD Council on the countries’ readiness to do so, as soon as sufficient information has been made available to assess the applications.

5. DATA ASSESSMENT AND DISSEMINATION

Introduction

201. The overall objective of OECD’s statistical work in the Baltic countries is to accelerate improvement in the quality of quarterly estimates of gross domestic product (GDP). Since the Baltic national statistical offices (NSOs) view satisfying the acquis communautaire in the field of statistics as a high priority, and have extensive programmes of technical co-operation with the EU’s statistical agency, Eurostat, OECD’s work must complement the countries’ progress towards EU statistical compliance. The main focus of OECD’s programme is on the development of quarterly national accounts (QNA). This is an area not yet covered by Eurostat in any depth, but which is crucial for monitoring economic developments in the Baltic countries by analysts in the OECD and other agencies.

202. OECD’s co-operation with the Baltic NSOs takes several forms:

− Workshops – the main example is a series of week-long workshops, which started in 1999 and look at practical solutions to the problem of measuring quarterly GDP; however, workshops are also held in related areas, such as the construction of deflators, and the use of seasonal adjustment;

− Technical consultancies in the NSOs, and “remote” consultancy via e-mail – technical advice is provided for priority topics identified by the NSOs, and by users such as OECD economists. In Estonia, the specific topic chosen is the use of short-term indicator data in compiling quarterly GDP; in Lithuania, deflation and annual updating of the base year (chain-linking); and in Latvia, improving quarterly estimates of gross fixed capital formation (GFCF).

− Funding for NSO staff to attend other OECD meetings and workshops;

− Stages for NSO staff at the OECD;

− Publications describing data sources and compilation methods.

203. In addition, the economic statistics published regularly in OECD’s Main Economic Indicators\(^{28}\) are being reviewed to ensure comparability with those published for Member countries, and to expand the range of series published.

204. Eurostat has selected several priority topics for their work with candidate country NSOs, including measurement of the non-observed economy, measurement of dwelling services, capital stock estimation, and the construction of supply-use tables. OECD also considers these to be priorities and is complementing the work of Eurostat by looking at these issues specifically in a quarterly context. In consultation with other organisations, OECD will produce a manual on Measurement of the Non-observed Economy\(^ {29}\).


\(^{29}\) Information on this publication, and how to order it, will be made available in due course on the Internet, at [http://www.oecd.org/std](http://www.oecd.org/std).
Activities during 2000

205. A week-long workshop on estimating quarterly GDP took place in Paris in July 2000, attended by three national accountants from each Baltic NSO, plus participants from five countries of South-Eastern Europe, as well as Ukraine, China and Mexico. The agenda covered a wide range of topics, including the quarterly estimation of GFCF, output of market services, agricultural value-added, and non-observed activity, plus sessions covering deflation of quarterly data, using short-term indicators as a data source for QNA (extrapolation techniques), reconciliation of quarterly estimates with annual data (benchmarking), and QNA software.

206. A three-day workshop was held in Paris in October 2000 on compiling price indices for use in national accounts. This is an important issue, because inaccurate price deflators result in biased measures of real GDP. The workshop was aimed at both national accountants and price statisticians, and was the result of a co-ordinated request from the Baltic NSOs. Participants from several South-Eastern European countries also attended.

207. Funding was provided for three Baltic participants at an OECD meeting on agricultural accounting in Paris, and at the OECD/Eurostat workshop on the non-observed economy in Sochi, Russia. A national accountant from the Estonian NSO visited Paris on a week-long stage to document and discuss QNA data sources and compilation methods.

208. In order to help users of QNA data better understand the basis on which they are compiled, and to provide source material for NA compilers in other transition economies, a detailed description of QNA Sources and Methods in the Baltic Countries was published in early 2001.

209. An OECD mission to the Baltic countries in November 2000 provided country-specific technical advice in the areas described above, in addition to completing the QNA sources and methods publication, and discussing an expansion of the range of data series published in Main Economic Indicators.

Plans for 2001

210. Activity in the first half of the year will focus on the country-specific technical consultancy, via missions to the Baltic NSOs and the provision of written material.

211. In July 2001, a week-long workshop on QNA will take place, with a provisional agenda including:

- GFCF – specifically the estimation of GFCF by unincorporated enterprises, plus comparisons of the methods for calculating consumption of fixed capital across OECD countries for a range of assets;
- using short-term indicators as a data source for QNA, including input-output assumptions;
- seasonal adjustment;
- supply-use and commodity flow in a quarterly context.

