Nations in Transit 2001

Civil Society, Democracy, and Markets
in East Central Europe and
the Newly Independent States

Edited by Adrian Karatnycky, Alexander Motyl, and Amanda Schnetzer

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Acknowledgments

Nations in Transit 2001 could not have been completed without the dedicated and expert advice of the project's academic consultants. Freedom House is especially grateful to Alexander Motyl, the associate director of the Center for Global Change and Governance at Rutgers University-Newark, for reviewing and providing editorial guidance on the country reports; Stephen Handelman, an associate at the Harriman Institute and the author of *Comrade Criminal: Russia's New Mafiya*, for editing the corruption sections of the country reports; and Boris Shor, the coordinator of the *Nations in Transit 1997* survey, for providing editorial guidance on the economic sections of the country reports.

Freedom House also thanks the members of the project's academic oversight boards, which primarily were responsible for determining the country ratings and reviewing selected country reports. In addition to Mr. Handelman and Mr. Motyl, the American board includes Richard Ericson, a professor of economics at Columbia University; Charles Gati, a fellow and senior adjunct professor at the School of Advanced International Studies at Johns Hopkins University; and Stephen Holmes of the Carnegie Endowment for International Peace. The board of advisers from Central and Eastern Europe and the New Independent States includes Florian Bieber, researcher, European Center for Minority Issues (Sarajevo); Artan Hoxha, research director, Institute of Contemporary Studies (Tirana); Olga Kryshtanovskaya, general director, Institute for Applied Politics (Moscow); Alexandru Lazescu, president, "INSIDE" Association (Bucharest); Nasib Nassibli, dean, School of Law and Social Sciences, Khazar Univiversity (Baku); Hryhoriy Nemyria, director, Center for European and International Studies, Institute of International Relations (Kiev); Gevork Pogosian, president, Armenian Sociological Association (Yerevan); Ognjen Pribicevic, research fellow, Institute for Social Sciences (Belgrade); and Nikolai Sitter, associate professor, Department of Public Governance, The Norwegian School of Management (Oslo).

Freedom House also thanks the principal authors of the country reports: Sabirzyan Badertinov, former senior editor, Radio Liberty (Turkmenistan report); Gordon Bardos, program officer, Harriman Institute, Columbia University (Bosnia and Yugoslavia reports); Scott Carlson, director, CEE Programs, American Bar Association Central and East European Law Initiative (Albania report); Emil Danielyan, Yerevan correspondent, Radio Free Europe/Radio Liberty (Armenia report); Bhavna Dave, Department of Political Studies, School of Oriental and African Studies, University of London (Kazakhstan report); Janusz Durlik, deputy director, Public Opinion Research Center (Poland report); Eran Fraenkel, executive director, Search for Common Ground in Macedonia (Macedonia report); Gregory Gleason, professor of political science and public administration, University of New Mexico (Uzbekistan report); Charles Graybow, a doctoral candidate at New York University (Croatia and Kyrgyzstan reports); Olexiy Haran, director, Center for National Security Studies, University of Kyiv-Mohyla Academy (Ukraine report); Glen Howard, analyst, Global Strategies Division, Science Applications International Corporation (Tajikistan report); Ivars Indans, researcher, Latvian Institute of International Affairs (Latvia report); Charles King, assistant professor of foreign service and government, Georgetown University (Moldova report); Ivan Krastev, chairman, Centre for Liberal Strategies (Bulgaria report); Taras Kuzio, senior research fellow, Center for International and Security Studies, York University (Belarus report); Eric Lepisto, a doctoral candidate at Columbia University (Azerbaijan report); Aneta Lomovska, director of external affairs, Lithuanian Free Market Institute (Lithuania report); Catherine Lovatt, Black Sea editor, *Central Europe Review* (Romania report); Troy McGrath, visiting assistant professor, University of Kansas (Russia report); Gregorij Meseznikov, president, Institute for Public Affairs (Slovakia report); Zoltan Miklosi, a doctoral candidate at New School University (Hungary report); Ghia Nodia, chairman, Caucasian Institute for Peace, Democracy and Development (Georgia report); Aili Piano, senior researcher, Freedom House (Estonia report); Brian Pozun, contributor, *Central Europe Review* (Slovenia report); and Petr Vancura, director, Prague Institute for National Security (Czech report).

Adrian Karatnycky, the president of Freedom House, developed the Nations in Transit project and, along with Alexander Motyl and Amanda Schnetzer, a senior researcher at Freedom House, edited the 2001 study. Arch Puddington, the vice president for research at Freedom House, provided overall guidance for the project, and Kristen Guida, a senior researcher at Freedom House, assisted in copyediting the manuscript. Anne Green was responsible for the design and layout of the book. Romolo Isaia, a graduate intern, provided research assistance and helped produce the charts and tables. Orysia Lutsevych and Kendra Zaharescu, members of the Freedom House staff, also provided assistance.

Explanatory Notes

Nations in Transit 2001 measures progress and setbacks in political and economic reform in 27 countries of Central and Eastern Europe and the New Independent States of the former Soviet Union. This volume, which covers events from July 1, 1999, through October 31, 2000, is an updated edition of surveys published in 2000, 1998, 1997, and 1995.

In previous editions of *Nations in Transit*, the country reports followed a strict question-and-answer format that leant itself well to the presentation of facts and data. For the 2001 edition, Freedom House adopted a new essay format that gave writers the flexibility to provide a more nuanced analysis of the progress of democratic change in their country of expertise. As in previous editions, Freedom House asked writers to consider four principal topics: democratization, the rule of law, economic liberalization, and social indicators. However, Freedom House condensed the last two topics and asked writers to adopt a fresher approach.

In the past, writers were asked to provide a laundry list of economic and social data that, by and large, were readily available from government agencies or from multinational organizations such as the World Bank, the International Monetary Fund, the United Nations Development Programme, and the European Bank for Reconstruction and Development. For the 2001 edition of *Nations in Transit*, Freedom House asked writers to consider matters such as privatization, tax reform, property rights, trade liberalization, unemployment, pension reform, educational attainment, and health status and to focus their remarks on those matters that have a substantive or direct bearing on the overall progress of democratization and internal stabilization in their particular country.

Report writers received a comprehensive checklist of questions to guide their research. The questions cover four principal topics—democratization, the rule of law, economic liberalization, and social indicators—and are addressed in the report texts in the following general order:

Democratization

POLITICAL PROCESS. Examines national executive and legislative elections, the development of multiparty systems, and popular participation in the political process.

CIVIL SOCIETY. Assesses the growth of nongovernmental organizations, their organizational capacity and financial sustainability, and the legal and political environment in which they function; the development of free trade unions; and interest group participation in the policy process.

INDEPENDENT MEDIA. Addresses the legal framework for and present state of press freedom, including libel laws, harassment of journalists, editorial independence, the emergence of a financially viable private press, and Internet access for private citizens.

GOVERNANCE AND PUBLIC ADMINISTRATION. Considers the authority of legislative bodies; decentralization of power; the responsibilities, election, and management of local government bodies; and legislative and executive transparency.

Rule of Law

CONSTITUTIONAL, LEGISLATIVE, AND JUDICIAL FRAMEWORK. Highlights constitutional reform, human rights protection, criminal code reform, the judiciary and judicial independence, and the status of ethnic minority rights.

CORRUPTION. Looks at perceptions of corruption in the civil service, the business interests of top policy makers, laws on financial disclosure and conflict of interest, and anticorruption initiatives.

Economic Liberalization and Social Indicators

PRIVATIZATION. Considers the legal framework for privatization and the present state of the privatization process.

MACROECONOMIC POLICY. Covers tax reform, fiscal and monetary policy, and banking reform.

MICROECONOMIC POLICY. Examines property rights, price liberalization, the ability to operate a business, international trade and foreign investment, and the energy sector.

SOCIAL SECTOR INDICATORS. Assesses unemployment rates, pension systems, income levels, the educational system, infant mortality, birth rates, life expectancy, divorce and suicide rates, the health care system, and poverty rates.

RATINGS METHODOLOGY

For all 27 countries in the survey, Freedom House has provided numerical ratings for the first nine subcategories listed above. The ratings are based on a scale of 1 to 7, with one representing the highest and seven the lowest level of democratic progress. These ratings are then averaged to obtain scores for:

DEMOCRATIZATION. Average of ratings for Political Process, Civil Society, Independent Media, and Governance and Public Administration.

RULE OF LAW. Average of ratings for Constitutional, Legislative, and Judicial Framework and Corruption.

ECONOMIC LIBERALIZATION. Average of ratings for Privatization, Macroeconomic Policy, and Microeconomic Policy.

The header page for each country report contains a score history. Scores that have changed less than 0.25 over the previous survey period are indicated by a single upward or downward arrow. Changes of 0.25 or more are indicated by a double upward or downward arrow. The ratings history for each subcategory is contained within the text of the report.

As with *Freedom in the World*, Freedom House's annual comparative survey of political rights and civil liberties, *Nations in Transit* does not rate governments per se, nor does it rate countries based on governmental intentions or legislation alone. Rather, a country's ratings are determined by considering the practical effect of the state and nongovernmental actors (business oligarchies, social movements, insurgencies, and other groups that function outside of the normal political and civic process) on an individual's rights and freedoms. These ratings, which should not be taken as absolute indicators of the situation in a given country, are valuable for making general assessments of how democratic or authoritarian a country is. They also allow for comparative analysis of reform among the countries surveyed and for analysis of long-term developments in a particular country.

The ratings process for *Nations in Transit 2001* involved four main steps. First, the authors of the individual reports suggested preliminary ratings in all nine categories. Next, the U.S. and CEE-NIS academic oversight boards met in New York in December 2000 and in Budapest in February 2001, respectively, to evaluate the ratings and to establish consensus. Finally, Freedom House staff reviewed the ratings and used the results to draw broad conclusions about the level of democratization, rule of law, and economic liberalization in each country.

RESEARCH TEAM AND DATA SOURCES

Freedom House developed the initial survey and subsequent editions after consultations with the U.S. Agency for International Development (USAID). The country reports were researched and written by Freedom House staff members, outside consultants, and representatives of regional think tanks. Consultants were generally specialists at the Ph.D. level who were recommended by recognized authorities on their respective regions. The research team used a wide variety of sources in writing the reports, including information from nongovernmental organizations, multilateral lending institutions and other international organizations, local newspapers and magazines, and select government data.

The economic and social data contained in the tables and header pages of the 2001 edition were taken from the following sources:

ETHNIC GROUPS: *The World Factbook 2000* (Washington: Central Intelligence Agency, 2001).

EXPORTS/IMPORTS: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001.* Data for 2000 are estimates.

FOREIGN DIRECT INVESTMENT: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates.

GDP GROWTH: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates.

GDP PER CAPITA: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates.

GNP PER CAPITA AT PPP: World Development Report 2000/2001 (New York: World Bank, Oxford University Press, 2000).

INFLATION RATE (annual average): *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates.

LIFE EXPECTANCY: Data for the period 1994 to 1999 are from the World Bank's *World Development Indicators 2000* and *World Development Indicators 2001*. Data for 2000 are mid-year estimates from the *2000 World Population Data Sheet* (Washington: Population Reference Bureau, 2000).

POPULATION: *2000 World Population Data Sheet* (Washington: Population Reference Bureau, 2000).

PRIVATE SECTOR AS % OF GDP: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000).

UNEMPLOYMENT: *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and *Transition Report Update April 2001*. Data for 2000 are estimates. Year 2000 data for Azerbaijan, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, and Moldova are estimates or partial-year figures taken from respective country reports by the Economic Intelligence Unit.

Nations in Transit: Emerging Dynamics of Change

Adrian Karatnycky

Nations in Transit 2001 is the fifth survey undertaken by Freedom House in cooperation with leading scholars from Central and Eastern Europe, the Caucasus, Western Europe, and the United States. The only comprehensive, comparative, multidimensional study of its kind, *Nations in Transit* offers a series of signposts that facilitate comparisons of the direction and state of political and economic transition among the states of Central and Eastern Europe (CEE) and the former Soviet Union (USSR). This edition charts the varying paths of transition in 27 post-Communist states during the 16-month period beginning July 1, 1999, and ending October 31, 2000. It tracks the political and economic evolution of a vast territorial expanse that extends from Central Europe to East Asia and is inhabited by more than 415 million people.

This survey is part of a public-private initiative that is funded primarily by the U.S. Agency for International Development (USAID). Freedom House receives additional support from the Open Society Institute and smaller grants from other private foundations. The Open Society Institute's enhanced funding has enabled Freedom House to take advantage of the wealth of scholarly and analytic expertise resident in the countries under review by expanding the participation of scholars from CEE and the former USSR in the research and ratings effort and by convening annual review meetings in Budapest, Hungary.

As in past surveys, *Nations in Transit 2001* rates countries on a comparative basis in three broad thematic categories: democratization, the rule of law, and economic liberalization. Democratization scores encompass the average of ratings for four dimensions of civic and political life: political process, civil society, independent media, and governance and public administration. Rule of law scores are an average derived from ratings for constitutional, legislative, and judicial framework and for corruption. Economic liberalization scores

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represent average ratings for the areas of privatization, macroeconomic policy, and microeconomic policy. The ratings are based on a 1 to 7 scale, with 1 representing the most favorable level and 7 the most repressive, or state-dominated, level of political and economic practice. (See Table A.) Based on their scores, countries are divided into the following classifications of polities: consolidated democracies, transitional governments, and consolidated autocracies. Using a similar typology for economic policy, Freedom House also has divided the countries into consolidated market economies, transitional economies, and consolidated statist economies. (See Table B.)

THE 2001 SURVEY FINDINGS

The 2001 survey findings encompass the 16-month period ending October 31, 2000, and include separate country narratives that answer and analyze a standard set of questions related to democratization, the rule of law, economic liberalization, and social sector indicators. The numerical ratings are an attempt to embody in concise and comparative form the trends and analysis contained in the accompanying essays.

This year's findings show some significant new developments in reform dynamism and suggest a worrisome drift toward authoritarianism in the countries of the former Soviet Union. Of the 27 countries under review in this edition, ten are now consolidated democracies. These are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, as well as two new entrants: Bulgaria and Croatia. The survey also shows that Romania, a transitional state, has developed a strong basis for joining the ranks of established democracies because of the openness of its political process, the vibrancy of its civic life, and the independence of its media. But Romania's further progress is an open question. Ion Iliescu has returned to power, and it remains to be seen if he will revert to the style of rule that characterized his first two terms in office.

Although the number of consolidated democracies increased in this survey period, the broader findings show that most of the reform momentum occurred in countries that already were in the upper half of the democratization tables. That is to say, states on the path of reform and political openness are deepening their processes of positive change. (See Table C.) For example, there was significant forward momentum in Bulgaria, Croatia, and Slovakia, whose democratization scores advanced by .25 points or more. Albania, an upper-tier transitional state, registered similar progress. Only one upper-tier transitional country, Macedonia, regressed in its democratization indicators because it confronted the consequences of a massive inflow of refugees from then war-ravaged and ethnically cleansed Kosovo.

At the same time, most of the poorly performing countries (i.e., those in the lower half of the democratization and economic reform scales) either exhibited inertia or regressed toward statism or repression. There was significant negative momentum in the democratization indicators of the Kyrgyz Republic and Russia. Azerbaijan, Belarus, Kazakhstan, Ukraine, and Uzbekistan registered lesser degrees of backsliding. Indeed, of all the countries in the lower half of the *Nations in Transit* scale, only Tajikistan and Yugoslavia registered significant progress. In the latter, mass civic activism resulted in a fair election count and the defeat of the country's authoritarian leader, Slobodan Milosevic.

TRENDS

The longer-term trends show that since the survey began in 1997 only three countries—Bulgaria, Croatia, and Slovakia—have advanced out of the ranks of the transitional countries and entered the ranks of the consolidated democracies. At the same time, only Tajikistan has left the ranks of the consolidated autocracies and entered the ranks of the transitional countries.

Interesting patterns emerge when one looks at ratings trends in the area of democratization. In 1998, the average democratization score for the 27 countries was 4.06. By 2001 it stood at 3.92, indicating a slight average improvement. The regional differences, however, are striking. (See Table D.) In 1998, the average democratization score for the CEE states stood at 3.12 and the median was 3.55. By 2001, this had improved dramatically to an average of 2.82 and a median of 2.25. By contrast, for the former Soviet republics (excluding the Baltics) the average democratization score in 1998 was 5.23 and the median was 5.08. By 2001, the average democratization score for the former Soviet states had fallen to 5.29 and was identical to the median score. In other words, the gap between the regions has widened.

In terms of economic reform, the average score for all countries has remained static. It was 3.95 in 1997 and a nearly identical 3.94 in 2001. But again, the regional differences between the CEE countries and the former Soviet republics are pronounced and showed no signs of narrowing. The average economic liberalization score for the Central and Eastern European states was 3.37 in 1998 and 3.25 in the 2001 survey. By contrast, the economic liberalization score of the non-Baltic former Soviet republics was 4.94 in 1998 and 4.81 in 2001.

Over a five-year period, the consolidated democracies have maintained a high standard of democratic practice, good governance, and respect for basic rights. Among the transitional and autocratic states, Albania, Bulgaria, Croatia, Georgia, Romania, Slovakia, Tajikistan, Bosnia, and Yugoslavia (the latter two have only been rated since 1998) have seen their ratings improve significantly (i.e., by .25 points or more on the 7-point scale); three, Bulgaria, Croatia, and Slovakia, have advanced out of the category. Among the transitional and authoritarian states, significant declines in democratization indicators (by .25 points or more) have occurred in Ukraine, Russia, Kazakhstan, and Belarus. Again, over a five-year period, seven CEE states registered significant gains, while only two former Soviet countries advanced similarly and four saw significant declines. In terms of corruption, there are also significant regional differences. The median corruption rating in 2001 for the CEE states stood at 3.75, while the median rating for the 12 non-Baltic former Soviet republics was 6.00.

The survey trends confirm a growing divide that threatens a new demarcation line in Europe and Eurasia. That new line is emerging between the former socialist countries of Central and Eastern Europe and the republics that were an integral part of the Soviet Union from its inception. Other basic indicators suggest that the differences between the CEE countries and the 12 non-Baltic republics of the former USSR are striking. Ten of the 15 CEE countries are consolidated democracies. All of the remaining states in the region except Macedonia, which has progressed modestly, have seen significant improve-

ments of more than .25 in their average democratization scores over a five-year period. Just as important, no CEE country is a consolidated autocracy. Meanwhile, none of the 12 non-Baltic former Soviet republics is a consolidated democracy, and only Georgia and Tajikistan have registered significant progress since the survey was launched in 1997. Five of the 12 states—Belarus, Ukraine, Russia, Kazakhstan, and Kyrgyzstan—have regressed significantly over the last five years in their democratization ratings and indicators. The remaining five—Armenia, Azerbaijan, Moldova, Turkmenistan, and Uzbekistan—have registered something akin to stasis.

A look at the record in terms of a basic democracy indicator like free and fair elections shows similar glaring disparities. (See Table E.) Among the Central and Eastern European states, all 15 held free and fair elections in their last voting processes. Although Yugoslavia's elections in 2000 were marred by widespread irregularities, the results were reversed through mass civic protest. By contrast, in the former Soviet Union, only four of the 12 countries pass this minimal standard of democratic electoral procedure: Russia (where some significant and widespread irregularities nevertheless have occurred), Ukraine (where significant irregularities have recently been alleged in connection with an unfolding tape scandal), Georgia, and Moldova. Of the four, the political environments in Russia and Ukraine are heavily influenced by the power of parties linked to oligarchic business interests or the patronage of the state. The other eight former Soviet states—Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan—either suffer from deeply flawed electoral processes or are de facto one-party dictatorships or dominant party states in which the opposition has had no reasonable chance of taking power, has been repressed, or has been virtually nonexistent.

The standard of free and fair elections, i.e. the standard of electoral democracy, is a far less stringent benchmark than that of liberal democracy. The fact that fully two-thirds of the former Soviet states have failed to abide by this minimal standard is a glaring indicator of the prospects for significant progress toward liberal democratic practice. Although all of this paints a bleak picture for the prospects of political reform in the former USSR, this picture does not suggest that there are no opportunities for the United States and other foreign donors to accelerate the political reform process.

In terms of economic reforms, the trends suggest that the differences between the countries of Central and Eastern Europe and the former Soviet Union are also dramatic. In Central and Eastern Europe, five countries have made significant progress of more than .25 points. Among the twelve non-Baltic post-Soviet states, Armenia, Georgia, and Tajikistan also have registered significant progress. Nevertheless, the survey rates eight CEE states as consolidated market economies. Not a single non-Baltic post-Soviet state has made it into this category. And, indeed, only Armenia and Moldova appear to have economic ratings that would place them in the upper half of the transitional economy category. Thus, it can be said that of the 12 non-Baltic post-Soviet countries, none are poised to join the ranks of the dynamic entrepreneurial market economies or of the consolidated democracies in the near future. (For additional comparisons using economic data, see Tables F, G, and H.)

DIFFERING TRAJECTORIES

What accounts for the widely differing trajectories taken by the CEE countries and the 12 non-Baltic states of the former Soviet Union? There are, of course, numerous reasons, but four particular differences are central to the disparate outcomes: (1) dissimilarities in historical legacies and paths to post-Communism, (2) the emergence of significantly different state systems, (3) substantial variations in the patterns of corruption and cronyism, and (4) considerable disparities in the development of civil society, political parties, and independent media. Although these factors are interrelated and mutually reinforcing, each has contributed independently to different reform outcomes in Central and Eastern Europe, on the one hand, and the former Soviet Union, on the other.

Legacies: Historical legacies and widely differing events leading to the collapse of communism are key factors in the divergence of the CEE countries and the countries of the former USSR. The CEE countries had shorter periods under Marxist-Leninist socialism than the countries that emerged from the collapse of the unitary USSR. In most cases, the consolidation of Soviet rule occurred during or after the Second World War, meaning that in many cases Communist states were not functioning until as late as 1948. This meant that the Communist legacy had a duration of only four decades, rather than the seven-decade Communist legacy of the non-Baltic Soviet states. A historical memory of market systems and private property relations was also part of the legacy of many CEE countries. Moreover, all the CEE countries had been independent states. With the exception of Slovakia, Bosnia, and Croatia (all of which achieved independence in the 1990s), the CEE countries had fully formed institutions of central state government. Likewise, states like the Baltic republics had a legacy of long periods of independence and statehood that were deeply ingrained in the national memory. The differing legacies of statehood also have contributed to differing outcomes.

A related factor was the manner in which communism collapsed. In the Baltic states and in Central and Eastern Europe the collapse was in large measure the product of collective, nonviolent civic action that helped topple unpopular regimes. These civic movements, usually led by non-Communists and anti-Communists, played a crucial role in staffing the governments of the post-Communist transition. In some countries, a profound examination of the past occurred and many of the former Communist leaders were ostracized and removed as factors in political life. The movements pressing for change largely focused on the nature of the state and were not—with the exception of the Baltic states—encumbered with the burden of advocating statehood.

In the former Soviet Union, the major cause of systemic collapse was the strength of the national idea. Civic activists, often cooperating with reformists in the Communist elite, sometimes advanced this idea. In other cases, the main forces pressing for state independence were the republics' Communist *nomenklatura*, who saw independence as a means to direct power in a country in which most key decisions had been centrally determined in Moscow.

Civic movements, in comparison with Central Europe and the Baltics, tended to be weak or more one-dimensional in their focus. That is, their fundamental goal was indepen-

dence, and they paid less attention to the political and economic structures of the new state. Indeed, although there were some popular protests in urban areas, in most of the USSR (the exceptions being the Baltic states and the Caucasus) the country's collapse was as much, if not more, the consequence of elite decisions as of civic action.

Just as the initial sources of change differed, so too did the initial stages of post-Communist transition. In Central and Eastern Europe, non-Communists and anti-Communists came to power in the initial period after the collapse of Communist rule. In the former Soviet Union, non-Communist forces took power only in Armenia, Georgia, and Azerbaijan. In the other republics, former high-ranking members of the Communist elite or coalitions of former Communists and reformers held the highest leadership posts during the early transition phase. In other words, the leadership in nine of the new emerging states largely consisted of officials who had played a principal role in the old Soviet system and had been leaders of the Communist party.

Political systems: In addition to differing historical and transition legacies, fundamental differences are reflected in the emerging state systems. Not only is there a great divide between the former Soviet republics and the states of Central and Eastern Europe in terms of the level of democratic freedom, but there is also a fundamental difference in the constitutional order and, in particular, in the distribution of power between the legislative and executive branches. The distribution of power also has a dramatic impact on the broader process of democratization. As Table I shows, the average 2001 democratization score for the region's parliamentary systems is 2.67; for presidential-parliamentary systems, 3.86; and for presidential systems, 5.96.

Of the 12 non-Baltic former Soviet states, only Moldova and Georgia have systems in which the parliament exerts significant power. Moldova was a presidential-parliamentary republic until 2000, when constitutional reforms shifted important powers away from the president and ended direct presidential elections. Moldova is now the only parliamentary democracy in the Commonwealth of Independent States. Georgia's strong presidency is balanced by a parliament that the president cannot himself dissolve, that has broad input into the state budget, and that confirms ministers put forth by the president. The other ten post-Soviet states are, in effect, presidential systems in which most power is concentrated in the hands of the chief executive. That the concentration of excessive power in the presidency is inimical to democratization appears to be confirmed by the fact that the former Soviet states with the highest overall *Nations in Transit* democratization ratings are Georgia and Moldova, the only two states in which the legislature enjoys significant power. By contrast, the much better economic reform and democratic results demonstrated in Central and Eastern Europe are reinforced by the fact that all of these states have either parliamentary or parliamentary-presidential systems; none has the de jure and de facto concentration of executive power found in the states that emerged from the former USSR.

In several of these states, referenda or high court judgments have extended presidential terms and permitted incumbent presidents to serve more than two terms. In the Central Asian republics, presidential power is either absolute or predominant. In Turkmenistan,

where the state is under a personalistic dictatorship with a single legal party, the Democratic Party of Turkmenistan governs. A similar pattern of concentrated and unchallenged presidential power characterizes the state structure of Uzbekistan. The presiding officer of Uzbekistan's parliament is the only figure elected by the parliament, but even he is included in the president's cabinet. Moreover, the presidential party and a second party that is considered pro-presidential dominate the parliament of Uzbekistan. In these circumstances, the legislature shows no characteristics of independent action and usually serves as a body that rubber-stamps presidential decrees.

In Kazakhstan, the 1995 constitution considerably extended the scope of presidential power by concentrating political power in the executive branch and making the parliament little more than a rubber stamp for President Nazarbaev. The president has the power to dissolve parliament, annul existing laws, and demand the government's resignation. The chief executive is also empowered to set the basic course of domestic and foreign policy. The president's control over the legal system has also been reinforced. The president dissolved the constitutional court by decree in 1996 and replaced it with a more compliant constitutional council that has significant formal power not only to interpret the constitution but also to rule on election challenges and referenda.

The powers of the president in Tajikistan are substantial, but they are circumscribed to a degree because of a civil war settlement that provides for some power sharing with the opposition. Although the president is limited to a single term, it is of seven years' duration. In the Kyrgyz Republic, the trend has been towards enhanced presidential power. The president is responsible for appointing the prime minister and the heads of the central election commission and the central bank. The president also has the power to dissolve parliament and to appoint and dismiss government ministers. President Askar Akayev frequently exercises that power to keep ministers from building independent power bases.

Belarus' state system is, in essence, a presidential dictatorship. President Aleksandr Lukashenko extended his term in office by two years through a national referendum that dissolved a democratically elected parliament. The bicameral parliament that was put in its place is wholly subservient to Lukashenko, who rules by decree.

In Azerbaijan, a powerful presidency controls the parliament through a pro-presidential party and formally independent legislators. The president appoints local governors. In Armenia, a 1995 constitution gave the president substantial powers, including the right to pass decrees. Nevertheless, pressure from the military, security forces, and the prime minister resulted in the president's forced resignation in 1998. Since then, the pattern of presidential predominance has reasserted itself.

In Ukraine, a similar pattern of presidential preeminence exists. President Leonid Kuchma names all ministers without any formal input from parliament. He also has the authority to name all of the country's governors and has significant discretion in dissolving the legislature. Only the prime minister is subject to parliamentary approval. The powers of the Russian presidency are also considerable and include the right to issue legally binding decrees, to appoint senior members of the judicial and executive branches, and, in certain circumstances, to dissolve the State Duma.

In the context of privatization, the concentration of power in an executive who usually operates in the absence of checks and balances has created systems in which economic power is derived from the political patronage of the executive branch. This, in turn, has helped to reinforce and expand the power of the presidency. It also has fueled massive corruption at the highest reaches of the state and has created significant temptations for cronyism and nepotism (characteristics that are pronounced in Azerbaijan, Kazakhstan, the Kyrgyz Republic, Turkmenistan, Ukraine, and Uzbekistan).

The concentration of power in the presidency also weakens the power of political parties and inclines such systems toward personalistic politics. In part, it diminishes the importance of political parties as the locus of legitimate power and means that parties can express their influence only if they have a cooperative relationship with the chief executive. At the same time, the parliamentary opposition is subject to pressures from executive power, which has virtually unchecked means to distribute patronage and favors. In presidential systems like these, there is a strong vertical system of power. Authority emanates primarily from the presidency and usually at the expense of local government. The absence of legitimate authority at the local level significantly erodes the ability of locally based civic groups to have input into and an impact on local or regional policy and, thus, weakens local civil society and media. Moreover, the concentration of executive power appears—in many cases inevitably—to lead to the authoritarian temptation. In many of the hyper-presidential states, the office of the presidency has moved to use executive power to weaken systems of accountability and checks and balances. Even in settings where there is a substantial parliamentary opposition, presidential systems often have drifted toward the authoritarian exercise of power.

Levels of Corruption: Corruption in the non-Baltic former Soviet republics is rampant. The average *Nations in Transit* 2001 corruption score for these states is 5.94 (with 7 representing the highest degree of corruption). In the CEE countries, the average corruption rating is 4.07. Although corruption and the legacy of corruption are serious problems in Bulgaria, Bosnia, Macedonia, and Romania, they are dwarfed by the far more rampant corruption in most of the former Soviet Union.

As Stephen Handelman's companion essay notes, corruption is a feature that affects all post-Communist states. But the degree of corruption from the highest levels to the lowest levels of the state structure is appalling in the states of the former USSR. This system of corruption is directly related to the nature of the economic system. In most of these countries, success in economic life derives from one's access to patrons and protectors within the state. In most cases, such protectors collect a handsome reward for facilitating business interests. In many cases, they exercise effective control over nominally independent business and commercial structures.

In some countries, the government patron is less a passive outsider and more an intimate participant in the financial transactions. For example, according to an indictment brought by the U.S. attorney general against former Prime Minister Pavlo Lazarenko, the Ukrainian official and his financial right hand transferred $114 million out of Ukraine to the United States—

most of it in a period of 18 months. This figure, which apparently represents payments Mr. Lazarenko received from businesses he assisted and from other corrupt transactions, did not include his holdings in accounts located in Switzerland, Antigua, Poland, and other countries.

The countries of the former USSR differ significantly in the nature of their economic transitions. Apart from high levels of corruption, those countries that have undertaken privatization have seen the emergence of powerful oligarchic economic elites. In the most authoritarian countries, the oligarchs are usually intimately linked to the president and his inner circle. Many in the new powerful economic elite often derive their wealth from a patrimonial patronage system. And many come from the extended families and networks of cronies and friends of the chief executive. In Turkmenistan, Kazakhstan, the Kyrgyz Republic, Ukraine, Uzbekistan, and Azerbaijan, cronyism and nepotism are major features of the division of economic power.

Virtually everyone engaged in economic activity during the transition of the late Soviet and early post-Soviet period was enmeshed to some degree in activity that formally violated the law. In more innocent cases, this might have meant maintaining dual bookkeeping systems to stave off economically stifling corporate tax rates. It also meant frequent payoffs to minor and local officials. In many cases, the economic success of larger and growing businesses was linked to substantial payments to corrupt and covert partnerships with the ruling state elite. This legacy of illegality makes business interests highly susceptible to political and economic blackmail that compels loyalty to the regime. The selective prosecution of corrupt officials usually focuses on persons who have run afoul of the chief executive or are active in the political opposition. Such state blackmail often forces economic actors to support leaders and policies that are inimical to the interests of fundamental reform and long-term economic growth. It also means that economic actors become rent seekers who rely on government favoritism to maintain privileged and noncompetitive positions in the economic system.

In some measure, corruption thrives because of these transitional legacies and because of the weakness of independent media and civic life in the former Soviet Union. Another factor contributing to unchecked corruption is the absence of checks and balances within the state system. In authoritarian systems and in systems in which power is concentrated in the executive branch, parliament and the normal criminal and investigative agencies of the state are instruments of the chief executive. They do not have sufficient independence or resources to conduct independent investigations of corruption at the highest levels of the state.

Political Parties, Civil Society, and the Media: In many of the post-Soviet states, a patrimonial economic system significantly influences the environment for political parties, civic groups, and the media. Under normal circumstances in an emerging market economy, a country's private sector could become an important funding source for independent civic groups. Indeed, in most market economies civic groups depend on donations from the wealthy to pursue their activities. In patrimonial economies, however, the success of economic actors from the private sector is dependent on the good will and support of government

structures to succeed. Moreover, a plethora of corrupt regulatory and inspection structures makes the private sector beholden to state actors from the highest to the lowest levels. This means that the state can substantially influence the actions of private economic actors in civic and political spheres and at local and national levels.

Thus, the new rich in the former Soviet bloc frequently are not neutral patrons. Their economic support rarely goes to groups that challenge entrenched national or local power. At the same time, many oligarchic private sector interests expect political support from civic and public policy-oriented nongovernmental organizations in exchange for their contributions. They also exchange their support for a high degree of interference in the work of such groups, which become mere appendages of their donors.

The media are subject to the same system of control and influence—and even more so. Since they are not yet profitable in most of the post-Soviet countries (in contrast to the profitability of many media outlets in the CEE countries), the media require the patronage of the private sector to survive. More significantly, in countries where semidemocratic practices are observed, the media are viewed as crucial resources in the electoral struggle. Moreover, economic oligarchs and the new rich in many of the post-Soviet states view the media as important means through which to gain access to the country's political elite. Businessmen who own newspapers that routinely and influentially comment on politics are in a position to trade their media influence for the political favor of state officials. This, in turn, means that private sector economic investment in post-Soviet media comes with significant pressure on professional journalists who shape their reporting and editorial comment according to their owner's direct interests.

Even in post-Soviet countries in which there is some degree of political pluralism, a corrupt patrimonial economic system still affects partisan political life. In many cases, political formations owe their very survival to the patronage of important oligarchic and other economic players. The ability of economic actors to control votes in parliament—often directly—helps to strengthen their hand when bargaining for favors and protection from the state elite. A final problem is the persistence of support among pensioners and older workers for Communist parties. In much of Central and Eastern Europe, former Communist social democratic parties that support the market system have replaced the Communist left. In countries such as Ukraine and Russia, though, Communist parties continue to win as much as one-third of public support for a rejectionist agenda that includes nearly total opposition to the market system. In turn, the intransigence of Communists operating in parliament has often led to deadlock and reform inertia that, in turn, feed public appetite for the concentration of power in the hands of the executive.

The concentration of power in the executive branch also erodes the independence of political parties, which in parliamentary systems can maintain cohesion by distributing influence through significant posts in government or on parliamentary committees. In hyper-presidential systems and autocracies, all power emanates from the chief executive and, therefore, erodes party discipline and cohesion.

PROMOTING A NEW WAVE OF REFORM: AGENDAS FOR CHANGE

Despite the bleak landscape outlined in *Nations in Transit 2001*, the collapse of "strongman" regimes in Croatia, Slovakia, and Yugoslavia offers hope that such systems can get on the path of dramatic political and economic change. It also suggests that many of the post-Communist authoritarian regimes have forces that can be mobilized to promote needed political openings. How, then, can private and state donors promote democratic change in the laggard countries of Eastern Europe and especially in the countries of the former USSR?

First, since the 2001 survey shows that throughout the region political and economic reforms reinforce one another, donors should pay significant attention to democracy assistance as part of an overall reform package. Second, donors should keep in mind that countries in which rudimentary democratic electoral processes exist are more likely to make a smooth transition to full democracy and market systems than are de facto one-party dictatorships. Third, they should look to countries such as Armenia, Georgia, Russia, and Ukraine where there are substantial independent civic and political opposition forces. Countries like these offer opportunities for donors to strengthen pro-reform currents.

Support for democratic openings and deeper democratic processes should be three-pronged. First, it should target efforts to strengthen parliamentary powers and independent judicial authority in presidential systems. Second, it should support civic action, reinforce the investigative functions of independent governmental and parliamentary structures, and promote media and public policy programs aimed at exposing corruption and economic cronyism and making economic activity more transparent. Third, it should provide direct grant assistance for civic and public policy groups that promote economic reform and political openness and significant assistance in the form of low interest loans and grants for independent pro-reform media.

Efforts to strengthen the judicial and parliamentary branches of government in presidential-dominated systems not only should include interactions at the official level but also should support reform and civic initiatives aimed at promoting systems in which there are checks and balances between the branches of government. A major focus of these efforts should be dialogue with successor generations and emerging political leaders. Donors should support enhanced exposure for the leaders and opinion-makers of the former USSR to the more balanced parliamentary and parliamentary-presidential systems that have arisen in Central and Eastern Europe. Cooperative relationships between parliaments in established democracies and the parliaments of the former Soviet Union should be supported. Funds that support cooperative efforts by legislatures to promote governmental and business transparency also should be a priority.

The seemingly intractable problem of rampant corruption must be addressed through a mix of internal and external efforts that involve the state, the private sector, civil society, and the media. Externally, donor governments should adopt policies that help to track and expose the money laundering that promotes massive capital flight from the region. Internally, donors could make substantial investments in civic and media monitoring efforts and in the creation of business coalitions that promote good government, transparency in financial transactions, deregulation, and the simplification of registration, taxation, and inspec-

tion procedures. Anticorruption activities, however, need to be carefully crafted to avoid the empowerment of unscrupulous segments of the police and procuracy. Western engagement in and support for anticorruption campaigns should avoid legitimizing efforts by many of the former Soviet governments to criminalize their political opposition.

The patrimonial and oligarchic economic arrangements that predominate in the former Soviet Union and persist to some degree in transitional Eastern European countries victimize political parties, civil society, and the media. These potential change agents, therefore, cannot simply rely on the financial support of the region's post-Communist economic interest groups. Of course, foreign donors should not fund the campaign efforts of political parties. But they should give technical assistance, training, and encouragement through bilateral and multilateral ties with counterpart structures in established democracies to pro-reform parties and parties not dominated by corrupt economic interest groups. Linking parties and their related think tanks to counterpart groups in Central Europe should be a particular area of focus. In many of the more repressive and reform-resistant countries, independent civil society (particularly "good government" and anticorruption groups, and pro-reform think tanks) and the media should receive significant direct financial and material support that is linked to training and technical assistance. Assistance for independent media in economically and politically difficult settings could include direct grants to cover operating deficits and sponsorship of targeted investigative reporting and could be augmented by significant loan programs. In closed societies, donor efforts to provide assistance to internal and external pro-reform groups should be an important feature of any reform strategy.

The lessons learned from the countries tracked by *Nations in Transit* are numerous. Perhaps the clearest lesson is that although political and economic change in many countries remains an elusive aim, change in other controlled and corrupt settings (Yugoslavia and Slovakia, for example) has resulted from a combination of external assistance and international pressure and, above all, from civic courage and the expansion of democratic and pro-market values among the citizens of the post-Communist space. The systematic tracking and examining of transition processes and the lessons that can be derived are the most important reasons why *Nations in Transit* was launched.

Table A: Nations in Transit 2001 Rating and Score Summary

COUNTRY	PP	CS	IM	GPA	DEM	CLJF	CO	ROL	PR	MA	MI	ECON
Albania	4.00	4.00	4.25	4.25	4.13	4.50	5.50	5.00	3.75	4.50	4.25	4.17
Armenia	5.50	3.50	4.75	4.50	4.56	5.00	5.75	5.38	3.25	3.50	4.00	3.58
Azerbaijan	5.75	4.50	5.75	6.25	5.56	5.25	6.25	5.75	4.75	5.00	5.00	4.92
Belarus	6.75	6.50	6.75	6.25	6.56	6.75	5.25	6.00	6.00	6.25	6.50	6.25
Bosnia	4.75	4.50	4.50	6.00	4.94	5.50	5.75	5.63	5.00	5.50	6.00	5.50
Bulgaria	2.00	3.50	3.25	3.50	3.06	3.50	4.75	4.13	3.50	3.25	3.75	3.50
Croatia	3.25	2.75	3.50	3.50	3.25	3.75	4.50	4.13	3.50	3.50	3.75	3.58
Czech Rep.	1.75	1.50	2.00	2.00	1.81	2.50	3.75	3.13	1.75	2.25	2.00	2.00
Estonia	1.75	2.25	1.75	2.25	2.00	2.00	2.75	2.38	1.75	2.00	2.00	1.92
Georgia	4.50	4.00	3.50	4.75	4.19	4.00	5.25	4.63	3.25	4.00	4.00	3.75
Hungary	1.25	1.25	2.25	3.00	1.94	2.00	3.00	2.50	1.50	2.25	2.00	1.92
Kazakhstan	6.25	5.00	6.00	5.00	5.56	5.75	6.25	6.00	4.25	4.50	4.75	4.50
Kyrgyz Rep.	5.75	4.50	5.00	5.25	5.13	5.25	6.00	5.63	4.50	3.75	3.75	4.00
Latvia	1.75	2.00	1.75	2.25	1.94	2.00	3.50	2.75	2.50	2.50	2.50	2.50
Lithuania	1.75	1.75	1.75	2.50	1.94	1.75	3.75	2.75	2.50	3.00	2.75	2.75
Macedonia	3.75	3.75	3.75	3.75	3.75	4.25	5.00	4.63	4.00	4.75	5.00	4.58
Moldova	3.25	3.75	4.25	4.50	3.94	4.00	6.00	5.00	3.50	4.25	4.25	4.00
Poland	1.25	1.25	1.50	1.75	1.44	1.50	2.25	1.88	2.00	1.50	1.50	1.67
Romania	3.00	3.00	3.50	3.75	3.31	4.25	4.50	4.38	3.75	3.75	4.50	4.00
Russia	4.25	4.00	5.25	5.00	4.63	4.50	6.25	5.38	3.75	4.25	4.50	4.17
Slovakia	2.25	2.00	2.00	2.75	2.25	2.25	3.75	3.00	3.00	3.25	3.50	3.25
Slovenia	1.75	1.75	1.75	2.50	1.94	1.50	2.00	1.75	2.25	2.00	2.00	2.08
Tajikistan	5.25	5.00	5.50	6.00	5.44	5.75	6.00	5.88	5.75	5.50	5.25	5.50
Turkmenistan	7.00	7.00	7.00	6.75	6.94	7.00	6.25	6.63	6.75	6.25	6.50	6.50
Ukraine	4.00	3.75	5.25	4.75	4.44	4.50	6.00	5.25	4.25	4.25	4.50	4.33
Uzbekistan	6.75	6.50	6.75	6.00	6.50	6.50	6.00	6.25	6.00	6.25	6.25	6.17
Yugoslavia	4.75	4.00	4.50	5.25	4.63	5.50	6.25	5.88	5.00	5.50	5.50	5.33
Median	**4.00**	**3.75**	**4.25**	**4.50**	**4.13**	**4.25**	**5.25**	**5.00**	**3.75**	**4.00**	**4.25**	**4.00**
Average	**3.85**	**3.60**	**3.99**	**4.22**	**3.92**	**4.11**	**4.90**	**4.50**	**3.77**	**3.97**	**4.08**	**3.94**

Notes:
Democratization Score (DEM) = average of Political Process (PP), Civil Society (CS), Independent Media (IM), and Governance and Public Administration (GPA) ratings

Rule of Law Score (ROL) = average of Constitutional, Legislative, and Judicial Framework (CLJF) and Corruption (CO) ratings

Economic Liberalization Score (ECON) = average of Privatization (PR), Macroeconomic Policy (MA), and Microeconomic Policy (MI) ratings

Ratings and scores are based on a scale of 1 to 7, with 1 representing the highest level and 7 representing the lowest level of democratic development. The 2001 scores and ratings reflect the period July 1, 1999, through October 31, 2000.

Table B: Nations in Transit 2001 Political and Economic Classifications

DEMOCRACY RANKINGS

	DEM SCORE	ECON SCORE
CONSOLIDATED DEMOCRACIES		
Poland	1.44	1.67
Czech Rep.	1.81	2.00
Hungary	1.94	1.92
Slovenia	1.94	2.08
Latvia	1.94	2.50
Lithuania	1.94	2.75
Estonia	2.00	1.92
Slovakia	2.25	3.25
Bulgaria	3.06	3.50
Croatia	3.25	3.58
TRANSITIONAL GOVERNMENTS		
Romania	3.31	4.00
Macedonia	3.75	4.58
Moldova	3.94	4.00
Albania	4.13	4.17
Georgia	4.19	3.75
Ukraine	4.44	4.33
Armenia	4.56	3.58
Russia	4.63	4.17
Yugoslavia	4.63	5.33
Bosnia	4.94	5.50
Kyrgyz Rep.	5.13	4.00
Tajikistan	5.44	5.50
Kazakhstan	5.56	4.50
Azerbaijan	5.56	4.92
CONSOLIDATED AUTOCRACIES		
Uzbekistan	6.50	6.17
Belarus	6.56	6.25
Turkmenistan	6.94	6.50

ECONOMY RANKINGS

	ECON SCORE	DEM SCORE
CONSOLIDATED MARKET		
Poland	1.67	1.44
Hungary	1.92	1.94
Estonia	1.92	2.00
Czech Rep.	2.00	1.81
Slovenia	2.08	1.94
Latvia	2.50	1.94
Lithuania	2.75	1.94
Slovakia	3.25	2.25
TRANSITIONAL ECONOMIES		
Bulgaria	3.50	3.06
Croatia	3.58	3.25
Armenia	3.58	4.56
Georgia	3.75	4.19
Romania	4.00	3.31
Moldova	4.00	3.94
Kyrgyz Rep.	4.00	5.13
Albania	4.17	4.13
Russia	4.17	4.63
Ukraine	4.33	4.44
Kazakhstan	4.50	5.56
Macedonia	4.58	3.75
Azerbaijan	4.92	5.56
Yugoslavia	5.33	4.63
Bosnia	5.50	4.94
Tajikistan	5.50	5.44
CONSOLIDATED STATIST		
Uzbekistan	6.17	6.50
Belarus	6.25	6.56
Turkmenistan	6.50	6.94

Table C: Trends in Reform, Nations in Transit Scores from 1997 to 2001

	1997	1998	1999-2000	2001		1999-2000	2001		1997	1998	1999-2000	2001	
	DEM score					ROL score			ECON score				
CONSOLIDATED DEMOCRACIES													
Poland	1.50	1.45	1.44	1.44		1.88	1.88		2.00	1.92	1.67	1.67	
Czech Rep.	1.50	1.50	1.75	1.81		2.75	3.13	↓↓	1.88	2.00	1.92	2.00	
Hungary	1.50	1.50	1.75	1.94		2.13	2.50	↓↓	1.63	1.67	1.75	1.92	
Latvia	2.15	2.15	2.06	1.94		2.75	2.75		2.50	2.50	2.50	2.50	
Lithuania	2.15	1.95	2.00	1.94		2.88	2.75		2.50	2.58	2.83	2.75	
Slovenia	2.00	1.95	1.94	1.94		1.75	1.75		2.38	2.17	2.08	2.08	
Estonia	2.10	2.05	2.06	2.00		2.63	2.38	↑↑	2.13	2.00	1.92	1.92	
Slovakia	3.80	3.65	2.50	2.25	↑↑	3.13	3.00		3.38	3.58	3.25	3.25	
Bulgaria	3.90	3.55	3.31	3.06	↑↑	4.13	4.13		5.38	4.08	3.75	3.50	↑↑
Croatia	4.20	4.25	4.19	3.25	↑↑	5.00	4.13	↑↑	3.88	3.83	3.67	3.58	
TRANSITIONAL GOVERNMENTS													
Romania	3.95	3.85	3.19	3.31		4.25	4.38		4.63	4.50	4.17	4.00	
Macedonia	3.90	3.95	3.44	3.75	↓↓	4.63	4.63		4.50	4.67	4.58	4.58	
Moldova	3.90	4.00	3.88	3.94		5.00	5.00		4.00	4.17	4.00	4.00	
Albania	4.55	4.75	4.38	4.13	↑↑	5.50	5.00	↑↑	4.00	4.50	4.50	4.17	↑↑
Georgia	4.70	4.55	4.00	4.19		4.50	4.63		4.13	4.00	3.67	3.75	
Ukraine	4.00	4.25	4.31	4.44		5.25	5.25		4.25	4.75	4.58	4.33	↑↑
Armenia	4.70	4.80	4.50	4.56		5.38	5.38		4.00	4.08	3.58	3.58	
Russia	3.80	4.10	4.25	4.63	↓↓	5.25	5.38		3.50	3.92	4.33	4.17	
Yugoslavia	na	4.90	5.50	4.63	↑↑	6.00	5.88		na	4.83	5.33	5.33	
Bosnia	na	5.35	5.13	4.94		6.00	5.63	↑↑	na	5.67	5.58	5.50	
Kyrgyz Rep.	4.65	4.70	4.88	5.13	↓↓	5.50	5.63		3.75	3.75	3.83	4.00	
Tajikistan	6.20	5.95	5.69	5.44	↑↑	5.88	5.88		6.13	6.13	6.00	5.50	↑↑
Azerbaijan	5.60	5.55	5.50	5.56		5.75	5.75		5.13	5.00	5.00	4.92	
Kazakhstan	5.30	5.35	5.38	5.56		5.75	6.00	↓↓	4.38	4.50	4.50	4.50	
CONSOLIDATED AUTOCRACIES													
Uzbekistan	6.35	6.45	6.44	6.50		6.25	6.25		6.25	6.25	6.25	6.17	
Belarus	5.90	6.20	6.44	6.56		5.88	6.00		6.00	6.25	6.25	6.25	
Turkmenistan	6.90	6.90	6.94	6.94		6.38	6.63	↓↓	6.38	6.42	6.42	6.50	
Median	3.95	4.25	4.19	4.13		5.00	5.00		4.00	4.08	4.00	4.00	
Average	3.97	4.06	3.96	3.92		4.53	4.51		3.95	4.06	4.00	3.94	

NOTES: DATA SORTED BY 2001 DEMOCRATIZATION SCORE

↓↓ AND ↑↑ INDICATE CHANGES IN SCORES OF .25 OR MORE

Table D: Regional Trends in Reform

	1997	1998	1999-2000	2001	1997	1998	1999-2000	2001	1999-2000	2001
	DEM score				ECON score				CORRUPTION	
CENTRAL AND EASTERN EUROPE										
Albania	4.55	4.75	4.38	4.13	4.00	4.50	4.50	4.17	6.00	5.50
Bosnia	na	5.35	5.13	4.94	na	5.67	5.58	5.50	6.00	5.75
Bulgaria	3.90	3.55	3.31	3.06	5.38	4.08	3.75	3.50	4.75	4.75
Croatia	4.20	4.25	4.19	3.25	3.88	3.83	3.67	3.58	5.25	4.50
Czech Rep.	1.50	1.50	1.75	1.81	1.88	2.00	1.92	2.00	3.25	3.75
Estonia	2.10	2.05	2.06	2.00	2.13	2.00	1.92	1.92	3.25	2.75
Hungary	1.50	1.50	1.75	1.94	1.63	1.67	1.75	1.92	2.50	3.00
Latvia	2.15	2.15	2.06	1.94	2.50	2.50	2.50	2.50	3.50	3.50
Lithuania	2.15	1.95	2.00	1.94	2.50	2.58	2.83	2.75	3.75	3.75
Macedonia	3.90	3.95	3.44	3.75	4.50	4.67	4.58	4.58	5.00	5.00
Poland	1.50	1.45	1.44	1.44	2.00	1.92	1.67	1.67	2.25	2.25
Romania	3.95	3.85	3.19	3.31	4.63	4.50	4.17	4.00	4.25	4.50
Slovakia	3.80	3.65	2.50	2.25	3.38	3.58	3.25	3.25	3.75	3.75
Slovenia	2.00	1.95	1.94	1.94	2.38	2.17	2.08	2.08	2.00	2.00
Yugoslavia	na	4.90	5.50	4.63	na	4.83	5.33	5.33	6.25	6.25
Median	**2.15**	**3.55**	**2.50**	**2.25**	**2.50**	**3.58**	**3.25**	**3.25**	**3.75**	**3.75**
Average	**2.86**	**3.12**	**2.98**	**2.82**	**3.14**	**3.37**	**3.30**	**3.25**	**4.12**	**4.07**
FORMER SOVIET UNION (EXCLUDING BALTICS)										
Armenia	4.70	4.80	4.50	4.56	4.00	4.08	3.58	3.58	5.75	5.75
Azerbaijan	5.60	5.55	5.50	5.56	5.13	5.00	5.00	4.92	6.00	6.25
Belarus	5.90	6.20	6.44	6.56	6.00	6.25	6.25	6.25	5.25	5.25
Georgia	4.70	4.55	4.00	4.19	4.13	4.00	3.67	3.75	5.00	5.25
Kazakhstan	5.30	5.35	5.38	5.56	4.38	4.50	4.50	4.50	6.00	6.25
Kyrgyz Rep.	4.65	4.70	4.88	5.13	3.75	3.75	3.83	4.00	6.00	6.00
Moldova	3.90	4.00	3.88	3.94	4.00	4.17	4.00	4.00	6.00	6.00
Russia	3.80	4.10	4.25	4.63	3.50	3.92	4.33	4.17	6.25	6.25
Tajikistan	6.20	5.95	5.69	5.44	6.13	6.13	6.00	5.50	6.00	6.00
Turkmenistan	6.90	6.90	6.94	6.94	6.38	6.42	6.42	6.50	6.00	6.25
Ukraine	4.00	4.25	4.31	4.44	4.25	4.75	4.58	4.33	6.00	6.00
Uzbekistan	6.35	6.45	6.44	6.50	6.25	6.25	6.25	6.17	6.00	6.00
Median	**5.00**	**5.08**	**5.13**	**5.29**	**4.32**	**4.63**	**4.54**	**4.42**	**6.00**	**6.00**
Average	**5.17**	**5.23**	**5.18**	**5.29**	**4.83**	**4.94**	**4.87**	**4.81**	**5.85**	**5.94**

Table E: Major Transition Indicators

	FREE AND FAIR PARLIAMENTARY ELECTIONS	FREE AND FAIR PRESIDENTIAL ELECTIONS	PRIVATE SHARE OF GDP (%)	2001 FREEDOM HOUSE RATING
Albania	Yes 1997*	Not Direct	75	Partly Free
Armenia	Yes 1999*	Yes 1998*	60	Partly Free
Azerbaijan	No 2000	No 1998	45	Partly Free
Belarus	No 2000	No 1994	20	Not Free
Bosnia	Yes 2000	Yes 1998	35	Partly Free
Bulgaria	Yes 1997	Yes 1997	70	Free
Croatia	Yes 2000	Yes 2000	60	Free
Czech Rep.	Yes 2000	Not Direct	80	Free
Estonia	Yes 1999	Not Direct	75	Free
Georgia	Yes 1999*	Yes 2000*	60	Partly Free
Hungary	Yes 1998	Not Direct	80	Free
Kazakhstan	No 1999	No 1999	60	Not Free
Kyrgyz Rep.	No 2000	No 2000	60	Not Free
Latvia	Yes 1998	Not Direct	65	Free
Lithuania	Yes 2000	Yes 1997	70	Free
Macedonia	Yes 1998*	Yes 1999*	55	Partly Free
Moldova	Yes 1998	Not Direct**	50	Partly Free
Poland	Yes 1997	Yes 2000	70	Free
Romania	Yes 2000	Yes 2000	60	Free
Russia	Yes 1999*	Yes 2000*	70	Partly Free
Slovakia	Yes 1998	Yes 1999	75	Free
Slovenia	Yes 2000	Yes 1997	55	Free
Tajikistan	No 2000	No 1999	40	Not Free
Turkmenistan	No 1999	No 1992	25	Not Free
Ukraine	Yes 1998*	Yes 1999*	60	Partly Free
Uzbekistan	No 1999	No 2000	45	Not Free
Yugoslavia	Yes 2000*	Yes 2000*	40	Partly Free

* SIGNIFICANT IRREGULARITIES

** AS OF 2000

Table F: Political Reform and Gross Domestic Product (GDP)

	DEM score 2001	GDP GROWTH (%)				GDP PER CAP 2000 ($)	FDI 1989-2000 ($ MILL)	FDI PER CAP 2000 ($)	FDI PER CAP 1989-2000 ($)
		1998	1999	2000	AVERAGE 1998-2000				
CONSOLIDATED DEMOCRACIES									
Poland	1.44	4.8	4.1	4.1	4.3	4,108	29,052	240	751
Czech Rep.	1.81	-2.2	-0.8	3.1	0.0	4,797	21,673	434	2,102
Hungary	1.94	4.9	4.5	5.2	4.9	4,734	19,420	164	1,935
Latvia	1.94	3.9	1.1	6.6	3.9	3,019	2,430	139	1,027
Lithuania	1.94	5.1	-4.2	2.9	1.3	3,045	2,367	96	642
Slovenia	1.94	3.8	5.0	4.7	4.5	9,320	1,534	67	768
Estonia	2.00	4.7	-1.1	6.4	3.3	3,409	1,926	168	1,337
Slovakia	2.25	4.1	1.9	2.2	2.7	3,742	3,611	278	669
Bulgaria	3.06	3.5	2.4	5.0	3.6	1,484	3,307	120	407
Croatia	3.25	2.5	-0.4	3.6	1.9	4,211	4,085	167	907
Average					**3.0**	**4,187**		**187**	**1,055**
TRANSITIONAL GOVERNMENTS									
Romania	3.31	-5.4	-3.2	1.6	-2.3	1,596	6,768	45	303
Macedonia	3.75	2.9	2.7	5.1	3.6	1,685	437	85	219
Moldova	3.94	-6.5	-4.4	0.0	-3.6	326	438	23	102
Albania	4.13	8.0	7.3	7.8	7.7	1,195	546	27	161
Georgia	4.19	2.9	3.0	2.0	2.6	555	687	19	128
Ukraine	4.44	-1.9	-0.4	6.0	1.2	640	3,345	12	67
Armenia	4.56	7.2	3.3	6.0	5.5	504	605	39	159
Russia	4.63	-4.6	3.5	7.7	2.2	1,697	12,344	14	85
Yugoslavia	4.63	1.9	-19.0	10.7	-2.1	1,225	118	11	13
Bosnia	4.94	13.0	9.0	10.0	10.7	972	307	27	71
Kyrgyz Rep.	5.13	2.1	3.7	5.1	3.6	275	458	9	97
Tajikistan	5.44	5.3	3.7	8.3	5.8	158	144	4	23
Azerbaijan	5.56	10.0	7.4	10.5	9.3	507	4,092	61	502
Kazakhstan	5.56	-1.9	1.7	9.6	3.1	1,225	8,499	77	571
Average					**3.4**	**897**		**32**	**179**
CONSOLIDATED AUTOCRACIES									
Uzbekistan	6.50	4.4	4.1	1.5	3.3	298	1,021	9	41
Belarus	6.56	8.4	3.4	5.8	5.9	1,104	781	10	78
Turkmenistan	6.94	5.0	16.0	17.6	12.9	415	882	21	170
Average					**7.4**	**606**		**13**	**96**

NOTE: DATA SORTED BY 2001 DEMOCRATIZATION SCORE

Table G: Corruption and Gross Domestic Product (GDP)

	Corruption Rating 2001	GDP growth (%)				GDP per cap 2000 ($)	FDI 1989-2000 ($ Mill)	FDI per cap 2000 ($)	FDI per cap 1989-2000 ($)
		1998	1999	2000	Average 1998-2000				
LOW LEVELS									
Slovenia	2.00	3.8	5.0	4.7	4.5	9,320	1,534	67	768
Poland	2.25	4.8	4.1	4.1	4.3	4,108	29,052	240	751
Estonia	2.75	4.7	-1.1	6.4	3.3	3,409	1,926	168	1,337
Hungary	3.00	4.9	4.5	5.2	4.9	4,734	19,420	164	1,935
Average					**4.3**	**5,393**		**160**	**1,198**
MIDDLE LEVELS									
Latvia	3.50	3.9	1.1	6.6	3.9	3,019	2,430	139	1,027
Czech Rep.	3.75	-2.2	-0.8	3.1	0.0	4,797	21,673	434	2,102
Lithuania	3.75	5.1	-4.2	2.9	1.3	3,045	2,367	96	642
Slovakia	3.75	4.1	1.9	2.2	2.7	3,742	3,611	278	669
Croatia	4.50	2.5	-0.4	3.6	1.9	4,211	4,085	167	907
Romania	4.50	-5.4	-3.2	1.6	-2.3	1,596	6,768	45	303
Bulgaria	4.75	3.5	2.4	5.0	3.6	1,484	3,307	120	407
Macedonia	5.00	2.9	2.7	5.1	3.6	1,685	437	85	219
Belarus	5.25	8.4	3.4	5.8	5.9	1,104	781	10	78
Georgia	5.25	2.9	3.0	2.0	2.6	555	687	19	128
Average					**2.3**	**2,524**		**139**	**648**
HIGH LEVELS									
Albania	5.50	8.0	7.3	7.8	7.7	1,195	546	27	161
Armenia	5.75	7.2	3.3	6.0	5.5	504	605	39	159
Bosnia	5.75	13.0	9.0	10.0	10.7	972	307	27	71
Kyrgyz Rep.	6.00	2.1	3.7	5.1	3.6	275	458	9	97
Moldova	6.00	-6.5	-4.4	0.0	-3.6	326	438	23	102
Tajikistan	6.00	5.3	3.7	8.3	5.8	158	144	4	23
Ukraine	6.00	-1.9	-0.4	6.0	1.2	640	3,345	12	67
Uzbekistan	6.00	4.4	4.1	1.5	3.3	298	1,021	9	41
Azerbaijan	6.25	10.0	7.4	10.5	9.3	507	4,092	61	502
Kazakhstan	6.25	-1.9	1.7	9.6	3.1	1,225	8,499	77	571
Russia	6.25	-4.6	3.5	7.7	2.2	1,697	12,344	14	85
Turkmenistan	6.25	5.0	16.0	17.6	12.9	415	882	21	170
Yugoslavia	6.25	1.9	-19.0	10.7	-2.1	1,225	118	11	13
Average					**4.6**	**726**		**26**	**159**

NOTE: DATA SORTED BY 2001 CORRUPTION RATING

Table H: Economic Liberalization, GDP, and Inflation

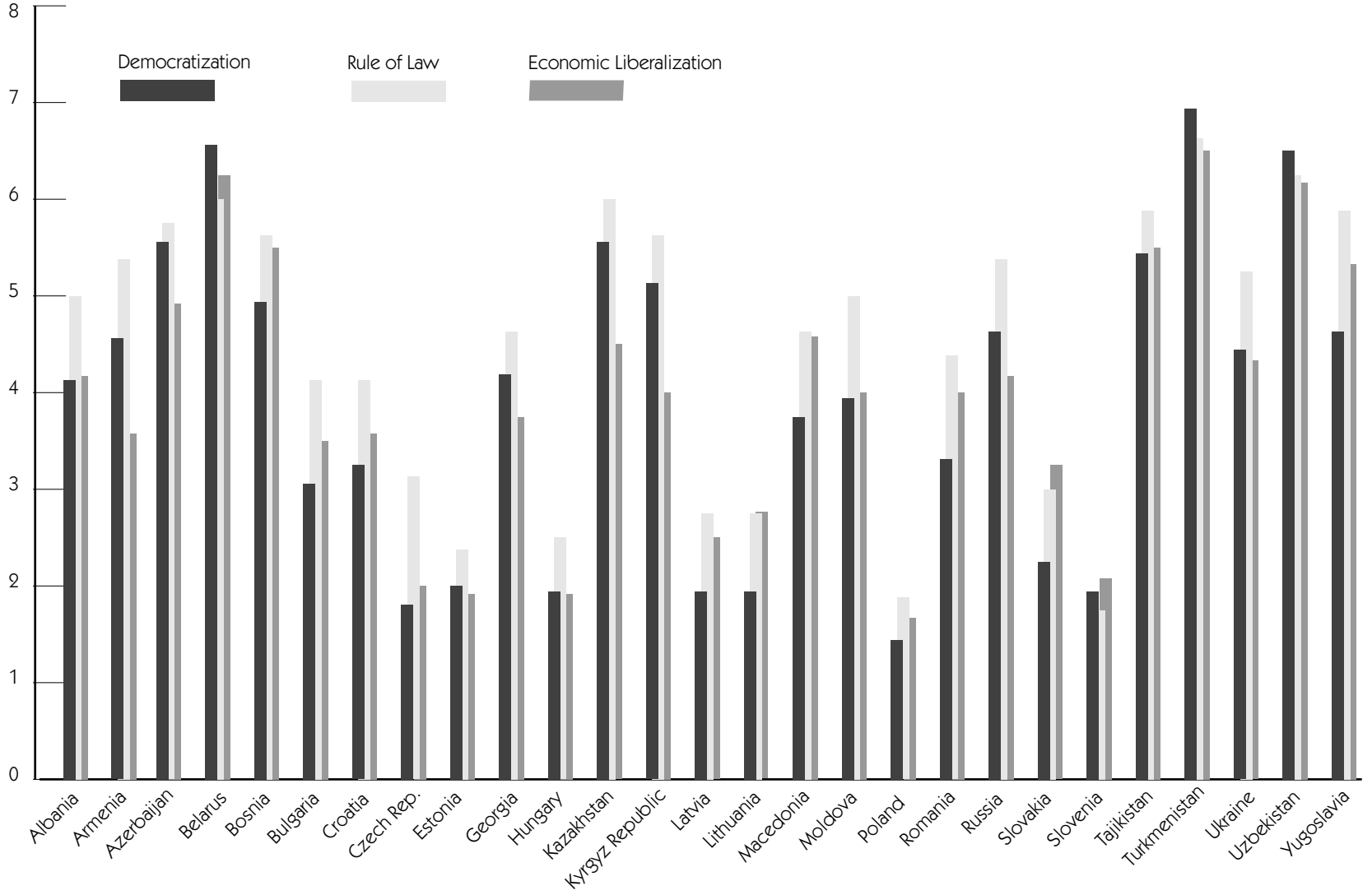
	ECON SCORE 2001	GDP GROWTH (%)				GDP PER CAP 2000 ($)	INFLATION RATE (%)			
		1998	1999	2000	AVERAGE 1998-2000		1998	1999	2000	AVERAGE 1998-2000
CONSOLIDATED MARKET										
Poland	1.67	4.8	4.1	4.1	4.3	4,108	11.8	7.3	10.1	9.7
Estonia	1.92	4.7	-1.1	6.4	3.3	3,409	8.2	3.3	4.0	5.2
Hungary	1.92	4.9	4.5	5.2	4.9	4,734	14.3	10.1	9.8	11.4
Czech Rep.	2.00	-2.2	-0.8	3.1	0.0	4,797	10.7	2.1	3.9	5.6
Slovenia	2.08	3.8	5.0	4.7	4.5	9,320	8.0	6.1	8.9	7.7
Latvia	2.50	3.9	1.1	6.6	3.9	3,019	4.7	2.4	2.8	3.3
Lithuania	2.75	5.1	-4.2	2.9	1.3	3,045	5.1	0.8	1.0	2.3
Slovakia	3.25	4.1	1.9	2.2	2.7	3,742	6.7	10.6	12.0	9.8
AVERAGE				**4.4**	**3.1**	**4,522**			**6.6**	**6.9**
TRANSITIONAL ECONOMIES										
Bulgaria	3.50	3.5	2.4	5.0	3.6	1,484	22.2	0.7	9.9	10.9
Armenia	3.58	7.2	3.3	6.0	5.5	504	8.7	0.6	-0.8	2.8
Croatia	3.58	2.5	-0.4	3.6	1.9	4,211	5.7	4.2	6.2	5.4
Georgia	3.75	2.9	3.0	2.0	2.6	555	3.6	19.2	4.1	9.0
Kyrgyz Rep.	4.00	2.1	3.7	5.1	3.6	275	12.0	35.8	18.7	22.2
Moldova	4.00	-6.5	-4.4	0.0	-3.6	326	7.7	39.3	31.3	26.1
Romania	4.00	-5.4	-3.2	1.6	-2.3	1,596	59.1	45.8	45.7	50.2
Albania	4.17	8.0	7.3	7.8	7.7	1,195	20.6	0.4	0.4	7.1
Russia	4.17	-4.6	3.5	7.7	2.2	1,697	27.6	86.1	20.8	44.8
Ukraine	4.33	-1.9	-0.4	6.0	1.2	640	10.5	22.7	28.2	20.5
Kazakhstan	4.50	-1.9	1.7	9.6	3.1	1,225	7.3	8.3	13.2	9.6
Macedonia	4.58	2.9	2.7	5.1	3.6	1,685	0.6	-1.3	9.2	2.8
Azerbaijan	4.92	10.0	7.4	10.5	9.3	507	-0.8	-8.5	1.6	-2.6
Yugoslavia	5.33	1.9	-19.0	10.7	-2.1	1,225	29.5	37.1	60.4	42.3
Bosnia	5.50	13.0	9.0	10.0	10.7	972	5.1	-0.3	1.9	2.2
Tajikistan	5.50	5.3	3.7	8.3	5.8	158	43.2	27.6	34	34.9
AVERAGE				**6.2**	**3.3**	**1,141**			**17.8**	**18.0**
CONSOLIDATED STATIST										
Uzbekistan	6.17	4.4	4.1	1.5	3.3	298	17.8	29.1	50.0	32.3
Belarus	6.25	8.4	3.4	5.8	5.9	1,104	73.2	293.8	168.9	178.6
Turkmenistan	6.50	5.0	16.0	17.6	12.9	415	16.8	24.2	8.3	16.4
AVERAGE				**8.3**	**7.4**	**606**			**75.7**	**75.8**

NOTE: DATA SORTED BY 2001 ECONOMIC LIBERALIZATION SCORE

Table I: Democratization and Polity Classifications

	2001 DEMOCRATIZATION SCORES
PARLIAMENTARY SYSTEMS	
Czech Republic	1.81
Hungary	1.94
Latvia	1.94
Lithuania	1.94
Slovenia	1.94
Estonia	2.00
Slovakia	2.25
Croatia	3.25
Macedonia	3.75
Moldova	3.94
Yugoslavia	4.63
Average	**2.67**
PRESIDENTIAL-PARLIAMENTARY SYSTEMS	
Poland	1.44
Bulgaria	3.06
Romania	3.31
Albania	4.13
Georgia	4.19
Ukraine	4.44
Armenia	4.56
Russia	4.63
Bosnia	4.94
Average	**3.86**
PRESIDENTIAL SYSTEMS	
Kyrgyz Republic	5.13
Tajikistan	5.44
Azerbaijan	5.56
Kazakhstan	5.56
Uzbekistan	6.50
Belarus	6.56
Turkmenistan	6.94
Average	**5.96**

Chart 1: Nations in Transit 2001 Scores



Note: Scores are based on a scale of 1 to 7, with 1 representing the highest level and 7 representing the lowest level of democratic development. The 2001 scores reflect the period July 1, 1999, through October 31, 2000.

Chart 2: Democratization and Economic Liberalization, NIT 2001

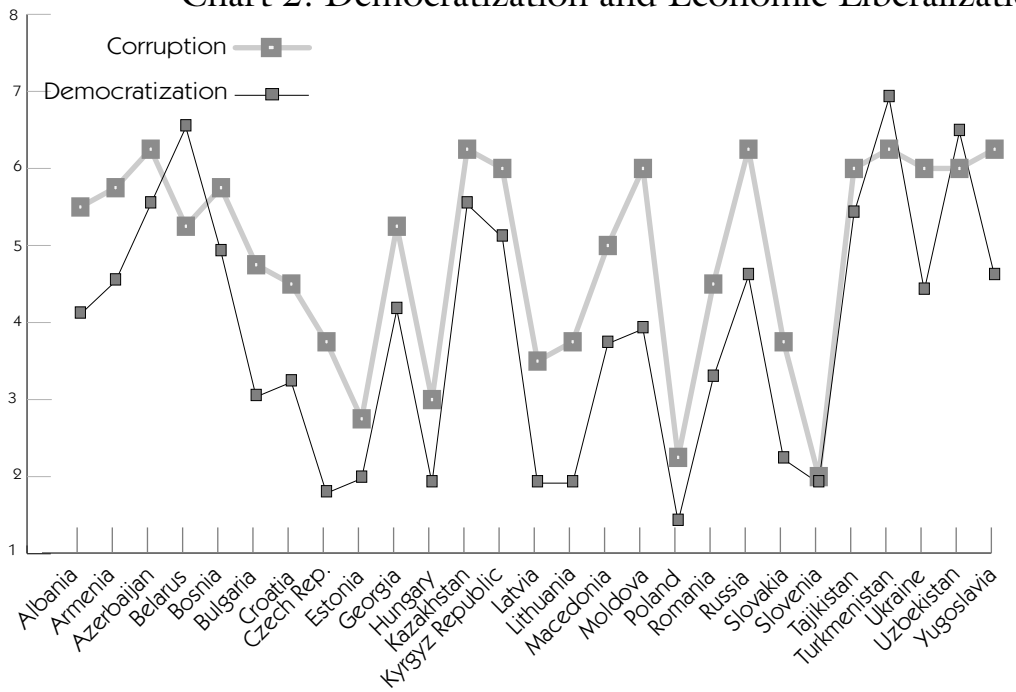
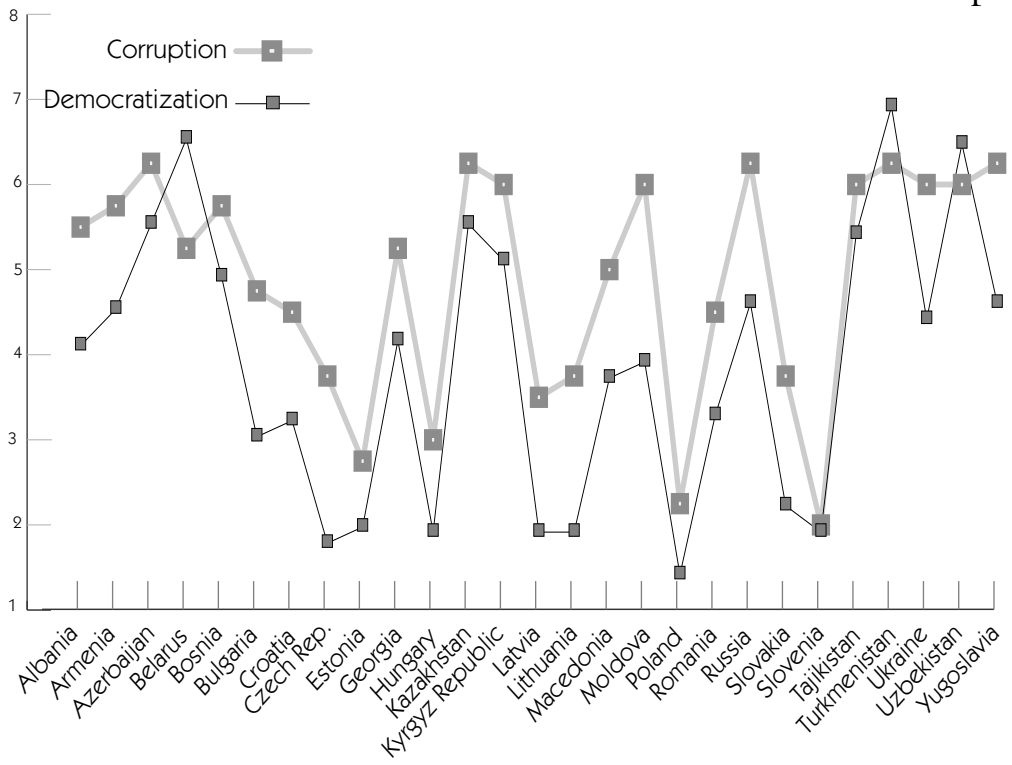


Chart 3: Democratization and Corruption, NIT 2001



Note: Ratings and scores are based on a scale of 1 to 7, with 1 representing the highest level and 7 representing the lowest level of democratic development. The 2001 scores and ratings reflect the period July 1, 1999, through October 31, 2000.

Ten Years after the Soviet Collapse: Persistence of the Past and Prospects for the Future

Alexander J. Motyl

For most of the 1990s, the post-Communist states fell into three geographically clustered groupings of distinct regime types: market-oriented democracies in east-central Europe, despotisms, for the most part, in Central Asia, and parasitic authoritarian states in between. Although the fact that these clusters remained intact for a decade suggests that the countries composing them possess stable political systems, the reality is somewhat more complex. The most and least advanced clusters—the democracies and the despotisms—indeed have consolidated, but a fracturing of the middle-of-the-road authoritarian states appears to be underway. The threefold division of post-Communist states, thus, may be evolving into two camps: the most democratic and market-oriented countries versus the least democratic and least market-oriented ones. Is this division inevitable? No. Decelerating, even deflecting, this trend is possible—and the West therefore *can* make a difference—but only over time as the result of a patient and steadfast commitment to targeted change.

Democracy, Despotism, or Something in Between

The three clusters that emerged and persisted throughout most of the 1990s consist of the following countries (excluding Bosnia and Herzegovina on the grounds that it is largely an international protectorate):

MOST ADVANCED: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia

MIDDLE: Albania, Armenia, Bulgaria, Croatia, Georgia, Kyrgyz Republic, Macedonia, Moldova, Romania, Russia, Slovakia, Ukraine

LEAST ADVANCED: Azerbaijan, Belarus, Kazakhstan, Tajikistan, Turkmenistan, Uzbekistan, Yugoslavia

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The most advanced category consists of countries that, by virtually any measure, most closely resemble functioning democracies, market economies, rule of law states, and civil societies. The least advanced category of despotic states comprises the least approximate democracies, market economies, rule of law states, and civil societies. The middle category of parasitic authoritarian states possesses some of these institutions to some degree.

On the rationale that sums convey the institutional interconnectedness of countries' reform efforts, we can assign numerical values to these distinctions by adding each country's *Nations in Transit* ratings for political process; civil society; independent media; governance and public administration; constitutional, legislative, and judicial framework; privatization; macroeconomics; and microeconomics. (Since the *Nations in Transit* ratings for 1997 and 1998 did not include corruption, this category is excluded from the calculations.) Table 1 shows that the most advanced countries are located in the 10 to 25 range, the least advanced in the 40 to 55 range, and the middle-of-the-roaders in the 25 to 40 range.

TABLE 1: CUMULATIVE SCORES, 1997–2001

	2001	2000	1998	1997
MOST ADVANCED (DEMOCRATIC MARKET-ORIENTED STATES)				
Poland	12	12	13	13
Hungary	16	14	13	13
Czech Rep.	16	15	14	13
Estonia	16	16	16	17
Slovenia	16	16	16	17
Latvia	17	18	18	18
Lithuania	18	19	18	19
Mean	*16*	*16*	*15*	*16*
MIDDLE: MOVING UPWARDS				
Slovakia	21	22	29	29
Bulgaria	26	28	30	36
Croatia	28	33	33	33
Romania	30	30	33	34
Mean	*26*	*28*	*31*	*33*
MIDDLE (PARASITIC AUTHORITARIAN STATES)				
Georgia	32	31	35	36
Moldova	32	32	33	32
Macedonia	33	32	34	34
Armenia	34	34	36	36
Albania	34	36	37	35
Mean	*33*	*33*	*35*	*35*

MIDDLE: MOVING DOWNWARDS				
Ukraine	35	36	36	33
Russia	36	34	32	30
Kyrgyzstan	38	36	35	34
Mean	*36*	*35*	*34*	*32*
LEAST ADVANCED (DESPOTIC STATES)				
Yugoslavia	40	44	39	—
Kazakhstan	42	41	40	40
Azerbaijan	42	43	43	43
Tajikistan	44	47	48	49
Uzbekistan	51	51	51	51
Belarus	52	51	50	48
Turkmenistan	54	54	54	53
Mean	*46*	*47*	*46*	*47*

Note: All figures were rounded out to the nearest whole number. Since the 1997 ratings had only one number for the economy, this number was multiplied by 2 to make that year's ratings consistent with those for 1998 and 2000.

As these numbers illustrate, the clusters are not random, but geographically bounded, aggregations. The most advanced grouping lies in a broad swath running diagonally from the Baltic to the Adriatic Sea. The middle category—with Kyrgyzstan as the outlier—occupies the huge geographic landmass extending from Russia's easternmost tip to the Balkans. The least advanced category is, with the exception of Belarus and Yugoslavia, confined to Central Asia and the littoral states of the Caspian Sea. Moreover, as the means indicate, these clusters have been stable since the period 1989–1991. Although there may now be gradual movement toward the poles—and, thus, a "shaking out" of the middle category—the central feature of the last decade was the relative impermeability of the boundaries between and among these three sets of countries.

LEGACIES OF COMMUNIST RULE

The emergence and persistence of three geographically and systemically coherent aggregations of countries suggests that this division cannot be due, except in a purely superficial sense, to wise policy choices. After all, why would policy wisdom be greatest in East-central Europe and progressively less the farther one moves toward the east? If Eurocentrism strikes as an inadequate approach to the problem, the more appropriate question must be, Why were some elites unwilling or unable to adopt genuinely reformist policies? But to put the question in this manner is to say that not policy choice, per se, but either the nature of the elites or the constraints impinging on their choices best account for the clustering. If the elites are the culprit, then we have to account for their retrograde nature. Such an inquiry inevitably brings us to the conditions that led to their formation in Communist times. If the

constraints are at fault, then they too can be understood only in terms of the legacies of Communist rule. Either way—and the answer naturally involves both explanations—the institutional legacies of communism best account for the tripartite division of the post-Communist states.

These legacies may be usefully conceptualized in terms of totalitarian control and Soviet imperial rule. The degree to which a Communist state dominated the political, economic, cultural, and social life in a country determined the extent to which nontotalitarian institutions such as those instantiated in democracy, the market, rule of law, and civil society could exist. In turn, the degree to which countries could act independently of Moscow's dictates determined the kind of states, governments, and elites—formless and unskilled, or more or less capable of decisive action—countries possessed upon achieving independence. As a result, those countries that were least totalitarian and least imperial by and large joined the first category of advanced polities. With elements of democracy, the market, rule of law, and civil society already in place in the period 1989–1991, they were best positioned to push weakly totalitarian and imperial institutions along existing developmental trajectories toward further democratization and marketization. Hungary and Poland, which evolved from goulash communism to market socialism to the free market, therefore epitomize east-central European development. Seen in this light, the "Big Bang" introduced by Prime Minister Leszek Balcerowicz in 1990 was, in reality, the logical next step along Poland's decades-long movement away from communism.

Those countries that were most totalitarian and most imperial joined the third category, and those that were moderately totalitarian and imperial belonged to the second. Like the second-category countries, the polities in the third had almost no democratic, market, rule of law, and civil society institutions in place upon independence. But, unlike the second-category countries, those in the third also had unusually underdeveloped states, governments, and elites. Both sets of countries therefore faced the immense, and perhaps impossible, task of constructing democracy, the market, rule of law, and civil society simultaneously under conditions of economic collapse and widespread popular immiseration. The third-category polities even lacked the skilled elites to contemplate such a heady task. Not surprisingly perhaps, the least advanced countries generally developed highly personalized dictatorships—Alyaksandr Lukashenka of Belarus, Sapurmurat Niyazov of Turkmenistan, Heidar Aliev of Azerbaijan, Nursultan Nazarbaev of Kazakhstan, and Islam Karimov of Uzbekistan come immediately to mind—resting on administrative control of much, if not all, of the economy. The middle countries adopted the veneer of formal democracy and the market, on the one hand, and bureaucratic authoritarian regimes with official and unofficial elites engaged in untrammeled rent seeking and theft, on the other.

Just as the degree of totalitarian control and imperial rule helps explain post-Communist trajectories, so, too, does it provide a convincing account of developments under communism. In terms of nearness to democracy, civil society, rule of law, and a market economy, which countries were the most advanced in the 1950s, 1960s, 1970s, and 1980s? Poland, Hungary, Yugoslavia, Czechoslovakia, Estonia, Latvia, and Lithuania. Which were the least advanced? The Kazakh, Kyrgyz, Tajik, Uzbek, Turkmen, and Belarusian Soviet Socialist

Republics, in which republican institutions were least autonomous and ruling elites were most likely to consist of Russians "parachuted" from Moscow. All the others enjoyed either moderate to high degrees of both totalitarian and imperial rule or, as in the case of Romania, high levels of totalitarianism as well as substantial independence. The fit, naturally, is not perfect. Yugoslavia should have been among the most advanced countries, but it is close enough to suggest that Communist institutions made an enormous causal difference to the trajectories all states followed before and after 1989–1991.

If the mix of totalitarian and imperial institutions accounted for the emergence of these three clusters, it is hardly surprising that it should have contributed to their persistence after the period 1989–1991. It is, after all, in the nature of institutions, as popularly accepted ways of doing things, to resist easy change, to persist, and thus to generate conditions of "path dependence." The most and least advanced states were, at the end of the 1990s, stable. That is to say, they were internally coherent systems capable of reproducing themselves and the conditions of their rule. The market-oriented democracies of East-central Europe enjoyed relatively high popular legitimacy and, no less important, were capable of delivering the goods. The despotisms of Central Asia, the Caucasus, and Belarus ruled by means of patronage, popular demobilization, and repression. Only the parasitic authoritarian states of the largely Slavic middle rested on contradictory regime features that produced systemic instability.

BIPOLARITY AMONG THE MIDDLE COUNTRIES

As already noted, this tripartite division may be coming to an end. Some middle-of-the-road countries—Croatia, Slovakia, Bulgaria, and Romania—are close to joining the most advanced category, while others—Russia, Ukraine, and Kyrgyzstan—are on the verge of entering the least advanced category. Croatia and Slovakia were able to get back on track fairly quickly and easily once Franjo Tudjman and Vladimir Meciar, respectively, left the scene. Bulgaria and Romania have, despite a number of serious crises, been able to proceed steadily in the right direction. Significantly, although still mired within the least advanced category, Yugoslavia may be poised to leapfrog the Milosevic interregnum and return to the path of democratic and market-oriented reform. In marked contrast to these countries, though, Russia, Ukraine, and Kyrgyzstan are moving toward more personalized forms of authoritarian rule by Vladimir Putin, Leonid Kuchma, and Askar Akaev, respectively.

Two reasons account for this emerging bipolarity. First, Slovakia, Croatia, Romania, Bulgaria, and Yugoslavia experienced substantially lower degrees of totalitarian and imperial rule than Russia, Ukraine, and Kyrgyzstan. We therefore expect the east-central European states (including, with time, Macedonia and Albania) to resolve the institutional contradictions of second-category countries in favor of democracy and the market, to return to their institutionally "natural" trajectories, and thus to rejoin the first category. States with longer totalitarian-imperial roots such as Russia, Ukraine, and Kyrgyzstan just as "naturally" tend toward despotism. Burdened with their institutional legacies, they cannot resolve as easily the contradiction between democratization and marketization, on the one hand, and bureaucratic authoritarianism and elite parasitism, on the other, in favor of the former. Other

things being equal, Georgia, Armenia, and Moldova should at some point join them in their downward slide. The February 2001 parliamentary elections in Moldova, in which the Communists triumphed, may be a harbinger of things to come.

Ironically, it is in these second-category countries with especially complex institutional legacies that policy makers came to play what appeared to be unusually decisive roles. Although many were genuinely forceful personalities, their policy activism is best understood in terms of the institutionally contradictory setting in which they operated. By balancing one another, these institutions expanded the political space available to leaders and thus enabled them to exert exceptional influence on the policy process. Leaders such as Tudjman, Meciar, and Milosevic deflected their countries from institutionally defined upward trajectories. Others like Boris Yeltsin, Leonid Kravchuk, Kuchma, and Akaev, decelerated their countries' downward drift. Significantly, since such personalist interventions represented deviations from, and not culminations of, past processes of evolutionary change, their impact as "intervening variables" perforce was temporary—a claim with especially worrisome implications for Georgia once Eduard Shevardnadze is no longer in power.

The second reason for the emerging bipolarity is external in origin. The European Union (EU) and the North Atlantic Treaty Organization (NATO), with respect to prospects for membership, have given preference to the most advanced countries and, thereby, have effectively relegated the second and third clusters to a single category: the outsiders or, less generously, the losers. Such a division matters for two reasons. First, non-membership in EU and NATO structures is tantamount to exclusion from a political-economic space that is undergoing rapid—even if somewhat indeterminate—institutional change. Second, non-membership means that the outsider countries will have no alternative to interacting more intensely with one another and, thus, to reinforcing their already dysfunctional institutions. It is hard to imagine just how increased economic, political, social, and cultural cooperation—or, for that matter, competition—among Russia, Ukraine, Georgia, Kazakhstan, and the other retrograde polities could possibly enhance their democratic and market profiles.

VULNERABLE TO CHANGE

Although an institutional perspective leads us to expect the systemic polarization described above, it is important to appreciate that nondemocratic systems, whether parasitic authoritarian or despotic, can change for the better and move toward a greater opening of the polity and/or economy. Institutions and institutional dynamics set certain parameters for change as well as incline systems in certain directions. They decidedly do not predetermine the exact trajectory that any country or set of countries will follow.

Authoritarian states can undergo greater or lesser degrees of change for any of five reasons. First, and most obviously, crises can strike. Crises may be external interventions such as those created by the world economy (consider the impact on President Suharto of Indonesia's financial collapse); internal convulsions such as natural catastrophes (recall how the Nicaraguan earthquake of 1972 helped delegitimize Anastasio Somoza's rule); humanly devised disturbances such as riots, strikes, etc.; or scandals such as "Kuchmagate," which involves allegations that Ukraine's president was directly involved in masterminding the

disappearance of an important journalist in the summer of 2000. If the timing, force, and conditions are right, crises actually may force nondemocratic and nonmarket elites to act against their own best interests and pursue reform. Crises also can weaken leaders and enable oppositions to mobilize. Whatever the outcome, positive systemic change may become more likely.

Second, although authoritarian systems can, if they are sufficiently stable, survive for quite long periods, they usually become increasingly ineffective and inefficient. Disaffected elements within the elites and/or the population may then engage in rebellion or other forms of violent activity that destabilize governments or push them in even more repressive directions. Africa provides all too many examples of such behavior. Although revolutionary movements generally fail to attain their goals, the collapse of communism between 1989 and 1991 showed that popular movements can succeed in both overthrowing delegitimized elites by peaceful means and ushering in positive reform. But this exception may have occurred because the popular upheavals took place in the unique circumstances of decayed Communist regimes—as the culminations, in many cases, of long-term institutional development away from communism and toward democracy, civil society, and the market. Whether merely despotic regimes that are incapable of maintaining law and order and inclined to resist institutional transformations in the direction of democracy and the market can collapse in similarly nonviolent circumstances seems unlikely.

Third, if parasitic authoritarian systems manage to improve the living standards for key sectors of the population while refraining from opening their political systems, they may become prone to pressure from below by a middle class emboldened to engage in opposition politics. Known as the modernization thesis, this view holds that political structures, at least in the medium to long run, must be compatible with economic structures for systems to remain stable. Taiwan, South Korea, and Indonesia provide some evidence for the persuasiveness of this view. Ironically, this argument leads us, counter-intuitively, to expect post-Communist regimes to become much more vulnerable to instability when life gets better; that is, when the autonomous, resource-endowed organizations characteristic of civil society and a middle class will have emerged and, precisely because of their autonomy and resource endowments, will be in the position to engage in effective opposition.

Fourth, authoritarian systems, not unlike the former Communist states, are most susceptible to change during and immediately after intra-elite power struggles, when policy initiatives serve to promote individual factions or clans in the clash for office, wealth, and influence. Soviet and Chinese politics provided ample evidence of the validity of this argument. In the aftermaths of the deaths of Vladimir Lenin, Joseph Stalin, Leonid Brezhnev, and Mao Zedong, power struggles between reformist and anti-reformist factions broke out and, despite the vicious opposition of the latter, usually resulted in significant reform. Even Brezhnev, who rolled back some of Nikita Khrushchev's changes, did accept others. Mikhail Gorbachev went so far beyond the stagnation ostensibly represented by Brezhnevism that he sparked the USSR's collapse.

Fifth, genuinely charismatic leaders may exploit the power and resources associated with their office to attempt political and economic breakthroughs either toward greater

political and economic opening or toward less. If they succeed in changing things for the better, then well and good. But even if they fail, their attempts can so rattle an authoritarian system as to permit popular mobilization, middle class opposition, or elite initiatives to nudge the system in democratic and market-oriented directions. Here, too, Gorbachev is the emblematic example of a visionary leader who let things get out of control. It is not inconceivable that a even a less-than-charismatic leader like Putin could wreak similar havoc by pressing on with his attempts to transform Russia's malfunctioning political system into a well-ordered state. History is rife with the resistance of regional barons to the centralizing efforts of kings and the resulting instability.

It is impossible to say with any certainty which, if any, of these scenarios will affect which countries. Although crises are inherently unpredictable events, we expect them to strike more often and with greater force the longer dysfunctional systems survive. In the long run, therefore, all post-Communist despotisms and parasitic authoritarian states will become increasingly vulnerable to externally and internally generated shocks. The capacity of civil society in general or a middle class in particular to exert pressure is likely to be significant only in the long run as well. At present, both are weak and/or minuscule in all post-Communist states, and there is no reason to expect a sudden expansion of either to occur anytime soon. Charismatic leaders, or, more precisely, dictators with vision, can emerge at any time—and Russia's Putin may be just such an example—but there is no way of predicting their emergence. Only intra-elite struggles are easily predictable: they are a permanent feature of parasitic authoritarian states even when succession struggles are not underway. As such, they should intensify at precisely those times when leaderships are in flux. Inasmuch as all these states retain the veneer of formal democracy, such struggles are likely to coincide with parliamentary and, especially, presidential elections (however unfree or unfair they may be).

Although the tendency toward greater concentrations of executive power may be built into the very institutional structure of parasitic authoritarian regimes, their transformation into despotisms is inevitable only under the ceteris paribus condition. That is, only if other things remain equal, only if nothing else intervenes, will their trajectories move inexorably in a despotic direction. But, as noted above, there are at least five good reasons to expect other things *not* to remain the same in the short, medium, and especially long terms.

CHOOSING POLITICAL ENGAGEMENT

The above analysis has several implications for Western policy toward the post-Communist states. First, although the EU has no intention of expanding to most of the second- and third-category states in the foreseeable future—indeed, only a few of these states are even on the list of potential candidates approved at the EU summit in Helsinki in December 1999—it is important that the door not be closed completely. Notwithstanding the obstacles represented by the EU's notoriously bureaucratic rigidities, the decisions adopted at the December 2000 EU summit in Nice point to a way of addressing this problem. Since groups of EU members will effectively be able to pursue varying degrees of institutional cooperation, over time the EU may develop into an institution consisting of concentric

circles of cooperating countries. Once concentric circles are possible *within* the institution, then it becomes easier to envision further concentric circles extending *beyond* the institution, thus blurring the rigid line between insiders and outsiders. Naturally, NATO should be equally attentive to this issue. Whether the EU and NATO are capable of the required flexibility is, alas, uncertain. Rather more certain is that if the EU and NATO fail to develop a creative approach to the countries formally excluded from their structures, these states very possibly will stagnate behind the Schengen curtain, become objectively incapable of catching up with the West, and thus be excluded permanently from Europe.

Second, insofar as the first category of countries have "made it" and the third may be hopelessly despotic, policy should concentrate on countries in the middle such as Russia, Ukraine, Georgia, and Romania that also happen to be of greatest geopolitical importance to the West. Moreover, since these middle-of-the-road countries are experiencing some internally generated change toward the two poles, they may be most susceptible to outside influence. Nudging Slovakia, Croatia, Bulgaria, and Yugoslavia in the direction they may be going anyway would appear to be a relatively simple and low-cost way, to quote Karl Marx, of "accelerating the birth pangs of history."