30 Information on this publication, and how to order it, is available at http://www.oecd.org/std.
212. A shorter workshop on construction price indices will be held in October 2001. A joint OECD/Eurostat workshop on seasonal adjustment is planned for July 2001. A workshop on measurement of the non-observed economy is envisaged for the first half of 2002.

6. NORTH-WESTERN RUSSIA

213. Karelia, Kaliningrad and Saint Petersburg participated in the Baltic Rim Economic Forum, a programme of OECD seminars in the Baltic countries operated from 1995 to 1998 and a precursor of the current Baltic Regional Programme. As a follow-up, Kaliningrad and Saint Petersburg have been invited to participate in the meetings of the Baltic FEED working group. Together with Karelia, they also participate in the activities on competition policy.

214. In September 1999, a symposium on Enterprise development and foreign direct investment strategies in the Baltic Rim was held, the first OECD-sponsored event addressing North-western Russian regions, of which nine attended. It was organised in co-operation with the Council of Baltic Sea States (CBSS). On this occasion, an initiative was taken to establish a permanent structure for co-operation with these regions with the aim of assisting their governments in developing and prioritising enterprise promotion strategies. The objective of this activity will be to further the competitiveness of enterprises in the regions, based on an in-depth understanding of these enterprises’ needs, as well as of those of foreign investors, and an assessment of the regions’ potential for developing a prosperous small and medium-sized enterprise (SME) sector.

215. In November 2000, OECD and CBSS, in co-operation with the Norwegian Ministry of Trade and Industry organised a meeting on cross-border partnerships for enterprise development and investment promotion in the North-west regions of the Russian Federation. Its objectives were: (i) to explore the potential for cross-border partnerships in developing enterprise in the North-western Russia, and (ii) to examine practical options for SME development agencies and other interested organisations to promote partnerships between enterprises in North-west Russia and the Baltic countries. It was concluded that the investment climate in Russia had reached a turning-point: a sufficient degree of political and macroeconomic stability had been reached to make the region attractive, if still difficult for investors. Cross-border partnership can play a key role in developing the SME sector. Initiatives such as development/venture capital, capital markets, cross-border information systems, and the role of development agencies in brokering joint ventures, were seen as very appropriate to SME development.

216. The FEED process (see section IV, 1.4) is an appropriate method of developing guidelines and policies for enterprise development in Russia. FEED Guidelines and Recommendations, specifically tailored to the Russian needs have been developed for submission shortly to the federal government. In this context, the possibility of setting up a three-years programme to implement the FEED Policy Guidelines and Recommendations in four regions of North-west Russia is under consideration. In view of the horizontal nature of enterprise development in Russia, the need to strengthen the OECD’s FEED programme and in order to secure priority status at federal level, it was proposed to create a Business Advisory Council at the Federal level under the auspices of the President’s office.

217. In 2001, a two-day meeting will be held in Kaliningrad or Saint Petersburg to discuss these issues further and to identify best practice with particular relevance to North-west Russia on strategies for enterprise promotion in the region and cross-border co-operation.
V. PROGRAMME MANAGEMENT

1. LIAISON WITH THE BALTIC COUNTRIES AND DONOR GOVERNMENTS

218. The programme of work for the Baltic Regional Programme is prepared and implemented by the OECD’s Centre for Co-operation with Non-Members (CCNM), in consultation with its interlocutors in the Baltic countries and the donor country governments. This could not be done successfully without the Baltic countries’ active participation in the activities and their interest in developing the programme together with the OECD. The Baltic Regional Programme is “demand-driven”, which means that it is based on proposals from the Baltic countries, with due regard to the OECD’s overall priorities and ability to deliver, the views of the donors and the need to avoid duplication with work carried out elsewhere.

219. The Secretariat, the Baltic countries and the donors liaise both by formal and informal means to design the work programme, monitor its implementation and to evaluate the outcomes. The main formal elements of this liaison and communications mechanism are: (i) working groups in each of the Baltic capitals, (ii) annual evaluation meetings, (iii) annual statements to the donors on the disbursement of their financial contributions. In addition, the Secretariat prepares and publishes annual reports, like the present one. More informally, there are regular meetings with, and programme missions to, the donor countries, the Baltic countries, and several international organisations, such as the European Commission, the Council of Baltic Sea States, the Nordic Council and the Nordic Council of Ministers.

1.1 Baltic working groups

220. In each of the Baltic capitals there is a working group on the implementation of the Baltic Regional Programme co-ordinated by the Ministry of Foreign Affairs. 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 purpose of these, 10 to 18 persons strong groups is to participate in the activities, to follow the programme implementation and to make proposals on future priorities. The members of these groups are also involved in the co-operation with other international organisations like the European Union and the World Trade Organisation. Among the Baltic countries, the Ministries of Foreign Affairs maintain informal contacts to exchange information and views concerning the Programme. Furthermore, there are permanent contact persons in each of the Baltic embassies in Paris for the Programme.

1.2 Annual evaluation meetings

221. In April 1999 and May 2000, programme implementation and planning have been discussed at annual evaluation meetings at the OECD headquarters, with participation by delegates from the Baltic countries and OECD Members. The evaluation meetings offer the possibility of a direct dialogue between the Baltic countries and the OECD Members, thus offering the necessary transparency. For both meetings,
all the Baltic countries prepared strategy papers explaining how they use the Baltic Regional Programme to meet their strategic government objectives. The strategy papers are available on the Internet.\footnote{http://www.oecd.org/sge/ccnm/about/baltic.htm.}

222. The Chairman’s conclusions at the latest meeting are presented in Annex 2.

2. **BUDGET**

223. Upon approving the establishment of the Baltic Regional Programme, in April 1998, the OECD Council set the condition that at least 75 per cent of its funding should come from voluntary contributions and grants.

224. This funding condition has since been met. In the OECD’s own 2000 budget, 910,000 francs\footnote{One French franc equals 0.1524 euro.} were allocated to the Programme, whereas the volume of voluntary contributions and grants amounted to 5.55 million francs. Details on the budget can be found in annex 3.

225. Eleven donors have responded generously to the OECD’s request for financial resources. From the outset, Denmark, Finland, Iceland, Norway, Poland and Sweden have made annual voluntary contributions. As of 1999, Estonia has provided annual grants. As of 2000, Latvia, Lithuania and Ireland have joined the list of donors. In 1998, the European Commission provided a grant towards the *Review of national policies for education of Latvia*. By the end of 2000, the Commission committed a grant for the Baltic FEED.

226. With some minor exceptions, the contributions have been made towards the programme as such, *i.e.* without earmarking to individual activities. This has provided the Secretariat with a flexibility that has been essential for ensuring a smooth implementation of the programme. Indeed, earmarking might lead to lobbying with donors by special interests, with the result that the overall co-ordination of the Programme is thwarted and that its priorities are dictated by the effectiveness of the various lobbying efforts rather than by policy considerations and mutual interest.

227. In addition to their grants for activities under the programme, Finland and Sweden provide supplementary resources in the form of their direct sponsoring of one project staff member at the CCNM each.

3. **STAFF**

228. The day-to-day management of the Baltic Regional Programme is in the hands of a unit in the CCNM which is also responsible for some other CCNM programmes. One staff member in this unit has been assigned with the administration of this Programme.

229. The activities are implemented by the regular OECD staff, as well as by designated project staff members, full-time consultants, single-task consultants and auxiliary staff. Most of them work for the Baltic Regional Programme for only part of their time. Over 2000, five persons were paid for from the Baltic Regional Programme budget as auxiliaries for part of their time.
3.1 Project staff

230. Project staff positions are created by the OECD Council for a limited period and for one or more specific tasks. These positions offer benefits that cannot be offered to consultants or auxiliaries; hence, the creation of project posts facilitates the recruitment of highly qualified staff with limited resources. Several project staff posts have been created in whole or in part for the Baltic Regional Programme. Finland sponsors a full-time programme administrator; Sweden sponsors a junior professional officer, who has been employed on various assignments under the Baltic Regional Programme, in particular various policy reviews of the Baltic countries.

231. Project staff assigned full-time, or near-full time to the Baltic Regional Programme, and paid for from the voluntary contributions and grants for this programme, are: (i) an expert on macroeconomic statistics, (ii) an expert for the Baltic FEED, (iii) a member of the administrative staff for the Baltic FEED. Another expert works for half her time under the Baltic Regional Programme on the reviews of insurance and pension reform. Finally, an expert works for three months a year in the area of taxation under the Baltic Regional Programme.