As for the second-category countries that are moving in the wrong direction, the West can decelerate, or perhaps even halt, their descent by focusing its policy efforts on the third and fourth scenarios. After all, it makes little practical or moral sense to attempt to provoke crises, exacerbate inefficiencies, or search for charismatic leaders. Such a strategy means, above all, promoting the development of a stable and strong civil society and middle class. It also means supporting those factions in the elite that, however ambivalent their relationship to democracy and the market, may be expected—or induced—to use civil society and the middle class as cudgels in their power struggles with opponents. In a word, the West must be ready for the long haul and for political engagement with less than fully democratic and market-oriented elites. Developing a vigorous middle class and civil society takes time, even in the best of circumstances. Patience and compromise and a willingness to engage in ethically gray zones of activity thus will be unavoidable for many years to come. But that is only to say that Western policy makers should practice what they do best—politics and diplomacy—and refrain from what they do worst—moralism and utopianism.

Thieves in Power: The New Challenge of Corruption

Stephen Handelman

In the spring of 2000, Sergei Stankevich, a former deputy mayor of Moscow, returned to Russia. It was his first visit home in four years, and he looked around him with the dazed, disbelieving eyes of a Russian Rip Van Winkle. Stankevich was there to attend the funeral of Anatoly Sobchak, the late St. Petersburg Mayor who, like him, had been a leader of the pro-democracy movement in the final years of the Soviet Union. They had more than their past in common: like Sobchak, Stankevich had risen to a prominent government post only to suffer a precipitous fall from grace amid allegations of corruption.

While Sobchak languished in St. Petersburg, Stankevich fled abroad to avoid criminal charges he claimed were politically inspired. Sobchak's fortunes were already brightening before he died, thanks to the election of Russian President Vladimir Putin, his young protégé in the Petersburg government. It was Putin who arranged for Stankevich's homecoming following the intercession of Sobchak's widow.

Whatever gratitude Stankevich may have felt was soured by the scene that greeted him when he arrived. In an interview with the Russian newspaper *Novaya Gazeta*, Stankevich compared his friend's funeral with the funeral of Andrei Sakharov in 1989. On that cold December day eleven years earlier, Stankevich and other reformers led Sakharov's coffin on a silent march through Moscow, past a crowd of tens of thousands, in an event that was as much a celebration of the possibilities of the still-to-be-born New Russia as it was a wake for the Soviet Union's most admired dissident. Things were very different at the Sobchak funeral, Stankevich recalled. Most of the guests—"the cream of Russia's business world"—came to network. "Cell phones were ringing all over the place," he complained. The eulogies, it turned out, were background music for the more pressing private affairs of Russia's political and commercial elite.

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As he went on to meet old acquaintances in Moscow and St. Petersburg, Stankevich's disillusionment deepened. A decade of hopes had been squandered, he felt. "Russian politics has become a carbon copy of the robber economy," he said. The interviewer mildly wondered whether Stankevich assumed any responsibility for this "robber economy." After all, hadn't he been among the most fervent advocates of seizing the opportunities created by the new Russian market? No, Stankevich replied firmly. In his time, the squabbling and the stealing had been under control, "but since 1996, the rules were thrown away in a war of all against all." Stankevich went on to say: "We got a merger between big money and big government [and] a new reading of Marx's law, that money begets power, and power begets even more money." Stankevich said he couldn't wait to get back to Poland, where he ran a "small" agricultural trading company and where, he added, "there is no racket, no suffocating taxes, and laws are being observed."

At first glance, Stankevich's shock and gloom seem disingenuous. Could there have been such a sharp change in the moral and political climate in just four years? Skeptics might say the cynicism and freewheeling politics of plunder Stankevich described began in Russia long before 1996. Perhaps the years away from his native land made Stankevich realize just how abnormal was the life he left behind. Yet Stankevich is right all the same. There has been a change. And it is not confined to the borders of Russia.

As this year's *Nations in Transit* report makes clear, a sophisticated level of collusion between "big money" and "big government" is common to all the countries in the old Soviet sphere of influence. What's new about that? Corruption and cronyism have long been associated with the difficult economic transition experienced by each of these countries on their road from centrally planned economies to free markets. In the immediate aftermath of the Soviet collapse, in fact, attention focused on the rising power of well-organized criminal groups that had moved into the vacuum left by crumbling Communist Party and state institutions. Most notoriously in Russia, the traditional "thieves-in-law" (*vory v zakonye*), who had dominated underworld life for decades, were able to leverage their connections across the spectrum of the Soviet world to become key power players in the post-Communist economy. Their influence, however, has waned in direct proportion to the new alliances forged between government officials and powerful entrepreneurs, who take their methods and sometimes their enforcers from the criminal world. Kleptocrats have nudged out the *mafiya* bosses or, rather, co-opted their methods, their organizations, and in some cases their personnel.

One vivid example of this comes from Ukraine. In a controversial tape recording made public this year, President Leonid Kuchma is heard discussing with his aides how to apply pressure on a prominent banker and a rebellious member of parliament. "Everyone who works for us should pay money for his *krisha*," Kuchma says, using the Russian criminal jargon for the "roof" of protection and extortion rackets favored by the underworld. Kuchma has refused to authenticate the tapes, which his former security guard disclosed. But Ukraine's recent history of corruption scandals tinged with violence has implicated dozens of top officials who apparently share the same attitude. And not only Ukraine. This year's *Nations in Transit* report contains a depressing list of elected officials across the former Soviet sphere

who have exploited their power for private profit. Their ability to institutionalize corruption has presented a new challenge, seriously complicating existing problems of governance and affecting their economic relations with neighboring states and the West. They might properly be called "thieves-in-power."

This new class of kleptocrats is significantly different from the corruption-tinged aristocracy of former Communist regimes, although in many cases the faces are the same. It comprises serving members of government (many of whom are former Communist Party bureaucrats), military or security officials, as well as managers of state-supported agencies and institutions. They have all profited from the massive privatization processes underway in their countries, which they often have had a role in managing. And they have muscled their way into the networks of mafia bosses and new-economy entrepreneurs formed in the early years of the transition. These networks were established to take advantage of the power vacuum that existed in many countries following the first shock of the collapse of Party control. But the former power brokers have slowly reasserted themselves, taking advantage of the failures of economic management and widespread public disenchantment with the so-called Wild West Capitalism that spread throughout the eastern bloc.

A key factor that distinguishes them from the corrupt overlords of the Communist system is their ability to exploit the opportunities provided by the increasing globalization of the international economy, which has had a galvanizing impact on the 27 countries covered in Freedom House's report. The ease with which financial transactions can be conducted, as well as the enormous flows of illicit commerce across the region's porous borders, has fostered a transnational elite that is confident of its ability to elude detection or punishment at home. They have, in effect, made Stankevich's "robber economy" a regional one.

Several high-profile cases over the past several years illustrate the change. In 1999, 40 Russian MIG warplanes were smuggled from Kazakhstan to North Korea. The smugglers used a company in the Czech Republic to arrange the deal and conceal its final destination. A subsequent Kazakh government investigation traced the deal to senior military officers and state-enterprise managers in Kazakhstan who were able to exploit prior arms export contacts developed when Kazakhstan was still a Soviet republic. But the investigation hit a stumbling block in 2000 when the head of Kazakhstan's state arms export company was murdered. The four suspects arrested in the killing all had ties to Kazakh intelligence services and the military. A fifth person, the son of the Kazakh secret service chief, committed suicide. The blend of bureaucratic venality, international arms smuggling, and mob-style tactics is by no means limited to Kazakhstan.

Smuggling is often assumed to be the province of transnational criminal gangs, but its rise to big-business proportions in the former eastern bloc has been fueled by a network of corrupt politicians and police operating in several countries. In Tajikistan, for instance, government officials have been closely linked to drug smuggling. Last May, the Tajik ambassador to Kazakhstan was arrested with 62 kilograms of heroin and $1 million in cash in his car. A few days later, Tajikistan's trade representative in Almaty was arrested when another 24 kilograms of heroin were found in his apartment and garage. The heroin came from Afghanistan and was bound, police said, for Siberia and the Russian pacific coast region. Al-

though high-level transnational connections were not officially established in that case, it is clear that smuggling networks of that scope could not operate without the complicity of senior officials at every step along the way. Such connections, for example, allowed Marko Milosevic, the son of former Yugoslav leader Slobodan Milosevic, to operate a multi-million-dollar cigarette-smuggling ring that stretched from Croatia to Belgrade.

It is perhaps no surprise that the war-torn Balkans and energy-rich Central Asia are key breeding grounds for cross-border corruption, but it *is* surprising to learn that the Baltic countries have begun to play a similar role. In Lithuania, local banks were among the targets of the Russian government's investigation of tycoon Boris Berezovsky regarding misappropriated Aeroflot funds. Lithuania also has figured prominently as a way station for the lucrative sex trafficking cartels operating in Ukraine and Russia. And tiny, placid Estonia has become a central pipeline for drugs to Finland and Western Europe.

No One Is Immune

Corruption may be as old as human society, but its impact is intensified in a global age. The flow of investment and aid from the West and the flight of capital from Central Europe and Eurasia (in Russia equaling almost $2 billion a month) frame the dilemma neatly. Huge amounts of money circulating in systems with little infrastructure to cope with them present an opportunity too tempting to resist.

At the beginning of the 1990s, it was assumed that the countries with the strongest traditions of leaning toward a market economy and democratic institutions would be the least affected by corruption. At one level, this remains true. Poland, the Czech Republic, Hungary, Slovenia, and Estonia continue to get the best Freedom House scores on a comparative "corruption scale" with their neighbors. But they are far from immune to the region's worsening trend. Even in the Czech Republic, "tens and hundreds of millions of crowns are disappearing" from state coffers, President Vaclav Havel said last year. Havel said he was "becoming really very concerned" about the apparent reluctance by his government to do anything about the growing level of corruption. "The state shows a strange inability to clear up these cases and find the perpetrators," he said. One reason may be the cooption of senior officials by criminal networks in neighboring countries. According to a report by the Czech counterintelligence service, foreign crime cartels, including Russian-based ones, are now active in the country. The inability or unwillingness to control national borders has left Hungary vulnerable to the same dark influences. That nation, which until recently was considered relatively transparent and free of the most egregious forms of state corruption, has become a base for powerful Russian gangs (with prominent political backers at home) that have established branches for laundering money and other criminal operations with the tacit help of local officials.

The same problem is visible in Poland. The World Bank has singled out high-level profiteering and insider trading as the country's biggest problem, and it cannot be a coincidence that at the same time Poland is confronting an invasion by the international criminal world. Police broke up a drug smuggling cartel last year that used Poland as a base for Western European cocaine and amphetamine trafficking. The participants in that cartel in-

cluded members of Russian and Colombian crime groups who are accustomed to greasing their way with well-placed bribes to government officials. Democracy and a free market have never been failsafe guarantees against organized crime and corruption, but their effect becomes even weaker for nations that live in a tough and fluid neighborhood.

But again, the cross-border activities of organized crime groups have been eclipsed by the rising prominence of government players whose insider knowledge of the old Soviet trading networks allows them to exploit loopholes in tax and customs regulations. The thriving regional trade in energy offers an example of how such insider transactions have corrupted transitional economies regardless of their level of political and economic development. Armenia has lost more than $200 million from embezzlement and fraud in its energy sector since 1992, according to a parliamentary commission report last June that implicated several high officials, including former premier Hrant Bagratian. In Azerbaijan, 16 senior political figures, including the speaker of parliament and two former ministers of foreign economic relations, were accused of embezzling oil trade revenues. A similar oil scandal in Hungary implicated Interior Minister Sandor Pintor and other officials. In Romania, prosecutors sought parliamentary approval to pursue charges against politicians allegedly involved in illicit oil shipments to Yugoslavia. And in Ukraine, top managers of Unified Energy Systems (UES), the principal energy importer and a combined private-public company, were arrested in connection with the illicit transfer abroad of more than $1.1 billion in oil revenues.

Weak judicial and regulatory systems grew even weaker in the period covered by the *Nations in Transit* report, despite much-publicized efforts such as the Czech Republic's "Clean Hands" campaign and Poland's establishment of an interagency anticorruption task force. In most cases, the judicial system is too poorly financed and laws are too loosely defined for such measures to make any real headway. Existing law in Ukraine, for instance, defines most corruption cases as "administrative" or civil matters, rather than criminal, which narrows the investigative tools prosecutors can use to pursue complicated cases. The training and technology needed to fight white-collar crime is also sorely lacking in most of the region's police agencies. Some countries, such as Georgia, have contemplated in effect giving up the battle by legalizing many of the existing practices of the black market economy. The controversial Russian financier Boris Berezovsky believes governments should go even further by declaring an amnesty in corruption cases in order to get societies paralyzed by corruption scandals moving again. "Anyone who hasn't just slept through the past decade has deliberately or unwittingly broken the law," he claimed. Such amnesties might be productive when applied to small business entrepreneurs who have been caught up in bribery and extortion. But they would do little to eradicate the real source of the lawlessness at senior government levels.

Nonetheless, there were ambitious efforts in 2000 to set clear standards for bureaucrats. In Hungary, a civil service bill proposed in June would require all civil servants, including police, border guards, and armed forces employees, to declare their assets beginning January 2001. Estonia published a decree in July ordering an annual public statement of earnings for the country's 100,000 civil servants. Kazakhstan, Poland, and Belarus have announced similar efforts to clean up the bureaucracy. Slovakia approved a law on money

laundering in October requiring banks and other financial institutions to report all transactions larger than 100,000 crowns (about $2,000). The Polish parliament has passed similar legislation that subjects all transactions over 10,000 Euros ($8,600) to examination. In addition, a Polish General Inspector of Financial Information was appointed to lead a special anti-money-laundering unit in the Ministry of Finance. Turkmenistan and Russia also have adopted rules to tighten the export of capital.

Encouragingly, states have recognized that they need to work together to combat the regional assault on their integrity. In March, the three Baltic interior ministers signed an agreement on protection of witnesses and victims that made possible, for example, the relocation from one country to another of a witness who might face threats. The interior ministers of Macedonia, Albania, and Bulgaria signed a pact in July committing them to a joint struggle against organized crime. In May, Bulgarian president Petar Stoyanov signed a separate agreement with Albanian president Rexhep Meidani to pursue joint efforts against prostitution and drug trafficking. In October, Uzbekistan president Islam Karimov pledged with Turkish president Ahmet Necdet Sezer to cooperate against drug trafficking, terrorism, and organized crime. And in Palermo, Sicily, last December, all of the countries of Central Europe and Eurasia signed the landmark United Nations treaty on transnational crime and thereby committed themselves to share data and law enforcement resources in the struggle against cross-border criminality. It remains unclear how these various interlocking mechanisms will work, but they have set an important template. The nations of the region have recognized that the problem is larger than their individual capabilities for dealing with it.

THE POLITICS OF PROSECUTIONS

The fact that many of the corruption scandals mentioned here have become public knowledge shows that the battle is far from lost. All the same, there is a disturbing tendency to use corruption charges as a way to score political points. In Croatia's "Watergate" for example, tapes of the late President Tudjman's discussions with aides about padding contracts and paying kickbacks were only released last year when one of those aides was making a bid for political office. The Kazakh government revived charges of money laundering, tax evasion, and abuse of power against President Nursultan Nazarbaev's principal political opponent, former premier Akezhan Kazhegeldin. Meanwhile, Interior Minister Quairbeck Suleymenov's widely publicized undercover operation against bribe-taking traffic police and customs officers was diminished by accusations that it was an effort to deflect attention from Swiss and American investigations into charges that Western oil companies had siphoned off tens of millions of dollars in bribes to Nazarabaev and his close associates in return for licenses and permits to operate in Kazakhstan. In neighboring Kyrgyzstan, former vice president Felix Kulovs has faced a series of abuse-of-power and embezzlement charges in a long-running case that destroyed his hopes of contesting the October 2000 presidential election.

In 2000, Russian president Vladimir Putin's government targeted selected members of the oligarchy that flourished in the Yeltsin era, including Boris Berezovsky and Vladimir Gusinsky, for criminal prosecution on embezzlement and corruption charges. Both men went into exile. But the questionable practices of other oligarchs were left untouched. The

principal crime of Berezovsky and Gusinsky seems to have been their continued control of powerful independent media outlets that are extremely critical of the government. By exploiting criminal charges, which may or may not be true, to achieve political ends, the Putin government has come dangerously close to the time-honored practice that the Soviet regime employed in its highly politicized anticorruption campaigns.

Putin came into office promising a "dictatorship of the law," but there was little evidence during 2000 that he made any headway. Some might argue that he has reversed course. In December, prosecutors closed the nation's most important corruption investigation, 26 months after the case was opened, on the grounds that there was no evidence of a crime. The case allegedly linked Boris Yeltsin, his daughter, and former Kremlin property chief Pavel Borodin to the secret transfer of millions of dollars of government revenues overseas into Swiss bank accounts. While the Swiss said they would continue to investigate several of the charges, the abandonment of the field by Russia was seen as a tacit admission that politics still trumps corruption. Yuri Skuratov, the prosecutor who filed the original case and was later fired, said carefully, "The evidence with which I am familiar convinces me that this decision is more political than legal."

Authoritarian governments have exploited the struggle against corruption in a way that troublingly expands their powers. In Turkmenistan a special security council was set up to monitor the movement of all foreign nationals—supposedly to prevent illegal real estate sales. Belarusian president Aleksander Lukashenko has used his own highly vocal anticorruption campaign to increase his government's power to confiscate property from individuals and companies that have caused damage to the state. Although this may have reduced the arena for corruption in the private sphere, it is not likely to stop the endemic corruption in the Belarusian bureaucracy, where the line between criminal activity and official malfeasance has blurred. Those who complain can lose their jobs, their homes—or worse. Vladimir Zapolsky, the head of Gomelsteklo, the Belarusian state glass factory, was enraged by the padded prices he was asked to pay for raw materials. He led a campaign to have the government crack down on intermediary traders who were siphoning off profits from his overseas exports. He was shot dead in August.

In the absence of consistent government enforcement of anticorruption laws, the press has been a key tool in many countries for mobilizing action. In Georgia, newspapers have been the leading force in unmasking corruption, often at great personal risk. Investigative journalist Akaki Gogichaishvili received special police protection on President Eduard Shevardnadze's orders after he received death threats. Protesters staged a demonstration May 23, 2000, in response to reports that Georgia's prosecutor-general warned Gogichaishvili to leave the country. In Kyrgyzstan, prominent television reporter Roza Kachieva was charged with embezzlement, but Kachieva claimed the charges were connected to her plans to prepare television specials on opposition politicians. In Ukraine, the case of Hryhoriy Gongadze is perhaps the saddest example of the risks many journalists run. Gongadze, a popular online investigative journalist, disappeared on September 16, 2000, after publishing a dossier on his Web site that linked one of Ukraine's leading oligarchs, Oleksandr Volkov, to organized crime. Gongadze's headless corpse was found outside Kiev two months later. Accord-

ing to the tape recordings of President Kuchma's conversations, Ukraine's intelligence services arranged the murder at the behest of the president himself. Kuchma has denied any involvement.

The prominent role played by the press often has a contradictory impact. Even as the media reveals the venality of top officials, it exposes the inability or unwillingness of governments to do anything about it. Public cynicism and disenchantment thereby increase. The more the public learns about the ugly inner workings of government, the keener its disappointment at the failed promises of post-Communist society. Not surprisingly, polls reflect a declining faith in the democratic institutions that were established with such fanfare early in the decade. Only 20 percent of the respondents to a survey sponsored by the *Hayots Ashkarh* newspaper in Armenia, for example, thought their country was controlled by its president and parliament. Conversely, 18 percent believed "the mafia" played that role. In Kyrgyzstan, once considered the most democratic of the Central Asian countries, a poll conducted by a national research group last April found that only 13 percent thought they lived in a democratic society.

This year's *Nations in Transit* report demonstrates why it is impossible to separate corruption from other categories measuring the social, economic, and political health of the transitional economies. As corruption destroys national patrimonies and wastes resources, it intensifies the dire straits in which many countries now find themselves. In Russia, where organized crime and corruption cost the country an estimated $15 billion a year, about 20 percent of the population lives in absolute poverty.

Such inequity is, of course, a consequence of corruption everywhere in the world. But it has exacted a special toll on the region by diverting public monies from infrastructure development and social services at a time when they were most crucial. The defunding of social services has coincided with a sharp decline in marriage and birth rates, while health problems, ranging from alcoholism and tuberculosis to AIDS, have increased. The number of people in acute poverty, defined as those living on less than $2.15 a day, rose from 2 percent to a startling 21 percent of the total population of Eastern Europe and Central Asia in the decade between 1988 and 1998, according to World Bank figures.

Corruption creates its own vicious circle. The loss of tax revenues has constrained budgets, which in turn has forced cutbacks in the law enforcement, customs, and tax services that are most needed to combat the crisis. Moreover, the chaos and inequities fostered by corruption push more people at every level of society into the black economy, which drives the process. Social problems have increased even in the Baltics, long the most economically stable region of the former Soviet Union. In Lithuania, all categories of crime—from drugs to financial crimes—rose by 6 percent in 2000. In Latvia, drug-related crimes were up 20 percent to 520. And Freedom House analysts report a growing sense of social malaise among young people in Lithuania. Drug addiction in Azerbaijan has increased more than 100 percent in the past three years.

The prevalence of corruption has made it difficult, if not impossible, for ordinary entrepreneurs to respond to the opportunities of the free market. In Uzbekistan, Tashkent entrepreneurs report they are overwhelmed by constant demands from tax inspectors and police

for bribes and kickbacks. The World Bank estimates that every year small private Uzbek companies pay one-third of their profits in protection money and bribes. One storekeeper told a reporter last year that 90 percent of her earnings were eaten up by bribes.

Economic uncertainty, in turn, fuels transnational crime. One tragic bellwether is the growing number of desperate women seeking opportunities outside the region who fall prey to the sex trafficking cartels that have flourished in response to the economic dislocations suffered by many countries. Bulgarian human rights groups estimate that 10,000 Bulgarian women—many under 18—have been recruited and trafficked abroad. A similar figure has been cited in Bosnia.

Most ominously, the spread of corruption has cut short the movement toward further democratic reform. The prospering transnational elite now holds the same impregnable control over key institutions of governance and law enforcement that party leaders once held (in some cases, of course, they are the same people), and they are just as unlikely to share power or welcome transparency and accountability. Their ability to operate across borders has extended their influence and power further. Many national leaders would undoubtedly join Georgian president Shevardnadze in describing this new pandemic form of corruption as a "threat to sovereignty." And the West is not immune. In a paper outlining the challenges posed by the second decade of the post-Communist transition in Russia, U.S. analyst Fritz Ermarth singles out the danger presented by "the influence on our politics, our policies, our financial institutions and our business environment of the huge outflow of wealth from Russia."

WESTERN POLICY ON THE THIEVES IN POWER

International institutions have begun to recognize the scale of the problem. A World Bank report published in September 2000 concluded that "corruption in the region is developing new dimensions," and in October the European Bank for Reconstruction and Development announced tight conditions for lending to Russia in the hope of halting pervasive corruption. But there is still insufficient awareness in the West about the threat that region-wide corruption poses to regional stability. It is ironic that at the beginning of the last decade the greatest preoccupation of Western policymakers was the potential for a Communist revival. Now, many of those same policymakers welcome stronger central governments as bulwarks against corruption, even if such governments threaten the gains of the original pro-democracy revolutions.

The fact is, Western governments and institutions are only just coming to the realization of their own unwitting complicity in the rise of the "thieves-in-power." Clearly, key policy goals such as promoting the stability of Boris Yeltsin, keeping Ukraine from falling under Russian dominance, and securing an edge in the race to build oil and gas pipelines in Central Asia and the Caucasus made it useful to turn an official blind eye to corruption.

But Western banks and institutions have profited in such a way that Dan Jensen, a former U.S. diplomat now at Radio Free Europe/Radio Liberty, calls them "unindicted coconspirators" in the corruption scandals sweeping the region. Jensen and other critics note that bank privacy laws in the West have allowed many banks and corporations to profit

from the free-for-all atmosphere by accepting funds of questionable origin. This has made it more difficult to investigate high-profile corruption cases such as the Bank of New York affair, where as much as $7 billion from Russian sources was laundered through U.S. financial institutions.

Whether these accusations are fair or not, it is clear the West cannot be an impassive outsider in the anticorruption struggle going on in the transition economies. A report issued this February by the Democratic staff of the Senate Permanent Subcommittee on Investigations recommends several measures that U.S. banks can take in preventing themselves from being used by money launderers around the world. The recommendations include a ban on correspondent accounts for shell banks, greater due diligence and safeguards in dealing with offshore banks, and a full-scale review of all "high-risk" accounts.

These measures should be part of a systematic commitment to assist the region's anticorruption activities. That could include rewarding those countries with proven records in combating fraud and establishing transparent markets with greater financial credits, increasing professional exchanges and training for judicial and law enforcement personnel, and requiring Western government agencies and multinational corporations (perhaps through tax incentives) to pay as much attention to the social and legal context in which business arrangements are made as to a deal's strategic and financial importance.

Nothing, of course, can replace a sustained commitment by the affected states themselves to change the psychological climate in which corruption has flourished. Such a change is as important as legal reform. Public contempt for the rule of law, always present to begin with in Communist societies, has been exacerbated by the ineffective and corrupt systems that have replaced the old Communist regimes. Elena Chinyaeva, a political columnist for Moscow's *Kommersant Vlast*, quoted a study conducted several years ago by the Russian Independent Institute of Social and Nationalities Problems in which 72 percent of the respondents said they would abide by the law only if officials did the same. Even as an aroused citizenry demands stricter crackdowns against government felons, she noted, people "tend to perceive any proposed regulation as an irritating complication to the usual ways of resolving problems."

This moral relativism is not surprising, considering the failure of many avowed democrats to take responsibility for their actions. Stankevich's refusal to accept that the pay-as-you-go attitude of the early reformers had any connection to the excesses that followed in their wake is typical. "Many [people] believe that to pass up an opportunity when it presents itself is akin to a sin," observed Chinyaeva. "In their declared fight against corruption, people are still not quite ready to start with themselves."

ALBANIA

Polity: Presidential-parliamentary democracy
Economy: Mixed statist (transitional)
Population: 3,400,000
GNP per capita at PPP $ (1999): 2,892
Capital: Tirana
Ethnic Groups: Albanians (95 percent), Greek (3 percent), Vlachs, Roma, Serbs, Bulgarians, and other (2 percent)
Size of private sector as % of GDP (mid-2000): 75

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	4.55	↓ 4.75	↑↑ 4.38	↑↑ 4.13
Rule of Law	na	na	5.50	↑↑ 5.00
Economic Liberalization	4.00	↓↓ 4.50	4.50	↑↑ 4.17

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	604.0	761.0	817.0	687.0	908.0	1,078.0	1,195.0
Real GDP growth (% change)	8.3	13.3	9.1	-7.0	8.0	7.3	7.8
Inflation rate	22.6	7.8	12.7	33.2	20.6	0.4	0.4
Exports ($ millions)	141.0	205.0	229.0	167.0	205.0	275.0	330.0
Imports ($ millions)	601.0	680.0	921.0	685.0	826.0	1,121.0	1,022.0
Foreign Direct Investment ($ millions)	65.0	89.0	97.0	42.0	45.0	51.0	92.0
Unemployment rate	19.6	16.9	12.4	14.9	17.8	18.0	17.1
Life Expectancy (years)	72.5	71.3	71.7	71.7	71.8	72.1	71.0

INTRODUCTION

The Republic of Albania continued to consolidate democratic political institutions during a difficult period in the Balkans region. While the 1999 Kosovo refugee crisis presented particular challenges, Albania sustained its reform process and made discernible progress. The 2000 local elections were marked by an orderly first round, a problematic runoff, a substantially improved voter registration system, and the application of a new electoral code. The ruling Socialist Party won the largest number of seats overall, and the opposition Democratic Party (DP) won the second largest number. The political atmosphere between the two parties remained polarized, and the DP continued to threaten and employ boycotts albeit on a smaller scale than previously. Large voter turnout indicates increased public participation in the political process. National parliamentary elections in 2001 will test the stability of this progress.

Civil society contributed to the policy dialogue and the social sector, and the media enjoyed substantial freedom. The legal regulation of the nongovernmental organization (NGO) sector remained open and relatively unstructured, but NGOs continued to be characterized by limited organizational capacity and external financing. Civil society's capacity to serve watchdog functions and lobby for political change is increasing, but the level of media professionalism remains low. Media professionals rarely consult NGO experts. The private electronic media is diverse and is gradually supplanting conventional newspapers as a primary source of information. Newspapers continue to be largely partisan political publications. In May 2000, Albania Radio and Television (RTSH) was converted into an independent public entity. All other electronic media are now private.

Governance and public administration enjoys a solid constitutional and legal framework, but capacity for good governance remains limited. Governing institutions have become more accountable, transparent, and decentralized, but civil service reform and development is lacking. Promising new institutions and structures such as the ombudsman are still in the beginning stages of implementation, and local government, while increasingly empowered, lacks many basic resources.

The constitution provides for a panoply of modern human rights, including private property, and it establishes a multi-tiered judicial system with a constitutional court to secure their enforcement. During the reporting period, the judiciary held its first constitutionally required National Judicial Conference, and substantial steps were taken to develop the professionalism and independence of the judiciary. Progress on other fundamentals such as the publication and distribution of new laws continues to be problematic.

Corruption is prevalent at all levels of government. In 2000, a World Bank study determined that Albania's level of administrative corruption was the highest in Central and Eastern Europe. However, the government is addressing the issue, and the reporting period witnessed the adoption of broad-based provisions to combat money laundering. The effectiveness of these measures will continue to depend on implementation issues, which heretofore have been disappointing.

Real GDP growth in Albania was estimated at 7.3 percent in 1999 and projected at 7.0 percent in 2000. A portion of this growth can be contributed to increased demand resulting from the Kosovo crisis, particularly in the transportation and services sector. Inflation remained negative and the budget deficit was reduced. The government made progress in both privatization and tax collection, and Albania's international trade policy remained liberal. On September 8, 2000, Albania became the 138th member of the World Trade Organization (WTO). Albania agreed to assume its obligations, including reduced customs tariffs, upon accession. A rise in unemployment to 18 percent—the highest level since 1994—somewhat offset these promising indicators. The government has attempted to respond, and real wages in the state sector have increased substantially.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
4.25	4.50	4.25	4.00

A number of indicators can be used to gauge the stability of a political system. These include the level of violence that accompanies a political transition, the perceived legitimacy of the ruling party, and the availability of forums for public participation in the political process. In light of these indicators, the overall political situation in Albania can be considered fairly stable. Parliamentary, presidential, and local elections have taken place since the civil instability and violence of 1997. Despite vehement criticism from the DP, the Socialist Party's (SP) popular legitimacy in the governing coalition is not questioned. The SP should remain firmly in power until the 2001 parliamentary elections. The recent local elections were marked by little violence in the first round but by some violence in the runoff. High voter turnout indicates increased public participation in the political process.

National parliamentary elections were last held in 1997. These early elections followed the controversial parliamentary elections held in 1996 and the subsequent collapse of civil order in early 1997. The Organization for Security and Cooperation in Europe (OSCE) and other international and bilateral groups monitored the 1997 elections. The OSCE declared the results "acceptable, given the prevailing circumstances" and stated that "the results of these elections should be the foundation for a strong, democratic system, which Albanians want and deserve." The SP won more

than 50 percent of the vote, while the former party in power, the DP, received approximately 25 percent. With this majority, the SP joined several center-left parties in forming a governing coalition. The 1998 constitution calls for the number of deputies to be reduced from 155 to 140 in the next parliamentary elections, which is scheduled for summer 2001.

Prime Minister Fatos Nano led the coalition government until an attempted coup d'etat in September 1998. The OSCE, in close coordination with the local diplomatic community, facilitated a cessation of hostilities and the restoration of order. Fatos Nano resigned and SP general secretary Pandeli Majko was elected as prime minister. In January 1999, Nano stepped down as SP chairman, but he regained the post by a narrow margin during the party's September congress. When Prime Minister Majko failed in his bid for the chairmanship, he resigned the premiership and was replaced by Deputy Prime Minister Ilir Meta. Meta held this position through the duration of the reporting period.

Under both the prior interim constitutional provisions and the 1998 constitution, parliament elects the president of the republic. According to the constitution, "only an Albanian citizen by birth who has been a resident in Albania for not less than the past 10 years and who has reached the age of 40 may be elected President." The president is elected with a three-fifths majority to serve a five-year term and is eligible for reelection only once. If a majority vote cannot be reached after five attempts, the parliament is dissolved and new elections are held within 60 days. During the 1997 civil unrest and the state of national emergency, the DP-controlled parliament reelected President Sali Berisha. Directly following the 1997 parliamentary elections in which the DP was defeated, President Berisha resigned his office. On July 24, 1997, the new SP-controlled parliament elected an independent-minded SP member, Rexhep Meidani, to the presidency. Meidani remained president for the duration of the reporting period. The next presidential election is scheduled for 2002.

Since the advent of democracy in 1990, independent parties have been permitted and a variety has been formed. Article 46 of the new constitution guarantees the right of Albanian citizens to organize for "any lawful purpose," but it prohibits the formation of parties that are totalitarian, incite and support racial, religious, or ethnic hatred; use violence to take power or influence state policies; or are nontransparent or secretive in character. Previously, Law No. 7502 For Political Parties prohibited the formation of parties that were "fascist, anti-national, chauvinistic, racist, totalitarian, Communist, Marxist-Leninist, Stalinist, or Enverist" (the last referring to the former dictator Enver Hoxha). Immediately following the 1997 civil unrest, the Albanian Communist Party sought legalization and was denied it. Following the 1997 national elections and the consequent shift of power, the aforementioned law was amended to prohibit a party "when the goals and its activity are anti-nationalist, anti-populace, anti-democratic, and totalitarian." In February 2000, Law No. 8580, For Political Parties, replaced this law in toto. It details new procedures for organizing and registering political parties.

Since the adoption of the new constitution, one member of parliament, Maksim Hasani, has declared himself a Communist. Hasani was elected as an independent. Parties with a religious basis, e.g., the Islamic Democratic Union, which have been denied registration in the past, may continue to face difficulties registering given the new constitution's express declaration that "there is no official religion" in the Republic of Albania. Law No. 7895, For the Criminal Code, makes it a crime to form an "anti-constitutional party or association," and carries punishments ranging from a fine to five years in prison. (Article 224)

There are three party groupings currently in power. The governing coalition consists of the SP (led by Fatos Nano), the Human Rights Party, the Democratic Alliance Party, the Social Democratic Party, the Agrarian Party, and the National Unity Party. The primary opposition coalition consists of the DP (led by former President Sali Berisha), the Union for Democracy, Legality Party, the Christian Democrats, the Democratic Union Party, and the Social Democratic Union Party. The third party grouping, a nonaligned center-right coalition called the United Right consists of the Republican Party, the National Front Party, the Right Democratic Party, and the Movement for Democracy Party. In the next election, 100 deputies will be elected directly; the remaining 40 will be elected from party lists according to the proportional percentage of votes received by each party in the first round of elections. A party must receive no less than 2.5 percent of the votes in the first round for its lists to be valid. Party coalitions must receive no less that four percent.

Despite the existence of a variety of political parties, Albanian politics remains dominated by the two largest parties, the SP and the DP. All parties tend to be uniformly centralized and dominated by a select group of charismatic figures, but only the SP and the DP maintain a true network extending throughout the districts. While there are no legal impediments to the participation of women and minorities in government, women continue to be underrepresented in the major political parties and the government. Only ten of the current 155 members of parliament are women.

Reliable records of membership in political parties do not exist. In a comprehensive household survey in post-crisis 1997, 26 percent of respondents indicated that they belonged to a party. In terms of political party identification, survey respondents expressed preferences for the SP, the DP, or no party, in that order.

The relationship between the SP and the DP is characterized by polarization. DP participation in the political process has been dominated by frequent protests and threats of boycotts. In July 1999, the DP resumed its participation in parliament after a ten-month boycott. During the boycott, the DP refused to participate in virtually all government

functions at the national level. In the lead-up to the local elections held in October 2000, the DP heavily criticized the election process. The DP also attempted to boycott the second round of balloting, but most of its candidates for municipal posts ignored the party order and remained in the race.

Since the 1997 crisis, Albanian authorities have been working to reform the electoral framework. In May 2000 a new electoral code was promulgated and it governed the October elections. The new code implemented article 153 of the constitution that created the Central Election Commission (CEC) as a "permanent organ that prepares, supervises, directs, and verifies all aspects that have to do with elections and referenda and declares their results."

The electoral laws governing both national and local elections contain provisions that guarantee multi-party representation on voting commissions. However, the composition of the CEC has been a very controversial topic and reviews of the CEC's performance in the October elections were mixed. The DP argued that representation in the CEC was biased in favor of the SP, particularly since five of its seven members were nominated prior to the enactment of the electoral code, which established selection criteria. As a result, the DP refused to nominate members for the remaining positions. According to the OSCE 's report, the CEC did not establish comprehensive rules of procedure as envisioned in the electoral code, was slow to announce the results of the first round of voting, and did not effectively address shortcomings in the process that were identified in the first round.

Another significant development in the election process relates to voter registration. In previous elections, the OSCE has cited the government of Albania for inadequate voter lists, which in turn put into question the accuracy of statements regarding voter turnout. With large numbers of Albanians now seeking work abroad, maintenance of accurate voter lists remains extremely difficult. Bearing in mind these limitations, the following figures have been reported for past national elections: 1991 parliamentary, 59 percent; 1992 parliamentary, 95 percent; 1992 local, 70.5 percent; 1994 constitutional referendum, 75 percent; 1996 parliamentary, 89 percent; 1996 local, 75 percent; 1997 parliamentary, 66 percent; and 1998 constitutional referendum, 52 percent. Turnout has not always been indicative of the quality of the process. Despite the low turnout for the 1998 referendum, a joint OSCE-European Union-Council of Europe report declared that there had been "progress" in the registration process and that voters and election officials "should be commended."

In the October 2000 local government elections, Albania made progress in voter registration procedures. The institution of the first national computerized voter register and the actions of the CEC allowed almost all voters to cast their ballot on election day. Approximately 1,443,705 voters participated in mayoral elections and 1,448,411 voters participated in elections for councilor. The SP won 252 seats and the DP 118 seats, with the remaining 28 seats spread among other parties. These elections exemplify the overall status of the political process in Albania. OSCE monitors reported that "while the first round of the local government elections…marked significant progress towards meeting the standards for democratic elections, the second round on 15 October was less transparent and inclusive, and showed the need for further improvement in order to meet certain OSCE commitments."

Civil Society

1997	1998	1999-2000	2001
4.25	4.25	4.00	4.00

Taking into account the country's overall development, civil society in Albania is far more developed in both urban and rural settings than one might expect. While the government does not maintain a central registry for NGOs, estimates by local NGO umbrella groups vary from as low as 400 to as high as 800 NGOs nationwide. Of those, the Albanian Women's Center in Tirana has documented at least 81 women's rights groups.

NGOs exist in most sectors: environmental protection, human rights, democracy, youth, women, economic growth, education, culture, sports, and social safety nets. The number of NGOs in cities outside Tirana and in the countryside has increased, as national NGOs and umbrella groups have expanded into other regions. Eleven percent of the Albanian public is active in NGOs, according to a national research survey administered by the Organization for Educational Resources and Technological Training (ORT) in November 1997. In the same survey, 66 percent of respondents said that they would work with an NGO on an issue important to them.

The Kosovo refugee crisis in 1999 tested the capacity of NGOs. Their response to the crisis demonstrated the increasing capacity of these organizations to address social issues effectively. A number of established NGOs constructively engaged youth, women, families, and disabled persons to help meet the needs of the nearly half-million Kosovar refugees in Albania. NGOs also formed coalitions to distribute humanitarian aid; organize educational, training, and cultural events; provide services in refugee camps throughout Albania; and collect and document testimony for purposes of investigating and prosecuting alleged war crimes.

The reaction of the Albanian population to the Kosovo crisis also reflected a spirit of volunteerism. More than three quarters of the refugees were housed by families rather than in refugee camps. Nonetheless, much of the Albanian response may have resulted from a sense of duty toward fellow Albanians rather than from a strengthened spirit of volunteerism.

Albania has a very liberal, though incomplete, NGO legal framework. Articles 39 through Article 63 of the civil

code contain the primary legal framework for NGOs. To obtain legal personality, an NGO must register with the Tirana district court in the as an association (a membership organization formed for non-profit goals) or a foundation (a non-membership organization formed for a specific, socially beneficial purpose). Until recently, NGO registration has been fairly easy. In 1999, however, the Tirana district court reportedly suspended registration of new NGOs for some time and denied registration to some international NGOs.

NGOs are exempt from paying custom duties on imported humanitarian aid. Otherwise they are not expressly exempt from paying taxes. There are no legal restrictions on income generation, membership fees, or other types of fundraising by NGOs, but tax laws concerning social insurance, profit, and value-added taxes apply to all individuals and legal persons. For various reasons, including the intent to obtain better oversight over pyramid organizations registered as foundations and over licensed social service delivery NGOs, the Albanian government initiated reform in late 1996 and 1997. The NGO sector, once learning of the initiative, formed a broad and informal coalition to gain input into the law. As a result, they successfully halted the progress of overly restrictive draft legislation. After the change of government in 1997, the first NGO-government law-drafting group was formed, with the Ministry of Labor and Social Affairs and the NGO coalition members taking the lead. During 1998, the new group completed a comprehensive draft that defined the treatment of NGOs providing public services. In particular, the draft addressed the issue of allowing NGOs to earn income to cover their operating costs. This law has not yet been passed.

Albanian NGOs continue to lack strong organizational capacity. Only a few of the more experienced and active NGOs have a functioning organizational structure in which directors and staff have some limited accountability to a board of directors or to the membership. Almost no NGOs have developed bylaws. Instead, they operate under a broad statute developed at the time of registration that delineates the required structure required by civil code provisions. In most cases, NGOs are still run by a small core group of 1 to 3 persons who have developed outreach through their projects and activities. Only a small group of approximately 35 NGOs has written financial procedures, largely developed through the training and technical assistance of the ORT/USAID Albania Democracy Network Project. ORT recently published *Financial Management for Albanian NGOs*, the only financial management handbook in the local language that provides guidance in accordance with both Albanian fiscal legislation and generally accepted accounting principles.

A number of international governmental and nongovernmental organizations are working with local NGOs to address the need for organizational development, financial management and accountability, sustainability, and improved public image. These international groups provide technical assistance and training, including strategic planning and board development retreats, to help NGOs meet international standards of accountability, develop bylaws and operational procedures, recruit and train board members, raise funds, and improve public and media relations. Sector-area resource centers like the Women's Center, the Albanian Disabilities Foundation, the Albanian Youth Council, the Health for All Foundation, the Albanian NGO Forum, and the Albanian Civil Society Foundation provide similar training for NGOs.

While there are important examples of experienced NGOs receiving longer-term financial support for more permanent operations, there has not been a significant increase in the number of NGOs that are able to set up offices, purchase equipment, or hire permanent staff. NGOs still rely almost entirely on foreign funding support. The main supporters are the European Union; private donors such as the Open Society Institute; and the governments of the United States, Italy, the Netherlands, and Denmark. There are some notable examples of income- generating activities to support NGOs, including greenhouses, handicraft production and sales, and a sewing cooperative run by various women's organizations. NGOs are not required to produce an annual report or disclose revenue sources.

Over the last few years, there has been a significant transformation in involvement of the NGO sector in policy making. The government has taken active steps to improve transparency and create opportunities for NGO input. Compared to March 1995, when few NGOs engaged in true policy dialogue with the government or played a watchdog role vis-à-vis the government, there is now a core group of approximately 40 public policy NGOs that works with government in setting policy priorities and in formulating and implementing laws.

The 1998 constitution is in part responsible for the increase in civil society's access to government. The section on fundamental rights guarantees the rights of Albanian citizens to attend meetings of elected bodies, organize for "any lawful purpose," and petition organs of government. Consistent with the prior interim constitutional provisions, Article 81 of the constitution provides that any group of 20,000 voters may initiate legislation at the national level. Supplementing the right to initiate national legislation is the right, upon the motion of 50,000 voters, to call a national referendum to abrogate a law. (Article 150) In addition to the constitution, in 1998 the parliament enacted revised rules of procedure that allow for greater transparency and public input into the legislative process. One such measure is the publication and distribution of the parliament's biweekly schedule.

Albanian NGOs have drafted legal provisions and have begun to lobby for laws and policies in a broad spectrum of priority areas, including the environment and social issues. Former government officials, civil servants, and academics are increasingly moving into the NGO sector and working with or forming new domestic think tanks such as the Albanian Institute for Contemporary Studies. These think tanks

are also playing a more prominent role in the NGO sector vis-à-vis government. That is, government ministries and international organizations see them more as active partners in research and policy formulation.

There are a number of free trade unions in Albania. The new constitution provides for the right to unite freely in labor organizations (Article 50) and grants employees the right to strike (Article 51) within some legal limitations that may be established to assure essential social services. The 1995 labor code sets forth legal requirements for unions pertaining to registration; ability to represent employees interests in court; ability to raise tax exempt funds through fees, donations, and revenues from social, economic and cultural activities; and protection of the right to establish, operate and administer activities without interference from the government, employers, or employer organizations. (Arts. 176-198)

The two main trade union groups are the Confederation of the Trade Unions of Albania (Konfederata Sindikatave te Shqiperise, KSSH) and the Union of the Independent Trade Unions of Albania (Bashkimi i Sindikatave te Pavarura te Shqiperise, BSPSH). A third union, the Independent Federation of Miners and Geologists, is active but membership is low due to the decrease in the number of individuals working in the mining industry. Other unions, BSPSH splinter groups, like the Union of Trade Unions of Albania, have registered but only have a small membership. The two main confederations are comprised of union federations divided functionally and geographically that deal with the Textile and Light Industry Federation, Health Service Employees, and Agriculture and Food, Transportation, and Public Employees. The Ministry of Labor and Social Affairs reports that together the KSSH and BSPSH have approximately 285,000 members, or almost 22 percent of the workforce in 1997. KSSH has reported that it represents approximately 100,000 members in its 12 federations and 30 district trade union councils. BSPSH has reported 200,000 members in it 14 federations and 36 district trade union councils. Trade unions have become increasingly weak, and their influence is primarily limited to state-owned companies.

Other NGOs have developed watchdog programs that bring government institutions into compliance with specific human rights standards, minority rights standards, and election law requirements related to unbiased media coverage. They also prod state institutions to enforce laws, such as those dealing with consumer protection, better. In recent years, human rights groups have played a stronger, more prominent role in policy advocacy and rule of law oversight through their active participation in drafting and reviewing the constitution, amending state police and security legislation, overseeing the police and courts, and petitioning the constitutional court to repeal laws.

There has been no improvement in NGO-media relations, primarily due to the low level of professionalism among journalists. While the media will report some research statistics and NGO events, journalists do not turn to NGOs as a source of news and facts. At times, the media have printed negative stories about the NGO sector. During the Kosovo crisis, for example, the media published accusations of theft and corruption by local NGOs, at a time when only 15 to 20 NGOs had received the first grants. A potentially positive sign was the creation of an advisory board for the newly transformed public radio and television in 1998. One representative from each of the following groups sits on the Leading Council of the Albanian Radio and Television (RTSH) both to represent his sector's interests and to assure RTSH's compliance with the standards and legal requirements of the new electronic media law: labor unions, journalists associations, women's NGOs, youth NGOs, the main NGO forum, and minority groups. However, this advisory board has yet to affect NGO-media relations positively.

Independent Media

1997	1998	1999-2000	2001
4.75	4.75	4.50	4.25

In May 2000, RTSH was converted into an independent public entity. All other electronic media are now private. Fifty private television channels and 30 private radio channels operate nationwide. The leading private radio stations are Radio Koha, Radio Klan, Radio Stinet, and Top Albania Radio.

Political parties, labor unions, associations and groups publish their own newspapers and magazines. Approximately 200 different publications, including daily and weekly newspapers, magazines, and pamphlets, are available in the main cities. There are eight major daily newspapers with an average circulation of less than 8,000 copies. The two largest independent dailies are *Koha Jone* and *Gazeta Shqiptare*; partisan papers include *Zeri i Popullit* (SP); *Rilindja Demokratike* (DP); *Bashkimi* (the journalist's union daily), *Republika* (Republican Party), *Progresui Agrar* (Agrarian Party), and *Albania* (DP).

The print distribution system is wholly private and limited to the major population centers. Daily newspaper circulation has been in a steady decline, due to the opening of new private radio and television stations, an increase in the price of the publications, and a general distrust of the print media. In 2000, circulation dropped to below 65,000 copies, down from 65,000 in 1999, 75,000 in 1998, and 85,000 in 1997. Also in 2000, in a survey by the International Research and Exchanges Board (IREX), 55 percent of respondents considered the independent broadcast media to be biased.

There are two satellite links in Albania that offer full internet access: one set up by the United Nations Development Program in 1995 and a second established by the Soros Foundation through the Albanian Education Development Project in May 1997. Both offer Internet service to a limited number of institutions and organizations. Commercial

Internet service providers were licensed to offer access in 1998 and 1999. There are no legal restrictions on Internet access, but relatively few people can afford a computer or Internet services, particularly in rural areas. In addition, Albanian's poor telecommunication infrastructure hinders Internet access. Many government ministries and departments still do not have such access.

Articles 22 and 23 of the constitution enshrine both freedom of the press and the right of the public to access state information but explicitly prohibit "[p]rior censorship of a means of communication." Furthermore, the constitution specifically allows for the licensing of radio and television stations. In May 1997, parliament passed Law No. 8221, On Public and Private Radio and Television in the Republic of Albania, which sanctioned private broadcasting for the first time. In 1998, this law was replaced by Law No. 8410, which provides for the politically diverse National Council of Radio-Television to regulate broadcasting and reiterates guarantees of independence in broadcasting. This law is emblematic of the government's general respect for freedom of speech and the press.

The 1998 electronic media law also protects private electronic media stations and Albanian Radio and Television from outside interference and prohibits censorship. Article 61 of the new electronic media law also prohibits advertisers from interfering with the contents and scheduling of programs. The law bans political parties, religious organizations and state bodies from operating a private radio or television station (Article 26) and restricts any one owner of a company with any national or television stations to a maximum of 40 percent of the total capital of the company (article 20). Nevertheless, political parties subsidize most media in some form.

Party and union newspapers generally represent their sponsors' views. Newspapers report politically polarized stories, often for or against the government. Journalistic responsibility is severely lacking. This fact was apparent during the October 2000 elections when various parties did not receive equal media coverage.

According to a 1998 assessment of the Albanian private television industry, only one out of 30 private television stations reports profits. Current figures demonstrate that this fact applies to print media as well. As a result, both print and electronic media are vulnerable to outside interference. The primary obstacles to business development are the lack of media management experience, technical expertise, and trained personnel. The high level of crime and a lack of public order have greatly affected business development; owners and staff have been beaten and/or robbed of substantial sums of money and costly equipment. In addition, there are far more media outlets than the advertising market can sustain.

While a legal foundation for freedom of the press exists, there are legal penalties for libeling officials and irresponsible reporting. Law No. 7895, For the Criminal Code, enacted in 1995, contains several provisions that impose a range of criminal penalties for insulting or defaming public figures and symbols. Insulting representatives of foreign countries, anthems, flags, public officials, and judges can result in penalties ranging from fines to three years imprisonment. (Articles 227, 229, 239, and 318). Defamation of public officials, the president of the republic, and national symbols can result in penalties ranging from a fine to three years imprisonment. (Articles 240, 241, and 268). "Calls for national hatred" and the propagation of false information may be penalized with a fine or up to five years in prison. (Articles 266 and 267) This law is applied in order to silence criticism of the government.

Attacks on journalists, while decreasing, remain a significant obstacle to the development of an independent media. In July 1999, police in Elbasan reportedly assaulted two Koha Jone journalists. In November 1999, an unidentified gunman seriously injured a local radio and television reporter in Pogradec.

The ability of the media to protest such violations of freedom is limited. Although the Albanian Civil Society Foundation reports that ten associations in the mass media are active, most are weak and ineffective. The two major press associations are the Albanian Professional Journalists Association and the Albanian Journalists League. Both aim to protect the rights of journalists, speak out about attacks against journalists, and organize occasional training seminars and conferences. There is an association of private television broadcasters with eight member stations. In general, professional media associations in Albania do not effectively advocate reform and promote an independent media.

Albania was rated as Partly Free in Freedom House's most recent *Survey of Press Freedom*. From 1991 to 1994, Freedom House also rated Albania as Partly Free. In the period from 1994 to 1996, however, Albania's rating was downgraded to Not Free due to continued government control over the media, including legal restrictions on private electronic media and threats against journalists. Albania's rating has remained Partly Free since 1997.

Governance and Public Administration

1997	1998	1999-2000	2001
4.75	5.00	4.75	4.25

While parliament is the chief rule-making organ in Albania, government ministries draft the vast majority of legislation. Parliamentary support staff is also minimal. Under Article 81 of the constitution, only a vote of 315 of all members of parliament can approve or amend certain organic codes (e.g., laws on elections or public functionaries). The constitution also limits the president's power to issue decrees to a discrete list of topics that involve the traditional duties of a head of state or constitutional guardian. (Articles 92-94)

Proper publication and distribution of laws and regulations has been a consistent problem in post-communist Al-

bania, and a State Publications Office sponsored by the Council of Europe currently is under development. With a new printing press installed and a basic staff assembled, the office produced 30 editions of the new *Official Gazette* during the reporting period. However, a variety of technical and bureaucratic difficulties limit its full use by as much a third of capacity and highlight the government's failure to focus on this important issue properly.

In the fifteenth legislative session in spring 1998, parliament passed new rules of procedure that provide for greater transparency, public input, and improved procedural guidelines. The rules more clearly define the legislative procedure for reviewing a draft law and leave more time for parliamentary commissions to review and amend the drafts. The new rules make parliament much more transparent by allowing the public and the media to attend plenary sessions and permitting radio and television to broadcast these sessions. The public and the media may obtain information on draft laws and parliamentary reports, while NGOs and other interested parties may attend commission meetings. The parliamentary commissions also may hold public hearings to gather input on draft legislation or other issues. In 1998, parliament began to make its biweekly parliamentary schedule widely available to interested parties and the press. On two occasions permanent parliamentary commissions sought comments from NGOs and interested parties on the draft electronic media law and on the amendment of the law on the national intelligence service. Despite these positive developments, there is no regular consultation between parliament and the public or interested parties.

In May 1999, parliament adopted Law No. 8485, The Administrative Procedure Code of the Republic of Albania, which makes government officials accountable to private individuals for illegal acts or the failure to act (Article 14). In June 1999, parliament also adopted Law No. 8503 On the Right of Information For Official Documents, which grants any person the right to request official information from the state and obligates the government to make official information public. These two laws address longstanding gaps in the Albanian legislative framework that could increase government transparency and accountability.

Furthermore, the new constitution established a national ombudsman, referred to as the people's advocate, who is empowered explicitly to enforce the public's right to information. (Law No. 8503, Article 18). The ombudsman is empowered generally to "defend the rights, freedoms, and lawful interests of individuals from unlawful or improper actions or failures to act of the organs of public administration." (Constitution, Article 60). In an effort to de-politicize the post, the constitution forbids involvement in political activities and calls for his or her election by "a vote of three-fifths of all members of the Assembly." (Article 61) In February 1999, parliament passed Law No. 8454 For the People's Advocate, which structured and implemented the ombudsman's office. The first people's advocate, Ermir Dobjani, was elected in February 2000. Since then, additional government decisions have been handed down to clarify further the jurisdiction of the people's advocate. Initial progress was notable, but the office has yet to develop fully. It remains to be seen what role the ombudsman will actually fulfill.

The constitution establishes local government units as juridical bodies that possess a number of autonomous powers, including the power to tax, issue local rules, engage in contracts, and conduct local referendums. (See Articles 108, 111, and 113.) These autonomous local government structures decentralize the power of the Albanian state and create a closer link between citizens and the governing political structures. This concept is also enshrined in the Basic Principles section of the constitution. Furthermore, these provisions are consistent with the government's stated commitment to adhere to the European Charter of Local Self-Government.

In February 1999, Government Decision No. 103 established the National Committee for Local Government Decentralization, which is charged with developing a strategic plan for government decentralization pursuant to the constitutional mandate. New legislation will be developed to replace earlier laws on local governments and prefectures. In July 2000, the government passed Law 8652, For Organizing and Functioning Local Government, and Law 8653, For Administrative-Territorial Division of Local Government in the Republic of Albania. These laws implement the constitutional provisions described above.

The most recent local government elections took place in October 2000. According to the OSCE, the first round of voting was far more transparent than the second. Local governments have been plagued by insufficient resources and excessive interference from the national government. During the public consultations on the drafting of the new constitution, the Albanian Association of Mayors presented requests for decentralization of power and autonomy. The drafters accepted these suggestions, and the new constitution explicitly provides for a wide range of autonomous powers. It also specifically prohibits the national government from issuing unfunded mandates to local authorities. As Article 112 states, "The expenses that are connected with the duties put by law to the organs of local government are covered by the budget of the state."

In line with the reform of local government and the accompanying increase in local authority, the basic legal system underlying the civil service was restructured in 1996 (Law No. 8095, On the Civil Service in the Republic of Albania), but none of the essential implementing measures were taken. Following the 1997 change in government, locals and internationals expressed concerns about changes in the civil service's staffing. While corruption remains widespread, some progress has been made. The government removed approximately 5,000 positions from the public sector payroll in 1999 and more than 3,000 in 2000. In addition, progress in reviewing the salary structure has resulted in increased efficiency. Retention concerns have been addressed

in part through a pay raise that took effect on July 1, 2000, and a new Law on the Public Service (Law 8549) that was passed by the parliament in November 1999. This law provides a new legal framework for staffing and promotions based on merit, rather than political or personal influence. Parliament will name a five-member Department of Public Administration and a Public Service Commission to implement the new law, which tasks the Council of Ministers to issue the necessary decisions for implementation within a year.

An additional hindrance that plagues the local governments is the lack of trained and qualified leaders and civil servants. With the movement toward decentralization, local governments have to take a more active and creative role. This places a premium on the need for more trained leaders and civil servants. In June 2000, Government Decision 315 created an Institute of Public Administration to provide training for civil servants. It is unlikely, though, that the Institute will be able to address the full scope of the problem in the near term.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.75	5.25	5.00	4.50

Progress in implementation of the new constitution was evident in the reporting period. The new constitution, Law No. 8417, Constitution of the Republic of Albania, passed in a national referendum on November 22, 1998. Throughout the final stages of the drafting process, the DP systematically protested, emphasizing non-participation while simultaneously claiming exclusion. DP protests against the constitution were noted for their excesses, and the Joint OSCE, EU, and COE Observation Team commented critically: "The disinformation on the contents of the constitution, the misrepresentation of international representatives and unfounded allegations against the constitutional process by the Democratic Party are to be regretted."

In general, Albania received high praise for the open and inclusive drafting process. As the Joint Observation team noted, "The referendum followed an open and transparent process where advice on the constitution was taken from many sources, domestically as well as internationally." Furthermore, the text itself received praise from the esteemed Venice Commission of the Council of Europe, which stated at the end of parliamentary deliberations that "the draft [constitution], in particular the human rights chapter, is in line conformity with European and international standards."

Under the new constitution, as was the case previously under the interim provisions, the constitution is interpreted and enforced by a constitutional court. The constitution provides for a nine-member court appointed by the president with the consent of parliament. Judges serve nine-year terms without the right to re-election. The jurisdiction of the constitutional court is defined broadly, and individuals enjoy the right of petition. (Article 134) However, there is at least one important new limit on jurisdiction, namely, that the new constitutional court no longer possesses the power to raise cases on its own motion. In February 2000, parliament passed Law No. 8577 For the Organization and Operation of the Constitutional Court of the Republic of Albania, which, among other things, established guidelines for issuing and executing decisions. There were a number of instances in 2000 in which the constitutional court interpreted and enforced constitutional provisions. The court's decisions have included majority and minority opinions.

Prior to this major constitutional overhaul, substantial reform occurred in the criminal law sphere. In consultation with international experts, both the penal and penal procedure codes were replaced in 1995. The revised codes provide many basic due-process protections. Under article 202 of the penal procedure code, the court on the basis of "grounded reasons" may issue a search warrant. Article 206 establishes the general rule that searches of a home shall take place between 7 A.M. and 8 P.M. There are exceptions for cases in which a police officer encounters a crime in progress. (Article 202.)

Treatment of suspects and prisoners is fair to poor. Police officers generally do not receive adequate training and have a reputation for being corrupt. Assistance from Western Europe and the United States has helped improve training, particularly in terms of officers' respect for human rights. Enforcement of these principles still lags, and police harassment, extensive detention, and trail delays are substantial problems. In 2000, the government approved Law No. 8570 For Some Changes to the Penal Procedure Code of the Republic Albania, which limits the extension of detention periods. The government also addressed the issue of police training with Decision 281, For Organizing and Operating the Police Academy, which sets forth new provisions for organizing and managing police training.

The constitution extends these legal rights to cover the panoply of modern human rights, including private property. The latter issue was fully discussed during the drafting process, particularly with representatives of landowners whose property was subject to expropriation during the communist period. Article 41 restricts the right of the state to interfere with property rights. Part II of the new constitution, Fundamental Human Rights and Freedoms, enumerates the rights and guarantees that any individual, Albanian or foreign, enjoys against state interference in their lives. Limitations of these rights are permitted only when it is established that it is in the public interest or necessary for the protection of the rights of others. Any limitation must be in proportion to the circumstances generating the restriction. Under no circumstance may the limitation exceed the limits accepted in the European Convention on Human Rights (Article 17). In

summer 2000, parliament abolished the death penalty by ratifying Protocol VI of the Convention (Law No. 8641).

The constitution guarantees criminal defendants the right to a "free defense when [they do] not have sufficient means." (Article 31(d)) However, the government has not established a reliable system to ensure that this right is properly realized. In accordance with the penal procedure code, courts must receive a list of attorneys (bar members) in their region from which they may select a legal representative for a criminal defendant. The attorney is entitled to payment for all fees that the defendant cannot afford, but the government is frequently delinquent. (Article 49 of Law No. 7905.) A limited number of nongovernmental clinics have begun providing similar services, and the results are encouraging. Still, the need continues to exceed the supply, particularly, in civil matters.

During the constitutional drafting process, ethnic minority rights were discussed extensively. The Human Rights Party, representing the interests of the Greek minority, took a lead role in the discussion. As a result, Article 3 of the constitution cites "coexistence" with ethnic minorities is cited as a basis of the Albanian state. Broad protective language suggested by the President of the Venice Commission of the Council of Europe was incorporated into the constitution so that Article 18 prohibits discrimination based on "gender, race, religion, ethnicity, language, political, religious or philosophical beliefs, economic conditions, education, social status, or ancestry." Article 253 of the penal code imposes a fine or up to five years in prison for state employees who discriminate against persons on the basis of the majority of the aforesaid criteria. Women continue to face special challenges in Albanian's patriarchal society. Trafficking in women for the purposes of prostitution remains a significant problem.

The full range of human rights violations are the proper province of the judiciary, which is charged with resolving disputes concerning the interpretation and application of laws. The new constitution provides for a three-tier system of district courts, courts of appeal, and a high court. (Article 135) All judicial decisions must contain an explanation of how the law applies to the particular set of facts before the court. Decisions of the high court must be published. (Article 142) In 2000, parliament passed Law No. 8588, For the Organization and Operation of the Supreme Court of the Republic of Albania, which details the composition and structure of the high court. The constitution also provides for a High Council of Justice. With the approval of the president, the high council selects district and appellate court judges. (Article 147) The president, with the consent of parliament, selects the chairman and members of the high court. Judges enjoy immunity, which can only be lifted by the organ that appointed them. (Articles 137 & 147)

Under the prior interim constitutional provisions and laws, the high council of justice was heavily influenced by the executive and conducted judicial disciplinary procedures without regard to basic standards of due process. This infringement upon the independence of the judiciary was cited in international human rights reports. In December 1997 parliament passed a new law governing the operation of the high council of justice. The law introduced basic due process protections such as a right of appeal to the court of cassation. (Article 46 of Law No. 8265 On the Organization of Justice.)

In December 1999, the first National Judicial Conference (NJC) was held, as required under the new constitution. The NJC is a national organization that is organized by, and composed of, the members of the judiciary. It has the responsibility for selecting nine of the 15 members of the High Council of Justice. This important function directly addresses previous executive branch abuses in the composition and functioning of the council. The NJC also provides a forum for the judiciary to discuss and adopt measures that increase its level of professionalism.

During the reporting period, NJC's various organs held additional regional and national meetings. The NJC also spearheaded efforts to revise and expand the code of judicial ethics and took the lead in a National Day of Justice designed to increase public awareness of the importance of the rule of law. The NJC filled an important void left by the Albanian Association of Judges, which became inactive in the mid-1990s.

Despite this progress, average citizens continue to view courts as corrupt and problematic. Bribery among court officials is perceived as one of the most common problems. In a 1997 ORT/USAID survey, two-thirds of households rated "conflicts between the judicial system and the people" as a moderate to very serious problem. In March 2000, three judges were dismissed in what the government considers an ongoing crackdown on judicial corruption. Over the past three years, approximately 70 judges have been fired for corruption or incompetence.

As a general proposition, judges have received inadequate training in the new system of post-communist legislation. In an attempt to dilute the influence of judges from the prior Communist regime, new judges were trained in a six-month crash course. Previously, many of these new judges had held nonlegal positions. Also, many new judges have been drawn from the ranks of new law school graduates. Given the generally poor state of legal education, it is unclear whether these new graduates possess adequate skills. The main law school, the University of Tirana, suffers from a severe lack of materials and facilities, improper influence in admission policies and grading, and outdated courses. The University of Tirana's practice of issuing correspondence degrees has compounded the problems. In 1996, parliament authorized the establishment of a magistrate's school to provide potential judges with postgraduate training. (Law No. 8136 For the Magistrates School.) With assistance from the European Union, the Council of Europe, and the American Bar Association, the Magistrates School began operations in 1997 and gradu-

ated its first class of 20 students in 2000. The Magistrates School is in the process of developing continuing judicial education classes for sitting judges.

While the training of judges is improving, essential support functions remain inadequate. Enforcement of judicial decisions continues to be a major problem. The Albanian Human Rights Group has held a public roundtable on the issue, noting that poor enforcement of judicial decisions raises serious human rights issues. The execution of judgments has depended heavily on Offices of the Executor (*Zyra Përmbarimi*). While they generally maintain a presence at all district courts, these offices are seriously understaffed, ill equipped, poorly organized, and, therefore, unable to enforce judicial decisions fully.

Corruption

1999-2000	2001
6.00	5.50

Corruption continues to be a serious problem at all levels of government. Nepotism, political patronage, and simple bribery are commonplace. In a 1997 nationwide household survey, 55 percent of respondents rated bribery as "somewhat" to "very" important, and 39 percent admitted to having personally paid a bribe since the introduction of democracy in 1991. Of those who stated they had paid bribes, the recipients most often cited were medical personnel, followed by public utilities personnel, police officers, and court employees. In 1999 the average salary of civil servants rose substantially to approximately $112.40 per month. However, this amount is insufficient for most families. To maintain an adequate standard of living, civil servants commonly rely on other sources of income, including bribes.

Allegations of high-level corruption abound, with the two major political parties leveling charges at each other through the party press. Throughout the transition period, high-level officials have been accused of involvement in improper business schemes. Former Prime Ministers Meksi (DP), Nano (SP), and Fino (SP) have all been accused of profiting from their position through special deals on real estate development, smuggling, etc. Similar allegations have also been made with regard to former Ministers of Finance Ruli (DP), Vrioni (DP), and Malaj (SP). Former Chief Judge of the Court of Appeals Prel Martini was removed after the 1997 change in government, following years of allegations of corruption. During the 1996-97-pyramid scheme crisis, there were credible reports on the involvement of pyramid schemes in politics. The VEFA, for example, made substantial donations to the DP. The failure of the national Commercial Registry to publish records of business formations, mergers, sales, etc., as required by law, makes it difficult, if not impossible, to verify the status and ownership of business associations objectively. (See Law No. 7667 For Registering Businesses and the Formalities that Must be Respected from Business Corporations.)

Following the 1997 elections, the new government launched a major anti-corruption initiative. This initiative involved both governmental and nongovernmental actors and culminated in a national workshop in 1998. The initiative enjoyed the support of the World Bank, the U.S. Agency for International Development (USAID), and the Soros Foundation. At the workshop, the government presented a "comprehensive program to combat corruption." The program focused on civil service, customs, and judicial reform. In 1998-99, an entirely new customs code was passed (Law No. 8449, the Customs Code of the Republic of Albania), a judicial inspectorate was established at the high council of justice (Law No. 8316), judges were subject to a qualification exam, and a redrafting of the civil service system was undertaken. The effect of these and similar initiatives remains to be seen. While Albania has been responsive to the issue in terms of legislation, administrative capacity and training are lacking. Consequently, implementation of legal reforms continues to be problematic.

The implementation of legislative initiatives that attempt to address public corruption has been particularly lacking. In the mid-1990s, for example, the basic legal and administrative framework addressing asset disclosure was adopted. Law No. 7903, On the Declaration of Assets by Elected Persons and Some Senior Officials, requires elected and other "high level" officials to disclose their assets, and there is a parliamentary commission tasked with reviewing the information. Article 1 contains a list of "officials" that are covered, including judges, investigators, mayors, and local government employees. But the law leaves it to the Council of Ministers to issue regulations (Art. 10), and full implementation is lacking. The constitution and the penal code both set forth basic conflict of interest principles that are applicable to public figures, but the prosecution of government abuses remains very limited. When it does occur, it is commonly in the form of a dismissal of a state employee. Such dismissals are frequently viewed as political in nature. This is a function, in part, of the lack of verifiable public information upon which to base the charges. In general, the underlying issues are poorly understood, and government officials are frequently involved in the private sector in capacities that at least raise the appearance of impropriety.

In summer 2000, parliament passed the first serious legislation on money laundering and ratified related international provisions. These legal developments incorporate into domestic law a number of international standards, including the imposition of record keeping and "know your client" provisions on a broad range of institutions. A critical examination of the implementation of these new money-laundering provisions should serve as a useful indicator of the presence or absence of the requisite political will.

The ORT Democracy Network Program, the *Wall Street Journal*, the Albanian Center for Economic Research, Trans-

parency International, and the World Bank have analyzed public sector corruption. Their findings have been shared with the government of Albania and have been incorporated into its Comprehensive Reform Program, which states that "businesses, citizens, and public officials paint a consistently grim picture about the prevalence and costs of corruption in Albania."

However, corruption data have not been collected systematically. For example, in 2000 Transparency International dropped Albania from its annual Corruption Perceptions Index due to "insufficient 1998–2000 data." In 1999, though, Transparency International rated Albania a 2.3 on a scale of 0 (highly corrupt) to 10 (highly clean). The index is based on the degree of corruption reported by business people, risk analysts, and the general public. The 2.3 rating placed Albania, along with Georgia and Kazakhstan, at 84 on a list of 99 countries. In 2000, the World Bank produced a significant and broad-based study of corruption. In this study, the World Bank determined that Albania's level of administrative corruption was the highest in Central and Eastern Europe, although the degree to which Albanian firms perceive state institutions to have been "captured" by corruption "low." In fact, the "captor" firms indicated that their influence on state institutions was relatively small.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
3.75	4.00	4.00	3.75

Macroeconomic Policy

1998	1999-2000	2001
5.00	5.00	4.50

Microeconomic Policy

1998	1999-2000	2001
4.50	4.50	4.25

The economic situation of a country is integrally linked to its political stability. Government policies affect the economic situation and vice versa. In Albania, the leading political parties have focused the electoral debate on the economy. The SP has campaigned on the economy's success, while the DP has criticized the slow pace of reform. Regardless of the pace of reform, the Albanian government maintained macroeconomic stability between 1999 and 2000. This fact is particularly noteworthy in light of the Kosovo crisis in 1999. However, structural reform, according to the IMF, has not continued apace.

Real GDP growth in Albania was estimated at 7.3 percent in 1999 and projected at 7.0 percent in 2000. A portion of this growth can be attributed to increased demand resulting from the Kosovo crisis, particularly in the transportation and services sector. Inflation remained negative and the budget deficit was reduced. For most of the reporting period, the lek remained stable against the Euro but fell slightly against the U.S. dollar. Foreign reserves have grown.

Progress in privatization—aided by the strengthening of the lek, high GDP growth, and low inflation—has been noteworthy. Improvements in law and order have contributed to increased personal safety, and the government investment in physical infrastructure has allowed for easier circulation of freight. These conditions have improved the climate for foreign investment, which has been responsible for the majority of privatization. Since 1991, a variety of privatization laws have been passed. After an initial period of rapid privatization, progress faltered. In 1998, parliament passed a new comprehensive privatization strategy, Law No. 8306, For the Privatization Strategy of Sectors with a Particular Importance. This law defined a broad range of sectors, including energy, mineral, oil, gas, post, telecommunication, and air transport, as strategically important. In March and June 1999, the Council of Ministers issued Decisions No. 192 and 283, respectively, to accelerate privatization. These decisions detailed additional procedures to facilitate auctions and installment sales.

In 1999 and 2000, particular progress was made in enterprise privatization. Approximately 520 small and medium-size enterprises were liquidated, privatized, or transferred to local authorities, although only 180 of them were fully privatized. Privatization of remaining mid-size enterprises, including a brewery, a winery, a dairy, a pharmaceutical factory, and a cement factory, neared completion. The National Commercial Bank (NCB), one of the two remaining state banks, was privatized in June 2000. In July 2000, in preparation for privatization, the government approved the restructuring of the last state bank, the Savings Bank (SB). (Government Decision No. 407)

The major remaining task is privatization in strategic sectors of the economy. This process has become an important government economic policy goal. In 1999, various measures were taken to prepare the telecommunications, electricity, mining, and petroleum sectors for privatization. In July 2000, the government accepted the bid of a Norwegian-Greek consortium to purchase Albanian Mobile Communications. Privatization of Albatelecom is expected by June 2001.

While the government expects to sell some equity in state oil, electricity, and chrome industries in the near term, increased privatization in this sector is greatly needed to achieve more efficient use of resources. The electrical power system operates well below capacity because of poor maintenance and lack of modernization of distribution equipment. Excess demand has resulted in shortages, interruptions

of power, and the need to import electricity. Albanian Electric-energy Corporation (KESh) receives assistance from an Italian company, but it has not been fully privatized.

A second area in which Albania has made recent strides is tax collection. Historically, Albania was one of the most highly centralized command economies with no personal income tax, corporate tax, etc. Following its conversion to a market economy, Albania adopted a host of tax legislation. Basic laws on tax administration (Law No. 7681) and property taxes (Law No. 7805) were introduced in 1993 and 1994 respectively. Despite this legislation, the administrative capacity and powers of the tax administration have remained inadequate and ill defined. Efforts have been made to revise the tax administration provisions, but no comprehensive legislation has been approved. The resultant deficiencies in tax collection had a significant effect on the fiscal balance. Nonetheless, while there are still weaknesses in customs and domestic tax administration, tax collection improved in 2000 because of enhancements in internal audit procedures, changes in key personnel, and efforts to reduce smuggling. This increase in the tax base allowed for a reduction in the budget deficit without an increase in the tax rate.

Albania's international trade policy is liberal and the government has been working to broaden trade relationships even further. Over the past few years, the Albanian government has been working with the European Union Customs Assistance Mission on a range of reforms, which resulted in the enactment of an entirely new customs code in 1999 (Law No. 8449, For the Customs Code of the Republic of Albania). The new code imposes significant fines for smuggling and related offenses and establishes standards for internal auditing of the customs administration. Since the law's enactment, the authorities have been successful in reducing smuggling, as evidenced by the increase in imports of normally smuggled goods.

Albania has actively pursued membership in the WTO, and on September 8, 2000, it became the organization's 138th member. Albania agreed to assume the obligations of membership, including reduced customs tariffs, upon accession. Additionally, in July 2000 the government passed Law 8638 "For Free Trade Zones." This law defines the rules for creating free trade zones, the principles for the organization and management of free trade zones, and the rules for commercial activities and services provided in these zones.

Unemployment has reached its highest level since 1994 (see table 1). By April 2000, 239,000 persons, or 18 percent of the workforce, were unemployed.

Table 1. Unemployment in Albania, 1994 to 1998

Year	Unemployment Rate	Size of Labor Force
1994	19.6%	1,642,000
1995	16.9%	1,672,000
1996	12.4%	1,702,000
1997	14.9%	1,301,000
1998	17.7%	1,320,000

Source: IMF Staff Country Report No. 00/87, Statistical Appendix, Table A12, p. 14.

There are competing estimates of the size and status of the national workforce. The figures are also shifting constantly. The Economist Intelligence Unit cites recent Instat statistics that show 700,000 people in private farming, 32,930 in government posts, 78,070 in state-owned enterprises, and 207,250 in the private sector. Approximately 600,000 people work abroad. The combination of rising unemployment and low wages has led to an increase in emigration. This fact is reflected in the reduction in the size of the workforce. The situation is particularly problematic because emigrants are often young and well-qualified members of the work force.

Because of the steady rise in unemployment, the government has made job creation a priority for 2001. By May 2000, the National Employment Office had created 1,670 new posts; its annual target was 12,000. The creation of an additional 12,000 jobs is the target for 2001.

According to the International Monetary Fund (IMF), real wages of state employees have increased steadily since 1993, with the exception of 1997 (see table 2). The government approved a wage increase for civil servants in July 2000. Reliable data on private sector wages is limited in part because employers do not always keep accurate financial records or pay the minimum wage.

Table 2. Monthly Wages of State Employees, 1993 to 1999

Year	(in lek)	(in $)	Real Wage Index(% change)
1993	4,738	$ 44.80	25.7
1994	6,962	$ 72.90	26.9
1995	8,745	$ 94.00	18.5
1996	10,491	$100.10	2.2
1997	10,491	$ 70.10	-29.7
1998	13,234	$ 87.50	16.1
1999	15,527	$112.40	16.7

Source: IMF Staff Country Report No. 00/87, Statistical Appendix, Table A13, p. 15.

Although wages have increased since the early days of the transition, Albania remains one of the poorest countries in Europe and has the lowest gross national product per capita in Southeastern Europe. More than one-third of households rely on an average single in-

come of 9,600 lek per month. One in five depends on a state pension of approximately 7,400 lek per month; 5 percent live on state welfare of 4,300 lek per month. While poverty is concentrated in rural areas, the incidence of poverty seems to reflect the low national per capita income, rather than unequal income distribution. With increased migration into cities, urban poverty is also high.

Low incomes in Albania seriously hinder domestic investment, which in turn curtails economic growth. The government has recognized the need to address the level of poverty and is working with the IMF on a poverty reduction strategy. This strategy guides the government's macroeconomic and structural policies, including those that affect privatization, tax collection, inflation, and GDP growth. As a part of this strategy, the government intends to complete a poverty assessment by early 2001.

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ARMENIA

Polity: Presidential-parliamentary democracy
Economy: Mixed statist (transitional)
Population: 3,800,000
GNP per capita at PPP $ (1999): 2,210
Capital: Yerevan
Ethnic Groups: Armenian (93 percent), Russian (2 percent), Kurd, Assyrian and other (5 percent)
Size of private sector as % of GDP (mid-2000): 60

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	4.70	↓ 4.80	↑↑ 4.50	↓ 4.56
Rule of Law	na	na	5.38	5.38
Economic Liberalization	4.00	↓ 4.08	↑↑ 3.58	3.58

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	172.7	341.6	422.4	432.2	498.2	485.5	503.6
Real GDP growth (% change)	5.4	6.9	5.9	3.3	7.2	3.3	6.0
Inflation rate	5,273.0	176.7	18.8	13.8	8.7	0.6	-0.8
Exports ($ millions)	215.0	271.0	290.0	234.0	229.0	247.0	307.0
Imports ($ millions)	394.0	674.0	760.0	793.0	806.0	821.0	776.0
Foreign Direct Investment ($ millions)	8.0	25.0	18.0	52.0	221.0	131.0	150.0
Unemployment rate	5.8	8.4	10.1	11.3	8.9	11.6	10.7
Life Expectancy (years)	71.4	72.3	72.7	73.7	74.3	74.5	75.0

INTRODUCTION

Armenia held its first democratic elections in 1990 and became one of the first Soviet republics to end Communist rule. Political reforms quickly won Armenia a democratic reputation in the West, but the post-Communist government of President Levon Ter-Petrossian turned increasingly autocratic by the mid-1990s. Basic civil liberties remained in place, despite occasionally serious violations, and the press remained relatively free. However, the right of citizens to change their government was severely, and at times brutally, restricted, and most elections fell short of international standards. Armenia's flawed political system combines elements of democracy and oligarchic rule.

The decade-long transition to a market economy has yet to bring material benefits to most Armenians. In 1992 and 1993, Armenia suffered hyperinflation and a tremendous slump in living standards. By cutting off traditional trade routes, the Nagorno-Karabakh conflict and turmoil in the region as a whole were among the main factors that strangled the economy. Since 1994, the macroeconomic policy of successive Armenian governments has largely followed the prescriptions of the International Monetary Fund (IMF) and the World Bank. Tight fiscal and monetary policies, backed by Western loans, have stabilized the macroeconomic environment. The economy has grown since 1995, and the annual inflation rate has not exceeded single digits since 1997. Most state assets have been privatized. The tightly regulated banking sector is almost fully in private hands, and the country has one of the most liberal trade regimes in the Commonwealth of Independent States (CIS). But recent trends, however positive, have not improved the low living standards of most Armenians. Rampant corruption, the weakness of the rule of law, and the need for government connections all inhibit economic activity.

The parliamentary elections in May 1999 were largely democratic. They resulted in a victory for the Miasnutyun (Unity) bloc and the installation of a new government led by Prime Minister Vazgen Sarkisian and Speaker of Parliament Karen Demirchian. For the first time in years, the government enjoyed a large degree of legitimacy. On October 27, 1999, however, the murders of Sarkisian, Demirchian, and six other officials in a surprise terrorist attack on the Armenian parliament radically changed the political situation. Five gunmen perpetrated the bloodbath, which was made possible by poor security in and around the parliament building in Yerevan. The leader of the group was Nairi Hunanian, an obscure former journalist. Hunanian claimed that he wanted to rid Armenians of the corrupt elite that had plunged the country into poverty since the Soviet breakup. His armed gang surrendered to police after holding dozens of parliament and government members hostage for 18 hours.

Several theories about the crime are circulating. Most politicians and ordinary citizens believe that the gunmen had powerful sponsors outside the parliament building. Relatives of the victims and powerful government factions grouped around the Unity bloc suspect that President Robert Kocharian masterminded the killings because he wanted to regain powers curtailed by the bloc. This suspicion was the root cause of the power struggle that ensued between Kocharian and the Unity-controlled parliament and government. Military prosecutors close to the anti-Kocharian camp led a yearlong official investigation into the killings but failed to prove their main theory whereby the gunmen had influential patrons who plotted a coup d'etat. Hunanian and the other gunmen are due to go on trial in early 2001, and investigators continue to look for possible masterminds of the killings. Events of the past year suggest that the truth about the tragedy may never be found.

Months of government infighting ended in May 2000 and President Kocharian proved the victor. The six-month power struggle never violated the constitutional framework. The restoration of Kocharian's supremacy in the Armenian leadership, guaranteed by the constitution, ended the political turmoil. Furthermore, the country made considerable progress toward membership in the Council of Europe. While the implications for Armenia's democratization are uncertain, the positive impact of these events on the country's economic situation began to manifest itself later in the year. Still, chronic problems hampering economic recovery remained in place.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
5.50	5.75	5.25	5.50

The October 1999 assassination of eight senior officials was the most significant event during the period in question. All ensuing political developments were directly or indirectly shaped up by the bloodbath in parliament perpetrated by five obscure gunmen. The resulting power vacuum and leadership crisis were overcome in a peaceful and constitutional way by May 2000, with President Kocharian again becoming the top figure in the Armenian government. The once formidable Unity bloc showed serious cracks as its members, the Republican and People's Parties, increasingly squabbled with each other.

Unlike the other two Caucasian states, Armenia has avoided long periods of instability and strife since independence. Its political stability has been threatened only on two occasions: in the wake of the disputed September 1996 presidential elections and after the October 1999 killings in parliament. In both cases, the country did not slide into chaos. The population, as a whole, and most of the leading political groups have been unwilling to engage in radical forms of political participation. The post-Soviet constitution, enacted in 1995, is also credited with providing a legal frame-

work for overcoming political crises. The constitutional mechanism for the peaceful transfer of power proved effective in February 1998 when President Levon Ter-Petrossian was forced to resign. Likewise, after shootings in parliament, rival government factions did not opt for unconstitutional actions. Despite frequent changes of government—Armenia has had ten prime ministers in as many years—Armenia has shown real continuity in its public policies, especially on the economic front.

That said, the repeated failure of authorities to hold free and fair elections is a serious hindrance to the establishment of a democratic, stable, and predictable political order. Endemic voting irregularities that heighten political tension in the wake of elections are the main source of instability, along with the enormous socioeconomic hardships suffered by the majority of Armenians and the absence of an independent civil service.

Parliamentary elections for the 131-member National Assembly last occurred on May 31, 1999. Twenty-one blocs and political parties contested 56 proportional representation seats, while more than 800 individual candidates competed for 75 seats in single-member districts. The Central Election Commission (CEC) did not refuse registration to any party or bloc. Fifty-two percent of eligible voters participated in the election.

The Organization for Security and Cooperation in Europe (OSCE), which sent a 200-member monitoring mission, characterized the elections as a "relevant step toward [Armenia's] compliance with OSCE standards" and concluded that they had been "conducted in a generally peaceful and orderly manner which was free of intimidation." The OSCE reported that "freedom of association and assembly were respected, and no cases of political repression were reported to the Mission," but it also voiced "serious concerns" about inaccurate voter lists and problems with voting by soldiers. The OSCE described the last legislative polling, which took place in July 1995, as "free but not fair."

The 1999 vote was marred by widespread confusion. When tens of thousands of people were unable to find their names on voter lists, they were turned away from polling stations. There was no evidence to suggest, however, that any group, including the victorious Unity bloc, benefited from the inaccuracies. Unity, formed by Soviet-era Communist chief Karen Demirchian and then-Defense Minister Vazgen Sarkisian in the run-up to the elections, capitalized on Demirchian's populist appeal and won a landslide victory. The bloc, comprising Sarkisian's Republican Party and Demirchian's People's Party, won 41.7 percent of the proportional vote and took about half of the single-member districts. It won 61 seats in the 131-member parliament and enjoys the backing of some 25 ostensibly independent deputies with strong government ties. The Communist Party of Armenia finished a distant second with 12 percent of the proportional vote and 9 seats in parliament. Two nationalist groups, the Armenian Revolutionary Federation (ARF) and the Right and Accord bloc, each won eight seats. Two center-right parties, the obscure Country of Law party and the opposition National Democratic Union (NDU), also cleared the five-percent threshold needed to get gain seats under Armenia's system of proportional representation. Each party won six seats. Most political opponents accepted the legitimacy of Unity's victory, despite their criticism of the election's handling. The aftermath of the voting was unusually calm for Armenia.

In early June, defense chief Sarkisian became the prime minister and Demirchian became the parliamentary speaker. Prime Minister Sarkisian, who controlled most of the levers of government and was supported by a majority in parliament, had become Armenia's most powerful premier since 1991. (Foreign policy was one of the areas over which Kocharian remained in control.) The tragic deaths of these two charismatic leaders were followed by seven months of turmoil in the country's leadership. Kocharian faced a serious challenge from the Unity bloc and from senior government officials and top military commanders who were close to the slain premier. They suspected that the head of state was behind the killings. But Kocharian, who came close to resigning, proved to be much more skilful and shrewder in political struggle than his opponents.

The outcome of the power struggle was predetermined by the failure of the military prosecutors to establish a link between Kocharian and the gunmen. That failure was crucial to Kocharian's successful Yerkrapah Union of veterans of the Nagorno-Karabakh war and opened the first cracks in the formidable alliance of presidential foes. (Former premier Sarkisian had been the founding leader of an influential paramilitary organization.) Kocharian received another crucial boost in April when Aleksan Harutiunian, one of his closest aides who was arrested in the wake of the parliamentary killings, was freed and cleared of charges of "inciting" the gunmen. These developments allowed Kocharian to sack the defiant Prime Minister Aram Sarkisian, Vazgen's brother and successor, in May 2000. Other presidential foes were also ousted from the government. The next premier, Republican Party chairman and Soviet-era dissident Andranik Markarian, avoided any further confrontation with Kocharian, by pledging his loyalty to the head of state and giving the key posts in his cabinet to presidential loyalists.

By the end of the power struggle, Kocharian had regained much of the sweeping constitutional powers that effectively had been curtailed by the Unity victory in 1999. The widening rift between the Republican and People's parties added to the government's dependence on the president. However, despite the lack of evidence, suspicion about Kocharian's involvement in the parliamentary attack did not dissipate. This will dog him for the rest of his political career simply because he is more powerful now than he was before October 27, 1999.

The radically changed political situation gave Kocharian a freer hand in striking a peace with Azerbaijan on the disputed enclave of Nagorno-Karabakh. The two sides seemed nearer a settlement in late 1999 after a series of face-to-face

meetings between the Armenian and Azerbaijani presidents. The parliament shootings in Yerevan precluded further progress in peace talks for the next 12 months. Interestingly, U.S. Deputy Secretary of State Strobe Talbott had discussed a Karabakh settlement in Yerevan with Kocharian and then-Prime Minister Sarkisian just hours before the gunmen burst into the parliamentary chamber.

The unresolved Karabakh conflict thus remains a major contributor to instability in the region. The self-proclaimed Nagorno-Karabakh Republic (NKR) has been tightly integrated with Armenia since it broke away from Soviet Azerbaijan in the late 1980s. Armenia is the main guarantor of the NKR's security and accounts for a significant part of its budget. Karabakh is also a major issue in Armenian politics. Former President Levon Ter-Petrosian, for instance, was forced to resign in February 1998 after he advocated more concessions to Azerbaijan.

Kocharian, Ter-Petrosian's successor and the former head of the self-proclaimed Nagorno-Karabakh Republic, was elected president on March 16, 1998. His main challengers were Karen Demirchian, then a factory director, and Vazgen Manukian, the head of the opposition National Democratic Union. Kocharian won 38.76 percent of the vote and Demirchian 30.67 percent, according to official results. Since neither contender won a majority, a run-off election was held on March 30. Acting President Kocharian won this round with 59.48 percent of the vote. Demirchian received 40.52 percent.

Demirchian and his supporters refused to accept defeat and charged that massive vote fraud had occurred. The OSCE monitoring mission declared that the election "[did] not meet OSCE standards" but noted "improvements in some respects" over the serious fraud in Armenia's presidential elections in September 1996. In the 1996 election, monitors cited numerous irregularities, including ballot-box stuffing and the presence of unauthorized personnel in polling stations. Under the Armenian Electoral Code, adopted on February 5, 1999, candidates running for president must submit 30,000 signatures. Very few candidates have been denied registration in Armenia. The most significant change that the Electoral code introduced was the greater share of parliamentary seats reserved for proportional representation. Still, most opposition parties complain that the code is insufficient to strengthen Armenia's multiparty electoral system.

There are seven political organizations represented in parliament. The Republican Party of Armenia, formed in 1998 by the late Vazgen Sarkisian, remains the most influential political group. It controls several government ministries and many local governments. Its junior partner in the Unity bloc, the People's Party of Armenia (PPA), is far less influential, despite being more popular and having more members. Other parties represented in parliament have a limited say in the political processes. The dividing line between opposition and governing parties was blurred further in 2000 when leading opposition groups such as the National Democratic Union and the Communist Party received ministerial portfolios. While the influential Armenian Revolutionary Federation-Dashnaktsutyun (ARF) party and the Right and Accord bloc were not invited into the cabinet, they are thought to be sympathetic to Kocharian, who does not have a party of his own.

Legal procedures for the registration of political parties are fairly simple, as evidenced by the fact that there were 92 parties in Armenia as of October 2000. Only a dozen, however, play a role in the nation's political life. The ARF was banned in December 1994 but was relegalized on February 9, 1998, by then-acting President Kocharian. No other party has been banned in Armenia since 1990. Armenian parties are too weak to affect governance, and both strong presidential authority and the prevalence of the majoritarian electoral system do not bode well for their development. Still, major parties and blocs saw their importance grow in 2000. As the Unity-led majority in parliament collapsed, Markarian's government increasingly turned to other parties for support. For the first time, an Armenian government was partly formed on a coalition basis.

Armenian politics is male-dominated. Two women's groups unsuccessfully ran for parliament in the May 1999 elections. According to the Central Election Commission, 13 percent of the candidates who ran under the proportional representation system and 6.5 percent of the candidates who ran in single-member districts were women. Only four were elected to parliament.

Voter turnout has varied considerably since independence but tends to be higher during presidential elections. The record-high figure, 70 percent, was registered in the 1991 presidential elections. Turnout for legislative polls has hovered between 50 and 55 percent.

Civil Society

1997	1998	1999-2000	2001
3.50	3.50	3.50	3.50

Armenia entered the post-Communist period with strong prerequisites for a vibrant civil society. Hundreds of nongovernmental organizations (NGOs) mushroomed after the first democratic elections in 1990. Their influence on government policies proved to be quite limited, however, when the country drifted away from the path of democratization in 1994. The industrial collapse and mass impoverishment in the early 1990s also adversely affected the fabric of society. During the period covered by this report, the authorities remained largely impervious to NGO initiatives, and NGOS continued to operate under severe financial constraints.

There are more than 1,800 registered NGOs in Armenia, but only about one-third of them operate in practice. The scope of their activities is very broad and includes areas such as politics, human rights, benevolence, labor, business, and social and women's affairs. Also popular are the so-

called unions of compatriots that comprise natives of a particular region who reside in Yerevan. Approximately 90 NGOs claim to engage in charitable work even though most Armenians are far too poor to participate in such activities. The largest charities are affiliated with or funded by diaspora organizations. The government occasionally initiates fund raising telethons, mainly for construction projects such as a modern highway between Armenia and Nagorno-Karabakh and a new stadium in Yerevan. Wealthy individuals sometimes engage in philanthropy, especially to help their native city or village. Extended family networks and patronage links often serve a similar function.

There are more than 40 registered women's organizations, but only half are active. The Republican Council of Women (RCW), the largest such organization, aims to protect a wide range of women's interests and to promote the representation of women in government. The RCW claims to have thousands of members in 78 branches scattered all over Armenia. The RCW is a leading member of a loose grouping of 15 women's NGOs.

While NGOs must register with the Ministry of Justice, their large number indicates that registration is fairly easy. However, registration delays have been used in the past to harass some NGOs, particularly those defending human rights. Office rent is the main financial burden of NGOs, since most own no real property. NGOs that rent state-owned premises in central Yerevan at largely symbolic prices could be financially vulnerable to government decisions to sell or lease the premises to the highest bidder. There are no laws in Armenia to regulate access to information.

NGOs have not been particularly active in lobbying the government, but they have, on occasion, acted in the face of unacceptable government conduct. Many NGOs have advocated the passage of specific laws and legislative initiatives but have been unable to mount successful lobbying efforts because they lack knowledge of and experience with such activities. For example, some NGOs have been pushing for a long time for legislation that grants relief aid to Azeri refugees naturalized in Armenia, but no such law has been adopted. However, they did succeed in getting the authorities to grant noncitizen refugees the right to vote in local elections in October 1999.

Most Armenian NGOs are too small to delineate functions. Generally a founder sets an NGO's agenda and leads fundraising efforts. The Armenian Assembly of America maintains a well-equipped office in Yerevan and operates an NGO training center that provides assistance and information on management and funding issues in Armenian, Russian, and English. In October 2000, the center won a $2.2 million grant from the U.S. Agency for International Development. Organizations that rely on Western grants generally receive better training and have greater access to information regarding management issues. The Yerevan Press Club, a local media watchdog, is one of them.

Yet the fact is that the bulk of NGOs are not financially viable due to scant fundraising opportunities. They are mostly dependent on donations from wealthy domestic sponsors and grants from a few large Western donors. Western donations are typically channeled into activities related to human rights, environmental protection, and the development of civil of society.