3.2 Visiting experts

232. The objective of this visiting expert programme 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 two-year period, at least one six-month, or two three-month, positions will be granted to visiting experts from each of the three countries. These visiting experts work on selected activities of the Baltic Regional Programme in various OECD Directorates.

233. Between April and October 1999, Mr. R. Pettai, Second Secretary at the Estonian Ministry of Foreign Affairs, worked at the Directorate for Financial, Fiscal and Enterprise Affairs, participating in the preparation of seminars on corporate governance and foreign direct investment policy.

234. Ms M. Kreššina, Senior Desk Officer at the Ministry of Foreign Affairs of Latvia, joined the same Directorate in September 1999 to participate in the work on insurance and pension reform for six months.

235. From April through June 2000, Ms J. Strumskienė, Head of the International Co-operation and European Integration Department at the Lithuanian Ministry of Education and Science, joined the Directorate for Education, Employment, Labour and Social Affairs, to work on the education policy reviews of the Baltic countries.

236. Mr A. Kalindra, Second Secretary at the Economics Department of Ministry of Foreign Affairs of Lithuania, worked at the Trade Directorate between September and December 2000.

237. As of January 2001, Ms P. Hein, Chief Specialist at the Department of Agro-Food and Trade at the Estonian Ministry of Agriculture, has been assigned to the Directorate for Agriculture for a three-months period. It is expected that another Estonian official will join the OECD later in 2001 for three months.
4. **CO-OPERATION WITH OTHER INTERNATIONAL ORGANISATIONS**

238. The OECD Baltic Regional Programme has established contacts with the European Commission, the Council of Baltic Sea States, and the Secretariat of the Nordic Council and Nordic Council of Ministers.

4.1 **European Commission**

239. All the Baltic countries are in the process of accession to the European Union and benefit from the EC Phare programme. Therefore, EC assistance is primarily focused on the adoption by the Baltic countries of the *acquis communautaire* and, in particular, on priorities identified in their Accession Partnerships and National Programmes for the adoption of the *acquis*.

240. Over the past years, the EC Phare programme has twice provided grants for activities under the Baltic Regional Programme, as mentioned in section 2 above. Unlike the OECD’s programme, which has a multi-country character, the EC’s emphasis has been increasingly on country-specific programmes. This has constrained the Commission’s possibilities to provide grants to the Baltic Regional Programme.

241. The Baltic Regional Programme differs from the accession-driven focus and conditionality of the EC Phare assistance. It is targeted at the development of 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 a single, ready-made solution. Therefore the advice provided by the OECD does not create any duplication, but rather complementarity and supplementarity with other the EU Programme.

4.2 **Council of Baltic Sea States**

242. The twelve-member[33] Council of Baltic Sea States was established in 1992. It constitutes a regional forum focused on the needs for intensified co-operation and co-ordination among its members. The aim of this co-operative body is to achieve a genuinely democratic development in the Baltic Sea region and a greater unity between the Member countries, as well as to secure their favourable economic development.

243. There have been regular contacts between OECD and CBSS at Secretariat level and between the OECD Secretariat and the Committee of Senior Officials of the CBSS, with the purpose of which have been to exchange information and, where possible, set up joint activities. In 2000, the OECD was invited to attend CBSS Ministerial meetings as an observer.

244. The CBSS has joined the OECD in organising two seminars in Saint Petersburg, one in September 1999 and one in November 2000, the latter one dealing with *Cross-border partnerships for enterprise development and investment promotion in the north-western regions of the Russian Federation* (see section IV, 6).

245. In February 2000, at the CBSS Ministerial meeting in Bergen, Norway, an Action Plan for 2000-2001 was adopted, aimed at improving the conditions for trade and investment in the Baltic region. The plan included a recommendation to foster closer ties between the CBSS and the OECD in fighting

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[33] Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, the Russian Federation, Sweden and the European Commission.
corruption. In response, the OECD Secretariat has developed proposals for a Baltic Integrity Programme (see section 4.3), for which it is presently soliciting funding.

4.3 Nordic Council of Ministers and Nordic Council

246. The Nordic Council is a joint co-operative body for the Nordic parliaments and governments. The Nordic Council of Ministers is a governmental co-operation body. There have been a number of meetings between OECD and both Councils at secretariat levels, in particular to exchange information.