Nonprofit organizations are not liable for profit taxes but are subject to taxation on property, vehicles, and employee incomes. NGOs must disclose revenue sources in order to establish their tax liability. NGOs may collect cost-recovery fees and earn income, but they cannot make a profit.

Public attitudes towards the NGO sector are generally positive but are often tinged with suspicion of foreigners' motives. Media coverage of NGOs is also usually positive, depending on the types of activities in which an NGO is engaged and the nature of its political connections. In most cases, the press has readily covered NGO protests over controversial government actions.

The attitude of the government toward NGOs, which frequently have been accused of neglecting the views and wishes of Armenian citizens, has been rather indifferent. The opinion of NGOs and other civic groups has had little bearing on the government's decision-making process. This is the most vivid indication of how weak civil society is. There are, however, some exceptions to this rule. On September 19, 2000, the Armenian Ministry of Social Security and approximately 70 local NGOs agreed to form a Social Protection League that will oversee the distribution of state financial benefits to the poor strata of the population. The ministry said it needs NGO support for ensuring the "objectivity" of the process.

Armenian trade unions play an even smaller role in the country's political and economic life. Post-Soviet de-industrialization and mass unemployment have rendered them moribund and ineffectual. Most of the unions are holdovers from the Soviet period and operate under the umbrella of the Confederation of Labor Unions (CLU). The CLU claims to have roughly 700,000 members, or 58 percent of the country's workforce. Since the early 1990s, two alternative unions have been established: the Federation of Independent Trade Unions and the Miabanutyun (Accord) Trade Union. But neither has been of active for the past few years. Strikes largely have been confined to the public sector when employees demand payment of back wages. Strikes in the private sector are extremely rare because workers generally are not protected against arbitrary dismissal and, thus, fear losing their jobs.

Business associations have been more active than trade unions. The largest is the Union of Industrialists and Entrepreneurs. It comprises many of Armenia's wealthy individuals, owners of privatized enterprises and directors of state-owned factories. Two other groups, the Union of Armenian Traders and the Union of Small Entrepreneurs (USE), represent the interests of shop and kiosk owners respectively. A series of street protests held by the USE in 2000 forced the government to defer the introduction of cash registers in kiosks. Armenia's three officially registered

farmers' groups kept a low profile during the period covered by this report.

Most Armenian businesspeople further their interests by exploiting extensive government connections. Lobbying is not regulated or defined by the law. Unofficial business groups, which are often referred to as clans, largely act behind the scenes. By law, only parties may engage in political activities.

Independent Media

1997	1998	1999-2000	2001
5.25	5.25	4.75	4.75

Few changes have occurred in the Armenian media since 1998. Most media outlets struggle to remain afloat in the face of persistent economic hardships. Overall, the authorities only threatened freedom of expression once when they gave the editor of a pro-opposition newspaper a one-year suspended jail sentence for slander. The legal framework for the media's activities remains flawed because the Armenian parliament has failed to pass a new, and urgently needed, media law. In the absence of freedom-of-information legislation, the authorities continue to withhold important information from the public.

Armenian newspapers and broadcasting organizations continued to offer a wide variety of opinions, including harsh attacks on the authorities and President Kocharian in particular. However, in-depth investigative reports are still extremely rare because journalists and major financial contributors lack professionalism.

Article 24 of the Armenian constitution guarantees to everyone "the right to freedom of speech, including, independent of state borders, the right to seek, receive and disseminate information and ideas by any means of information communication." Freedom of speech can be restricted "by law, if necessary, for the protection of state and public security, public order, health and morality, and the rights, freedoms, honor and reputation of others." This provision may run counter to international human rights treaties, to which Armenia is a signatory, that protect press freedom. Under Armenian law, however, international treaties take precedence over national laws.

Both the constitution and the 1991 Law on Press and Mass Media have proved inadequate to ward off state interference in the media. Even these flawed legal tools often have not been enforced when media freedom has been in jeopardy. The most blatant violation of Armenian law occurred in December 1994 when authorities closed a dozen newspapers affiliated with the opposition ARF. Since the party's re-legalization in February 1998, ARF papers have been published.

Despite the improved political situation, Armenian media still face many problems. Journalists often exercise self-censorship when covering security agencies. Direct threats and intimidation by government officials are not common, but the authorities have other, mostly economic, means to restrict freedom of speech. Journalists' rights to protect their sources are not absolute under the media law, which is widely seen as outdated. A new media bill, jointly drafted in 1997 by a local media-watchdog agency and a group of lawyers, has yet to be debated in parliament. As of late 1998, there were more than 900 media outlets officially registered with the Armenian justice ministry. But very few of those outlets—some 150 newspapers and magazines, more than 30 national and local TV stations, and six FM stations—are regularly active.

The legal framework for activities of the mass media is equally flawed with regard to defamation matters. Article 208 of the Soviet-era criminal code (still in use in Armenia after several emendations) stipulates that publicly insulting a "government official performing his/her duties" is a crime punishable by up to one year in prison. The code also provides criminal liability for defamation of character. If defamation is made in writing or through broadcasting it can lead to a three-year imprisonment. Defamation does not have to be malicious and deliberate to be deemed a crime.

The Law on Press and Mass Media permits libel suits against journalists and media organizations. Advocating "war, violence, ethnic and religious hostility, prostitution, drug abuse, or other criminal acts" and publishing "state secrets," "false and unverified reports," and the details of citizens' private lives without permission is illegal. A first offense carries a three-month suspension of one's publishing license. A second offense warrants a six-month suspension.

In September 1999, Nikol Pashinian, the editor of *Haykakan Zhamanak*, was sentenced to one year in prison after a Yerevan court convicted him of insulting law-enforcement officials, failing to retract a false report, and slandering two individuals. A higher court suspended the precedence-setting sentence in January 2000. This was the first time an Armenian journalist faced criminal prosecution for his professional activities. *Haykakan Zhamanak* had been facing legal challenges since June 1999 when it published a series of reports accusing then-National Security Minister Serzh Sarkisian of corruption.

The overwhelming majority of media organizations in Armenia are privately owned and funded. There are dozens of private television stations across the country. The largest are A1-Plus, Ar, Armenia TV, Prometevs in Yerevan, and Shant in Gyumri (the country's second-largest city). All of them have been established since 1997. A1-Plus is known for its objective and unbiased news reporting, while Ar and Armenia TV attract viewers with talk shows and entertainment programs. The state-run Armenian National Television remains the only media outlet accessible everywhere in Armenia. There are five independent FM radio stations based in Yerevan and one such station in Gyumri. Their programming is largely restricted to music and brief newscasts. Daily programs of Radio Free Europe/Radio Liberty and the Voice of America are retransmitted by state radio.

Roughly ten percent of newspapers are owned by the state, including local government bodies. There are two state-owned national dailies, one of which, the Russian-language *Respublika Armeniya*, was declared bankrupt by a Yerevan court in September 2000. There are also six privately owned national dailies, which are either independent or openly affiliated with political parties. These papers offer a wide variety of opinions. The daily papers *Hayots Ashkhar* (3,500 copies per issue) and *Yerkir* (2,000) and the biweekly papers *Iravunk* (7,000) and *Golos Armenii* (3,000) tend to cover events from a leftist, and somewhat nationalist, perspective. *Yerkir* is controlled by the ARF, while the progovernment *Zhamanak* (1,500) is controlled by Prime Minister Markarian's Republican Party. The centrist *Azg* (3,000 copies) is close to another party with diaspora connections, while *Aravot* (5,000) and *Haykakan Zhamanak* (3,000) have a liberal, and usually pro-Western, orientation.

Print media in Armenia are, for the most part, unprofitable and financially dependent on sponsors and/or patrons who are often intent on promoting their own political or economic interests. Low living standards limit newspaper sales, and low circulation rules out major advertising revenues. The quality of news reporting is hampered because many papers are dependent on subsidies instead of earned income and, therefore, are vulnerable to manipulation by government officials, parties, and wealthy individuals. Even some independent publications are not averse to accepting money from ruling circles. The editor of *Aravot*, for example, stunned the public in 2000 when he admitted receiving funding from one of Kocharian's closest allies. A few nonpolitical publications do seem profitable. Broadcast media are more financially viable, thanks to larger audiences. Television channels also cash in on campaign advertisements in the run-up to elections.

Editorial independence varies among media organizations. In most cases, the content of news coverage rarely opposes the wishes of media owners or patrons. This fact encourages a tendency towards partisanship. Newspapers generally will not discredit or criticize their owners, although they are free to comment on political and economic developments. The government hampers newsgathering by continuing to withhold important information from the public. Many important facts only come to light through information leaks. This was especially true during the power struggle that followed the October 1999 parliamentary shootings, as rival government factions sought to discredit one another in the media. The leaked material even included official classified information.

Newspaper distribution is one area in which the authorities have maintained some leverage against independent media. A state agency, Haymamul, distributes more than 85 percent of the nation's publications and controls most of its kiosks. In the mid-1990s, there were reports that Haymamul refused to sell issues of newspapers that were critical of the authorities. On September 22, 2000, the government finally decided to privatize the agency.

Poverty places the Internet beyond the reach of most Armenians. Only a small percentage of the population has Internet access, generally through employment at an NGO with an office account or at the universities. Some Internet experts estimate that the total number of users is 40,000. There are about a dozen Internet service providers in Armenia, all of which based in Yerevan and rely on the ArmenTel telecommunications monopoly for satellite connections. The providers claim that ArmenTel's 15-year legal monopoly on long-distance service, which was granted in March 1998 during its takeover by the Greek firm OTE, will mean high prices and slow development of the Internet. One provider, the Armenian Computer Service, was stripped of its operating license in August 2000 when it established an alternative satellite connection.

There are several press associations in Armenia, but none of them represent the majority of local journalists. The Journalists' Union of Armenia, with hundreds of mostly elderly members, is a holdover from the Soviet period. The press corps in post-Soviet Armenia is much younger, and many of its members came to journalism from other professions. More than a dozen local journalists are grouped around the National Press. Another organization, the Yerevan Press Club (YPC), acts like a media watchdog by monitoring ongoing trends, examining media legislation, and occasionally holding seminars. There is generally little coordination among the press associations, even though they have issued joint statements in the past in the face of unacceptable government actions. There is no code of ethics binding the Armenian journalistic community.

In its *Survey of Press Freedom,* Freedom House rated Armenia as "Partly Free" from 1994 through 1999.

Governance and Public Administration

1997	1998	1999-2000	2001
4.50	4.50	4.50	4.50

Armenia's highly centralized political system went essentially unchanged during the period covered by this report. Sweeping constitutional powers allowed President Kocharian to ward off serious challenges from his opponents in the government and parliament. Local government bodies were still restricted in their activities and independence. Reform of the civil service was not expedited.

The president's right to dissolve the parliament practically at will leaves the legislature in a highly disadvantaged position. Since the so-called "power ministries" are directly subordinate to the president, some key areas of policy are beyond the government's control.

Parliament may unseat the head of state with a two-thirds majority if the Constitutional Court finds him guilty of grave offences. Only parliament has the power to pass laws. Presidential decrees, regional governor decrees, and some decisions by local executive committees, however, have

the power of law. The current parliament strongly challenged Kocharian in the months that followed the October 1999 terrorist attack, siding with his foes in the cabinet of Aram Sarkisian. The latter's sacking in May 2000 led parliament to change its anti-Kocharian line. Squabbles in the Unity bloc meant that by September 2000 no political group enjoyed a majority in parliament, thus making parliament even less dangerous to the president.

Parliamentary debates in Yerevan are widely publicized in the national press, whereas local governments do not function in a transparent way. Draft legislation is generally available to the media and public, but there have been instances of some bills being introduced with little prior public notice. For example, the Defense Ministry has frequently, and unexpectedly, initiated amendments to the law on the military draft; parliament has approved them quickly and without debate. Local business people also complain about what they see as frequent and abrupt changes in economic legislation. The problem is compounded by the absence of specific legislation guaranteeing citizens access to government information.

Provincial governors and the mayor of Yerevan, whose rank is equivalent to a provincial governor, are appointed by and accountable to the president rather than the local population or the parliament. Each of the ten provinces is divided into urban and rural communities (i.e., villages, towns, cities, and city districts) governed by 5-to-15-member locally elected councils of elders and a locally elected district administrator (city or village mayor). Relations between local and central government are regulated by the Law on Local Self-Government adopted by parliament on June 30, 1996. District administrators form their own staff to run the day-to-day affairs of their communities. The councils of elders, for their part, approve community budgets, supervise their implementation, and assess local taxes and fees. Their consent is required for important decisions on communal land and other property. The prime minister can remove district administrators upon the recommendation of the provincial governor. Under the constitution, provincial governors act as representatives of the central government and are responsible for implementing its policy. Community administrations' dependence on the provincial and central authorities limits their impact on local affairs. The most recent local elections in Armenia took place on October 24, 1999. They were judged to be "free and fair" by a monitoring mission from the Council of Europe.

Armenia's post-Communist constitution was officially adopted on July 7, 1995. Actual changes to the organization and election of local powers were delayed pending the passage of the appropriate legislation by parliament. This was accomplished before the November 1996 local elections.

Municipal governments have not been immune to the fiscal crisis that has gripped Armenia since independence. All taxation is controlled by the central government. Local governments make budget requests to the ministry of finance, which forwards them to the president after review. Municipalities are technically free to decide on their spending priorities, but the scarcity of money leaves them with little choice. Taxes on land and property, fixed "state tariffs," and 15 percent of income and profit taxes collected in a community go directly to its budget. The United Nations Human Development Report for 1998 said that the communities' "own revenues" made up no more than 30 percent of their budgets. That proportion seems to have remained the same, with the bulk of local funds stilling coming from the central government in the form of allocations given in the yearly budgets.

Another important problem is that Armenia still lacks a competent and independent civil service, despite ten years of reform. There have been numerous calls and pledges by politicians to enact a law that would make civil servants independent of government pressure. The issue usually gets attention before elections but fades away afterward. Parliament was expected to discuss one such bill at its autumn 2000 session. With few safeguards against arbitrary sackings, civil servants often are forced to side with the ruling regime in political battles. Those with technical specialization are considered very competent, but many more need to boost their qualifications. Low public sector wages provide fertile ground for corruption and inefficiency.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.75	5.00	5.00	5.00

Problems with the rule of law are among the most acute in Armenia. The magnitude of their most frequent form, corruption, remained high during the period covered by this report. Growing calls for reform of the 1995 constitution, which has been criticized widely for its shift of power to the presidency at the expense of parliament, were largely ignored by the authorities. There was also little progress in the development of an independent judiciary.

At the height of government infighting in February and March 2000, constitutional reform was high on the agenda in the country's political life. The anti-Kocharian camp sought to curtail the president's sweeping powers by accelerating work on constitutional amendments. But the matter lost urgency when the president won the power struggle. A constitutional reform commission set up by Kocharian in 1998 continued to work slowly. The commission is unlikely to produce sweeping amendments to the basic law.

Armenia's constitutional court is the main body charged with interpreting and enforcing the basic law. Under a legal provision that took effect in 1995 when the court was formed, only the president of the republic, one third of parliament's deputies, and election candidates can make

appeals to the court. This fact renders the court virtually inaccessible to ordinary Armenians. Not surprisingly, appeals to that court have been very rare. The constitutional court challenged the executive for the first time in January 1999 when it ruled that granting the Greek-owned company ArmenTel a 15-year monopoly on the Armenian telecommunications market was unconstitutional. On October 17, 2000, the court reinstated Parliamentary Speaker Armen Khachatrian and ruled that his ouster on September 26 by a majority of deputies was unconstitutional.

The 1995 constitution, which introduced a new judicial system, guarantees the presumption of one's innocence, the right of a person to not incriminate himself, and access to a "public hearing by a fair and impartial court." Much of the Soviet-era criminal code remains in effect. In keeping with Armenia's obligations to the Council of Europe, no death sentence has been carried out since 1990. Police officers may detain a person and keep him in custody for up to 96 hours, but they need a court decision to turn detention into an arrest. Article 18 of the constitution reads that a person "can be arrested [pending trial] only by the decision of the court." Only prosecutors may authorize searches, but this legal provision is violated frequently.

Despite these legal provisions, the police still frequently abuse suspects and prisoners. There even have been instances in which prisoners have died because of mistreatment while in custody. These abuses came to light during the controversial criminal investigation into the October 1999 parliamentary shootings. Several suspects, including an aide to Kocharian, claimed that they had been beaten while in detention. They were all eventually cleared by the investigation. During the period covered by this report, there were no reported cases of law-enforcement officials being prosecuted for mistreating suspects.

Prison conditions continue to be harsh, partly due to a lack of public funds. Throughout 2000, government authorities acknowledged serious difficulties with combating the spread of tuberculosis, which is the main cause of prison deaths. The International Committee of the Red Cross (ICRC) has estimated that at least four percent of the country's prisoners, or about 240 inmates, suffer from the disease. In August 2000, the ICRC agreed to provide about $1 million for improving health conditions in Armenia's jails.

One of the major changes made in the post-Soviet Code of Procedural Justice is a one-year maximum period for criminal inquiry. This provision has helped reduce excessive delays in the criminal justice system. Court rulings are usually enforced effectively, even on the rare occasion that a verdict goes against the government.

Chapter Two of the 1995 constitution guarantees a full range of civil and political rights, including the right to life, confidentiality, privacy, freedom of movement and residence, freedom of emigration, freedom of speech and thought, freedom of association, choice of employment, and the right to vote. Citizens also are guaranteed health care, education, and an adequate standard of living.

Article 28 of the constitution guarantees the right to own and inherit property. The state may seize private property "only under exceptional circumstances, with due process of law, and with prior equivalent compensation." Non-citizens may not own land except under special circumstances. Intellectual property rights are guaranteed in Article 36. However, rampant corruption in the government and the judiciary is a serious obstacle to the rule of law. Government connections are important for some forms of economic activity. The government does not enforce fair business competition properly. Although the core legislative framework needed for a market economy has been put in place over the past decade, a number of key laws have not been enacted yet. Some existing laws simply contradict each other.

The "2001 Investment Climate Statement" issued by the U.S. embassy in Yerevan states the following:

> The Armenian regulatory system pertaining to business activities, though one of the most developed in [the New Independent States], still lacks transparency. Incomplete laws and state controlled activities have led to a situation where certain sectors, though officially open, maintain near monopolies that are difficult to break. The lack of a legal infrastructure to fight the shadow economy, especially in the area of trade, often undermines fair competition.

Likewise, at the end of a conference in Yerevan in October 2000, Western donor states and lending agencies called for "more resolute action on policies to remove constraints on private sector development and privatization, to improve the rule of law and governance."

Article 37 of the constitution guarantees the rights of national minorities. It says, "Citizens belonging to national minorities are entitled to the preservation of their traditions and development of their language and culture." Ethnic minorities make up less than five percent of Armenia's population. The Law on Religious Organizations upholds the legal superiority of the Armenian Apostolic Church. As part of its bid for membership in the Council of Europe, Armenia formally committed itself in June 2000 to ensuring that "non-traditional religious communities" are allowed to practice their faith "without discrimination."

The impartiality and fairness of judges varies dramatically, depending on the nature of the case being tried. The public still does not perceive Armenian courts as independent and free of corruption, and sensitive political cases against the state are almost never resolved. That reflects the fact that the Armenian constitution fails to provide for an independent judiciary and that an overwhelming majority of judges are appointed by the president for life. The president can remove all judges, excluding members of the constitutional court, practically at whim. It remains unclear whether the expected constitutional amendments will extend to the judiciary as well.

The inquiry into the parliament assassinations illustrates the extent of political influence on Armenian courts. At the beginning of the probe, courts of first instance sanctioned all arrests made by military prosecutors who had close ties with Kocharian's foes in the government and sought to implicate the president in the terrorist attack. But in April 2000, as Kocharian began to regain his strength, the same courts ordered the release of suspects whom the prosecutors thought could testify against the head of state. As a result, the course of the investigation was strongly affected by the changing political scene in Armenia.

The Ministry of Justice has a department that deals with courts, but its functions are not clearly defined. Some lawyers view it as an instrument for putting government pressure on the judiciary. Ministry officials have denied this assertion repeatedly. Besides, Article 95 of the constitution creates a body called the Council of Justice, which acts as a supervisory and disciplinary body for the judiciary. The president chairs the council appoints its members, which include two legal scholars, nine judges, and three prosecutors. The council prepares lists of judges and prosecutors to be considered for appointments, promotions, or dismissals. Defendants enjoy the constitutional right to legal representation by court-appointed attorneys, and this guarantee is usually honored.

Corruption

1999-2000	2001
5.75	5.75

Corruption and nepotism are rampant in Armenia. Despite repeated pledges, the authorities took no major steps to deal with this endemic problem during the period covered by this report.

Armenian law places few limitations on the participation of government officials in economic life. Civil servants may not hold posts in the private sector, but this is not necessarily an obstacle to owning a business. Officials have been known, for example, to register a company or a shop covertly as the property of friends or relatives. It is also not uncommon for top officials, including cabinet ministers, to give privileged treatment to a private enterprise in return for a share of its revenues. One of Kocharian's closest confidants, Defense Minister Serge Sarkisian, reportedly was expanding his involvement in business in the second half of 2000. Close ties with Sarkisian also helped one local company gain a de facto monopoly on lucrative gasoline imports in 1998.

Under existing legislation, only election candidates are obliged to disclose their property and revenues. Successive governments have promised to enact a law on financial disclosure and conflict of interest, and Andranik Markarian's cabinet approved one such draft law in September 2000. The law's details had not been shared with the public as of October 31, 2000, the end of the period covered by this report.

According to official sources, 44 criminal cases of corruption by government officials were submitted to Armenian courts in 1999. None of the cases apparently involved high-ranking policy makers. Those who have faced trial served in Ter-Petrossian's administration and are at odds with the current regime. Former Education Minister Ashot Bleyan, for example, went on trial in late 1999 on charges of embezzling $120,000 in state funds that were earmarked for the publication of school textbooks. The trial, condemned as politically motivated by Bleyan's supporters and some human rights groups, had not concluded by the end of the period covered by this report. Likewise, former Interior Minister Vano Siradeghian was tried for alleged contract killings and abuse of power. He fled the country in April 2000.

Entrepreneurs generally have little faith in Armenian courts because judges reportedly ask for bribes in exchange for favorable rulings in civil and commercial cases. Difficulties with competitors or state agencies are frequently resolved by means of appeal to patrons with political connections. Trials begin less than six months after papers are filed, and the execution of a final judgment takes from seven months to one year. The 1995 constitution transformed the Soviet-era State Arbitrage Board into a commercial court.

Every Armenian leader who holds public office pledges to fight corruption. Kocharian made anti-corruption initiatives a central theme of his presidential campaign in March 1998. Prime Minister Vazgen Sarkisian had vowed a massive crackdown a few months before his murder in October 1999. The program of the current cabinet calls for a "merciless fight against corruption," but few concrete steps have been taken so far. Likewise, extremely low salaries in the public sector, averaging $20 to $30 per month, are not conducive to the eradication of corruption. Wages are much higher in the military and law-enforcement agencies. With an average monthly salary of $360, the president of the republic, ministers, deputy ministers, and judges are the highest paid civil servants in Armenia.

Civil service corruption is widespread, and citizens frequently pay bribes for services. Paying bribes to gain enrollment in prestigious programs at state universities, for example, is a common phenomenon that dates to the Soviet period. Still, some institutions, including the American University of Armenia, have managed to remain relatively free of such practices. Corruption in the health care system has declined since the early 1990s because most medical services are no longer free of charge. Kickbacks for telephone installations virtually disappeared with the privatization of the national telecommunications company. Some forms of business still require a government license, which is frequently obtained with a bribe. In September 2000, though, the number of industries requiring a government license was cut from 138 to 71. Business people

complain that the procedures for obtaining such licenses are unclear. This, in turn, increases opportunities for corruption. Bribing customs and tax officials is routine.

Corruption has not bypassed the privatization process either. The voucher privatization program made it possible for factory managers to fight off competition from outsiders and gain control over the majority of large and medium-sized industrial enterprises. Nominally sold by public subscription, these enterprises were privatized through insider buyouts that were facilitated by official corruption and favoritism.

The Armenian parliament has an Oversight Chamber for auditing government revenue collections and expenditures and assessing compliance with budget targets. The chamber is also charged with evaluating the government's borrowing and privatization policies. In annual reports submitted to lawmakers, the body has frequently criticized the executive's handling of public finances, but it lacks the leverage needed to have a major impact on policy. The Ministry of Finance has a far more powerful department that audits all government agencies.

Armenia's crime rate is fairly low. This might be true because the punishments for racketeering are severe—up to 12 years in prison. Article 96 of the criminal code defines racketeering as a "demand to hand over property or rights on property with a threat to use violence against...an individual." Most Armenians expect their leaders to uphold the rule of law and fight corruption, and these are key themes in presidential and parliamentary election campaigns. Pre-election opinion polls indicate that the public is angry about official corruption, which is believed to be responsible for growing disaffection with the government and politicians. This feeling has manifested itself in voter cynicism and apathy. At the same time, poverty has forced many Armenians to vote for individuals with dubious reputations in exchange for money. Sporadic and ineffective government efforts to fight corruption have never included public education. According to a July 2000 survey by the *Hayots Ashkarh* newspaper, 18 percent of the population believes that organized crime controls the country.

Perceptions of corruption are equally strong among Armenia's foreign partners. Yerevan is under constant pressure from the U.S. government, the IMF, and the World Bank to reduce the scale of corruption. They view it as a major obstacle to increased foreign investment. Similarly, in its 2000 Corruption Perceptions Index (CPI), Transparency International ranked Armenia 76 out of 90 countries surveyed. It gave Armenia a CPI score of 2.5, where 0 is the most corrupt and 10 is the least corrupt.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.00	3.75	3.25	3.25

Macroeconomic Policy

1998	1999-2000	2001
4.25	3.50	3.50

Microeconomic Policy

1998	1999-2000	2001
4.25	4.00	4.00

Armenia's ten-year transition to a free market has produced mixed results. By mid-2000, for example, sweeping reforms had helped create an economy in which the private sector produced around 80 percent of gross domestic product (GDP). At the same time, though, a host of factors has contributed to a dramatic plunge in living standards. One of the most significant factors has been the loss of traditional trade routes, which resulted from Armenia's conflict with Azerbaijan over the Nagorno-Karabakh region and from wider instability in the South Caucasus. Also important is the fact that far-reaching macroeconomic changes have not been backed up by radical institutional reforms and the rule of law. At less than $600 million, the volume of foreign investments during the transition period has been quite modest.

Widespread poverty in Armenia has adversely affected political reform. That is, widespread apathy has dampened popular demands for democratization. De-industrialization, a steep decline in educational and healthcare standards, the absence of an effective social security system have shattered the foundations of civil society. In 1999 and 2000, Armenia did not experience a reversal in its post-Soviet slump and its alarming social trends.

After the collapse of the early 1990s, Armenia's economy began to recover slowly in 1994. Since then the economy has expanded at an average annual rate of five percent. Successive governments have largely followed the World Bank and the IMF's prescriptions for tight fiscal-monetary policies and a large-scale privatization of state assets. Hyperinflation was curbed in 1994 and has stayed in the single digits (in annual terms) since 1997. Inflation was not expected to exceed two percent in 2000. In addition, Armenia boasts a fairly sound and convertible national currency, the *dram*, and one of the most open economies in the Commonwealth of Independent States (CIS).

Armenia's reforms have earned the country a reputation in the West as of one of the best macroeconomic performers among the non-Baltic former Soviet states. In its

1999 "Transition Report," the European Bank for Reconstruction and Development (EBRD) gave Armenia the third highest "aggregate transition indicator" out of the 12 CIS countries surveyed. Armenia scored 2.7 on a 4-point scale that averages eight component indicators, including privatization, restructuring, market liberalization and competition, and financial markets reform.

Growth rates, however, have been insufficient for a tangible economic recovery. Official figures showed economic growth slowing down to just over 3 percent in 1999 and 2.9 percent in the first nine months of 2000—not nearly enough to raise the country's extremely low living standards. Unveiled in June 2000, the Markarian government's economic program promises to double the nation's GDP in seven or eight years.

Despite macroeconomic stability, the business environment remains risky. This is evidenced by disproportionately high interest rates. A July 2000 World Bank paper listed the following reasons for weaknesses in Armenia's existing growth pattern: "weak capacity to create new jobs, low export, slow rate of enterprise restructuring in core manufacturing, underdeveloped financial system, and high income inequality." Privatization, though vital for development, has not yet resulted in an economic boom. The privatization process officially began in 1991 with a comprehensive government program on agricultural land. By the end of 1999, private farms owned 90 percent of agricultural lands. They are free to sell and buy the land. Still, farming largely has been reduced to a subsistence level activity because economic stagnation has taken a heavy toll on it.

A massive privatization of other sectors of the economy got underway in 1995 with a distribution of vouchers to every Armenian citizen. By the end of 1997, the government of then-Prime Minister Kocharian had abandoned the voucher privatization program and opted for a new strategy of sell-offs through money auctions. As of August 1, 2000, 76 percent (1,533) of medium- and large-sized enterprises and 83 percent (6,829) of small businesses had been privatized, according to official figures. Sixteen percent of all medium and large-sized enterprises and 13 percent of small businesses on the market have not found buyers. The main reason that the privatization process has slowed considerably since 1998 is that the most attractive businesses have already been sold. In August 2000, the government decided to sell 15 large factories, including the Armelectromash giant.

According to the Ministry of Privatization, the total amount of government revenues from privatization was a mere $250 million as of August 2000. Only half of that sum was paid in cash; the lion's share came from the sale of Armenian enterprises to foreign investors through international tenders. The largest deal so far, worth $142.5 million, was the March 1998 sale of 90 percent of the equity in ArmenTel to the state-controlled Greek Telecommunications Organization (OTE). The privatization of Armenia's energy distribution network, which entered its last phase in late 2000, is expected to break that record.

Most Armenians are receptive to entrepreneurial activity, but public support for privatization has declined as wrenching economic changes have failed to produce discernible improvements in the average standard of living. The fact that privatization often has been tainted by corruption and favoritism has only added to public disillusionment. Populist groups, in turn, have exploited that sentiment in their efforts to scuttle the sale of some key state assets to foreign investors. Even so, the average Armenian is eager to work for any employer who pays a decent wage, and there is a general consensus in society about the need to attract foreign investment.

Armenia's taxation system has been reformed extensively with an eye towards encouraging foreign investment and privatization. The tax law establishes six different types of taxes: profit/corporate, income, value-added, excise, property, and land. Employers are also required to pay a social security tax for employees.

The new Law on Corporate Tax became, which became effective on November 27, 1997, sets a two-tier progressive tax scale for profits: 15 percent of taxable profits that do not exceed 7 million drams ($13,500) or 1.05 million drams plus 25 percent of the amount that exceeds seven million drams. Previously, the maximum tax rate was 30 percent. Newly privatized industries and new companies formed with foreign investment receive a two-year exemption from profit taxes. They then pay half of the profit tax for years three to ten. If the company is liquidated before the fifth year of operation, however, it must pay the total amount of taxes which otherwise would have been due starting in the third year after registration.

Armenia imposes a 20 percent value added tax and a variety of excise taxes at varying rates on luxury goods. Employers pay a social security payroll tax of 28 percent, but its maximum amount is set at 22,500 drams ($50). Private farmers are taxed at a flat 15 percent rate. The Law on Income Tax, effective December 30, 1997, provides for a tax on the personal incomes of Armenian residents. The maximum rate of 30 percent is set for taxable income exceeding 320,000 drams ($615). On August 1, 2000, Armenia introduced a new and optional "Simplified Tax" for small businesses with an annual turnover that does not exceed 30 million drams ($56,000). Firms meeting these criteria may choose to be exempted from the profit and value-added tax in return for paying a fixed 7 percent tax on their overall turnover.

Taxes levied on the private sector have been the main source of the government's budget revenues in recent years. Tax revenues rose substantially between 1997 and 1999 as successive Armenian cabinets toughened the crackdown on the informal sector of the economy. Many economists think the informal sector may be almost equal in size to the formal economy. Tax evasion continues to be widespread.

Lacking sufficient public funds, Armenia is heavily dependent on financial injections from the IMF and the World Bank. In fact, Western loans, half of which were expected

to come from the World Bank in the form of structural adjustment credits, were supposed to cover the bulk of the $110 million deficit in Armenia's 2000 budget (worth nearly $500 million). But these vital funds were not disbursed in 2000 because of a delay in the privatization of the energy sector. This led to a serious budgetary crisis in the second half of the year and gave the authorities little choice but to press ahead with plans to sell state-run electricity companies in 2001. Armenia also participated in negotiations with the IMF in 2000 for a new loan program called the Poverty Reduction and Growth Facility. These fresh loans will increase the country's external debt, which stood at $849 million, or 43 percent of GDP, as of June 30, 2000. Having extended $595 million in loans as of September 2000, the World Bank is Armenia's largest creditor. Armenia's debt to Russia reached $113 million in October 2000, according to official figures.

The Central Bank of Armenia (CBA) plays a key role in macroeconomic policy. Banks are required to report daily or weekly to the CBA, which introduced international accounting standards in January 1996. Armenia's banking legislation is seen as one of the most liberal in the former Soviet Union, with no restrictions placed on foreign banks. Minimum capital requirements were raised by the end of 1999 to $1 million for operating banks and $5 million for newly founded ones. But despite being one of the best functioning sectors of the economy, the Armenian banking sector is still too small to generate robust economic growth. As of July 2000, CBA figures put the aggregate assets of the country's banks at $422 million and their combined capital at $63 million.

The existence of a fairly strong national currency, the dram, is another indication of relative macroeconomic stability. The dram has had a floating exchange rate ever since its introduction and is convertible for current account transactions. The CBA sets the rate based on the results of interbank currency trading. The CBA's hard currency reserves, which are shored up by IMF loans, have grown consistently in the last several years. They were hovering between $330 and $350 million at the end of 2000.

The CBA's exchange rate policy largely has been stable and predictable. The same has been true for interest rates, which are fully market based. The CBA's base rate tumbled from 46 to 21 percent in the first four months of 2000, reflecting growing business confidence in continued macroeconomic stability. Yet even this rate is seen as too high for an economy with extremely low inflation. Economists attribute it to high business risks and an extremely high trade imbalance.

As in other market economies, yields on short-term government treasury bills in Armenia are pegged to interest rates. Only a fraction of the budget deficit ($5.5 million in 2000) is financed by T-bills. In March 2000, the Finance Ministry issued for the first time mid-term treasury notes that are repayable in 18 months. Yields were between 23 and 17 percent throughout the year. As of October 2000, the total value of notes in circulation was $43 million. Armenia's capital market is otherwise underdeveloped. Most enterprise takeovers and other deals bypass three "stock exchanges." In May 2000 the government formed a department responsible for regulating the securities market.

Legislation governing the creation and conduct of private enterprises includes the Law on Enterprises and Entrepreneurial Activities (June 13, 1994), the Law on Private Business (December 24, 1993), and the foreign investments law (July 31, 1994). In the event of a change in legislation, the latter law allows a foreign investor to choose to remain subject to the existing laws for a period of five years. A new bankruptcy code was enacted in January 1997.

Business competition is officially encouraged, but legislation has not been passed yet to provide for its enforcement. Even though Article 5 of the constitution guarantees "free economic competition," monopolistic practices are widespread. Government connections are essential for engaging in lucrative imports of some basic goods.

Free market mechanisms have functioned rather effectively in the retail and services sector, as well as in domestic manufacturing. The emergence since 1996 of private enterprises involved in food processing, alcohol and soft drink production, and cigarettes has rendered imports less lucrative.

The 15-year monopoly granted to the Greek-controlled ArmenTel operator in March 1998 caused a bitter controversy in the country. Its critics insist that the monopoly hampers the development of the telecom sector, including the Internet and mobile phone connections. In August 2000 the Armenian government and ArmenTel's management began to renegotiate some of the key terms of the company's takeover by the Greek firm OTE. The question of a monopoly was high on the agenda.

Until spring 2000, when parliament passed the Law on State Procurements, government procurement policies were not regulated by the law, and this had created a breeding ground for corruption. However, the new law requires a public tender for the purchase of any piece of equipment worth more than $500. The Agency for State Procurements, which formally began its work on August 31, 2000, will manage the tenders.

In the last several years, Armenia has reoriented trade toward the West. The country's share of foreign trade with the CIS declined from 75 percent in 1993 to 21.5 percent in the first half of 2000. In the meantime, the European Union has become its number one trading partner, increasing its share to nearly 37 percent in the first seven months of 2000. This trend is expected to accelerate after Armenia's upcoming accession to the World Trade Organization.

Barriers to trade are mostly informal and arise from crippling shortages of credit and poor infrastructure. The country's conflict with Azerbaijan has closed roads and railways used for imports. Corruption among customs officers is also a serious problem.

Armenia strongly encourages foreign investment. Customs and tariff procedures have been overhauled, and

real efforts have been made to control abuses by officials. There are no restrictions on the repatriation of profits by foreigners. Foreign investors also receive a variety of tax privileges. A U.S. embassy report ranked Armenia's investment and trade policy "among the most open in the CIS."

However, the total amount of foreign direct investment (FDI) in the Armenian economy has been highly insufficient for the kind of economic upswing that would boost the country's low living standards. Western firms are wary of doing business in Armenia and elsewhere in the South Caucasus, primarily because of uncertain prospects for the settlement of regional conflicts. The unresolved Nagorno-Karabakh dispute still hangs ominously over regional peace and stability.

Official figures show that the volume of FDI fell to $100 million in 1999 from a record-high level of $232 million in 1998. Foreign investment was on track to increase in 2000 after reaching $80 million in the first half of the year. Some government officials who are optimistic about planned privatization in the energy sector have predicted that FDI will soar to $400 million in 2001.

Official statistics put the number of registered companies with foreign participation at approximately 1,400. Notable Western firms that are active in Armenia include Coca-Cola, Huntsman, HSBC, Glaxo Wellcome, Pernod Ricard, KPMG, and Marriott. The electrical power sector has become another area in which Western capital is establishing itself. On July 26, 2000, the Armenian parliament gave the green light to the privatization of four state-run electricity distribution companies. Four Western firms have made it to the final phase of the international tender. Despite strong pressure from Russia, two leading Russian energy giants were excluded from the contest.

The energy sector has undergone substantial reform since the early 1990s when the country was crippled by power shortages. Reforms led to a surplus of electricity, some of which has been exported to Georgia since 1998. But despite one of the highest rates of bill enforcement in the former USSR, the sector still operates at a loss. The sale of the power grid is seen as the only way to remedy the situation.

The Metsamor nuclear power station, reopened in 1995 with Russian loans and technical assistance, generated 35.6 percent of Armenia's electricity in 1999. Thermal power stations, which operate with Russian natural gas supplied through Georgia, accounted for 42 percent. Armenia's dependence on Russia for energy resources will decrease with the construction of a gas pipeline that extends from neighboring Iran. Work on the pipeline is scheduled to begin in late 2000 or early 2001, despite objections from the U.S. government.

Armenia has paid a heavy price for its decade-long transition to the free market. So deep has been the slump in living standards that it will take years before reforms bring tangible benefits to most ordinary citizens. Mass impoverishment, in turn, is having a negative impact on the process of democratization because the pauperization of the population has led to a decline in civic consciousness. One of its manifestations is the phenomenon of vote buying, which was commonplace in the 1999 elections.

The 1999 UN Human Development Report notes that only "a small part of the population" has fully embraced the new values of a market economy. It sums up the social cost of reforms as follows: "The social achievements of the pre-reform period—free education and healthcare, the right to work and leisure—have been lost. . . . The human capital has been pulverized, while the middle class, the driving force of democracy, civil society and sustainable development, has been seriously jeopardized."

Poverty is widespread in Armenia, but the absence of an official poverty line makes it difficult to measure its real rate. A survey of 5,000 households conducted by the Armenian government in 1996 found that the personal income of 55 percent of the respondents fell short of a benchmark "consumer basket" estimated at $25 per capita. UN Development Programme (UNDP) experts estimate that in 1999 more than 80 percent of all households could be considered poor. Living standards reached their lowest point in 1992 and 1993 when Armenia's GDP was cut in half. Since then, people have tried to adapt to the extremely difficult living conditions. Some have engaged in business, while many others have lived off money transfers from relatives working abroad.

Unemployment, the root cause of poverty, is the greatest social problem for the average Armenian family. The official unemployment rate stood at nearly 12 percent in July 2000, virtually the same as in 1999. Real joblessness is far higher, with unofficial estimates ranging from 25 to 40 percent. Official statistics fail to gauge the mass out-migration of the early 1990s and the fact that a large part of the population—18 percent according to the UNDP—is employed in the informal sector of the economy. The UNDP estimates that the country's population has shrunk from 3.8 to 3.1 million since 1991.

The average monthly wage was 19,860 drams ($37.50) in July 2000, according to government statistics. But analysts say the real figure is higher because many employers underreport wages in order to pay lower income and social security taxes. The cash-strapped government budget precludes the creation of an effective system of social security. A meager $55.6 million, or 2.8 percent of GDP, was due to be spent on social programs in 2000. Some 200,000 socially vulnerable families are eligible to receive $12 in monthly benefits. The average monthly retirement benefit of 580,000 pensioners is $10. Most retirees live with and rely on their children.

The picture is equally grim in the area of public health because the state is no longer able to meet basic needs. Since 1995, patients have had to pay for most medical services, but many Armenians cannot them. The UNDP has concluded that "the accessibility of medical aid has fallen to an unacceptably low level." This is a major reason for the fall in life expectancy. According to official figures, life expectancy has remained unchanged at 73 years. But UNDP experts believe that it has actually fallen to 67 years since the start of reforms.

The lack of public funds has also led to a decline in educational standards. Free education is now limited to 10-

year secondary schools in which 581,000 students were enrolled as of November 1999, according to the Ministry of Education. Schoolteachers have few material incentives to sustain high educational standards. More than half of students at state universities pay for their tuition. But many young Armenians cannot afford tuition fees and are denied access to higher education.

The difficult socioeconomic conditions in Armenia have given rise to populism and demagogy. With liberal values largely discredited, voters tend to support political groups that promise quick improvements through more active state interference in economic affairs. The absence of a strong middle class is a serious hindrance to the democratic process. Social polarization and widespread disaffection with the country's leadership feed uncertainty about long-term stability. And the mechanism for elections remains too flawed to provide a legitimate framework for popular participation in governance. As a result, Armenia is vulnerable to future upheavals.

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AZERBAIJAN

Polity: Presidential (dominant party)
Economy: Mixed statist (transitional)
Population: 7,700,000
GNP per capita at PPP $ (1999): 2,322
Capital: Baku
Ethnic Groups: Azeri (90 percent), Dagestani (3.2 percent), Russian (2.5 percent), Armenian (2 percent), other (2.3 percent)
Size of private sector as % of GDP (mid-2000): 45

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	5.60	↑ 5.55	↑ 5.50	↓ 5.56
Rule of Law	na	na	5.75	5.75
Economic Liberalization	5.13	↑ 5.00	5.00	↑ 4.92

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	171.0	312.6	407.4	503.3	525.7	499.0	507.0
Real GDP growth (% change)	-19.7	-11.8	1.3	5.8	10.0	7.4	10.5
Inflation rate	1,664.0	412.0	19.7	3.5	-0.8	-8.5	1.6
Exports ($ millions)	682.0	680.0	789.0	808.0	678.0	1,025.0	1,745.0
Imports ($ millions)	845.0	955.0	1,338.0	1,375.0	1,724.0	1,433.0	1,280.0
Foreign Direct Investment ($ millions)	22.0	282.0	661.0	1,093.0	1,024.0	510.0	500.0
Unemployment rate	10.4	11.7	12.1	12.7	12.9	13.9	1.1
Life Expectancy (years)	69.4	68.9	69.9	70.9	71.3	71.5	72.0

INTRODUCTION

The fact that Azerbaijan gained independence as a country involved in armed conflict has had serious repercussions for the development of a stable political and economic environment. Stability was not achieved until after the 1994 Karabakh ceasefire and the establishment of a burgeoning oil industry. The authoritarian leadership of President Heydar Aliyev has had a strong, stabilizing effect on the nation.

As the Council of Europe considers Azerbaijan for membership, a crucial period has begun. To a great extent, the country's current difficulties are associated with its geographical position and the role of regional powers. Inclusion in Europe will be crucial to the process of economic and political reform and will help the people of Azerbaijan solve a longstanding dilemma: Are they part of Europe or Asia? The answer will largely determine the progress of reforms and democratization. Already, significant headway has been made in the drafting and passage of major legislation, including a newly revised civil code, tax code, and laws on media and nongovernmental organizations (NGOs). However, the reforms have yet to take effect, and fine tuning undoubtedly will be necessary.

Democratization has proceeded slowly in Azerbaijan. Promises of oil wealth attracted the early involvement and influence of many Western companies. Their arrival drew attention away from the problems of creating a stable and democratic state towards the development of the petroleum industry. Initial relief efforts were aimed at lessening the strain of dealing with a significant population of internally displaced persons (IDPs) from Armenian occupied territory. Section 907 of the U.S. Government's Freedom Support Act restricted federal assistance to any Azerbaijani government entity. Recent loosening of this measure has allowed for more democratization and development projects, which must involve government members and institutions. Responding to international pressure, Azerbaijan has recently passed numerous laws on reform. The process of their adoption has been swift, but little has been done to ensure institutional reform of the government.

Continued stability and eventual reform depend mainly on the president, whose poor health in recent years has raised serious questions about the succession of power. Plans to groom Aliyev's son as a successor are already in motion, and profits from the oil industry continue to prop up the regime. However, both the governing and opposition parties are experiencing upheavals that will affect the future transition of power. These include post resignations, party splintering, opposition bloc disintegration, and the death of the former president and Popular Front leader Abulfaz in August 2000. Opposition parties have begun to rally for participation in policy making, but their efforts are not well organized or consistent.

Little headway has been made in the resolution of the Karabakh conflict. One-fifth of the republic's territory remains occupied, and the world's highest per capita refugee population cannot return home. International NGOs have done a great deal to ease conditions for refugees, but the politics at the center of this conflict continues to affect adversely the general population.

The long awaited Baku-Ceyhan pipeline agreement was signed in November 1999, and Caspian Sea oil is beginning to flow to the outside world through an earlier oil pipeline to Supsa, Georgia. The surge in world oil and gas prices has greatly contributed to Azerbaijan's gross domestic product (GDP), but the economy is a fraction of its pre-1991 size. Little benefit has been passed on to the general population, and not enough money exists in the budget to provide promised services and to meet obligations.

Azerbaijan's economic development depends on the promotion of investment and growth in non-oil sectors of the economy. International attention recently has turned from relief assistance to development work, a move that should aid reform and transformation. However, it is questionable whether the policies and programs enacted at the state level will be transparent, effective, or sustainable. Future development also depends on providing Azerbaijan's youth with appropriate skills, knowledge, and experience, as well as ensuring the growth of sustainable sectors in which they may work in the future.

Azerbaijan is at a crossroads. With a strict commitment to the continuation of difficult economic, political, and social reforms, Azerbaijan's transformation will likely take many years. Without such a commitment, the minor gains for openness and democratic reform will be lost.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
5.75	5.50	5.50	5.75

The government of Azerbaijan depends on a strong, authoritarian president who was re-elected in 1998. He enjoys numerous powers as outlined by the constitution. One is the ability to appoint regional governors who often operate as extensions of the executive branch. The president also appoints judges and is able to exert control over both the legislative and judicial branches.

The political process of Azerbaijan is stable, for now, although no viable governmental institutions existed in Azerbaijan as of October 23, 2000. The continued stability and eventual reform of the government and the political system relies mainly on the president. His poor health over the past two years has turned local discussions to the question of succession. President Heydar Aliyev and his party, the Yeni Azerbaijan (New Azerbaijan) Party (YAP), have named his son, Ilham, as the most likely successor. Active preparations to ensure this are well underway.

The strength of the administration and the ruling party were tested by the resignations of Tofik Zulfugarov as minister of foreign affairs in October 1999 and Rafael Allahverdiev as mayor of Baku in October 2000. There was dissent among the YAP membership over the direction of the Karabakh negotiations and about the decision to load the party list for parliamentary elections with younger members.

The Azerbaijan Popular Front (AXCP), the party central to the independence movement in the early 1990s, suffered the death of its leader, Abulfaz Elchibey, in August. His memorial was one of the largest, and reportedly most emotional, public gatherings in recent memory. The party is currently split, with one faction forming a reformist wing.