5. MISSIONS AND VISITS

247. After participating in the Baltic Development Forum conference in Malmö, Sweden, on 17 and 18 September 2000, Mr Seiichi Kondo, Deputy Secretary-General of the OECD, made a three-day visit to Latvia, Estonia and Lithuania. He met with the President of Lithuania, the Prime Ministers of Estonia and Latvia, and with other Ministers, Ambassadors of several OECD Member countries and high-level government officials. During the mission, the progress achieved in implementing the Baltic Regional Programme, and its orientations for the near future, were discussed, and the Baltic countries reaffirmed their political support for the Programme and its objective of association the countries more closely to the OECD standards and instruments. All countries expressed a strong desire to become OECD Members in the foreseeable future.

248. On 10 April 2000, the Prime Minister of Estonia, Mr Mart Laar, visited the OECD’s Secretary-General, Mr Donald J. Johnston.

249. From 18-21 October 1999, Mr Eric Burgeat, Director of the OECD’s Centre for Co-operation with Non-Members, led a programme review and planning mission of the Secretariat to Estonia, Latvia and Lithuania. Other Secretariat missions were made to Denmark, Finland, Norway and Sweden, to discuss the programme implementation and planning with officials of these donor countries.
# ANNEX 1

**BALTIC REGIONAL PROGRAMME: LIST OF EVENTS**  
**OCTOBER 1999 - DECEMBER 2000**

<table>
<thead>
<tr>
<th>DATE</th>
<th>TITLE OF EVENT</th>
<th>LOCATION</th>
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<tbody>
<tr>
<td>4 - 8 October 1999</td>
<td>Workshop on tax policy and administration</td>
<td>Riga</td>
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<tr>
<td>18 - 22 October 1999</td>
<td>Workshop on property taxation</td>
<td>Budapest</td>
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<td>21 - 22 October 1999</td>
<td>Seminar on corporate governance</td>
<td>Vilnius</td>
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<tr>
<td>8 November 1999</td>
<td>Seminar on the Regional Economic Assessment of the Baltic States</td>
<td>Paris</td>
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<td>16 November 1999</td>
<td>Seminar on foreign direct investment statistics</td>
<td>Tallinn</td>
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<tr>
<td>17 November 1999</td>
<td>Seminar on foreign direct investment</td>
<td>Tallinn</td>
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<tr>
<td>22-23 November 1999</td>
<td>Seminar on insurance and pension reform</td>
<td>Vilnius</td>
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<tr>
<td>17 January 2000</td>
<td>Meeting of the Baltic Forum for Entrepreneurship and Enterprise Development (FEED) steering group</td>
<td>Jönköping</td>
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<tr>
<td>19 January 2000</td>
<td>Meeting of the Working Group on Investment Strategies in the North-Western Regions of the Russian Federation</td>
<td>St. Petersburg</td>
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<tr>
<td>31 January - 4 February 2000</td>
<td>Workshop on domestic tax issues</td>
<td>Tallinn</td>
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<tr>
<td>8 - 10 February 2000</td>
<td>OECD Baltic-Nordic workshop on public debt management and government securities market operations</td>
<td>Stockholm</td>
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<td>26 - 28 April 2000</td>
<td>Follow-up seminar in the three Baltic states to present the Regional Economic Assessment</td>
<td>Tallinn, Riga and Vilnius</td>
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<td>30 March 2000</td>
<td>Baltic FEED extraordinary meeting: Presentation of the Baltic FEED guidelines and recommendations</td>
<td>Tallinn</td>
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<tr>
<td>6 - 7 April 2000</td>
<td>Workshop on private pensions in the Baltic countries</td>
<td>Prague</td>
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<tr>
<td>5 May 2000</td>
<td>Evaluation meeting for the Baltic Regional Programme</td>
<td>Paris</td>
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<tr>
<td>8 - 12 May 2000</td>
<td>Workshop on property taxation</td>
<td>Tallinn</td>
</tr>
</tbody>
</table>
## LIST OF EVENTS OCTOBER 1999 - DECEMBER 2000 (CONT.)