The Musavat (Equality) Party enjoys popular support throughout the country, although the government continues to restrict its participation. The Azerbaijan Democracy Party (ADP), led by the former speaker of parliament (now resident in New York), was finally allowed to participate in elections in 2000. These and other political parties continue their work, but overall a weakening of political parties has occurred.

Only about ten percent of the population actually participate in political parties. Women play a small role, although their representation in the leadership of parties and in governmental posts is similar to that in developed nations. Members of the numerous ethnolinguistic groups in Azerbaijan do not have separate parties, but they do participate as members of other parties. The existing political parties are viable, although recent strains have been evident. Most are centered around individual personalities, and their platforms vary little. Although government censorship no longer exists, many practice self-censorship and are occasionally subject to harassment by local officials.

In December 1999, municipal elections added another level of governmental authority in the regions. Some 36,000 people contested 2,200 seats. The Central Election Committee (CEC) reported that voter turnout was 52 percent, but independent observers put the actual rate closer to 30 percent. As a result of these elections, there are for the first time locally elected municipal legislatures separate from the executive committees. They have little actual power and are mainly responsible for infrastructure maintenance such as garbage collection and parks administration. Authority remains with the regional executive committees and governors, who are appointed by the president.

A controversial election law passed in July 1999 prevented the membership of opposition party representatives on local electoral commissions. The opposition ADP and the Azerbaijan National Independent Party (AMIP) boycotted the elections in protest against the law. Two other opposition parties, Musavat and the AXCP, did participate after initially joining the boycott.

During the winter and spring of 2000, opposition parties rallied for better involvement and representation in the government. Permission for rallies involving more than 50 people is difficult to obtain, but permission was granted for a rally on April 28, 2000 outside Baku. When the rally turned into a march to the center of town, nine people were arrested, including three party leaders, and the opposition reported that police injured 60 people. Later in the year, several attempts to hold rallies in the run-up to parliamentary elections were denied permission.

The legislature is a single chamber of 125 seats known as the Milli Majlis, or parliament. Whereas the constitution lists 32 duties for the president, only 19 are provided for the deputies. Up to 15 percent of deputies may sit in parliament while simultaneously holding government posts. Twenty-five seats are allocated by elections on a proportional basis and the deputies in the remainder each represent a district of the republic. The seat for Xankendi, the representative seat for the region of Karabakh, remains empty. To win a proportional seat, a party must receive at least six percent of the vote. The opposition held a total of 20 seats in the parliament formed in 1995. Although they attempted to form a bloc, their efforts were often negated by the ruling party's control of the parliament.

Parliamentary elections take place every five years. The next vote is scheduled for November 5, 2000. There are two ballots for the election, a proportional vote for 25 seats held by political party representatives and single mandate, majoritarian votes in 99 districts for the remaining seats. The legal criteria for recognition as a candidate is ambiguous, and the registration process is onerous. To be included on the proportional ballot, a potential candidate must obtain 50,000 signatures for registration. The single mandate requires two thousand signatures. Approximately half of the single-mandate candidates were not registered in time to be included on the ballot.

A recent change to the election law made it possible for opposition parties to obtain membership on election committees (ECs), whereas membership formerly depended on presidential assignment. However, the opposition parties boycotted several meetings of the Central Election Committee (CEC), and the amendment to the law was cancelled.

The CEC also added a new regulation to the law on parliamentary elections. It stipulated that political party participation in the upcoming elections required the parties' registration with the ministry of justice six months in advance of the election. This regulation was enacted retroactively and prevented members of the ADP party and others from registering. However, the president intervened and instructed that all parties be registered for the proportional vote. It currently appears that thirteen parties will take part, many of which are small, relatively unknown groups.

Other changes enacted by the CEC require that individuals sign nomination ballots only once. This requires an extensive review of every name. Isa Gambar, the leader of the Musavat party, spoke out against this stipulation because it interferes with the right to anonymity and opens the door for coercion and corruption. In some cases, representatives of the ruling party actively sought signatures from

people who had already signed for other parties in order to invalidate signatures on both.

The National Democratic Institute suggested the following five remedies for major flaws in the election: allow election monitors from domestic nongovernmental organizations (NGOs) access to all aspects of the election process; allow citizen signatures for more than one party; remove the six-month requirement; open EC membership to opposition parties; and increase proportional representation.

Voter turnout is expected to be low, while the government predicted a participation rate of 54 percent. Public confidence in the electoral process is low. The importance of these elections is the preparation they allow for succession. The YAP hopes to maintain control of the government. Some observers note the possibility that Ilham Aliyev, son of the president and new chairman of the party, will be installed as speaker of parliament if the YAP is able to gain 75 percent of parliamentary seats. This is significant because the constitution states that the speaker will assume control should the president become incapacitated. It is likely that the ruling party will prevail in the election, thereby decreasing the possibility for a democratic process of succession. A media blitz in late October focused on Ilham, including his work as president of the National Olympic Committee. Ilham Aliyev also accompanied his father to the United States for the Millennium Summit and presumably was introduced to other attendees. Even if the YAP does not win by a landslide, Ilham Aliyev will likely become a member of parliament and thereby gain the political experience and exposure essential for his grooming.

Civil Society

1997	1998	1999-2000	2001
5.00	5.00	4.75	4.50

Azerbaijan was slow to develop a healthy environment for civil society. The first international NGOs came to Azerbaijan in 1992 in response to the Karabakh conflict and the drastic and immediate need for relief assistance. These NGOs were not in a position to help local organizations develop. The complex political situation in the early 1990s, when Azerbaijan saw three presidents in as many years, did not help to create an environment in which interest groups were allowed to meet or organize. Since they received little outside guidance or advocacy, Azerbaijani NGOs in 1994 numbered fewer than fifteen. In 1994, a law on association was passed, and local nongovernmental organizations finally had legal protection to organize and to operate, although registration with the ministry of justice remained difficult.

Some NGO growth was encouraged by the U.S. Freedom Support Act, a primary funding source for humanitarian assistance in the former Soviet republics. Section 907 of this legislation singled out Azerbaijan and prohibited any funding that would benefit the republic's government. Since Azerbaijan had only just declared independence, most institutions, agencies, organizations, and enterprises were part of the state. Refugees and IDPs were the primary recipients of aid. The rest of the republic received very little, although neighboring Armenia received the highest per capita aid in the CIS. Any private organization that could find its way through a cumbersome registration process could be a potential recipient of assistance. This was a small stimulus for the growth of this sector.

Section 907 stunted the potential for early democratization in Azerbaijan, since it could not help government officials or agencies that lacked the skills, knowledge, and experience to plan or implement reforms. Furthermore, the offshore oil reserves in the Caspian Sea became a focus for the international petroleum industry, so the early presence of Western oil companies became the focus of the government. Section 907 has since been loosened, and now aid and democratization efforts can reach state-run hospitals and schools, a wider variety of organizations, and officials integral to the reform process.

International NGOs are beginning gradually to shift their focus away from the IDP community, which has been displaced for eight years. Some international NGOs have exhausted their areas of expertise and are leaving the country. Others are turning from relief work to assisting development projects. Ideally, these projects should be designed and implemented by local stakeholders with support from the international community. With proper training in management and strategic planning as well as financial support, the local NGOs should be able to lead the formation of a strong, stable civil society.

Most Azerbaijani NGOs rely on outside grants to fund their activities. Some are slowly beginning to design income-generating and sustainable projects. Local businesses and others are also beginning to learn about philanthropy. Currently, many NGOs are unable to pay the salaries of their administrative staff. Local fundraising will remain difficult in the short term.

Some attempts to strengthen the sector have been made. In 1999, with assistance from international NGOs including the Initiative for Social Action and Renewal in Eurasia (ISAR) and the United Nations Development Program (UNDP) NGO Resource Center, the local NGO community, led by the National NGO Forum, joined together to help draft a version of the Law on NGOs adopted in 2000. The parliament welcomed NGO participation, but the process was somewhat arduous, and the legislation went through three drafts before it was passed by parliament. The president also made changes before signing it into law. The final version, which is currently on the books, restricts the involvement of NGOs in the political arena, particularly in observing elections, if thirty percent or more of their budgets come from international sources. Special allowances were made for one organization, For the Sake of Civil Society, to participate in the parliamentary election process by auditing voter registration lists.

The positive aspect of the new NGO law is the active participation of local NGOs in drafting it. This is partially the result of the recent growth in the number of NGOs over the past few years. In January 2000 the local Center for Humanitarian Research put the total number of NGOs at 1,242, of which 1,109 are registered. ISAR actively tracks more than 300 NGOs that are active in six regions of the republic and in 20 different sectors. Most organizations depend on the involvement of volunteers. Participation by women is around 40 percent. Trade unions all belong to the government-controlled Azerbaijani Labor Federation. Some have attempted to form NGOs, but the resulting organizations exist mostly in name alone. Save the Children, an international NGO, helped to establish AzerWeb, a Web site that is a clearinghouse for all information concerning NGOs in Azerbaijan.

The registration process for NGOs is extremely bureaucratic, and some organizations have been seeking legal status since 1993. A review of the process began at the end of 1999. The shift in focus from relief to development has helped many of these NGOs gain funding from international sources. However, management expertise and coordination with other organizations still need to be developed. In Baku and some of the regions, a variety of opportunities exist for NGOs to receive training and to access resources for improvement. These include workshops, Internet training, and practical training exchange programs. Since most of these organizations depend on volunteers, larger concerns involve the solicitation of local financing, the building of a volunteer base, and better interaction with their targeted communities.

Local media often report on the activities of NGOs. Public perception of NGOs is generally positive, although many people are not aware of their activities. Some believe that they are organized around wealthy individuals or politicians. Some local businesses are beginning to donate to NGOs, but philanthropy is not vibrant.

As international interest in Azerbaijan slowly shifts from relief to development strategies, a number of social issues are receiving more attention. The major problem for refugees is that they are not locally registered where they reside. Therefore, they do not enjoy local social safety nets, cannot participate in land privatization and other reform programs, and are not adequately represented in the government. The number of IDPs is difficult to calculate because many, especially younger adults, have become integrated with urban populations or found work abroad.

The growth of Azerbaijan's GDP due to world oil prices has led many donors to expect the republic to spend more on solving its own problems, but this process will be quite slow. Legislative reforms will support the establishment of democracy, but issues of health, subsistence, and education need more immediate attention.

Independent Media

1997	1998	1999-2000	2001
5.50	5.50	5.50	5.75

In general, the situation for the independent media of Azerbaijan has changed little over the past twelve months. According to a public perception survey conducted by the Initiative for Social Action and Renewal in Eurasia, public confidence in the media is high. Most people cannot afford to buy newspapers and, instead, get their information mainly from broadcast media. In the regions, word of mouth from friends, relatives, and other contacts is a significant source of information. According to a study in Baku entitled *Awareness of Local NGOs: 2000*, most say that television provides the most accurate information and radio the least.

Of the major private newspapers, only the Russian-language *Zerkalo* is truly independent, professional, and dependent on advertising revenues. It has both weekly (10,000 copies) and daily (5,500) publications. Publication of the Azeri-language mirror, *Ayna*, has been suspended due to insufficient funds. *Zerkalo* also maintains an online version (40,000 hits monthly) and has plans to expand its Internet presence.

The majority of the other newspapers are political party mouthpieces or are controlled by wealthy individuals. The most popular independent paper is *Yeni Musavat* (21,000), which is linked to the Musavat party. *Azadlyq* (8,500), loosely affiliated with the Popular Front, is next. The circulation of *525* used to be 10,000 but is now down to 3,500.

Other major private newspapers are *Sherq* (East), *Yeddi Gun* (Seven Day), *Üch Nöqta* (Three Points), *Zaman*, *Avrasiya*, and *Panorama*. Other political parties with papers are the Democratic Party (*Hurriyyat*), the Social-Democratic Party (*Itiqlal*), the Popular Front (*Cumhuriyyat*), and the National Independence Party (*Millat)*. A small number of topic-oriented magazines have also appeared. The ones that enjoy the most success are those related to business issues, since they are able to attract advertising revenue.

Since Baku is now home to a population of expatriates, a small number of English-language newspapers have come into existence. Some are free weekly newspapers that cover local and international news, such as the *Azeri Times* and *Baku Sun*. One of the weeklies, *Our Century*, is run by Ilham Aliyev. *Caspian Business News* is a daily devoted to business and economics.

In 1998, *Zerkalo* started its own kiosk operation to ensure distribution of its papers. It also provided distribution as a paid service to other independent newspapers. It has closed this service because relations have improved with the state agency, which has over 400 kiosks. There are also currently five private companies providing this service and a ready supply of street sellers.

The independent media face a dire situation because of their shrinking financial base. The worsening economic situation has forced many businesses, including foreign companies, to close, thus depriving media of advertising revenue.

The cost of advertising has increased to make up the difference, but if this continues, more papers may close.

There are 13 news agencies, including Assa-Irada, Sherq, and Turan. There are also many journalist- and media-related unions and organizations in Azerbaijan. One central organization is Yeni Nesil (New Generation), a group that claims 550 members. The group reports that 70 percent of all journalists have little or no training. As a result, they do not know how to provide objective or balanced reporting. Yeni Nesil is working to develop a code of ethics, training programs, and advice on how to increase advertising revenues. The Baku Press Club, established in 1998, currently has 74 members and a self-imposed limit of 100. Members represent all types of media. Their main purpose is to provide a neutral, central place for press conferences and media announcements.

Azerbaijan State Television operates two stations, only one of which functions regularly (AzTV1). Its programming features music; information; and features on the president, and more recently, his son Ilham, who has recently entered the political arena.

ANS News Service was one of the first independent media entities in Azerbaijan, operating both a television and a radio station. In 1999 it began to suffer a financial crisis and is in the process of recovery. Its television station offers news, foreign movies, and its own programming. Lider TV and Radio began to operate in the fall of 2000, run by Ilham Aliyev. Space TV is controlled by Eldar Namazov, former Chief of the Presidential Apparat. Most of its programming is entertainment. Its news programs tend not to be controversial.

Azerbaijan Broadcasting Agency (ABA) began in July 1999. Most of its airtime was devoted to rebroadcasting three Russian stations (ORT, NTV and RTR), but it has recently begun to develop its own programming. The best-equipped of any station, ABA reaches most parts of the republic.

Many residents in Baku receive foreign stations via cable or satellite. There are two cable companies operating in Baku, BNB and NTVplus. Their subscription pool is limited mainly to expatriates because of the high cost. Satellite dishes abound, offering foreign broadcasting more cheaply.

The government is hesitant to grant new radio or television licenses. However, individuals close to the government can gain licensing. There are currently eight registered independent television stations in the regions, but only the one in Gandja continues to operate. Other radio stations operating in the capital are Europa Plus and Azad Azerbaijan.

The media are regulated by the Ministry of Press and Information and the Ministry of Communications. The first ministry handles registration and licensing while the second assigns frequencies for electronic media. Licensing further involves the Presidential Apparatus, the Ministry of Justice, and the State Frequency Committee. Censorship was officially outlawed in 1998, however, most reporters and editors practice self-censorship.

In December 1999, a new law on media was introduced. Although it provides needed definitions and parameters for the media, it further restricts the freedom of the independent and state media. In particular, it allows officials to file grievances against media outlets that "insult the honour and dignity of the state and the Azerbaijani people" or that publish or broadcast information "contrary to the national interest."

Another article requires that all media research and verify any and every fact before publication or broadcast. Normally, when a reporter quotes a person as saying a particular statement, the statement is set apart by use of quotation marks. Under the new law, the reporter must verify whether the quoted statement is actually true. If it is not, then it cannot be printed. The law makes newspapers and other media unable to run a scoop because they lack the time needed to check facts. The provisions further restrict freedom of the press and create more opportunities for libel suits.

The Internet is increasingly used as a source of news and information. In Baku there are numerous Internet cafes, some of which are open 24 hours. They charge about 6,000 *manat* ($1.31) an hour. At public and private universities, computer laboratories with modern equipment and Internet access are becoming more prevalent. There is also a small number of Internet access and training centers sponsored by international organizations and foreign governments for use by professionals. Many businesses have at least one computer with dial-up access. Home dial-up is also possible, but the costs and general quality of phone lines limit home use. Journalists are more and more connected to the Internet. Listservs, news services, and information Web sites are frequently visited.

In 1999 and 2000, the independent media continued to be harassed and subject to raids. A recent case of harassment probably linked to parliamentary elections is the kidnapping of a *Yeni Musavat* reporter in Naxchivan. Major cases from the past year include the closure in October 1999 of Sara Television and Radio for broadcasting an interview with the leader of the opposition Azerbaijan Party, and the July 2000 cancellation of ANS TV for broadcasting excerpts of an interview with Chechen rebel leader Shamil Basayev. Basayev characterized the Karabakh conflict as a "holy war." The Freedom House *Survey of Press Freedom* rates Azerbaijan Partly Free.

Governance and Public Administration

1997	1998	1999-2000	2001
6.25	6.25	6.25	6.25

Azerbaijan has 11 cities and 59 regions. Baku, the capital, is home to nearly one-third of the population. There are distinct economic and political differences between Baku and the remainder of the republic, especially since the resurgence of the petroleum industry.

Azerbaijan has one contested area, Nagorno-Karabakh, and one autonomous region, Naxchivan. The Republic of Armenia has occupied Karabakh and the territory surrounding it, an area totaling 20 percent of Azerbaijan's territory.

A ceasefire has been in place since 1994. Toward the end of 1999, it seemed that a resolution was possible, but the assassinations of several high-ranking Armenians in the fall and the loss of support from government officials and others in Azerbaijan made a settlement increasingly unlikely. In Azerbaijan various groups are contemplating the idea of regaining the territory by force.

Naxchivan has a population of 354,000, and its territory is not contiguous with the rest of the republic. This region maintains its own parliament, Ali Majlis, has its own court system, and administers itself. In the remaining regions, the municipal elections of 1999 devolved some administrative power to municipal legislatures. Real control, however, remains with the regional governors or municipal mayors who are selected by the president. Most governance questions are the purview of the presidential apparatus and the Council of Ministers.

Public sector reform has begun to take place, but no structural reforms have been made as yet. As a result, the government of Azerbaijan remains highly dependent upon the president and the executive branch. Both the judicial and legislative branches are weak, highly disorganized, and rife with bureaucracy and cronyism.

Legislative reform has not been effective. A primary problem is that the process lacks transparency. Although there are general rules about how long parliament may consider a piece of legislation or how long the president has to enact it, it is often difficult to ascertain what legislation is under consideration and who the active parties to it are. No standard procedure is followed for drafting legislation, and the drafts are often unavailable for public review. There have been reports of changes made to drafts after the law in question has been enacted. There is a nominal allowance for freedom of information, but the bureaucracy involved in obtaining the text of a particular piece of legislation prevents most from exercising this right.

A second problem is that power remains centralized. The municipal legislatures created with the 1999 elections have little real authority. Power rests with the executive administrators who are assigned to posts by the president. The civil service is negligibly competent and barely professional. The average salary of a civil servant is close to $30 a month. Citizens seeking public services are often subjected to informal fees or unnecessary paperwork.

A third problem is that opposition political parties lack unity and are and poorly organized. They joined together last year before the municipal elections, and again in early 2000 to demand free and fair elections. However, their rallies were lackluster, and their cooperation has since fragmented. Many people do not perceive any of the parties as actual opposition groups or even as entities capable of creating or fostering change. This perception and general acquiescence have forestalled popular participation in policy making. NGOs are prevented from any type of political activity by law.

Improvements in the system appear unlikely at present. Most of those in power now were trained within the Soviet system. The delay of development assistance decreased the ability for international agencies to intervene through training and providing experience with other systems of governance. Moreover, although politically aware young people may receive training from abroad, they have little opportunity to apply it.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
5.50	5.50	5.50	5.25

The past year has been an important year for the establishment of rule of law in Azerbaijan. With a view to Council of Europe membership, the Azerbaijani government has recently drafted or enacted a considerable amount of legislation. (See tables 1 and 2.) However, many international and local observers question the viability of implementation of this legislation.

Table 1. New Codes in 2000

Title	Effective date
Labor Code	(1999)
Tax Code	January 1, 2000
Civil Code	September 1, 2000
Civil Procedure Code	September 1, 2000
Criminal Code	September 1, 2000
Family Code	June 1, 2000
Criminal Procedures Code	September 1, 2000
Code on Punishment Implementation	September 1, 2000
Code on Administrative and Legal Breaches	September 1, 2000
Pension Code	Forthcoming

Table 2. Selected New Laws

On International Arbitrage
On Media
On the Prosecutor's Office
On Amendments to the Law on Freedom of Information
On Amendments to the Law on Pension Provision of Citizens
On Partial Amendments to the Division of Administrative-Territorial Organization of Some Regions
On Union and Separation of Municipalities

On Regulation on Permanent and Municipal Commissions
On Municipal Member Status
On Regulation and Coordinating of Municipal Commissions
On Credit Unions
On State Property Privatization
On Amendments to the Law on Accounting
On Amendments to the Law on Entrepreneurship
On Territorial Administrative Division
On Provision of Measuring Unity
On NGOs
On Securities Investors' Rights and Interests
On the Central Electoral Commission
On Parliamentary Elections
On Publishing Activity

As a result of the intervention of the World Bank in the drafting process, most legislation contains provisions to prevent corruption and bias. Much of this process has been rushed and many laws are a result not of a political process, but of the wholesale adoption of the laws from other countries.

The new civil code is based primarily on the German civil code and wholly replaces the Soviet model. It includes previously unaddressed provisions, such as intellectual property rights. However, training on implementation and interpretation of the civil code for lawyers, judges, and law enforcement officials has not been planned. To support these legal reforms, the entire government still must undergo extensive structural reform. Without reform and subsequent training in the implementation of new laws, these laws mean very little.

During 2000, the judicial system underwent some minor restructuring. Most significant were the qualification exams for judges that were held in the summer of 2000. Similar to the process that took place in neighboring Georgia in 1999, the examinations were administrated with the participation of international organizations. Since the examination was conducted in Azerbaijani, judges who had been trained only in Russian were at a disadvantage. Unlike in Georgia, a second step was added after the completion of the examinations. Each candidate who passed the exam was interviewed by a panel composed of seven persons selected by the president. This step proceeded without the approval or involvement of international agencies. It is suspected that these interviews were used as an opportunity for individuals to buy seats.

The court system is still under the political control of the executive branch. Judges, before and after requalification, are believed to be corrupt. International pressure has led to reforms to reduce the power and influence of law enforcement officials and prosecutors. Many advocates and lawyers advise clients in civil cases to seek their own solutions without going to court because fees, both formal and informal, can lead to expenses higher than the value of initial claims. Criminal and civil cases requiring specific legal action, such as divorce, are still heard in court.

In 1998, President Aliyev decreed the licensing of private lawyers, who would be separate from the Collegium, or national bar association, that normally assigns representation to cases. In October 1997, he issued the Decree on Confirming the List of Activities which Require Special Permission (Licenses). In 1998, the Cabinet of Ministers issued a resolution further elaborating licensing for lawyers: On Confirming the Rules for Special Permission for Paid Legal Services (Licenses). The Minister of Justice refused to allow these private lawyers to practice in national courts, thereby limiting their practice to registration assistance and consultation.

Upon returning from a trip to the United States in 1998 where he spoke about the situation of private lawyers in Azerbaijan, lawyer Aslan Ismailov was disbarred and had his private license revoked. The Collegium's explanation was that Mr. Ismailov had engaged in illegal practices, namely business. Article 62 of the constitution grants all citizens the right to engage in business. The only exclusions are certain government officials under the 1993 Law on Entrepreneurial Activity. Upon hearing this argument, the court and Collegium changed its position and ruled on charges of inappropriate activity as seen by the Soviet-era regulations on the legal profession.

Mr. Ismailov lost the case, and the supreme court denied his appeal. A new Law on the Legal Profession (Advokatura) is now under review. It will replace the Soviet-era rules that the Collegium currently follows. Mr. Ismailov, with the assistance of the International League for Human Rights (ILHR), continues to pursue this case. It is seen as a litmus test for the constitutional court in Azerbaijan and other CIS republics. Mr. Ismailov's success would break the monopolistic hold of the Collegium on the court system.

On September 16, 1999, the constitutional court issued a ruling that supported the constitution in a case about Section 5 of Article 17 of the Law on Enterprises. The ruling defined the right of a local person to represent a foreign legal person in nonprohibited business provided all of the appropriate licenses were in order. Another case challenged a law that stipulated that imprisoned pensioners were entitled to only 20 percent of their pensions. The law was ruled unconstitutional; the constitution guarantees every citizen a full pension.

The constitutional court hears only about 40 cases each year, none of which has had significant bearing on the constitution. This court is still under the control of the governmental administration. The economic court hears most cases involving international business, but its decisions are not always enforced.

In November 1999, the president announced that the government would abide by the Organization for Security and Cooperation in Europe's (OSCE) standards of religious liberty. In March 2000, the government responded to in-

ternational criticism and took a number of measures to improve human rights in the country. The government states that it has acceded to all major international instruments.

The new criminal code brought the country into compliance with European Convention on Human Rights. In response to an Amnesty International report on Azerbaijan in 1999, new articles on torture and the extradition of criminal offenders were added. The new Law on the Prosecutor's Office in December 2000 began the reform process necessary to move away from Soviet practice. Investigations of police officials for the purpose of reform continue. Also passed were provisions to improve the explanation of rights, to end coercion of suspects' relatives during investigations, and to guarantee a suspect's appearance in court within 48 hours of arrest.

In June 2000, 90 political prisoners were pardoned by presidential decree. Some were part of the 1995 attempt to overthrow the government and the 1993 uprising. More were scheduled for clemency at the end of the year.

According to the 1999 U.S. Department of State human rights report, there is widespread belief that the Ministry of National Security monitors telephone and Internet traffic. The year 2000 saw amendments made to the Law on Freedom of Information. However, the bureaucratic requirements to access information are prohibitive, and the publication of laws is not completely open. Often, interested parties are given partial texts of legislation containing references to the excluded parts.

Under the constitution, Azerbaijanis may change their government through peaceful means, but the government continues to restrict this right through numerous prohibitions on participation and observation.

Prostitution and the trafficking of women are concerns that still have not been addressed. Protection for newly vulnerable populations, such as war widows and child workers, must also be addressed. Women share equal rights under the legal system, but their wages are much lower than those of men. The sectors where they are employed are among the hardest hit by the transformation. Youth must have access to health and education, and the situation of IDPs needs to be resolved.

Corruption

1999-2000	2001
6.00	6.25

Azerbaijan is perceived to be widely corrupt. In 2000, the World Bank ranked Azerbaijan one of the four most corrupt countries in the former Soviet Union. In 1999, Transparency International rated Azerbaijan the fourth most corrupt nation out of a pool of 97. Azerbaijan retains a similar position in Transparency International's 2000 pool of 90 nations. Other sources document the level of corruption as well. According to an article in the *Wall Street Journal* on July 5, 2000, nearly 60 percent of firms in Baku report frequent bribery. In the fall of 2000 the U.S. Agency for International Development conducted an intensive survey of general managers in Baku on their perceptions and experience of corruption. However, the final report was not available at the time of this report's writing.

The understanding of corruption is further explained by the High-High rating given Azerbaijan by the World Bank in its 2000 publication, *Anti-Corruption in Transition: A Contribution to the Policy Debate*. This study was based on a joint project of the World Bank and the European Bank for Reconstruction and Development (EBRD), called the *Business Environment and Enterprise Performance Survey* (BEEPS). It was conducted to develop a new typology for understanding corruption in transitional economies. BEEPS' results refer to two key variables, state capture and administrative corruption.

According to *Anti-Corruption in Transition*, state capture refers to "the actions of individuals, groups, or firms both in the public and private sectors to *influence* the formation of laws, regulations, decrees and other government policies to their own advantage as a result of the illicit and non-transparent provision of private benefits to public officials." Administrative corruption is the "intentional imposition of distortions in the prescribed implementation of existing laws, rules and regulations to provide advantages to either state or non-state actors as a result of illicit and non-transparent provision of public gains to public officials."

Azerbaijan's High-High rating indicates a high tendency for both state capture and administrative corruption and is the highest among CIS countries. The report also notes that in Azerbaijan an anticorruption strategy must first address the close relations between economic and political interests with a special focus on the energy sector.

Opportunities for corruption abound from onerous bureaucratic requirements to the general environment of confusion related to a transitional state. Police, civil servants, and others often expect informal payment for their services. Some managers report this to be in increments of 10,000 manat (a little more than $2) for simple services. Civil servants earn about $30 to $40 a month. Therefore, frequent payment collections can build their personal budgets quickly.

Allegations of corruption also have reached the highest levels of government. In April 2000, a former aide accused President Aliev of stealing $4 billion from state oil revenues over the previous seven years. The aide provided no details but suggested that the money was paid in the form of kickbacks. Likewise, in September 2000, the Interior Ministry named 16 leading political figures and government officials—including the parliamentary speaker and two former ministers of foreign economic relations—in a preliminary report on its own investigation into oil theft. The report claimed that between 1992 and 1994 the state was cheated out of approximately $76 million. All 16 persons denied the charges.

One recent piece of legislation to watch is the new tax code that came into effect in January 2000. Like other re-

cent legislation, this reform can have little effect until administrative reform takes place. Tax inspectors and agents are overburdened and also allowed to use much discretion in the completion of their duties. That is, they do not need to visit every person on their rolls; they must only return with the final amount due. High tax rates provide disincentives for businessmen and individuals to comply with tax payment requirements.

High taxes, a large variety of informal costs, and complicated bureaucratic obstacles confront the ordinary businessman. In 1999 and 2000 many foreign-owned small business closed shop rather than continue to try to operate in this difficult environment. Most private small businesses have failed to evolve into medium-scale enterprises or chain operations. Businessmen interpret their informal payments to officials as an additional "tax" burden.

Combined with informal fees collected by various officials, the cost of taxes to businesses is prohibitive. It prevents the opening of new businesses and the evolution of small businesses into larger enterprises or chains, and affects the profit margin for item cost. A business must figure a profit margin of approximately 70 percent instead of the normal 30 percent since approximately 50 percent will be used for taxes and informal costs.

Opposition officials have become more outspoken on corruption, although they remain ineffective. The media also has begun to report on instances of high-level corruption. Reports of this type are risky because they may incur retribution from angry officials.

One of the most publicized events was the electric shortages and rationing during winter 2000. The president blamed the fuel crisis on embezzlement and corruption. Experts explained that it was due to the length of time being taken to develop the republic's fuel resources as well as extra demand for electricity. Furthermore, only 30 percent of the population pay their utility bills. As a result, oil had to be imported from Turkmenistan using State Oil Company (SOCAR) funds. The government cut off electricity for six hours every night. This year the government is trying to ensure that a similar situation does not occur. However, the system is rife with leakages and mismanagement. The energy sector requires not only privatization, but massive structural reform as well.

The new legal reforms may turn this around. Most of these measures include free market and anti-corruption provisions. Appeals against official action and cases involving international businesses go to the economic court. Most decisions are not enforced and not followed, even by government agencies. As with many of the recent reforms, the World Bank has worked with the government for a draft law on procurement.

The Entrepreneur Development Foundation, a loose organization of approximately 40 small- and medium-sized enterprises led by Sabit Bagirov, formerly of SOCAR, wrote a letter with recommendations for eliminating corruption that was forwarded to the president. The recent presidential decree on anticorruption measures is an important step in the battle against corruption. Real progress depends on structural reform and the ability to win the confidence and trust of the general population and the business community.

Corruption in Azerbaijan is a difficult to define. One reason for this is the role of social networks as a mechanism for success or survival in everyday affairs. Regional networks and patron-client or broker-client relations are essential paths for accessing resources and support. Many people rely on friends, relatives, or associates to help them circumvent bureaucratic hurdles. This behavior can be interpreted as a historical strategy that has developed as a response to imposed governance.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
5.25	5.00	5.00	4.75

Macroeconomic Policy

1998	1999-2000	2001
5.00	5.00	5.00

Microeconomic Policy

1998	1999-2000	2001
5.00	5.00	5.00

Azerbaijan's Caspian Sea oil and gas reserves have sparked the interest of many researchers, businesses, and governments since the early 1990s. During this period, economic reforms have been planned and implemented, but without the desired effects. Analysts warned of "Dutch Disease," or the dangers of a windfall economy. However, little has been done to prevent serious repercussions for the social welfare of Azerbaijanis.

The Azerbaijani manat, the national currency, is not fixed. It floats with regulation from the National Bank. The manat was stable through 1998. At the end of that year and into 1999, it fluctuated and intervention was required. The National Bank began a policy of gradual reduction of its intervention in order to determine the manat's true value. In June 2000, it allowed some floating, but made another intervention in the fall. Depreciation continues at approximately seven or eight percent. Domestically, it is convertible with other world currencies and its value is predictable. The National Bank has assumed normal duties. It prints money, supports the financial sector, and provides information. It has been effective in achieving financial stabilization by being consistent and by following a tight monitoring policy.

In the mid-1990s, there were many small banks throughout the republic. There is now an effort to consolidate them under a bank merger plan implemented in June 2000. The purpose is to create a small number of powerful banks with the capacity to compete. Some existing banks already conform to international standards. No legislation exists to protect investors, and laws on bankruptcy and collateral are vague. As a result, most depositors use foreign banks. Azerbaijan's recent establishment of a stock market is its first step in developing a capital market, but most investing and lending in the country take the form of business creation.

One of the initial attempts at economic restructuring was the process of privatization. Azerbaijan began its first program of privatization in 1993. The primary focus was the privatization of all small state enterprises and a number of medium- and large-sized enterprises. The five-year long program was to be completed in 1998, but was delayed for two years. Vouchers were used as a primary instrument for the privatization scheme. Their value quickly dropped, and their expiration dates were extended. By 2000, nearly all small-sized enterprises were privatized, including industry, service, and small business operations.

In 2000, a new law on state property privatization was signed and the second stage of privatization began. The privatization scheme now makes allowance for case-by-case or strategic selling. It includes options for the participation of foreigners. The focus of this stage is on medium- and large-scale enterprises. Aside from differences of opinion over the organization of auctions and an overall lack of transparency in the process, the privatization program has enjoyed the support of opposition parties and interest groups. The extent of insider participation has been high, especially since the controls have been very weak.

International trade has been totally liberalized. Export tariffs have been removed, and import tariffs have been reduced or simplified. A new customs code is under consideration. One section of the code could endanger Azerbaijan's entry into the World Trade Organization by placing high tariffs on the import of goods that are also produced in Azerbaijan.

The agriculture and land privatization program is separate from the mass privatization of state property. This privatization began in 1995 and is now 99 percent complete. The rural land reform included a land registry that ensures the creation of accurate records. Included in the various legal reforms are some mechanisms for property rights on real estate. Many farmers were given land, but IDPs have been denied because a person is permitted to own land only in the municipality in which he or she is registered. A free economic zone, Sumqayit, was planned in 1995 but abandoned after four years.

The energy sector has not been privatized. It generates the major portion of GDP, but its profits are not passed on to the general population. The Azerbaijani Oil Fund was established in December 1999, and has already accumulated about $230 million from oil investments and profits. Numerous agencies, such as the IMF and the World Bank, as well as specialists, have warned Azerbaijan about the dangers of a windfall economy. Reforms must include a switch in emphasis from oil to agriculture and to other formerly productive sectors. Such a move would also help alleviate the problem of poverty in the republic. Barriers to investment and development include the occupation of one-fifth of Azerbaijan's territory by Armenia and the presence of a significant population of internally displaced persons.

Although most prices have been liberalized, the energy sector continues to be regulated. Domestic fuel use currently depends on imported gas, and state revenues depend on the export of energy. Officially, there are no subsidies in the energy sector, but in reality there is a quasi-fiscal deficit as shown by the management of the electricity crisis during the winter of 2000. One reason for success in the oil sector is that all business is conducted according to contracts outside the sphere of the national legislature. These contracts were designed to be mutually beneficial and have successfully attracted a variety of international partners.

A significant development is the growth of the energy sector and the progress being made in exploiting petrochemical resources in the Caspian Sea. In November 1999, the Baku-Tbilisi-Ceyhan Main Export Pipeline (MEP) agreement was signed. This 1,700 kilometer-long pipeline has been a source of debate, as experts have expressed doubt about its feasibility and viability. Access to the Caspian Sea reserves has been difficult because of the contest over the legal status of the Caspian as a sea or a lake. If the Caspian were defined as a lake, both Russia and Iran would derive more benefit from the fields claimed by the other littoral states. The United States favors the current status, since it might impede the influence of Russia in the region as well as provide another oil source.

At the time of the MEP signing, a gas pipeline from Turkmenistan traveling along the same route was agreed upon. The discovery in February 2000 of a large gas reserve at the offshore Shah Deniz oil field means Azerbaijan will be interested in transporting its own gas rather than acting as a transit agent. Early oil, which first flowed to the Black Sea via Daghestan, Chechnya, and Russia, began to traverse Georgia via the Baku-Supsa pipeline in April 1999.

Officially, 49 percent of the enterprises that contribute to GDP are in the private sector. Actually, private contribution to GDP is negligible. State revenue is further limited by loss making industries still operating under state control. Tax revenues from the oil industry make up the largest part of Azerbaijan's economy, particularly since few firms outside the oil sector are worth taxing.

In 1998 and 1999, the low cost of oil had severe effects on Azerbaijan. When world oil prices surged to twice the early 1999 price, revenues for the republic increased significantly. However, the oil benefits have not been passed on to the general population. The profits benefit the elite and prop up the regime. The surge of oil prices, and thus of

government revenue, has also created a disincentive to reform. But the economy is only a fraction of its pre-1991 size and the government does not have enough in its budget to meet its obligations.

A major hope for Azerbaijan is the evolution of an entrepreneurial class from those in small- and medium-scale enterprises (SME). So far, IFC has several large projects, and the EBRD is making SMEs a special focus. The European Community's Technical Assistance in CIS (TACIS) Project and the Eurasia Foundation are providing a variety of assistance to SMEs. Eurasia has made 43 grants for private enterprise development in order to establish new associations and to increase the capacity and financial viability of existing organizations. One example is the Businessman's Bulletin Library, which makes information about pertinent legislative changes available to the business community. Both the Eurasia Foundation and the TACIS project have emphasized the development of agribusiness.

Life expectancy in Azerbaijan in 1999 was 71.6 years. Maternal mortality per 100,000 live births is 43. The 1999 UNDP report suggests that a drop in the annual number of marriages reveals the reluctance of young people to begin families. UNICEF reports per capita GDP as $510 at the end of 1999, using 7.669 million as the population figure. Unemployment is set at 20 percent, according to the State Statistical Committee.

It is important to note that statistics about the former Soviet territories have not been reliable. International agencies have been working with the State Statistical Committee to improve its data collection methods. A census was conducted in 1999, and dual-language (Azeri-English) statistical yearbooks are now available. The census set the population figure at close to eight million. The statistical data from the committee are now the primary data for both the IMF and the World Bank. Better training and equipment for more professional social surveys and research at the public and private level are needed to ensure accurate representation.

The health care system in Azerbaijan is riddled with corruption, and the Ministry of Health has many problems. Most statistics collected by the ministry are not reliable. As with other Soviet-era accounting procedures, most reports are self-grading. Hospitals, doctors, and chiefs of staff are reluctant to report poorly on themselves. In addition, there is a general lack of access to health care and child care. According to UNICEF figures, there is one doctor per 277 persons, and even where available, medical care is prohibitively expensive for most of the population. However, the ministry only began in earnest to seek assistance from international agencies in the second half of 2000.

Wage compensation is arbitrary and greatly affected by the inflation rate. Government plans for 2001 forecast an increase in wages by twice the inflation rate, but this is not certain. In 1999 the government more than doubled the monthly minimum pension from 15,000 manat (about US$4) to 50,000 manat, and plans to increase this to 60,000 in 2001. The minimum salary was raised from from $3 per month to $5. Other reforms aim to end payments to working pensioners and improve sustainability. Further pension reforms are under consideration.

In October 2000, the government announced that economic growth would continue through the end of the year, with GDP growth for 2000 forecast at nine to ten percent. One area of growth is in agriculture. Cotton and tobacco farming employs approximately one-third of the labor force, but makes up less than 20 percent of GDP. Farmland is now in private hands, but new small farmers have little or no access to credits, markets, and supplies. Work in this sector is still labor intensive and inefficient. Agricultural production is not sufficient to meet domestic food requirements.

Calculation of food basket cost is an indicator often used to measure development. In Azerbaijan, it is an activity in which many organizations are engaged. Trade unions, NGOs, political parties, and government agencies each make their own calculations, with resulting figures sometimes contradictory or biased. Most agree, however, that most families do not earn enough to supply subsistence essentials.

In 1996, the World Bank listed Azerbaijan as one of the poorest nations. This caused the government to modify its definition of poverty. The new official poverty line is now 194,000 manat ($43). The monthly government subsidy to refugees is less than $5. Unofficially, 70 percent of the population is either poor or very poor. Among the very poor are residents of rural regions and the IDP population. With the influx of business opportunities, a new moneyed group appeared. The remainder of the population can be labeled as rich or very rich. What is missing in Azerbaijan is a healthy and active group of local entrepreneurs and community-based institutions for local governance and development management.

Informal reports say that actual overall income considerably exceeds the official salary level, so a large portion of the economy goes unreported. However, the informal economy benefits only a limited part of the population. The remainder depends on others for access to resources and support. The safety net for families includes relatives and close friends. Many families depend on remittances from relatives working abroad in Russia or other countries. Young people often help support their families, but also spend increasingly on items or services for personal use that are newly available in Baku, such as cellular phones, restaurants, and clothing.

Baku was a model Soviet city with many benefits, an active social and cultural life, a developed intelligentsia, and a well-entrenched *nomenklatura*. For residents of Baku, the regions were often vacation destinations. Since independence, there has been flight from the city of various categories of people, and an influx of regional residents, refugees, and foreigners. Generally, life is better in Baku because of the numerous options that are available.

This is especially true for young people, who are more apt to take advantage of the greater opportunities there. The education system is in a poor state, and providing an

appropriate education is one of the primary challenges for Azerbaijan. Although adult literacy rates remain high (97.3 percent), they may fall in the near future. The current enrollment ratio for ages 6 to 23 according to the UNDP is 61.7 percent. The school and university buildings throughout the republic are in disrepair, and the majority of curricula and school materials have not been updated. Teachers' salaries are among the lowest. Teachers frequently augment their income by taking on private students.

In 1999, a new law on education was adopted, and the education ministry has accordingly initiated a variety of reforms. A recent five-million-dollar loan from the World Bank should help support new curricula planning and teacher training. The new minister of education, Misir Mardanov, came into his post pledging a commitment to reform. How the young generation will be prepared to guide the republic's future remains to be determined.

A central focus of a young person in Azerbaijan is preparation for the national university entrance examinations. Many students prepare for entrance exams with the help of tutors, sometimes beginning a year in advance. Exam performance places students in both public and private universities. Since university attendance is a way for young men to avoid compulsory military service, a high percentage of males attempt these exams.

Most students attend one of the state universities. However, with independence came a market for private educational institutions. Students who select private universities and are granted placement must pay $500 a year or more to attend. Khazar (Caspian) University and Qerb (Western) University are the major private universities. Both formed in the early days of independence and focus on Western subjects and languages. Attending a private university does not necessarily guarantee a better education, especially since instructors and professors often teach at several institutions at once. However, attendance at a private university does designate a special status, which may be important in the future. Many graduates of private universities take jobs as translators or office assistants where they can use language skills. These jobs can pay $400 a month or more, almost twenty times more than a teacher's salary.

In Azerbaijan, many youth engage in humanitarian work, while others gain important skills and experience. However, the majority of socially active young people have found ways to leave Azerbaijan, going abroad for work and study. Others remain in Baku, but live separately from their peers by attending private universities or working in international businesses and organizations. With the appropriate skills and motivation, they can earn salaries many times greater than the national average.

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BELARUS

Polity: Presidential
Economy: Statist
Population: 10,000,000
GNP per capita at PPP $ (1999): 6,518
Capital: Minsk
Ethnic Groups: Byelorussian (77.9 percent), Russian (13.2 percent), Polish (4.1 percent), Ukrainian (2.9 percent), other (1.9 percent)
Size of private sector as % of GDP (1999): 20

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	5.90	↓↓ 6.20	↓ 6.44	↓ 6.56
Rule of Law	na	na	5.88	↓ 6.00
Economic Liberalization	6.00	↓↓ 6.25	6.25	6.25

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	472.0	1,012.0	1,354.0	1,332.0	1,403.0	1,153.0	1,104.0
Real GDP growth (% change)	-12.6	-10.4	2.8	11.4	8.4	3.4	5.8
Inflation rate	2,221.0	709.3	52.7	63.8	73.2	293.8	168.9
Exports ($ millions)	2,510.0	4,803.0	5,790.0	7,383.0	7,081.0	5,949.0	7,379.0
Imports ($ millions)	3,000.0	5,469.0	6,939.0	8,718.0	8,528.0	6,548.0	8,476.0
Foreign Direct Investment ($ millions)	11.0	15.0	73.0	198.0	142.0	225.0	90.1
Unemployment rate	2.1	2.7	3.9	2.8	2.3	2.2	2.1
Life Expectancy (years)	68.8	68.5	68.6	68.5	68.1	68.4	68.0

INTRODUCTION

Belarus is a presidential dictatorship and a consolidated autocracy. After his election in 1994 in a vote judged free and fair by international observers, President Aleksandr Lukashenko steadily strengthened his grip on power by reintroducing censorship, banning independent trade unions, and limiting the rights of candidates running in the 1995 parliamentary elections. A November 1996 referendum that amended the 1994 constitution extended Lukashenko's term in office from five to seven years and broadened his control over the executive, legislative, and judicial branches of government. The government severely limits most civil liberties, including freedoms of association, assembly, religion, movement, speech, and the press.

Under Lukashenko's leadership, Belarus has undertaken few economic reforms. The atmosphere is hostile to private enterprise and inhibits foreign investment. Since the government is largely committed to a planned economy, very little privatization has occurred.

In 1999 and 2000, the political situation in Belarus deteriorated. The U.S. State Department, the U.S. Helsinki Commission on Security and Co-operation in Europe, and other international organizations documented the growth of authoritarianism and antidemocratic practices. In November 1999, a U.S. congressional resolution expressed "strong opposition to the continued egregious violations of human rights and the lack of progress toward the establishment of democracy and the rule of law in Belarus." An important new development is the increase in the disappearance of leading opposition figures such as former central bank chairwoman Tamara Vinnikova, former interior minister Yuriy Zakharank, former deputy chairman of the disbanded Supreme Soviet Viktar Ganchar, and Ganchar's business colleague Anatol Krasovsky. In November 2000, the independent news agency Belapan received an anonymous letter from an officer in the Belarusian security services that outlined how a special unit of the Presidential Protective Service murdered both Ganchar and Russian Public Television (ORT) cameraman Dmitry Zavadsky. This unit is responsible for the disappearance of other opposition politicians.

In an interview with *Rossiyskaya Gazeta* in August 1999, Lukashenko admitted that "elements" of authoritarianism existed in Belarus. In 1999 and 2000, he increasingly introduced Soviet-style practices such as creating political parties, civic organisations, trade unions, and youth groups that are loyal to the authorities and project the appearance of pluralism. Political information officers have been reappointed at state enterprises and offices with the task of explaining and mobilizing support for government policies. In June 2000 entrance examinations to institutions of higher education were also brought under Lukashenko's direct control.

In July 1999, when Lukashenko's term in office expired, he began the two-year extended term granted under the 1996 referendum. No country, apart from Russia, recognizes him as the legitimate ruler of Belarus. Public protests against Lukashenko's extended term and his plans for a union with Russia took place throughout 1999 and 2000, but usually they were violently dispersed. Lukashenko responded to the atmosphere of heightened protest with increasingly authoritarian measures such as imprisoning persons for exercising the right to freedom of expression and peaceful assembly and harassing and intimidating the opposition. Leading opposition figures disappeared more frequently.

A 1999 presidential decree "on measures to prevent emergencies during mass events" sets severe restrictions on the location of opposition rallies and meetings. These measures were enforced after terrorist attacks in Russia in the summer of 1999. Government authorities only allow rallies to take place on the outskirts of cities. In February 2000, an undercover police officer detailed in the independent newspaper *Narodnaya Volya* how police are required to mingle with demonstrators, incite clashes, and provoke ambushes by riot police.

Under Lukashenko economic liberalization has been halted because it contradicts the president's goal of making Belarus a neo-Soviet state. Government authorities are hostile to privatisation. They have blocked the emergence of a private sector while continuing to provide subsidies to loss-making state enterprises.

From 1992 to 1994, privatization proceeded slowly due to conflicts between the prime minister and the Supreme Soviet and the continued control over the economy by the Soviet-era *nomenklatura*. The law on "De-statization and Privatization of Government Property," which aimed to create a "social-market economy," was adopted in January 1993. The voucher-privatization plan was suspended in March 1995 and ended in June 1996. The majority of enterprises removed from state control became joint stock companies in which the state retained a controlling majority.

Between 1997 and 1998, the Lukashenko regime effectively discarded the 1993 privatization law and halted the annual privatization plans. A new privatization scheme was launched in April 1998, but it did not alter the situation. Rather, it increased the control of the cabinet of ministers—a body opposed to private enterprise—over privatisation matters. Belarusian authorities have even more strongly opposed and prevented land privatization. By 2000, though, three quarters of the ownership of housing stock had been transferred to tenants.

In December 1999, Russia and Belarus signed a treaty on the "Formation of a Union State" that outlines plans for a unified legal and economic space and extensive political and military integration. In February 2000, Uladzimir Yarmoshyn, a Russian citizen, was made prime minister. Yarmoshyn's appointment follows a pattern of placing Russians in top Belarusian posts, including first deputy prime minister, minister of defence, foreign minister, interior minister, and speaker of the chamber of representatives. In July

2000, the tenth anniversary of the declaration of Belarusian sovereignty, an all-Belarusian congress attended by western and central European diplomatic envoys opposed the December 1999 union treaty with Russia and called for democratic reforms and state independence for Belarus. The Russian ruble will become the joint currency for the Russian-Belarusian union in 2005. Prior to the monetary merger, Russia will provide loans to stabilize the Belarusian ruble.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
6.00	6.25	6.75	6.75

In November 1996, President Lukashenko held a controversial referendum that changed the 1994 constitution by extending the presidential term for two years, expanding presidential powers, and creating a pliant bicameral parliament. The Supreme Soviet elected in 1994 was dissolved. A 110-member lower house, chamber of representatives, was created out of loyal deputies from the former Supreme Soviet. A 64-member upper house, the council of the republic, was filled with presidential appointees. The transition left 86 electoral districts unrepresented because the lower house had fewer deputies.

Western governments did not recognize the legitimacy of the 1996–2000 parliament, which consisted of the pro-government Communist Party of Belarus (24 seats), the Agrarian Party (14 seats), the Party of Popular Accord (5 seats), and sixty independents. Pro-presidential loyalists and Prime Minister Siarghei Lingh dominated the government.

In June 2000, the Chamber of Representatives unanimously accepted 10 amendments to the electoral code. Lukashenko rejected proposals for the opposition to fill up to 30 percent of the seats on electoral commissions, to lower the valid turnout rate to 25 percent, to make authorized copies of electoral commission records available to election observers, and to abolish the practice of early voting. The final amendments included provisions for regulating election observers, allowing parties to have candidates in constituencies where they lack registered branches, and facilitating the collection of signatures in support of candidates.

The Organization for Security and Co-operation in Europe (OSCE) organized a dialogue between the opposition and government authorities that was intended to ensure an internationally recognized free and fair parliamentary election in October 2000. When Lukashenko filled the dialogue with 81 pro-government parties and nongovernmental organizations (NGOs), however, the majority of opposition parties boycotted the election. A month before the election, police confiscated a special edition of *Rabochy* (the newspaper of the Belarusian Free Trade Union) that was devoted to the election and called for a boycott. *Rabochy* editor Viktor Ivashkevich, the newspaper's legal adviser, and the owner of a printing house were arrested on charges of "propagandizing an election boycott," which is illegal under the Administrative Offences Code but not under the electoral code.

Five major opposition parties from the Coordinating Council of Democratic Forces boycotted the election: the Belarusian Popular Front (BPF), the United Civic Party, the Social Democratic Party, the women's party Hope, and some members of the Social Democratic Party. Some individual opposition leaders, including Mihalay Statkevich and Mikhail Chyhir, registered as candidates. However, Chyhir withdrew from the second round on October 29 after accusing the authorities of using "dirty techniques" against him. The left opposition, i.e. the Belarusian Communist Party and the Liberal Democratic Party of Belarus, participated in the election and had representatives on local electoral commissions.

In the first round on October 15, 2000, more than 550 candidates campaigned for 110 seats in the chamber of representatives. Authorities refused to register 221 people, the majority of whom represented the opposition. For example, of 58 candidates from the United Civic Party, only 17 were registered. Likewise, of the 1,400 people sitting on 110 local electoral commissions, only a small minority represented the opposition.

In September 2000, Lukashenko addressed 2,500 delegates of the Congress of Soviets of Peoples Deputies, a resituated Soviet-era institution, to show his allegedly widespread popular support and to ask them to campaign for pro-regime candidates. The congress unanimously backed Lukashenko's domestic and foreign policies.

Voting began five days early, and managers ordered workers to vote or risk dismissal. University staff held mass meetings with students and demanded that they vote. Lukashenko considered the election a dress rehearsal for the 2001 presidential election, and he aimed to win an overwhelmingly pro-regime majority in the lower house.

The OSCE, the Council of Europe, and the European Union concluded that the new electoral code did not meet international democratic norms, and they refused to send official observers. Instead, they sent a technical team to gather information on the campaign elections and another team to monitor the ballot. The only international observers present during the elections were from Russia and the Interparliamentary Assembly of the Commonwealth of Independent States.

The Belarusian Central Election Commission reported that voter turnout was 60.6 percent. It validated the results in 96 out of 110 constituencies and confirmed the election of 43 deputies. Runoffs in 53 constituencies and new elections in the 28 constituencies in which voter turnout was less than 50 percent took place on October 29. The Coordinating Council for Election Observation, which fielded 5,500 observers, disputed the election commission's findings and reported 5,000 infringements such as voter intimi-

dation, campaigning for pro-regime candidates on election day, ballot box staffing, early compulsory voting in military units and institutions of higher education, and shortening of election lists to obtain the necessary turnout figures. Opposition observers also reported that turnout was below 50 percent in 31 constituencies—not in 13 as officially reported— and that overall turnout was 15 percent less than the official results. They claimed that in Minsk the turnout was less than 50 percent and, therefore, invalid.

The OSCE reported that the elections did not meet the requirements for holding "free, fair, equal, accountable, and open elections." The United States, which refused to recognise the elections as democratic, continues to officially recognise the disbanded 1994 Supreme Soviet. While the Russian Federation recognised the elections, Ukraine backed the assessment of the OSCE and the United States.

In March 1994, Belarus' Communist-dominated Soviet-era parliament ousted parliamentary chairman Stanislau Shushkevich, the country's centrist reformer and head of state. Parliament then overwhelmingly approved a new constitution that called for a strong presidency. On June 23, the country voted in the first round of presidential elections. Lukashenko, a 39-year old non-party populist who had campaigned on an anti-corruption platform, took 45 percent of the vote in the first round. Prime Minister Vyacheslav Kebich, a pro-Russian centrist, finished with 17 percent in the second round. In the run-off on July 10, Lukashenko won an overwhelming 80 percent of the vote. International observers judged the election "free and fair."

According to the 1994 constitution, Lukashenko's presidential term expired on July 20, 1999, and an election should have been held before May 20. Opposition members held an unofficial election on May 16, and approximately four million voters participated. The opposition Central Election Commission claimed a turnout of 53 percent, but the ballot results were invalid because of problems encountered during the voting process. Between March and May 1999, the Belarusian Helsinki Committee recorded more than 100 cases of persecution of persons participating in the election campaign. According to the 1994 constitution, since a valid election was not held after the expiry of Lukashenko's official term in office, the legal head of state is Siamion Sharetski, the chairman of the disbanded 1994 Supreme Soviet.

The Belarusian Civic Initiative has announced that it will promote a challenger to Lukashenko in the 2001 presidential election. It has created the Election 2001 bloc, which will unite opposition groups such as the Belarusian Helsinki Committee and members of the 1994 Supreme Soviet. As with the April 1999 local and the October 2000 parliamentary elections, authorities are refusing to register opposition candidates who have been sentenced for legal offences committed as part of their opposition activity. After serving eight months in prison on embezzlement charges, former Prime Minister Mikhail Chyhir was released in November 1999. In May 2000 a Minsk court convicted him of abuse of power, gave him a three-year suspended sentence, and charged him a $220,000 fine. The conviction deprived him the right to hold office for five years.

Section I, Article 5, of the constitution states that "political parties and other public associations acting within the framework of the constitution and laws of the Republic of Belarus shall contribute toward ascertaining and expressing the political will of the citizens and participate in elections." Section II, Article 36, enshrines "freedom of association." The electoral system in Belarus is majoritarian.

Although a number of parties contested the 1990 and 1995 parliamentary elections (in the latter they put forward 54 percent of all candidates), President Lukashenko has consolidated his rule by dissolving the elected parliament, governing by decree, and undermining parties. Opposition parties face numerous restrictions and regular harassment. In 1996 leading figures from the Belarusian Popular Front were forced to seek asylum in the West. Between 1997 and 2000, many opposition party headquarters were raided, their publications suspended or seized, and their leaders arrested and detained.

In mid-1999, the Ministry of Justice threatened to ban 13 parties and NGOs in connection with their organization of the unofficial presidential elections. The same year, the police, led by Deputy Interior Minister Mikhail Udovikau, raided the offices of the human rights group Vesna (Spring)-96 without a warrant and confiscated its office equipment. The equipment stored data on human rights violations in Belarus. Ales Byalatski, the head of Spring-96, is an expert for the OSCE mission in Minsk. The leader of the Belarusian branch of the neo-Nazi Russian National Unity party, which supports Lukashenko, was murdered in August 2000. It is believed that opponents of a union with Russia may have organized the attack. In September 2000, the headquarters of the opposition Social Democratic Party were raided, and office equipment and documents were seized. Party leader Mikalay Statkevich linked the raid to his registration as a candidate in the October 2000 parliamentary elections.

As of January 2000, 27 political parties were registered. (Before 1997, there were more than 40.) Only 10 or 12 parties function at the oblast and rayon levels. In addition to the Communist Party of Belarus and the Belarusian Popular Front (BPF), other major parties include the United Civic Party (which includes the United Democratic Party), the Social Democratic Hramada (Assembly), and the Belarusian Christian-Democratic Union.

On January 26, 1999, a presidential decree "On Some Measures to Regulate the Activities of Political Parties, Trade Unions and Other Public Associations" called for the registration of all parties. The government reregistered the majority of Belarusian parties. Some, such as the Belarusian Peasant Party, the Belarusian Socialist Party and the Christian-Democratic Choice Party, did not bother to apply. The Belarusian Christian Democratic Union and the Party of Common Sense were refused registration because of their lack of members. According to the constitution, parties can

be banned if they aim to change the system by force or to propagate war or ethnic hatred.

In 1999, during a party congress, the BPF split into moderate and radical wings. Two thirds of the delegates voted to replace the party's leader and founder Zyanon Paznyak, who has been living in exile in Warsaw since 1996. The congress elected Vintsuk Vyachorka as its new chairman. Unlike Paznyak, Vyachorka advocates pro-market economic reform. The police actively encouraged the split in the BPF by blocking moderate supporters of Vyachorka from entering the congress.

Anticipating these developments, Paznyak established the right-wing populist BPF-Christian Conservative Party in late September. The new moderate leaders of the BPF, unlike Paznyak, are willing to cooperate with centrist and former communist leaders of the deposed 1994 Supreme Soviet in forming a joint opposition against Lukashenko.

The opposition Belarusian Party of Communists was denied registration because the Justice Ministry stated that it could not claim in its charter to be a successor to the Soviet- era Belarusian Communist Party. Instead, the authorities registered the pro-government and hard-line Party of Communists of Belarus, who celebrated the 120th anniversary of the birth of Soviet leader Joseph Stalin in December 1999. The Peasants Party held its first congress in five years in March 2000 and pledged its loyalty to Lukashenko. Mikhail Shymanski, the editor of the pro-government *Narodnaya Gazeta*, was elected the party's head. The Peasant Party had been the largest faction in the disbanded 1994 Supreme Soviet; its leader was parliamentary speaker Syamyoon Sharetski. During 1996 constitutional crisis, though, the party split into supporters and opponents of Lukashenko.

The proportion of the population belonging to political parties is miniscule. Membership figures are very unreliable but suggest that less than one percent of the population belongs to a party. Of these, a minority are women. In 1997, the government requested membership figures from the 35 parties registered at that time, but 23 failed to submit any data. The BPF reported having 2,228 members; the Communist Party of Belarus, 7,011; the Party of Communists of Belarus, 10,429; the United Civic Party, 2,500; the Social Democratic Hramada, 1,729; and the Belarusian Peasant Party, 1,647.

Since 1990, voter turnout at the municipal, provincial, and national levels has been decreasing. The participation figures for the country's 7 million eligible voters in important elections is as follows: in the March 17, 1991, referendum on a "renewed federation," 83 percent; in the June 1994 presidential election, 70 percent; in the May 1995 referendum, 64.7 percent; and in the June 12, 1995 local elections, 47.6 percent. In the November 29 and December 10, 1995, local by-elections, turnout was 51 percent and 53 percent, respectively. In the November 24, 1996, referendum on changing the constitution to extend the presidential term and increase presidential powers, 84 percent voted. Opposition parties believe that the turnout figures for the referendum and the local by-elections were falsified.

In April 1999, voter turnout in local elections was low, particularly in urban areas. This was related in part to a boycott by the opposition who opposed the law on local elections, which prevented 300,000 people who had been placed under administrative detention and fined for participating in rallies from standing. NGOs reported numerous infringements and questioned whether the required minimum turnout of 50 percent was achieved in many election districts. The head of the OSCE mission in Minsk complained that 90 per cent of constituencies had only one candidate, a practice common in the Soviet era, and that the state was using elections merely to obtain support for its leaders and policies.

Four million voters reportedly took part in the unofficial presidential election in May 1999. A turnout of 53 percent validated the election according to the 1994 constitution. Official turnout in the October 2000 parliamentary elections was 60 percent, but the opposition claimed that the true figure was closer to 45 percent. Data on female voter participation is not available.

Civil Society

1997	1998	1999-2000	2001
5.25	5.75	6.00	6.50

Continued state control of the economy and the country's authoritarian political system have worked against the development of private philanthropic institutions and have made citizens wary of joining NGOs. According to official statistics, as of the end of 1999 there were nearly 3,000 NGOs registered with the Ministry of Justice and local authorities. A significant number of them are not independent because of their close ties to government authorities. More than 50 percent of these NGOs are concentrated in Minsk. Up to 1,500 NGOs operate in the provinces unregistered. These NGOs include educational, women's, cultural, environmental, youth, religious, media, and business groups, and their membership is estimated at up to 100,000 people. Most NGOs lack experience, skills, funds, staff, and overall organization and are based in large rural centers.

There are approximately 20 women's NGOs in Belarus, including the Independent Democratic Movement of Women, the All-Belarusian League of Women, the Association of Young Christian Women and the Belarusian Association of Women-Lawyers. Women's groups represent only 1.5 percent of the more than 630 NGOs in the Assembly of Democratic NGOs in Belarus. No data are available on the membership size of women's NGOs.

International organizations have periodically criticised Belarus' human rights record and the government's lack of tolerance for NGOs. Local NGOs face serious political and bureaucratic obstacles to registration and find it difficult to carry out their activities. The Law on Public Associations,

which was adopted in 1994 and amended in 1995, regulates NGO activities. The law does not distinguish between for-profit and nonprofit NGOs, and the later does not receive any tax privileges. The government taxes international humanitarian aid, and private businesses cannot write off donations to NGOs.

Between 1998 and 2000, persecution of NGOs increased, taking the form of refusals of or delays in registration, intimidation and repression of NGO leaders, refusals to rent office space, and slander campaigns in the state media. The January 1999 decree on the regulation of parties and NGOs called for the re-registration of NGOs by August 1, 1999. Pro-regime officials led the process of re-registration, which was based on the newly adopted civic code and gave 20 reasons for not registering NGOs, including their non-recognition under the 1996 constitution. Many NGOs did not attempt to do so, fearing that they would be refused registration. This led to a 50 percent decline in registered NGOs. Unregistered NGOs are subject to severe administrative and criminal penalties. Government intimidation has forced many international philanthropic organizations such as the Soros Foundation to cease their operations. Belarusian authorities have increasingly turned down requests to cooperate with NGOs.

Larger NGOs—particularly those environmental, human rights, women's groups, and health assistance organizations that work with Western institutions or have several years of experience—have leadership structures with full-time and volunteer staff and issue publications. Both local organizations and Western institutions have backed NGO development programs, including the creation of a network of 25 regional NGO resource centers.

Local and Western NGOs are gradually making information on management issues available in the native language. Some NGOs, including the United Belarus Way, the Center Supol'nase, the L. Sapieha Foundation, and the Counterpart Alliance for Partnership, have developed core groups of experienced trainers who serve as consultants to other NGOs. Nevertheless, the bulk of NGOs remain inexperienced, inadequately staffed, and unorganized.

NGOs receive financing from three major sources: voluntary fees from NGO members, foreign NGOs that target resources to specific projects, and international organizations that provide technical support and professional services. The majority of assistance comes from Western governments and organizations. Financial sustainability is difficult to achieve because NGOs do not know how to get foreign grants, domestic funds are limited, and NGO leaders simply lack experience. Government authorities harass NGOs with financial audits and tax collections.

In August 1995, the executive branch banned the activities of the independent Free Trade Union of Belarus, the Minsk Metro Union, and the Railroad and Transport Facilities Workers' Union—a move that led to a transport workers strike. Several strike leaders were arrested and sentenced to brief terms of forced labor. In 1997, under international pressure, the Free Trade Union of Belarus was re-registered and the Congress of Democratic Trade Unions was registered. More than 25,000 workers belong to independent trade unions. The Federation of Trade Unions of Belarus (FTUB), the successor to the official Soviet-era trade union, claims five million members, or nearly 95 percent of the workforce. High unemployment exaggerates this figure. Workers are discouraged from joining independent trade unions and are often forced to join the FTUB.

Twenty percent of the workforce is employed in collectivized agriculture, and only a small percent belongs to the Union of Cooperatives. The pro-regime Peasant Party and the Union of Collective Farmers represent agrarian interests. Only a small portion of the economy is in private hands. Few NGOs represent the private sector, including the Union of Entrepreneurs and Lease Holders and the Belarusian Association of Journalists. Independent trade unions also had to re-register in 1999, but this process was complicated by the fact that they had to show the existence of members in all Belarusian regions or comprise at least ten percent of the workforce in one enterprise.

After a July 1999 appeal to the International Confederation of Free Trade Unions, Lukashenko began a campaign against the official FTUB for its defence of workers' jobs, salaries, and union rights. Attempts were made to unseat the Soviet-era chairman, Uladzimir Hancharyk, and other officials at the national and local level. A campaign was also launched against them in the state media. This campaign urges workers to support presidential nominees to take over leading positions in the FTUB.

In August 1999, the FTUB's bank account was frozen. In September, the organization held a nationwide protest against deteriorating living standards, and in October it re-elected Hancharyk and adopted a five-year action program to defend workers rights to employment and adequate pay. The FTUB also planned to oppose government intimidation and attempts to split the trade union movement by establishing unions loyal to Lukashenko. The authorities continue to close branches of the rival and more radical Congress of Democratic Trade Unions.

There are no specific regulations governing interest group participation in politics. Article 40 of the constitution protects the right to petition the government and state bodies, as well as freedom of assembly. Demonstrations remain the main vehicle for expressing opposition to government policies. Government restrictions have forced organizers to hold demonstrations on the outskirts of cities, to reduce the number of participants, and to prohibit the display of unregistered flags, symbols, and placards that "threaten the state." Heavy fines and administrative arrest have been imposed on demonstration organizers, and unsanctioned meetings and marches have been broken up with violence.

The role of NGOs is still not well understood in Belarus. Most citizens cannot differentiate NGOs, commercial structures, and state organizations, and they do not understand

the role played by Western organizations and governments in assisting NGOs. Independent media cooperate with NGOs and provide the only source of information about them. In contrast, the state media usually either ignore NGOs or launch smear campaigns and attacks against them. Government authorities repress independent NGOs and create pro-government NGOs, pan-Slavic organizations, and veterans groups. When the Soros Foundation ceased its activities in Belarus, the government established a presidential fund to aid loyal NGOs in the social and environmental fields.

Independent Media

1997	1998	1999-2000	2001
6.25	6.50	6.75	6.75

Both the 1994 and the amended 1996 constitutions enshrine freedom of expression, access to information, and a free press, but the Lukashenko regime has placed increasing restrictions on the media. On October 15, 1997, the Chamber of Representatives passed the law "On Amendments and Corrections to the Law on Press and Other Means of Media," which came into effect in January 1998. The law placed additional restrictions on the media, including a prohibition against defaming of the president, senior government officials, and other individuals in the ruling elite of the Lukashenko regime. It also allowed the State Committee for the Press to suspend a publication for one year without a court ruling. Imported publications that allegedly "do harm to the political and economic interests of the Republic of Belarus," are banned.

Government authorities have used these restrictions to ban independent publications such as *Svaboda, Pahonya*, and *Belorusskaya Gazeta* and then prevent them being imported from Lithuania, where they have resumed their printing. In October 2000, they foiled an attempt by the Belarusian Association of Journalists to hold a festival of non-state media—an event the Vitebsk city council initially approved. In July 1997, the Council of Ministers also introduced strict regulations that forced foreign correspondents in Belarus to censor their reporting by preventing them from filing articles critical of conditions in the country. Foreign correspondents are held personally liable for critical remarks made about officials in the regime. Since March 1998, state officials have been prevented from providing official information to independent publications and from placing advertisements in them.

Therefore, while the constitution theoretically allows independent media, state authorities use all available means to restrict them and to deny them access to opinion-forming avenues like television. In October 2000, the State Press Committee issued a warning to the cultural magazine *Arche* about the unauthorized alteration of its title and its distribution abroad. Under Belarusian law, two warnings in a year are sufficient grounds to shut down a publication. The state distributor Belkniga refused to distribute an issue of *Arche* that was devoted to Jewish culture in Belarus, the state-run House of the Press halted printing of its subsequent edition. In March 2000 the State Committee on the Press issued a warning to the independent newspaper *Nasha Niva* for "fomenting interethnic enmity" after it published material that was critical of the Russian military intervention in Chechnya.

Although nearly half of the press is privatized, it generally comprises local publications devoted to entertainment and socioeconomic issues and largely devoid of political commentary. Belarus has only ten independent newspapers, one independent news agency, and some local newspapers that provide political comment independent of government authorities. Independent newspapers include *Narodnaya Volya, Belorusskaya Delovaya Gazeta, Belorusskiy Rynok, Belaruskaya Molodezhnaya Gazeta, Belorusskaya Gazeta, Svabodnyie Novosti,* and *Naviny.*

Independent media are severely restricted and subject to petty harassment (e.g., by the tax police), fines, and the threat of closure or confiscation. They only accounts for 10 to 15 percent of the official circulation of printed media. The state controls and provides subsidies to nine large publications, including *Sovietskaya Belorussiya,* which enjoys a daily circulation of two million. Other state-controlled mass circulation state newspapers include *Zvyazda*, *Narodnaya Gazeta*, *Respublika* and *Znamia Yunosti.*

The Ministry of Information has licensed more than 40 radio and 165 television entities, the largest of which are controlled by the State Committee on Television and Radio. Belarusian television and radio also suffer from Russian competition; some broadcasts have been suspended for their critical reports about the Lukashenko regime. The state totally dominates radio stations and has closed down independent stations. An exception is the Belarusian service of Radio Liberty, which continues to provide independent coverage of events in Belarus.

Official publications receive state subsidies for paper, printing, and distribution. Publishing costs are much higher for independent media, and high cover prices dissuade many readers. High taxes and heavy fines have also been utilised to try and close down independent publications.

State media promote government policies and attack the opposition. Lukashenko, for example, told the State Broadcasting Company (SBC) that he would like it to act as a conduit for state ideology. He also promised that he would never allow private and wealthy individuals to launch their own television and radio stations. In an August 2000 interview in *Rossiyskaya Gazeta*, Lukashenko claimed that "the only journalist who can have poor relations with me is one who…is abnormal." Likewise, Mikhail Padyayny, the head of the State Committee for the Press, has denied that independent media are censored and suppressed.

In July 2000, only three months before parliamentary elections, Viktar Chykin, the head of the pro-regime Communist Party of Belarus, became the new SBC chairman.

In his capacity as the deputy mayor of Minsk, Chykin earned a reputation for banning opposition rallies and organizing media campaigns that denounced the opposition as fascists. During the 2000 election, Lukashenko ordered the creation of a new information agency that "should be absolutely state-run".

In recent years, most independent newspapers have been forced to relocate their printing operations to Lithuania. The postal service has been ordered to refuse to deliver these publications, and Belarusian border guards have been told to confiscate them. Since March 1997, print, audio, and video materials have been restricted for importation into Belarus. The government uses its control of the distribution system and the only newspaper printing facility in Minsk to block the circulation of independent print media.

In February 2000, six of the largest independent publications—*Narodnaya Volya, Belorusskaya Delovaya Gazeta, Belorusskaya Gazeta, Svobodnyie Novosti, Belorusskiy Rynok* and *Komsomolskaya Pravda v Belorussii*—sent an open letter to Prime Minister Uladzimir Yarmoshyn demanding an end to discrimination against non-state publications. They noted that, although the state postal service raised the distribution rates for independent publications by 400 to 600 percent, it offered subsidies to state media. This letter was followed by a demonstration in Minsk in June that called for "equal economic conditions for state and independent media" and access to official information for independent publications. In October 2000, the government froze the bank accounts of the Magic publishing house and confiscated equipment that Magic had rented from the Belarus-Soros Foundation. Magic prints twenty independent publications, including *Rabochy, Narodnaya Volya* and *Belorusskaya Delovaya Gazeta*.

There are two major journalistic associations in Belarus. The Belarusian Association of Journalists (BAJ) is an independent group that unites over 750 members throughout Belarus and is a member of the International Federation of Journalists. The state-controlled Belarusian Union of Journalists has 2,000 members. Other NGOs that support the independent media include the Belarusian PEN-Center, the Law Center for Media Protection, the Association of Belarusian Editors and Publishers, and the Association of Regional Press. Freedom House's annual *Survey of Press Freedom* rated Belarus "Partly Free" from 1992 to 1993 and "Not Free" from 1994 to 2000.

Governance and Public Administration

1997	1998	1999-2000	2001
6.00	6.25	6.25	6.25

Belarus' bicameral parliament is totally subservient to the executive, who rules by decree. It holds no real power but, rather, performs the same role of rubber-stamp authority that the former Communist Supreme Soviet did. Presidential appointees staff the council of the republic, parliament's upper house. Elections to the lower house are not conducted freely and fairly, according to independent observers inside Belarus and international organizations like the OSCE and the Council of Europe. The political process lacks transparency, and most citizens cannot affect political decision-making. The media selectively publish official documents; many decrees are kept secret.

Local councils are elected for four-year terms to work alongside presidential prefects whom the executive appoints. The executive also nominates chairpersons of local councils. According to the 1996 constitution, the jurisdiction of the local councils includes local budgets, local taxes, socioeconomic development, and the disposal of communal property. In reality, they have functioned just as they did in the Soviet era and have failed to reform the municipal system and stave off centralization. A September 1997 presidential decree that banned civil servants from undertaking activities outside their formal duties was intended to prevent corrupt practices.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
6.00	6.25	6.50	6.75

The now-disbanded Supreme Soviet adopted the first post-Soviet Belarusian constitution on March 15, 1994. A highly controversial referendum in November 1996 amended the constitution and created a presidential autocracy. The amendments expanded the presidential term in office from five to seven years and gave the executive power to annul local council decisions, set election dates, and dissolve parliament. The president also appoints judges, including half of the members of the constitutional court and one- third of the deputies in the upper house of parliament. The constitutional court ruled that the 1996 referendum was unconstitutional, but Lukashenko ignored the ruling and filled the court with pro-executive loyalists. Since 1997, the constitutional court has had no right to examine presidential decrees or edicts.

Since 1996, Lukashenko has ruled by presidential fiat. Between 1997 and 1999, he issued more than 100 decrees and edicts. The amended constitution's provisions on human rights resemble the rights that were granted to Soviet citizens and had little value except on paper. Under Article 23, these rights may be "restricted" in the interest of "national security." Threats are defined by the executive. The constitution also has numerous internal contradictions that deliberately create a sense of vagueness in the rule of law and thereby allow the courts and security forces to utilize selected articles against the opposition. The presence of the

OSCE Advisory and Monitoring Group in Belarus since 1998 has not led to improvements in Belarus' human rights record.

Constitutional and legislative guarantees for minority rights are used only to protect the dominant status of Russians and the Russian language in Belarus. Under Lukashenko the Belarusian language, national churches, and Belarusian culture have been progressively downgraded in the media, among state officials, and in education. In Minsk there is no longer a single Belarusian-language school. The authorities have also incited and encouraged anti-Semitic and anti-Catholic sentiments that resemble the "antinationalist" propaganda campaigns of the Soviet era. Likewise, as in the Soviet era, government officials and the media accuse the opposition of "fascist" tendencies.

The 1991 Criminal Code was amended in May 1994 to prohibit "dangerous crimes against the state", defamation of the president, and plots to size power by violent means or through the overthrow of the state. A October 1997 decree introduced additional measures against "terrorism," and the Belarusian Helsinki Committee and the Belarusian League for Human Rights have documented their use against the opposition to justify beatings after arrest, torture to obtain forced confessions, administrative imprisonments of one to two weeks, denial of medical care, heavy fines, and psychological duress. Opposition activists have been detained up to two years while their cases were being considered.

In January 2001, Belarus will introduce new criminal codes that will not radically change the legal code. Investigative bodies remain under the control of the Ministry of Interior, the State Prosecution Service, and the security service. The executive determines judicial appointments, dismissals, salaries, and housing. As the result of these factors, Belarus' judiciary is neither independent nor impartial, particularly when dealing with the opposition.

Since 1997, the Ministry of Justice has managed the licensing of all lawyers. This practice has led to a decline in private legal practice. Lawyers who have assisted the opposition or come into personal conflict with the president have had their licenses revoked. Public defenders are usually afraid to act as impartial defenders or even to participate in court proceedings.

Corruption

1999-2000	2001
5.25	5.25

Belarus' Soviet-style regime and illiberal economy have blocked many of the widespread opportunities for corruption that exist elsewhere in the region. Nevertheless, petty corruption is widespread among local customs, border, medical, tax, and higher education officials. Lukashenko often uses anticorruption measures to restrict the private sector and high-ranking members of the opposition. A February 1998 decree established state control over legislation on entrepreneurship and taxation. Persons who have been arrested for their criticism of the regime include Vasil Staravoytav, the head of a food-processing firm; Vasil Lyavomov, a former agricultural minister; Tamara Vinnikova, a former national bank chairwoman; and Andrey Klimau, a successful businessman. Klimau was arrested in 1998 for signing an appeal to the constitutional court to impeach Lukashenko. In March 2000 he was sentenced to six years in prison on charges of fraud and the misappropriation of funds.

Lukashenko uses numerous private funds to fund targeted projects such as pro-regime NGOs. The budget process is not transparent, and the opposition accuses Lukashenko of running a parallel unofficial budget. Shadow sector economic interests and private entrepreneurs with connections to the presidential administration have been induced to provide financial donations to funds controlled by the executive.

Numerous laws, presidential decrees, and government resolutions regulate the private business sector; many date to early the 1990s. Since the Lukashenko regime is hostile to private enterprise, attempts to create private companies are usually thwarted by over-regulation and resistance from civil servants. More than twenty government agencies have the power to inspect enterprises at any time, and fines are a common occurrence. Regulations concerning the private sector are vague, unpredictable, and ever changing. Charges of financial impropriety and corruption are leveled frequently at private entrepreneurs like Klimau who oppose Lukashenko. And since the executive controls the judiciary, entrepreneurs who have been wrongly accused of crimes do not receive fair treatment in courts.

Transparency International ranked Belarus 43 out of 90 countries surveyed in its 2000 Corruption Perceptions Index. Belarus received a score of 4.1, where 10 represents the least corrupt and 0 the most corrupt. In 1999, Transparency ranked Belarus 58th out of 99 countries and gave the country a score of 3.4.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
6.00	6.00	6.00	6.00

Belarus' economy remains largely in state hands. This is a reflection of Lukashenko's support for an authoritarian neo-Soviet state and a command economy. Large and centrally controlled industrial enterprises continue to dominate the economy. Nonstate joint stock enterprises are also indirectly

controlled by the state, which either acts as a major shareholder or delegates the responsibilities to employees who enjoy veto rights on enterprise boards. This practice has created opportunities for insider trading by corrupt officials who maintain close political ties to government authorities and serve as directors of joint stock enterprises or loss-making subsidized firms. It has also engendered a corporatist state in which promotion and affluence are dependent on the personal whim of the leader.

Macroeconomic Policy

1998	1999-2000	2001
6.25	6.25	6.25

During the second half of the 1990s, the share of industry and agriculture in gross domestic product (GDP) declined by nearly half, while the service sector increased a third. A large shadow economy also exists, particularly in the smuggling of goods to and from Russia. Lukashenko relies on soft credits and monetary emissions to boost production and keep prices low. Three major state banks account for 75 percent of all loans. The president's distrust of structural reform and private enterprise and his support for a state-controlled economy have made this policy central to the cabinet of minister's program. Price and wage controls—the principal means of controlling inflation—have led to further shortages of goods. An October 1999 edict forced private companies to pay salaries according to government guidelines. The country's strong links with Russia since 1996 and preferential prices on Russian energy have encouraged Lukashenko to avoid economic reforms.

Excessive monetary expansion will continue as long as the government avoids industrial restructuring and reform. The 2000 budget was based on highly optimistic assumptions of about 2.5 percent GDP growth and inflation and unachievable targets. The Belarusian economy continues to produce large quantities of obsolete and low-quality goods for export to the Russian market. Although annual GDP growth has remained high at 3 percent, it has declined from 11 and 8 percent in 1997 and 1998 respectively. It continues to be dragged down by poor agricultural productivity. Neglect of economic reform is masked by exports to the Russian market and low energy prices. In fact, Russia charges Belarus only a third of the price it charges Ukraine for energy. Absent reforms, the government must continue relying on credit expansion to prevent total economic collapse.

Official figures recorded a year-on-year increase in GDP of 4 percent in the first half of 2000, with industrial output driving growth. These figures were calculated using Soviet-era methods; internationally accepted methods would reduce this figure to only 2 percent. This figure is lower than the real growth experienced by countries in the Commonwealth of Independent States (CIS) such as Russia and Ukraine. Monthly inflation in the first half of 2000 averaged 7.5 percent and was on the rise. The 2000 budget was based on highly unrealistic assumptions and unachievable targets of growth and inflation. High inflationary pressures will continue to be fuelled by a lack of international financial assistance, and the printing of money to cover government deficits in areas such as agriculture, housing construction, and compensation to individuals who have lost their savings.

Even though Belarus adopted basic tax laws were in 1991 and 1992 and made some modifications in 1995, it still does not have a unified tax code. Tax rates change frequently due to presidential decrees or government policies. High tax rates are deliberately placed on private enterprises to make them unviable. Tax compliance is a problem. Many enterprises—particularly those in the small private sector—have been fined for tax violations.

A 1990 Law on the National Bank and a Law on Banks and Banking Activities established the framework for banking activity in Belarus. The state totally controls the national bank, which operates a loose monetary policy by printing money to support loss-making enterprises and to cover wage, pension, and social welfare payments. The national bank tightly controls all banking activity in Belarus and directs subsidies to favored enterprises. State banks are largely owned by groups of state-controlled enterprises that lobby for subsidies. Since May 1996, the national bank has set all salaries in the banking sector and has forced banks to increase the government stake in their charter capital. In June 2000, a presidential decree gave formal autonomy to the national bank, which had been under direct government control since April 1998. In reality, the national bank—like the government and all other aspects of economic policy in Belarus—remains under tight presidential control.

Introduced in May 1992, the Belarusian ruble has been a severely weak currency. The government nationalized the Interbank Currency Exchange in 1996. Enterprises are forced to sell their hard currency on local interbank currency exchanges and to pay a 10-percent tax on the purchased ruble amount to support Belarusian exporters. This policy prevents persons from buying hard currency legally from banks or other institutions. In March 1999, the national bank prohibited domestic firms from buying currency from foreign companies and, thereby, forced them to buy currency from the government at higher- than-market exchange rates.

Belarus' low volume of exports to the West and its excessive barter trade with Russia have led to an acute shortage of hard currency. As a result, enterprises are required to surrender 40 percent of their hard-currency earnings to the national bank at low official rates of exchange. In 1999 some liberalization of foreign currency exchange occurred when the national bank lifted restrictions on hard-currency sales and purchases for individuals, allowed commercial banks to buy and sell currency at market exchange rates, and lifted the requirement that commercial banks sell their hard-currency proceeds to it.

A 1992 law on securities and stock exchanges led to the slow emergence of a stock market that is regulated by the State Inspection for Securities. A small security exchange exists with market makers and brokers. The legal framework is deliberately vague.

The IMF, the World Bank, and other international financial institutions do not provide any financial or technical assistance to Belarus. President Lukashenko believes that he can do without it, particularly as long as Russia supports the Belarusian economy with cheap energy and subsidies to prop up the Belarusian ruble. The lack of involvement by international financial institutions in Belarus reflects the absence of a commitment to reform on the part of Lukashenko.

Macroeconomic Policy

1998	1999-2000	2001
6.50	6.50	6.50

Article 44 of the constitution and Article 86 of the civil code establish the right to property ownership. They do not, however, apply to land, which citizens and foreigners can only lease. The November 1996 referendum effectively outlawed the privatization of land. The government has never fully compensated individuals for its expropriation of their properties and institutions.

Prices were liberalized between 1992 and 1994 as part of the modest economic reform program of the Vyacheslau Kebich government. Since Lukashenko's accession to power in 1994, though, prices have been controlled more tightly. And due to the government's loose monetary policy, wages and price controls are the only means of controlling inflation. This has led to acute shortages of foodstuffs and consumer commodities that have been pushed into the unofficial economy where they cost 3–3.5 times more. Inflation remained high in 1999 and 2000 and further impoverished the population.

Belarus has not liberalized international trade. As a result, the country's lack of hard currency creates serious impediments to foreign trade with non-CIS states. Import duties range from 5 to 90 percent, although these have been largely eliminated in the Russian-Belarusian union. Likewise, imported goods have to be delivered within 60 days of the date of prepayment; exporters must sell 40 percent of their hard-currency earnings to the state; commercial banks may not issue more than $10,000 in prepayment for imported goods. In July 2000, Belarus lost its duty free access to the U.S. market.

Prior to independence, 80 to 90 percent of Belarus' trade was with the USSR. Today, 60 percent of its exports and 64.3 percent of its imports remain with the CIS. Since the early 1990s, when trade turnover collapsed, import growth has outstripped exports and Belarus has had a growing trade deficit, especially with Russia for energy. Trade turnover declined in 1998 and 1999 because of the economic crisis in Russia.

The only reason to invest in Belarus is to gain access to the Russian market through the Russian-Belarusian union. Nevertheless, Belarus' political climate, legislative framework, and hostility to the private sector continue to make it the least attractive country in the CIS for foreign investment. Net foreign direct investment (FDI) between 1993 and 1998 totalled $403 million, or less than $40 per capita. This is one of the lowest FDI rates in the former Soviet Union. Two large Western investors are Ford Motor Company and Coca Cola; R.J. Reynolds cancelled a planned investment in October 1996 after two years of negotiations.

Belarusian economic policy is arbitrary and unpredictable. Although legislation on foreign investment exists, it has not led to large flows of foreign investment. Decrees and legislation introduced under Lukashenko, including the imposition of a 20-percent value added tax on foreign-owned businesses, contradict earlier legislation.

The energy sector has not been restructured or privatized, even though it possesses large refining capacity for oil and gas. Belarus produces only 10 percent of its energy needs and imports the rest from Russia. Due to its plans for a close political-military union with Russia, Belarus pays less than a third of what neighbouring Ukraine pays. It does so through a combination of barter deals, refinancing, and government agreements that allow it to export sub-standard goods. The Russian firms Lukoil and Yukos also have a controlling stake in large Belarusian refineries such as the joint stock company Naftan. In October and November 2000, Russia agreed to construct a new energy pipeline that would go through Belarus and bypass Ukraine. Belarus would earn nearly $1 billion annually in transit fees. If this plan goes forward, in the face of opposition from Poland but support from Western Europe and the EU, Belarus would earn enough from transit fees to offset the cost of its annual imports of Russian energy.

Social Sector Indicators

Belarus' labor force numbered 4.3 million in 1999, with women making up around half of this number. Unemployment figures are very low but do not reflect high hidden unemployment in industry and agriculture.

Pensioners account for a large percentage of the population and are Lukashenko's bedrock of support. There are few problems with pension arrears, unlike in Russia or until recently in Ukraine, and the value of pensions has been maintained. Wage arrears are also low. Still, more than three quarters of the population lives on incomes lower than the minimum consumer budget. This situation has remained stable since 1996, despite extensive funding and government rhetoric. According to the Economist Intelligence Unit, more than half of the population continues to live

below the minimum subsistence level. Consumption per head of staple foods has fallen by more than one third during the 1990s. Estimates of the number of Belarusians living below the poverty line range from 22.5 percent, according to the World Bank, to 77 percent, according to the U.S. Central Intelligence Agency.

Education remains a high priority for the government and makes up 15 to 20 percent of the state budget. Primary and secondary education is compulsory and free of charge for children between the ages of 6 and 17. Education largely took place in the Russian language until 1990, when the number of Belarusian language schools began to grow. Under Lukashenko, however, the situation has reverted to the Soviet-era policy. Russian dominates higher education completely. Belarusian has been progressively squeezed out of secondary schools.

Health spending as a proportion of the budget is also around 15 percent, but this has not prevented a decline in health care provision. Health care expenditures as a proportion of GDP are 5.1 percent—a figure higher than in Ukraine but similar to Poland. Since 1990, all major health indicators have worsened. Life expectancy, for example, has declined among men because of high rates of alcoholism. Infant mortality has risen. In 1998 male life expectancy was 62.7 years, compared with 61.4 in Russia. This figure not been seen since the 1950s. The infant mortality rate was 23 per 1000 live births in 1998, although the estimated birth rate was only 9.7 per 1000 population in 1999.

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BOSNIA & HERZEGOVINA

Polity: International protectorate
Economy: Mixed statist (transitional)
Population: 3,800,000
GNP per capita at PPP $ (1999): 1,720
Capital: Sarajevo
Ethnic Groups: Bosnian/Muslim (44 percent), Serb (31 percent), Croat (17 percent), other (7 percent)
Size of private sector as % of GDP (mid-2000): 35

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	na	5.35	↑5.13	↑4.94
Rule of Law	na	na	6.00	↑↑5.63
Economic Liberalization	na	5.67	↑5.58	↑5.50

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	299.0	445.0	669.0	815.0	928.0	1,019.0	972.3
Real GDP growth (% change)	na	20.8	86.0	40.0	13.0	9.0	10.0
Inflation rate	780.0	-4.4	-24.5	14.0	5.1	-0.3	1.9
Exports ($ millions)	91.0	152.0	336.0	575.0	817.0	649.0	732.0
Imports ($ millions)	894.0	1,082.0	1,882.0	2,333.0	2,526.0	2,502.0	2,327.0
Foreign Direct Investment ($ millions)	0.0	0.0	0.0	0.0	100.0	90.0	117.0
Unemployment rate	na	na	na	37.0	38.0	40.0	40.1
Life Expectancy (years)	na	na	na	73.1	73.2	73.0	73.0

INTRODUCTION

Of the five states emerging from the disintegration of the Socialist Federal Republic of Yugoslavia in 1991, Bosnia and Herzegovina (BiH) has had the most dramatic history. Inter-ethnic conflict erupted in the country even before Bosnia gained international recognition in April 1992. The Dayton Peace Accords (hereafter, the DPA), signed in Paris in December 1995, officially brought an end to Bosnia's 43-month long civil war. The DPA provided for the creation of two entities within the country, the Bosniac-Croat Federation of Bosnia and Herzegovina that covers 51 percent of BiH's territory and the Republika Srpska (the Serb Republic, hereafter, RS) that accounts for the remaining 49 percent. As a result of forced expulsions, military activities, and other population flows, Bosnia had become three largely mono-ethnic enclaves by the end of the war.

To guarantee implementation of the DPA, the agreement provided for a large international presence in Bosnia. A NATO-led force, currently composed of more than 20,000 soldiers, was given sweeping powers to control the movement of local military forces and their weaponry. The United Nations Security Council mandated the Office of the High Representative (OHR), the lead civilian agency charged with implementing the DPA, to oversee and coordinate civilian aspects of the peace agreement, including the creation of a joint statewide government, economic reconstruction, and the return of refugees. The Organization for Security and Cooperation in Europe (OSCE) was tasked with organizing and supervising postwar elections. Numerous other international organizations also assumed tasks, making postwar BiH a de facto if not a de jure protectorate of the international community.

Despite this extensive international presence, implementation of many of the DPA's key objectives has not been achieved. Since joint institutions have not functioned effectively, the international High Representative has been forced to impose many important pieces of legislation unilaterally on recalcitrant local authorities and governmental institutions. After a decade in which Bosnia went from being a republic in the former Yugoslavia to a bloody battleground in a three-and-a-half year civil war to a place that has known a fragile peace for five years, nationalist politics continue to define the country's political scene. Many prominent indicted war criminals remain at large. Perhaps most important to BiH's future development, the vast majority of its refugees and displaced persons have not returned to their prewar homes. An additional problem is the steady exodus of young educated people from the country.

Limited progress on the political front has been matched by slow progress in transforming BiH's economy into a modern free-market system. During the war, BiH's economy largely disintegrated along ethnic lines, with Bosniac and Croat areas oriented toward trade with Croatia, and the RS oriented towards trade with Serbia and Montenegro. The war caused significant damage to the country's economic infrastructure. Privatization has made little progress in the post-Dayton period, largely because the socialist system of economic management in place under the old regime works to the advantage of the ruling parties. Unemployment has been a major problem throughout the post-Dayton period, with up to half of the labor force lacking gainful employment. Corruption continues to plague the country, and a report produced by the U.S. Congress' General Accounting Office in 2000 claimed that "there has been no measurable progress in reducing crime and corruption in the four years since the end of the war." In May 1999, the international community held its last donor's conference for BiH and thereby fulfilled its commitment to provide Bosnia with $5.1 billion in aid for reconstruction and renewal. However, Bosnia's economic future looks uncertain because no further donor's conferences are scheduled and many international organizations are turning their energies and resources toward Kosovo and other trouble-spots.

The essential dilemma facing Bosnia and Herzegovina throughout the 1990s, namely, whether Bosniacs, Croats, and Serbs could find the common ground needed to make Bosnia and Herzegovina a viable state, remained unresolved into 2000. The international community's strategy toward BiH is based on the belief that people will turn away from the nationalist parties that led the country throughout the 1990s and embrace more moderate political options, as the memories of the war fade, as the economy improves, and as the legal structure for a state based on the rule of law is slowly put into place (even if it has to be imposed). It remains unclear whether this strategy ultimately will be successful.

DEMOCRATIZATION

Political Process

1998	1999-2000	2001
5.00	5.00	4.75

In November 1995, the DPA (also referred to as the General Framework Agreement for Peace in Bosnia and Herzegovina) ended 43 months of interethnic warfare between Bosniacs, Croats, and Serbs in Bosnia. Annex 4 of the DPA, which constitutes the new constitution for BiH and largely was drafted by legal experts from the U.S. State Department, established the country's constitutional and legislative structure. Because of the compromises needed to stitch together the DPA, postwar BiH has become the only country that comprises both a federation (the Bosniac-Croat Federation of BiH) and a republic (Republika Srpska).