<table>
<thead>
<tr>
<th>DATE</th>
<th>TITLE OF EVENT</th>
<th>LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 May 2000</td>
<td>Plenary session of the Working Group on Investment Strategies</td>
<td>St Petersburg</td>
</tr>
<tr>
<td>30 May 2000</td>
<td>Conference on fiscal incentives and competition for foreign direct investment (FDI) in the Baltic states</td>
<td>Vilnius</td>
</tr>
<tr>
<td>12 - 16 June 2000</td>
<td>Workshop on domestic tax issues</td>
<td>Riga</td>
</tr>
<tr>
<td>19 - 20 June 2000</td>
<td>Meeting of the Baltic FEED Working Group I</td>
<td>Tallinn</td>
</tr>
<tr>
<td>26 - 27 June 2000</td>
<td>Special session of the OECD Education Committee: Review of national education policies in the Baltic countries</td>
<td>Helsinki</td>
</tr>
<tr>
<td>3 - 7 July 2000</td>
<td>Workshop on quarterly national accounts</td>
<td>Paris</td>
</tr>
<tr>
<td>10 - 11 August 2000</td>
<td>Seminar on the Review of National Education policy in Latvia</td>
<td>Riga</td>
</tr>
<tr>
<td>3 - 5 October 2000</td>
<td>Workshop on capital markets development in the Baltic region: Institutional structure and operations of stock markets</td>
<td>Riga</td>
</tr>
<tr>
<td>10 - 12 October 2000</td>
<td>Conference on competition policy in the Baltic countries</td>
<td>Vilnius</td>
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<tr>
<td>16 - 18 October 2000</td>
<td>Workshop on price indices for national accounts</td>
<td>Paris</td>
</tr>
<tr>
<td>4 - 8 December 2000</td>
<td>Baltic FEED Working Group meeting: Country assessment of Latvia</td>
<td>Riga</td>
</tr>
<tr>
<td>4 - 8 December 2000</td>
<td>Workshop on international taxation</td>
<td>Vilnius</td>
</tr>
<tr>
<td>7 - 8 December 2000</td>
<td>Estonia Education Forum</td>
<td>Tartu</td>
</tr>
<tr>
<td>14 - 15 December 2000</td>
<td>Workshop on insurance in the Baltic countries</td>
<td>Riga</td>
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# BALTIC REGIONAL PROGRAMME: TENTATIVE LIST OF EVENTS IN 2001

<table>
<thead>
<tr>
<th>DATE</th>
<th>TITLE OF EVENT</th>
<th>LOCATION</th>
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<tbody>
<tr>
<td>5 - 9 February 2001</td>
<td>Workshop on domestic tax issues</td>
<td>Riga</td>
</tr>
<tr>
<td>27 April 2001</td>
<td>Workshop on private pensions reform in the Baltic countries</td>
<td>Sofia</td>
</tr>
<tr>
<td>7 - 11 May 2001</td>
<td>Workshop on property tax</td>
<td>Vilnius</td>
</tr>
<tr>
<td>June 2001</td>
<td>Evaluation meeting for the Baltic Regional Programme</td>
<td>Baltic country</td>
</tr>
<tr>
<td>June 2001</td>
<td>Baltic FEED Working Group meeting: Country assessment of Lithuania</td>
<td>Lithuania</td>
</tr>
<tr>
<td>11 - 15 June 2001</td>
<td>Workshop on international taxation</td>
<td>Tallinn</td>
</tr>
<tr>
<td>2 - 6 July 2001</td>
<td>Meeting on quarterly national accounts</td>
<td>Paris</td>
</tr>
<tr>
<td>July 2001</td>
<td>Workshop on seasonal adjustment of data</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>12-14 September 2001</td>
<td>Baltic Sea Region E-business Forum</td>
<td>Riga</td>
</tr>
<tr>
<td>17 - 21 September 2001</td>
<td>Workshop on domestic tax policy</td>
<td>Vilnius</td>
</tr>
<tr>
<td>September/October 2001</td>
<td>Follow-up Seminar for the Education Review of Lithuania: The role of parliamentary committees in the formulation of national education policy</td>
<td>Vilnius</td>
</tr>
<tr>
<td>October 2001</td>
<td>Workshop on measuring prices of construction outputs</td>
<td>Riga</td>
</tr>
<tr>
<td>December 2001</td>
<td>Baltic FEED Working Group meeting: Country assessment of Estonia</td>
<td>Estonia</td>
</tr>
<tr>
<td>December 2001</td>
<td>The economic environment for trade in services in the Baltic states</td>
<td>Estonia</td>
</tr>
<tr>
<td>Fourth quarter 2001</td>
<td>Workshop on insurance and private pensions reform</td>
<td>To be determined</td>
</tr>
<tr>
<td>Fourth quarter 2001</td>
<td>Workshop on the food processing sector in the Baltic states: Opportunities and challenges</td>
<td>Baltic country</td>
</tr>
<tr>
<td>Fourth quarter, 2001</td>
<td>Conference on merger control</td>
<td>Tallinn</td>
</tr>
<tr>
<td>To be determined, 2001</td>
<td>Annual Forum of government debt managers from Baltic and Nordic countries</td>
<td>To be determined</td>
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### TENTATIVE LIST OF EVENTS IN 2001 (CONT.) AND 2002

<table>
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<tr>
<th>DATE</th>
<th>TITLE OF EVENT</th>
<th>LOCATION</th>
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<tr>
<td>To be determined, 2001</td>
<td>Two meetings of the working group on private securities markets</td>
<td>To be determined</td>
</tr>
<tr>
<td>April 2002</td>
<td>Meeting of the OECD Committee on Employment, Labour and Social Affairs: Review of labour market and social policies in the Baltic countries</td>
<td>Paris</td>
</tr>
<tr>
<td>To be determined, 2002</td>
<td>Workshop on measuring the non-observed economy</td>
<td>Baltic country</td>
</tr>
<tr>
<td>To be determined, 2002</td>
<td>Seminar on national leadership and the future role of ministries of education</td>
<td>Estonia</td>
</tr>
</tbody>
</table>
ANNEX 2

SECOND ANNUAL EVALUATION MEETING OF THE BALTIC REGIONAL PROGRAMME, PARIS, 5 MAY 2000

Conclusions by the Chairman, Mr Seiichi Kondo, Deputy Secretary-General of the OECD

250. I think that today’s meeting has been very successful. This success is the result of the commitment and strong support by the Baltic countries and the Delegates from OECD Members, the donor countries and the Secretariat. The high representation of the Baltic countries is very much appreciated.

251. The corporate culture of the OECD is to have policy discussions rather than to pursue conditionality. The demand-driven nature of the Programme, the interest and commitment among the partners involved is the key to its success in this respect. I am happy to hear how the Baltic countries appreciate this Baltic Regional Programme. Over the years, the OECD have accumulated best practices on issues that are very relevant for the Baltic countries and I am glad they have come to us.

252. As the topics discussed today are common to all countries in the world, everyone, not only the Baltic States but also OECD Member countries, can learn from this dialogue. The rapid progress of globalisation and the interdependence between countries mean that no single country can solve its problems alone. I am happy to hear that the Baltic States co-operate closely among themselves and are committed to solving their common problems together.

253. Strong support was registered for the medium-term objectives set out in the paper prepared by the Secretariat. These objectives serve as yardsticks and ensure the long-term commitment of the partners involved. These objectives have proven to be right.

254. It is my impression that the Baltic States are fully aware of the need to avoid duplication. They have indeed taken steps to co-ordinate our programme with programmes of other international organisations, as well as of bilateral donors.

255. Several new activities have been suggested for the future programme, including in the areas of agriculture, fisheries, and trade in services. The Secretariat will explore the possibilities of including these in the programme and see how effectively OECD can contribute in these areas. However, it is important to bear in mind, considering the limited resources available, that we should not be overambitious. We have to concentrate on selected areas where the OECD has a comparative advantage.

256. Considering the rapid economic development in the Baltic region, I find strong support from the Delegates to continue to hold these meetings on a twelve-months cycle. There is an obvious need for constant evaluation of the Programme.

257. On the question of participation by Russian regions in the activities, there was a consensus that a thematic or case-by-case approach would be the most appropriate.
The following table lists the voluntary financial contributions received and their disbursements. Information on the funding from the OECD’s “own” (part 1) budget is added for information.

### VOLUNTARY CONTRIBUTIONS

<table>
<thead>
<tr>
<th>Programme contributions</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>527</td>
<td>528</td>
<td>517</td>
</tr>
<tr>
<td>EC Phare <em>(Education Review Latvia)</em></td>
<td>364</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Estonia</td>
<td>--</td>
<td>120</td>
<td>155</td>
</tr>
<tr>
<td>Finland</td>
<td>1,320</td>
<td>1,112</td>
<td>1,000</td>
</tr>
<tr>
<td>Finland <em>(Foreign direct investment)</em></td>
<td>--</td>
<td>308</td>
<td>--</td>
</tr>
<tr>
<td>Iceland</td>
<td>50</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Ireland</td>
<td>--</td>
<td>--</td>
<td>250</td>
</tr>
<tr>
<td>Latvia</td>
<td>--</td>
<td>--</td>
<td>130</td>
</tr>
<tr>
<td>Lithuania</td>
<td>--</td>
<td>--</td>
<td>130</td>
</tr>
<tr>
<td>Norway</td>
<td>816</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Poland</td>
<td>200</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>Poland <em>(Education Review Lithuania)</em></td>
<td>--</td>
<td>30</td>
<td>--</td>
</tr>
<tr>
<td>Sweden</td>
<td>1,127</td>
<td>1,095</td>
<td>1,200</td>
</tr>
<tr>
<td>Sweden <em>(Capital markets workshop)</em></td>
<td>--</td>
<td>--</td>
<td>57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,404</strong></td>
<td><strong>4,253</strong></td>
<td><strong>4,549</strong></td>
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</table>

### Earmarked for project staff

<table>
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<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
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</thead>
<tbody>
<tr>
<td>Finland</td>
<td>217</td>
<td>178</td>
<td>477</td>
</tr>
<tr>
<td>Sweden (SIDA)</td>
<td>--</td>
<td>460</td>
<td>524</td>
</tr>
<tr>
<td>Poland (in-kind)</td>
<td>--</td>
<td>P.M.</td>
<td>--</td>
</tr>
<tr>
<td><strong>All grants</strong></td>
<td><strong>4,621</strong></td>
<td><strong>4,891</strong></td>
<td><strong>5,549</strong></td>
</tr>
</tbody>
</table>

P.M.: OECD budget (part 1) 762 856 910
P.M.: Total budget 5,383 5,747 6,459
P.M.: Grants (% of budget) 85.8 85.1 85.9

### DISBURSEMENTS

<table>
<thead>
<tr>
<th></th>
<th>1998 grants</th>
<th>1999 grants</th>
<th>2000 grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Missions</td>
<td>615</td>
<td>762</td>
<td>550</td>
</tr>
<tr>
<td>2. Meetings</td>
<td>1,450</td>
<td>1,350</td>
<td>1,355</td>
</tr>
<tr>
<td>3. Consultants/auxiliaries/visiting experts</td>
<td>1,870</td>
<td>1,384</td>
<td>634</td>
</tr>
<tr>
<td>4. Project staff</td>
<td>679</td>
<td>1,388</td>
<td>2,738</td>
</tr>
<tr>
<td>5. Other</td>
<td>6</td>
<td>0</td>
<td>0</td>
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<tr>
<td>6. To be disbursed</td>
<td>1</td>
<td>8</td>
<td>272</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,621</strong></td>
<td><strong>4,891</strong></td>
<td><strong>5,549</strong></td>
</tr>
</tbody>
</table>

P.M. Organisation (1+2) 2,065 2,112 1,904
P.M. Human resources (3+4) 2,549 2,772 3,373
ANNEX 4

BIBLIOGRAPHY

259. The following publications have all been issued by OECD Publications. More information about OECD publications is available on the Internet at http://electrade.gfi.fr/cgi-bin/OECDBookShop.storefront, or at http://web.oecd.org.

Publications on the Baltic countries


Review of agricultural policies, Lithuania, 1996.


Building capacity in the environmental goods and services industry in the Baltic region, 1998.

Combining domestic and foreign finance for environmental investments in Central and Eastern Europe: Case studies of PPC investment projects In Estonia, Hungary, Poland and Romania, 1998

Baltic agro-food policies; Proceedings of the OECD meeting at Ministerial level, 1999.

Competition law and policies in the Baltic countries, 1999.

The Baltic States: A regional economic assessment, 2000 (translated into Estonian, Latvian and Lithuanian, see Chapter III, footnotes 7, 8 and 9).


Publications forthcoming in 2001 and 2002


Quarterly National Accounts in the Baltic countries - Sources and methods, 2001

Promoting enterprise development in Latvia, an assessment of current policies and practices, 2001

Promoting enterprise development in Lithuania, an assessment of current policies and practices, 2001

Baltic FEED venture capital guidelines, 2001 (title to be determined).


Social and labour market policy review of the Baltic countries (title to be determined), 2002.