The political system created by the DPA is inherently unstable. Many of the political mechanisms built into the DPA, including the ethnic veto and parity representation in governmental institutions for ethnic groups regardless of their percentage of the population, were failures in the

former Yugoslav system. In the post-Dayton period, they have again failed to establish an efficient and viable political mechanism for dealing with the country's problems. As a recent United Nations report states, the extreme level of decentralization inherent in the Dayton Constitution makes BiH "a State with 13 'constitutions,' in which 13 assemblies pass laws, and close to 200 'governments' and 'ministries' adopt regulations and pass by-laws."

The problems associated with creating a stable government for BiH are mirrored in the two Entities. The Bosniac-Croat Federation is a failure. The Bosniacs consistently accuse the Croats of separatism, while the Croats charge the Bosniacs with wanting to dominate them. The situation has been little better in the RS. When the High Representative removed the RS president from office in March 1999, the RS experienced a constitutional crisis during which it had no legal president for more than 18 months.

Another aspect of the current system's instability is the fact that pushing the political and economic reform process forward often depends on the intervention of international officials. Over the last five years, numerous international officials have claimed that local politicians intentionally refuse to adopt painful reforms to protect themselves from the wrath of the electorate because they are confident that the international community eventually will impose the measures itself.

Bosnia's statewide legislature is bicameral. The upper house, the House of Peoples, has 15 members (five Bosniacs and five Croats from the Federation and five members from the RS) and is chosen by the legislatures of the two Entities. The lower house, the House of Representatives, has 42 members (14 Croats and 14 Bosniacs from the Federation and 14 representatives from the RS) who are elected directly by proportional representation from the two Entities.

The Federation has its own bicameral legislature that consists of an upper House of Peoples and a lower House of Representatives. The upper house has 74 indirectly elected members who must be at least 30 years old and be Bosniacs. Thirty members must be Croats. The lower house has 140 members who are elected directly by proportional representation. The Federation president, with the concurrence of the vice-president, nominates a government (headed by a prime minister) for legislative endorsement. Each minister must have a deputy who is not from his or her own ethnic group. The RS has an 83-member unicameral *Narodna Skupstina* (National Assembly) that is elected directly by proportional representation.

The latest round of legislative elections took place in September 1998. Although the OSCE organized and monitored them, opposition parties and several international nongovernmental organizations (NGOs) claimed that the leading nationalist parties in the Bosniac, Croat, and Serb polities had an unfair advantage because of their control over state-owned media. Despite these complaints, the overall strength of the leading nationalist parties did decline. (See tables 1 and 2.)

Table 1. BiH 1998 Elections: BiH Parliamentary Assembly House of Representatives

PARTY	SEATS
Coalition for a Single and Democratic BiH (KCD)	17
Croatian Democratic Community (HDZ)	6
Serbian Democratic Party (SDS)	4
SLOGA	4
Social Democratic Party (SDP)	4
Social Democrats BiH	2
Serbian Radical Party (SRS)	2
Democratic People's Union (DNZ)	1
New Croatian Initiative (NHI)	1
Radical Party-RS	1

Source: OSCE Mission to BiH website, available at http://www.oscebih.org

Table 2. BiH 1998 Elections: Federation House of Peoples

PARTY	SEATS
Coalition for a Single and Democratic BiH (KCD)	68
Croatian Democratic Community (HDZ)	28
Social Democratic Party (SDP)	19
Social-Democrats BiH	6
New Croatian Initiative (NHI)	4
Democratic National Community (DNZ)	3
Croat Party of Rights (HSP)	2
Socialist Party-RS (SP-RS)	2
Bosnian-Herzegovinian Patriotic Party (BPS)	2
Democratic Party of Pensioners (DSP)	2
Bosniac Party of Rights (BSP)	1
Coalition of the Center	1
Croatian Peasants' Party (HSS)	1
Bosnian Party (BOSS)	1

Source: OSCE Mission to BiH website, available at http://www.oscebih.org

In the voting for the 83-seat RS National Assembly, the two main Serb nationalist parties, the SDS and the SRS, both lost ground. Other parties favored by the international community, such as Biljana Plavsic's Serbian National Union (SNS) and Milorad Dodik's Independent Social Democrats (SNSD), gained ground. (See Table 3.)

Table 3. BiH 1998 Elections: RS National Assembly

PARTY	SEATS
Serbian Democratic Party (SDS)	19
Coalition for a Single and Democratic BiH (KCD)	15

Serbian People's Union (SNS)	12
Serbian Radical Party (SRS)	11
Socialist Party-Republika Srpska (SP-RS)	10
Independent Social Democrats (SNSD)	6
Radical Party-Republika Srpska (RS-RS)	3
Serbian Coalition for the RS	2
Social Democratic Party (SDP)	2
Croatian Democratic Community (HDZ)	1
New Croatian Initiative (NHI)	1
Coalition for King and Country	1

Source: OSCE Mission to BiH website, available at http://www.oscebih.org

The SDS remained the largest party in the new RS National Assembly On January 18, 1998, though, other Serb parties, supported by deputies representing Bosniac and Croat refugees, backed a government headed by Milorad Dodik. Dodik, a member of the Independent Social Democrats, became the first individual to hold high office in postwar Bosnia without links to one of the main nationalist parties.

The international community has repeatedly tinkered with the voting system in an effort to improve the fairness of the electoral process. In June 2000, the OSCE's Provisional Election Commission (PEC) adopted more stringent standards for campaign finance disclosure. All parties, coalitions, and independent candidates that register for an election must submit a financial report, the names of campaign donors (especially individuals or organizations that donate more than 1,000 KM), and the names of any other donor during the three months prior to submission of the petition to register. Follow-up reports are also required.

On November 18, 1990, while still a part of the Yugoslav federation, Bosnia and Herzegovina held presidential elections in which the three leading Bosniac, Croat, and Serb nationalist parties took control of six out of seven seats in the republic's collective state presidency. Annex 4 of the DPA provided for a directly elected, three-person collective state presidency composed of one Bosniac, one Croat, and one Serb. In the 1998 statewide elections for the collective state presidency, Zivko Radisic, the SP-RS candidate for the Serb slot, defeated the SDS's incumbent candidate, Krajisnik. The incumbent Croat candidate, Kresimir Zubak, also lost his seat after breaking with the HDZ and forming his own party. The HDZ's candidate, Ante Jelavic, defeated Zubak by a wide margin. Among Bosniacs, Alija Izetbegovic ran practically unopposed and won the Bosniac seat by a landslide. In October 2000, Izetbegovic retired from active politics, but it seems certain that he will be remembered among Bosniacs as "the father of his nation."

At the entity level, the March 1994 Bosniac-Croat Federation Agreement provided for an indirectly elected president and vice-president who would serve alternating one-year terms as president and vice-president over a four year period. Throughout the post-Dayton period, the SDA and the HDZ have controlled this office. In the RS presidential election on September 14, 1996, Biljana Plavsic was victorious. However, over the next several months and under the influence of Banja Luka's more liberal atmosphere, Plavsic began to part with her former Pale-based SDS colleagues. In July 1997, the SDS had expelled Plavsic from the party for accusing its leadership of corruption. In the 1998 RS presidential campaign, Nikola Poplasen, the leader of the nationalist Serbian Radical Party, defeated Plavsic. But international officials soon began criticizing Poplasen for his alleged refusal to support the Dayton process. On March 5, 1999, the former international High Representative in Bosnia, Carlos Westendorp, dismissed him. Poplasen's removal created a succession crisis that lasted for the next eighteen months.

Real executive power in BiH rests with the international community's High Representative, a position that Wolfgan Petritsch, an Austrian, currently holds. According to the DPA, the High Representative is the final in-country authority for interpreting the peace plan. This role gives the High Representative tremendous ability to influence political developments. Subsequent modifications to the DPA have given the High Representative additional powers, including, most notably, the right to remove from office publicly elected officials who are deemed to be obstructing the peace process.

Voter turnout in Bosnia's postwar elections generally has been quite high. In the September 1997 elections, the OSCE claimed a turnout of 80 to 85 percent of registered voters. In the April 2000 municipal elections, voter turnout was 66 percent. Gender-specific information on voter turnout is not available.

The DPA provides Bosnia and Herzegovina with a multiparty parliamentary system. While numerous parties compete for power at all levels of the political system, only the three main nationalist parties actually ruled until November 1997. At that time, power in the RS passed from the SDS (which had dominated Bosnian Serb politics since 1990) to a coalition of opposition parties. In the Federation, the SDP had a strong showing in the April 2000 municipal elections and was able to gain power in several important municipal areas, including Sarajevo, Zenica, Tuzla, and Bihac.

According to the DPA, there are only two legal restrictions on political parties. First, political platforms must not deviate from Dayton norms that establish an independent Bosnia and Herzegovina. Second, indicted war criminals must not be nominated for public office. In postwar Bosnia (and, in fact, for all democratic elections in Bosnia in this century), however, most people have voted along ethnic lines.

Under current OSCE guidelines, political parties need 10,000 signatures to register. In 1999, the Provisional Election Commission amended the Rules and Regulations governing future BiH elections. Among the new provisions were (1) a campaign spending limit of one *Konvertibilna marka* (KM, pegged to the Deutsche Mark at a rate of 1:1) per

voter for each campaign in each electoral race; (2) a preferential voting system for the RS presidency that lets voters rank as many candidates as they wish on the ballot; and (3) an open list proportional system (already used in the April 2000 municipal elections) that allows voters to choose among individual candidates on a political party or coalition list. The voting system also incorporates run-offs so that the eventual winner must receive 50 percent of the vote.

In areas with a Bosniac majority, opposition parties have faired best in urban areas such as Sarajevo and Tuzla. In the RS, independent political activity began to emerge in 1996 and largely was centered around Banja Luka, the RS's only major city. By the summer of 1996, a number of opposition parties were competing against the SDS's dominance in RS politics; however, their activities (and successes) largely have been confined to areas west of Bijeljina. In the southern and eastern parts of RS, the SDS and the ideologically similar SRS have dominated elections.

In Croat-populated areas (often referred to as Herceg-Bosna), the HDZ has faced little serious opposition in the post-Dayton period. Indeed, in the statewide and cantonal elections in 1996 and the municipal elections in 1997, the HDZ comfortably won more than 80 percent of the Croat vote. The first serious challenge to the HDZ's dominance over Croat politics in Bosnia came in the summer of 1998, when Kresimir Zubak split with the HDZ mainstream and formed the NHI to represent the interests of Croats from Central Bosnia. Despite Zubak's prominence, however, the NHI faired poorly in the 1998 elections, and Croat nationalists from Western Herzegovina continue to dominate Croat politics in Bosnia. The HDZ's grip on power continued to weaken in 2000. One of its leading members, Jadranko Prlic (formerly BiH's foreign minister), quit the party after criticizing its hardliner stance on numerous issues.

In the post-Dayton period, more than 100 political parties have competed for power in statewide, entity, cantonal, and municipal elections. Two RS-based parties, the SRS and the *Srpska Stranka Krajine i Posavine* (SSKP) were banned from participating in the April 2000 municipal elections because of their leaders' inflammatory rhetoric. The High Representative has banned several politicians from running for public office (e.g., Radovan Karadzic because of his indictment by the International Criminal Tribunal for the former Yugoslavia) and has removed several from office for obstruction of the peace process (e.g., former RS President Nikola Poplasen who was removed from power on March 5, 1999) or for personal corruption (e.g., the former mayor of Sanski Most, Mehmed Alagic). Some parties and politicians have been kept off ballots for failing to fulfill criteria required by the PEC Rules and Regulations. For the September 1998 statewide elections, the PEC registered 67 parties competing for the various levels of government in BiH.

Data on political party membership are not available because most parties are reluctant to release such information. Among the parties that are the largest, most well organized, and best able to conduct statewide, or at least entity-wide, campaigns, the most important are the HDZ, the SDA, the SDP, the SDS, the SP-RS, and the SRS.

The position of women in Bosnian society has lost considerable ground since the breakup of the former Yugoslavia. In general, women have held few positions of political leadership in the post-Dayton period. However, former RS President Biljana Plavsic is a notable exception. As of late 2000, there were no women in main leadership positions at either the statewide or entity levels in BiH.

To make up for these deficiencies, the OSCE has instituted a new rule requiring that at least three women be among the top ten candidates on each party list. As a result, women's representation in the various legislatures has increased substantially. In the RS National Assembly, women made up two percent of the members in 1996 and 23 percent in 1998. In the Federation House of Representatives, their numbers increased from five percent in 1996 to 15 percent in 1998. And in the BiH House of Representatives, the number of women rose from two percent in 1996 to 26 percent in 1998. For the April 2000 municipal elections, the OSCE ordered that one third of the candidates from each political party must be women. Despite these improvements, a recent public opinion poll commissioned by the OSCE found that 71 percent of women surveyed believed that political parties in BiH represent their interests "poorly" or "not at all."

Civil Society

1998	1999-2000	2001
5.00	4.50	4.50

There has been tremendous growth in the scale and activity of citizen's groups, non-governmental organizations, and institutions centered on religious congregations, etc., in the post-Dayton period. Most NGOs in Bosnia and Herzegovina came into being either during or after the war, and estimates of their numbers in 1998 ranged from 500-1,600. Establishing an exact count is difficult because of inconsistent registration patterns and definitions of NGO activity. Some international NGOs have taken root and have been very successful in the local environment. For instance, Save the Children has largely turned over its operation to indigenous cadres. A recent analysis of the NGO sector in Bosnia found that local NGOs are increasingly sustainable and willing to participate in the political process.

Many local individuals volunteer their time to religious charity groups such as the Catholic organization *Caritas*, the Muslim *Merhamet*, or the Serbian Orthodox Church's efforts, although specific figures are not available. Women's organizations are often the strongest in financial and organizational terms. One prominent women's NGO is Medica-Zenica, which has strong ties to other women's groups in the former Yugoslavia. Where certain ethnic groups are a

local minority, they often form civic and cultural organizations; for instance, in Sarajevo, Serbs have formed the *Srpsko Gradjansko Vijece* (the Serbian Citizen's Council, or SGV), and the *Demokratska Inicijativa Sarajevskih Srba* (the Democratic Initiative of Sarajevo Serbs, or DISS), to represent their interests.

The legislative framework for NGO activity in BiH does not provide a conducive environment for NGO activity. In the Federation, a Law on Humanitarian Activities and Organizations (1995), a Law on Citizen's Associations (amended in 1995), and a Law on Foundations and Funds are all in effect. In the RS a Law on Citizens' Associations leftover from the communist period is still in effect. Among the problems NGOs face are their inability to register to operate throughout BiH; the fact that registration procedures for NGOs are not harmonized between the two Entities; a membership minimum requiring 30 individuals to form a citizen's association; the lack of a distinction between mutual and public benefit organizations (which is important for obtaining tax deductible contributions and access to government grants and contracts); and the absence of norms to regulate economic (i.e., income generating) activities of NGOs.

Proposals are circulating within Bosnia to make the legal environment more conducive for NGOs. These include reducing the number of individuals needed to register an NGO to three and making courts, not governments, responsible for registering NGOs.

The organizational capacity of the NGO sector varies from organization to organization and region to region. A greater concentration of project-oriented and institutionally developed NGOs is found in urban areas. The strongest concentrations of NGOs are found in Banja Luka, Sarajevo, Tuzla, and Zenica.

Indigenously produced training materials in the local language are rare. Practitioners and trainers still primarily come from the international community, although it is considered preferable to have local personnel serving in these capacities. Local NGOs are also hampered by a high turnover in membership.

Few NGOs in Bosnia are financially viable. In the postwar period most groups have depended upon grants from foreign governmental agencies and NGOs. Nevertheless, a recent OSCE report claimed that established NGOs are increasingly "professional, sustainable, and willing to participate in the political process." Although the large international presence in the country has provided local NGOs with resources, training, and technical assistance, it also has produced an "ownership gap." In many cases, NGOs have been formed not out of a sense of mission or to address a need in the local community, but simply because funding is available for such activity. Development of the NGO sector in Bosnia has also been hampered by constantly varying donor priorities and donor's diverse funding cycles, which lead to excessive short-term planning at the expense of longer-range thinking. Since international assistance to BiH is being scaled back, the continued existence of many NGOs is questionable. International donors currently plan to provide the bulk of their future assistance to groups operating in areas where the political situation is most difficult.

Bosnia's NGO sector also suffers from a lack of corporate philanthropy. There are few tax incentives for businesses to make contributions. NGOs are also hampered by a lack of knowledge of financial planning, accounting, and financial management.

To supplement their funding, some NGOs have turned to income-generating activities such as hairdressing or chicken farming. Because the legal environment in which they operate is still unclear, however, this blurs the line between not-for-profit and commercial business activities. Alternative funding methods such as the collection of membership fees, fees-for-service, and in-kind contributions are rare.

Popular attitudes towards NGOs are characterized more by a general ignorance of what NGOs are about than by hostility. In general, the public, the media, and the government know little about this sector, and some resentment exists due to the perception that NGOs are well financed by the international community. Coverage of NGOs by state-run broadcast media is limited, while private newspapers occasionally cover NGO activities and statements. Government officials generally offer little cooperation and do not engage with NGOs. Government agencies usually are not openly hostile, but seem to have little understanding of the social and political benefits NGOs can provide. Consequently, these sectors work in parallel instead of in an integrated manner, thus reducing the NGO sector's capacity to influence governmental policy.

There are several free trade unions in BiH. The constitution guarantees workers the right to join independent trade unions, and this right is respected in practice. The largest union is the Confederation of Independent Trade Unions, which evolved from the Communist-era Yugoslav Trade Union Confederation. Specific numbers on the size of its membership are unavailable.

Strikes and collective bargaining are legal, but due to the bleak economic situation, workers have limited leverage and rarely take such action. Work on new labor legislation for the country was initiated in 1997. In 1999, however, the International Confederation of Trade Unions (ICFTU) criticized the World Bank and the Office of the High Representative (OHR) for asking the Bosnian parliament *not* to adopt the proposed legislation for fear that it would not "create an adequate framework for creating a business environment that would attract private investment." Consequently, the ICFTU claimed that "there continues to be no law regulating collective bargaining nor legal provisions for the democratic rights of workers to elect their representatives at the enterprise level." According to the ICFTU, "Criticizing the management or simply insisting on your rights is still risky for workers and their families." Advocacy groups suggest that passing com-

prehensive labor legislation should take place before privatization begins.

The constitution guarantees freedom of expression and association, and there are no explicit barriers to interest group participation in politics. In practice, however, it is difficult for members of local ethnic groups to have significant influence in areas in which they are not in the majority. A variety of interest groups are active. Among the most prominent are women's groups, refugee associations, and organizations representing family members of missing persons.

Independent Media

1998	1999-2000	2001
4.75	5.00	4.50

Thanks in large part to the largesse of international donors, there has been considerable growth in the independent media in post-Dayton Bosnia. Exact figures on the percentage of privately-owned media are not available. Some state-run media were partially privatized in a process that was halted during the war and has not been restarted. The ownership and legal status of these semiprivate papers remains uncertain.

As with so many other aspects of life in postwar Bosnia, the media are largely divided along ethnic lines. Major private or semiprivate newspapers in Bosniac-populated areas include *Oslobodjenje* (circulation 10,000), *Vecernje Novine* (circulation 8,000), *Dnevni Avaz* (circulation 20,000), *Dani*, an independent weekly newsmagazine (circulation 33,000), and the independent biweekly *Slobodna Bosna* (circulation 30,000). In Croat-majority areas, the main paper is *Hrvatska Rijec* (circulation unknown). In the RS, the private and semiprivate print press includes *Glas Srpski* (estimated 1997 circulation 2,000), the daily *Dnevne Nezavisne Novine* (circulation 8,000), the Social-Liberal Party's monthly *Novi Prelom* (circulation 5,000), and the independent Banja-Luka based weekly newsmagazine *Reporter* (circulation 12,000). In Herceg-Bosna and the RS, publications from Croatia and the FRY, respectively, also have wide circulation.

In 2000, an IREX Promedia report estimated that total sales for the country's five daily newspapers were less than 100,000 copies per day. For the six weekly or biweekly papers, the total was believed to be lower.

Private broadcast media in Bosniac-majority areas include two important television stations, Studio 99 and TV Hayat, and a plethora of small, locally-owned television stations that produce little original programming. Bosnia also has numerous private and semiprivate radio stations, including the Sarajevo-based Radio Stari Grad, half of which is owned by the municipality. In Croat-majority areas, the commercial HTV Mostar station strongly supports the HDZ, and, despite being nominally private, receives financial assistance from local authorities. In the RS, there are several private broadcasters as well, although, as in the Federation, most have links to political parties. These include three private television stations in Banja Luka (NTV Banja Luka, Bel-TV, and ATV) and numerous local radio stations. ATV receives support from the OHR. Most of BiH also receives the signals of the main television stations in neighboring Croatia, Serbia, and Montenegro, which are popular with Croats in the Federation and Serbs in the RS.

Several European countries sponsor the Alternative Information Network, which has provided articles free of charge to local media since 1996. The Swiss government and the Soros Foundation fund Radio Fern, which can be heard by 80 percent of the population. Another postwar addition to the airwaves is the Open Broadcast Network (OBN), an internationally-managed and funded network that started broadcasting in September 1996. As of 1997, OBN reached approximately 60 percent of the country. From its inception, however, local journalists charged that the OBN was a waste of scarce resources (much of the international funding for OBN was devoted to hiring expensive foreign consultants). In 2000, international officials announced plans to sell the network to a local bidder.

Private media are generally not financially viable. Due to poor economic conditions, most newspapers and magazines have difficulty in securing a circulation base. The population has limited purchasing power, and there are political barriers to distributing newspapers throughout the country. As a result, only an estimated five percent of the population reads newspapers. Most print media rely on international aid or the support of domestic political parties.

The international NGO community has been especially active in supporting independent and alternative media in the postwar period. For instance, the Open Society Institute, together with the British Broadcasting Company, funded training courses for journalists in Sarajevo in 1997. A similar project was later initiated in Banja Luka. The organization PressNow has funded three radio stations in the RS, one in Mostar, and several television stations throughout the country.

There are both state and privately-owned distribution systems for print media. Many newspapers rent space from the network of state-owned kiosks. In the RS and Croat-majority areas of the Federation, however, independent and opposition media have often had difficulty gaining access to these kiosks. In Croat areas, many kiosks will not sell private newspapers that do not support the ruling HDZ or that originate in the Federation's Bosniac-majority areas or the RS. In the RS in 1996 and 1997, kiosks that tried to sell publications from the Federation were regularly vandalized. After Izetbegovic denounced several independent publications for "treason," the Sarajevo magazine *Dani* experienced difficulties with state-owned printing facilities and the state distribution company.

Some papers take advantage of commercial distribution networks. *Oslobodjenje* has its own distribution network, in addition to its contract with the privately-owned distribu-

tor Opresa. *Dani* relies on individual newspaper sellers, the Opresa network, and, in Croat-majority areas, the Hrvatski Tisak distribution network. Few newspapers are distributed across Entity lines. One exception is the RS daily *Dnevne Nezavisne Novine,* which has a distribution agreement with the Sarajevo daily *Vecernje Novine* to make both papers available in Sarajevo and Banja Luka.

The editorial orientation of the press in Bosnia is largely defined along communal lines. From the standpoint of the local population, no print or electronic media in postwar BiH has an editorial policy that could be called trans-ethnic, and the reach of most media outlets is confined to the ethnically-controlled territory from which it originates. Most private media have independent editorial policies, although they can be broadly characterized as pro- or anti-government. Government-run broadcast media often function as arms of the state and are used to rally support for nationalist leaders. One study conducted in 1997, for instance, found that *Hrvatska Radio Televizija* (Croatian State TV, or HRT), *Srpska Radio Televizija* (Serbian Radio Television, or SRT, which has been subsequently renamed *Radio Televizija Republika Srpska*), and *TV-BiH* (the main television broadcaster in Bosniac areas) devoted five times more airtime to the ruling parties than to all of the opposition parties combined. Although there is little private investment in the media, international officials have decried the fact that there is significant "hidden" public financing of some media outlets. As a result, various television stations, radio stations, and newspapers are linked to public officials who influence the way in which news is reported.

Television and radio are the main sources of news and information. Broadcast media in Bosniac areas are the most diverse, but they still generally reflect the political position of local authorities. The Sarajevo-based TV-BiH considers itself the official, national broadcaster, but its coverage favors the SDA. Electronic media in Croat-majority areas of the Federation are the least pluralistic and the most tightly controlled, with nearly all media adhering to the HDZ party line. In the RS, the most important broadcast media is *Radio-Televizija Republika Srpska* (RT-RS). In 1997, control over RT-RS became the centerpiece in a power struggle between President Biljana Plavsic and Radovan Karadzic. The numerous local private radio stations tend to be politically aligned with either the Pale or Banja Luka-based Bosnian Serb political leaders.

Journalists face considerable difficulty in gathering information, and their freedom of movement is limited. Journalists from the Federation have been beaten and mistreated in the RS, and on several occasions, Bosniac journalists have been harassed in Croat-controlled West Mostar. The publisher of the Sarajevo-based *Slobodna Bosna*, Senad Avdic, has also claimed that due to local warlords, it is simply too dangerous for independent media organizations to base reporters in smaller towns such as Teslic or Sanski Most. In the RS, local authorities frequently demand that television crews and photographers obtain prior authorization to cover public events. They also arbitrarily bar reporters from conducting interviews. In October 1999, Zeljko Kopanja, the founder and publisher of Banja Luka's *Nezavisne Novine*, was injured seriously in a car bombing outside his apartment after his newspaper published reports of wartime atrocities carried out by Serb forces.

Newspapers frequently have been publicly criticized by key political figures. In general, print media present a broader range of opinions, from starkly nationalist to supportive of interethnic cooperation, than do broadcast media. Print media face little overt censorship. Other forms of media harassment include fines and financial inspections. In June 2000, the financial police in Sarajevo raided the printing presses of the daily *Dnevni Avaz*, which previously had been close to the ruling SDA. The raid came a few weeks after SDA vice president and Federation premier Edhem Bicakcic attributed the SDA's poor showing in the April 2000 municipal elections to the fact that it was "losing control of Dnevni Avaz."

Many of BiH's most experienced journalists left the country during the war and few have returned. Many of those who stayed have left journalism. The formative experience for the remaining journalists came during the war, when they felt pressured to report "patriotically." Their level of professionalism has suffered commensurately.

Restructuring the media has been an important part of the international effort in postwar Bosnia. The legal framework for the media consists of the Yugoslav-era 1990 Law on Radio-Television Sarajevo and the 1990 Law on Public Information Systems. Postwar Bosnia's constitution declares that the European Convention on Human Rights applies to the country and has precedence over other law. The Council of Europe has held that the principles invoked in the European Court's judgments concerning freedom of expression and broadcasting regulation, among other rights, are directly applicable.

In June 1998, the OHR founded the Independent Media Commission (IMC), which is responsible for issuing licenses and setting fees for electronic media and bringing Bosnia's media legislation more into line with professional journalistic standards. The OHR also began a campaign to restructure TV-BiH and RT-RS. TV-BiH had frequently been attacked by the opposition for being pro-SDA, and in response the OHR appointed a new management team and a nonpartisan governing council to regulate TV-BiH's programming. International media watchdog groups claimed that its programming subsequently showed considerable improvement in providing viewers with balanced coverage. The OHR similarly appointed an international supervisor to oversee RT-RS. In July 1998, Milorad Dodik's RS government attempted to remove the management at 16 local radio and television stations controlled by hard-line elements in the Bosnian Serb leadership but only succeeded at six of the stations.

Local authorities need to adopt legislation guaranteeing freedom of information and protecting the confidenti-

ality of journalists' sources. Articles 80 and 81 of the Federal criminal code criminalize libel, but there are no legal penalties for "irresponsible" journalism. On January 19, 1998, a Sarajevo municipal court convicted Senad Pecanin, the editor of *Dani* magazine, of criminal libel against Fahrudin Radoncic, the editor of *Dnevni Avaz*. Pecanin had published an investigative report on Radoncic's business practices. In the first criminal libel conviction in BiH, the court gave Pecanin a two-month suspended prison sentence.

The Pecanin case ushered in a new strategy on the part of governmental authorities to reign in the independent media. In 1998, the various ruling parties, through the judicial systems under their control, increasingly began to prosecute journalists for criminal defamation. The accused journalists generally received suspended sentences for periods of up to one year, during which, if they were charged with the violation of any law, they could be jailed for their previous conviction. In July 1999, the OHR decriminalized libel and defamation and called for new legislation to deal with these issues. Further work on passing a new Freedom of Information Act had not been completed as of October 2000.

The most important press and journalists' associations include the Independent Union of Professional Journalists of BiH, the Association of Journalists of BiH, the Independent Union of Journalists of Republika Srpska, the Association of Journalists of Republika Srpska, the Syndicate of Professional Journalists of the Federation of BiH, and the Association of Croat Journalists of BiH. The OSCE has taken the lead in putting together an organization of independent and financially viable radio stations known as the Bosnia and Herzegovina Radio Network (BORAM). No information is available on the proportion of women in the membership of these organizations.

Information on the number of people connected to the Internet in BiH is not available. There are 1.41 Internet hosts per 10,000 residents of BiH. As of 1999, there were two Internet service providers. Restrictions on Internet access for private citizens generally result from limitations in technical capacity. There are cyber cafes and reading rooms in Banja Luka, Mostar, and Sarajevo. At the Universities of Sarajevo and Banja Luka, students and employees have access to the Internet, although due to high demand, only for limited periods.

Freedom House's annual *Survey of Press Freedom* has consistently rated the media in Bosnia as "Not Free." In 1999 and 2000, though, the media were rated "Partly Free."

Governance and Public Administration

1998	1999-2000	2001
5.00	6.00	6.00

The Dayton constitution provides for an elaborate set of checks and balances principally designed to protect the rights of each ethnic group in the country. Unfortunately, this has created a system that is prone to deadlock or, at best, painstakingly slow governmental processes that produce watered-down policies. More often than not, international officials are forced to impose laws on the country. In 2000, for instance, the High Representative imposed more than 20 laws and decisions and dismissed at least 21 publicly elected officials from office.

Annex 4 of the DPA gives the BiH statewide parliamentary assembly responsibility for enacting legislation, deciding on the sources and amounts of revenues for the government, approving a budget, and ratifying treaties. The legislatures are the official rule-making institutions in Bosnia and the two Entities. At the statewide level, a majority of the delegates of a community may declare a proposed parliamentary decision "destructive of a vital interest" of any of the three ethnic communities. Delegates have repeatedly exercised this option in the post-Dayton period. In order to pass, such a decision then requires a majority vote in the house of peoples by each of the three communities. In the Federation, laws must be approved by the council of ministers before being sent successively in draft and proposal form to each of the two houses of the Federation parliament, which then must approve them in identical form.

The legislatures at the Federation, RS, and statewide levels cannot be considered the effective rule-making institutions. Legislative institutions at all levels of government are frequently deadlocked, and the High Representative has to impose solutions under powers granted to him by the Madrid conference of December 1998. This makes BiH function as a de facto, if not a de jure, protectorate of the international community.

As in any governmental system, substantial decision making takes place behind closed doors. Analysts often criticize so-called informal power centers in which legally elected officials make decisions with illegal or semi-legal parallel structures of influence. The constitution requires each chamber of BiH's parliamentary assembly to deliberate publicly and to publish a complete record of its proceedings. In general, however, political and governmental institutions operate with limited transparency. Obtaining copies of draft legislation is relatively easy. Print and electronic media often report on issues before the various parliaments and assemblies, and international organizations hold press conferences and disseminate a wide variety of materials on their Web sites.

On June 28, 2000, the High Representative submitted draft legislation for a Freedom of Information (FOI) Act to statewide and Entity-level governmental institutions for review. The draft legislation conforms to international standards and obliges public authorities to facilitate and encourage prompt disclosure of information. If the law is passed, every individual, business, organization, and association would be able to make a written request for access to any information held by a public authority, regardless of when the information was collected or how it was classified. Access may be denied only when the request involves strictly

defined state secrets, confidential commercial information, and the protection of personal privacy. As of October 2000, the act had not been passed.

Bosnia has a very weak central government, and substantial powers are delegated to subnational levels of government. According to Article III (3) of the DPA, all powers and authorities not specifically granted to central institutions reside with the Entities. The central government consisted of only three ministries—foreign affairs, foreign trade, and civil affairs, and communications—until three ones were created in 2000. These are the Ministry of the Treasury for the Institutions of BiH, the Ministry for Human Rights and Refugees, and the Ministry for European Integration.

Each of the Entities has fully developed governments that include defense and interior ministries. Within the Federation, power is even further decentralized. Croat-majority cantons make up an unofficial para-statelet, Herceg-Bosna, which should have been disbanded under the DPA. One indication of the strength of the cantons under this system is the fact that in 1998 the Federation's state budget amounted to less than 50 million KM, while the budget for Tuzla-Podrinja canton alone amounted to several hundred million KM.

On the whole, the Federation experiment has disappointed all concerned parties. Tensions between Bosniacs and Croats remain tense, and leading Croats often call for a revision of the DPA and the formal creation of a third, Croat, entity that would recognize the de facto existence of Herceg-Bosna. In October 2000, HDZ officials organized a referendum on the position of the Croat people in BiH, which in many ways endorsed the creation of a third entity. The referendum passed with an overwhelming majority, but it has no legal force.

The RS is organized as a centralized, unitary entity. There have been frequent calls, though, for a more regional approach to governmental organization in that entity. On the local level, Bosnia's municipal councils are primarily responsible for providing social services and utilities and for issuing marriage licenses. Municipal governments in the RS are more independent, because the central RS government has not been able to disperse significant amounts of financial aid to its municipalities.

In order to minimize the possibility for fraud in BiH's various elections, the OSCE has tinkered with the electoral system throughout the post-Dayton period. Under regulations in force for the April 2000 municipal elections, refugees registering to vote in a municipality other than the one in which they resided in 1991 needed to demonstrate a connection to the municipality based on property, business, employment, or an invitation from a relative who had lived there before the war. Out of 485,000 refugee voters, only a few thousand ultimately attempted to register to vote in a municipality other than the one in which they had lived in 1991. Many observers argued that the fact that displaced persons were still able to vote in their new municipalities was a tacit acceptance of "ethnic cleansing."

BiH's April 2000 municipal elections had some mixed results. Although the nationalist SDA lost power in important Bosniac-populated areas like Sarajevo, Zenica, and Gorazde, nationalist parties continued to dominate in Croat-populated areas and in the RS. OSCE chief of mission Robert Barry claimed that the number of municipalities controlled by nationalist parties fell from 124 to 76. In contrast, the number of Bosniacs choosing to vote in RS elections fell by 50 percent between 1997 and 2000. This suggests that many refugees and displaced persons have given up on plans to return to their original homes.

Fraud has been a major problem in BiH elections, despite the international community's many efforts. In December 1999, the OSCE discovered that the Bosniac-controlled BiH consulate in New York had falsified 13,000 voter registration forms for the April 2000 municipal elections. Since Izetbegovic's SDA was deemed responsible for the deceptions, 15 SDA candidates were removed from ballots.

The one territorial issue left unresolved by the DPA was control over the strategically located town of Brcko, which lies across a narrow corridor linking the northern and eastern parts of the RS. After Serb forces captured the town in 1992, they forcibly expelled the Bosniac and Croat population. The Dayton agreement required the parties to submit Brcko's political future to binding arbitration, with a Serb administration governing the city until a final disposition. On March 5, 1999, the final arbitration decision was announced, and Brcko was removed from exclusive RS control. The Federation and the RS henceforth would share "sovereignty" over the town, in effect making Brcko a "third entity" within post-Dayton BiH. The district government is under the authority of the common institutions of BiH.

In the post-Dayton period, there has been some tinkering with local self-government. A 1997 Law on Administration in the Federation regulates the division of governmental responsibilities between the federation, cantonal, and municipal levels of government. Another 1997 law, the Law on the Basis of Local Self-Government, outlines the rights of municipalities. Hiring and job evaluation in the Federation are based on the 1998 Law on Labor Relations and Salaries of Civil Servants. In May 2000, work began at the cantonal level to harmonize the Law on Local Self-Government with the European Charter on Local Self Government and European Standards. Sarajevo Canton has started the implementation of the transfer of competencies from Sarajevo Canton to the City of Sarajevo.

Local self-government in the RS is based on the 1994 Law on Territorial Organization and Local Self-Government, which divided the RS into 63 municipalities and required the RS government to transfer various powers and responsibilities to local organs. The practices and procedures of local governments in the RS are still based on the 1986 former Yugoslav Law on General Administrative Procedure. Hiring and firing procedures in the RS are regulated by the 1994 Law on State Administration and a Law on Labor Relations in State Organs.

A redrawing of municipal boundaries has increased the number of municipalities in BiH to 146. Most municipal governments do not raise sufficient revenues to carry out their duties. All levels of government in BiH face chronic budget shortages because of economic devastation or local corruption. In fact, corruption is often greatest at local levels where economic activity becomes a means to finance the ruling parties.

The organizational structures defining local government in the Federation and the RS differ significantly. The Federation has a decentralized system based on devolution of powers to primarily ethnically based cantons, which in turn devolve certain powers to municipalities. In the two ethnically-mixed cantons of the Federation (Central Bosnia and Herzegovina-Neretva), Bosniac-majority municipalities take their guidance from Bosniac authorities in Sarajevo and Croat-majority municipalities take their lead from HDZ leaders. In theory, municipalities and cantons are supposed to raise revenues autonomously, but Bosniac municipalities send their funds only to Sarajevo-based Bosniac financial institutions. Croat municipalities send their revenues to the financial institutions of Herceg-Bosna, which are completely integrated in the Croatian financial system. Consequently, the Federation has two separate educational, pension, and health systems.

The RS has a more centralized budgetary system. In principle, the RS central government plays a large role in collecting and disbursing revenue raised at all levels of government. Given the depressed state of the economy, however, the RS central government usually has lacked the financial resources to distribute substantial sums to local governments. The practical effect of this has been to increase municipal autonomy. Over the past several years there have been a number of calls for the RS to become more decentralized and to allow for greater local and regional initiative in the collection and allocation of public revenues. These calls have generally come from the more prosperous areas of the RS near Banja Luka, which have the most to gain from such reorganization.

Most municipal governments, particularly those in smaller rural municipalities, have very limited technical staff and lack sufficient management capability. In addition, a peculiar remnant of the prewar Communist system is the extent to which local bureaucrats exercise control over everyday life. Rulings by local civil servants and municipal officials, sometimes known as "administrative justice," often prevent individuals from exercising their legal rights. A 1999 report by the European Stability Initiative noted that "government officials—protected by a wall of seemingly incomprehensible laws and regulations—intimidate ordinary people." The war also has added a dimension of ethnic prejudice to the actions of local administrations. The fact that up to 40 percent of all appeals against administrative rulings are overturned indicates that local officials either are not familiar with the procedures or are under pressure from local politicians.

A BiH state-level civil service law has been drafted but not adopted. Until the law is passed, the OHR insists that the recruitment of new civil servants to statewide levels of government be done in accordance with the principles of the said law. From this point on, civil servants must be employed through open public competition.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1998	1999-2000	2001
6.00	6.00	5.50

Bosnia's constitution, enshrined in Annex 4 of the DPA, has been in effect since December 1995. Despite numerous deficiencies in the document, many people in Bosnia and the international community are loath to tinker with it because they fear opening up a host of issues that would be nearly impossible to deal with. For instance, over the past several years it has become clear that central governmental authorities are too weak to act as a catalyst for political and economic reform. Generally speaking, however, Croat and Serb politicians resist any change in the DPA because they equate greater centralization of authority with increasing the powers of the Bosniacs as an ethnic group.

In response to this situation, the international community has adopted a strategy of increasing the powers of the OHR in ways not envisioned in the DPA. For instance, at the Bonn Conference of the Peace Implementation Council (PIC) in December 1997, the High Representative essentially was granted the right to rule by decree when local leaders are unable to agree on important matters. The Bonn Conference also gave the High Representative the right to remove publicly elected officials from office if they are found to be obstructing implementation of the DPA.

Currently, the international community and the various ethnic factions within Bosnia are debating a number of issues. One issue is whether to move further away from the DPA by replacing what are essentially three separate, ethnically based armies with a single, unified military force. A second is whether to create a second house, the House of Peoples, within the RS National Assembly to represent the interests of Bosniacs and Croats.

BiH is a unique political entity because it is composed of both a federation and a republic. Each of these, in turn, essentially has the right to establish confederal ties with neighboring states. The central government, based in Sarajevo, is in charge of foreign relations, trade and customs, monetary policy, the finances of the institutions of the central government, international and inter-entity law enforcement, international and inter-entity communication, and inter-entity transportation. The official head of state is a three-member presidency composed of one Bosniac, one

Croat, and one Serb. The presidency is responsible for foreign policy, the execution of decisions of the parliamentary assembly, and the proposal of an annual budget. It also has civilian command authority over the armed forces. The constitution provides for a central government (the council of ministers), a bicameral parliamentary assembly, and a central bank.

In addition to civil and criminal courts, the DPA established a constitutional court, a supreme court, and a human rights court. The constitutional court consists of nine members, four of whom are selected by the House of Representatives of the Federation and two of whom are selected by the RS National Assembly. The president of the European Court of Human Rights selects the remaining three members, who cannot be citizens of either BiH or of a neighboring country. (After five years, though, the parliamentary assembly can provide a different method of selecting these three judges.) The constitutional court can rule on any constitutional dispute involving the Entities and/or BiH. In the Federation, municipal courts have original jurisdiction in most civil and criminal cases; cantonal courts have appellate jurisdiction over the ten cantons' municipalities.

According to the DPA constitution, the Entities have all residual governmental powers and authorities not expressly granted to statewide institutions. They are specifically responsible for maintaining civilian law enforcement agencies. Defense, taxation, and other functions not vested in the central government are reserved for the Entities, but may be assumed by the central government after five years. With a two-thirds majority vote, the legislatures of the Federation and of the RS can veto a federal presidency decision that relates to an Entity. The High Representative oversees implementation of the DPA's civilian provisions.

Judicial enforcement has been uneven, particularly at the entity level. For example, Croat-majority cantons refuse to recognize the authority and jurisdiction of the Federation's supreme court. In August 1999, BiH's constitutional court ruled that the council of ministers could not have two cochairs and a deputy and gave the BiH parliamentary assembly three months to bring the arrangements for the council in line with the constitution. In January 2000, the constitutional court dissolved the council of ministers because the parliamentary assembly had failed to pass the necessary legislation. Under a new agreement reached by the joint presidency, the council of ministers chairmanship will continue to rotate on an ethnic basis every eight months, thus reflecting Croat and Serb demands for ethnic parity and consensus in decision making. In a bow to Bosniac interests, however, the joint presidency agreed to increase the number of central governmental ministries.

In another important case, the BiH Constitutional Court ruled in July 2000 that the country's three constituent peoples should enjoy all the rights of constituent peoples throughout the territory of BiH. The winning majority consisted of the two Bosniac judges and the three international judges. The Croat and Serb members of the court opposed the decision. Apart from the merits of the case, the decision highlighted the essential dilemma facing post-Dayton Bosnia: how to advance democratization, human rights, and civil liberties, and at the same time find a mechanism whereby Bosniacs, Croats, and Serbs can compromise on ways to govern themselves. Whether the international community's interventionist approach is beneficial to the country in the long term remains to be seen.

Reform of the criminal code has been ongoing throughout the post-Dayton period. On July 29, 1998, the Federation house of representatives replaced the criminal code of the Socialist Federal Republic of Yugoslavia as well as the criminal code and criminal procedure code of the Republic of Bosnia and Herzegovina. The president of the Federation signed the new codes on November 6, 1998. The RS national assembly adopted a new criminal code in 2000; a draft criminal procedure code is still being finalized.

Until 1998, police in both Entities made wide use of Communist-era procedures that allowed the police to arrest and detain individuals for up to six months without bringing formal charges against them. The adoption of new criminal codes has significantly reduced this practice, although arbitrary arrests and detentions continue. Police and prison officials throughout the country have been known to beat suspects and detainees. In 1999, four prisoners died while in custody in RS prisons. Prison conditions are below minimum international standards. Moreover, many judicial districts have a tremendous backlog of cases. In Tuzla, for instance, the local court system had a backlog in 1998 of 30,000 cases of organized and violent crime. During that year the Tuzla court obtained 1,050 convictions, but most of the convicted persons were released on parole.

The DPA constitution guarantees freedom from torture or degrading punishment, the right to a fair trial, the right to privacy, freedom of religion, freedom of expression, freedom of assembly and association, the right to own property, and freedom of movement and residence. The constitution also states that such freedoms shall be enjoyed by all citizens without discrimination on the basis of sex, race, language, religion, or other grounds. In addition, it provides that all refugees and displaced persons have the right to return freely to their homes. Refugees and displaced persons also have the right, according to Annex 7 of the Dayton Accords, to have property restored to them or to be compensated for such property. The European Convention on Human Rights applies in Bosnia and has precedence over domestic law. The Council of Europe has held that all of the principles expressed in the European Court's judgments concerning freedom of expression, regulation of hate speech, and regulation of broadcasting are directly applicable.

Annex 6 of the DPA established a Human Rights Commission consisting of an ombudsman and a Human Rights Chamber (a judicial body that can make final and legally binding decisions). The ombudsman investigates first instance complaints of alleged human rights violations. Seri-

ous cases that the ombudsman cannot settle are referred to the Human Rights Chamber.

While the human rights situation has improved considerably since the end of the war, significant problems remain. The right of refugees and displaced persons to return to their former homes—a key provision of the Dayton Accords—has been difficult to uphold. As of late 2000, 518,000 individuals were registered as internally displaced persons and several hundred thousand refugees were living in other countries. Most BiH refugees live in Croatia and the former Yugoslavia, but thousands have moved to Western Europe, the United States, Canada, Australia, and New Zealand.

The pace of refugee returns has declined dramatically over the past four years, from a high of 110,000 in 1998, to 31,650 in 1999, to 13,800 in the first ten months of 2000. This suggests that most refugees who are able to go home have done so already. In all three ethnically-controlled areas, members of ethnic minorities face violence, intimidation, and other pressures from the authorities, state-organized civilian mobs, and thugs who seek to prevent them from returning to their homes. In 2000, however, the number of minority returns increased significantly.

Most returns have taken place in so-called majority-held areas, where the returnee is a member of the dominant ethnic group. The reasons include politically-motivated obstruction of the returns process and problems in educating children who belong to an ethnic minority. In the RS, minority returns have been slow because of the dismal economic situation and the fact that the western RS is home to 35,000 Croatian Serb refugees, many of whom occupy the homes of displaced Bosniacs and Croats. Another barrier to the return of refugees and internally displaced persons is the inability of many towns to seat multiethnic, elected municipal councils because of the strong-arm tactics of the ruling nationalist parties. In towns like Srebrenica, Bosniacs are reluctant to return until elected members of their own ethnic group are seated on the municipal councils.

Freedom of movement across the Inter-Entity Boundary Line (IEBL) has improved significantly since the end of the war. Freedom of movement in the Federation has also improved, but it continues to be restricted. In January 1998, new motor vehicle license plates were adopted that make it virtually impossible to tell whether a car is registered in the Federation or the RS. The previous license plates disclosed a car's city of registration and thereby increased the likelihood that its occupants would be harassed.

In 1993, the UN Security Council established the International Criminal Tribunal for the former Yugoslavia (ICTY) at The Hague. By mid-2000, more than half of those individuals publicly indicted by the ICTY were in custody. Although the Dayton Accords authorized NATO troops to arrest indicted war criminals, until mid-1997 troops were reluctant to do so. In June 1997, NATO adopted a more aggressive approach and apprehended two Bosnian Serb suspects in Prijedor. Since then, NATO troops have more actively pursued suspected war criminals. The French, however, have been criticized for their passive attitude. In April 2000, Momcilo Krajisnik, a leading SDS official and a former member of the BiH collective state presidency, was arrested at his home in Pale. Some of the most prominent people indicted by the ICTY, including Radovan Karadzic and Ratko Mladic, remain at large. As of June 2000, 19 of the 58 individuals indicted for war crimes in BiH remained at large.

Police continue to be one of the main violators of human rights in the country, but they are rarely punished. Local police forces have been accused of failing to enforce judicial decisions. In both Entities, the International Police Task Force (IPTF) is restructuring and training police forces according to internationally recognized standards. Generally, police forces do not reflect the ethnic makeup of their local population. In all three ethnic areas, authorities maintain Communist-style secret police units that operate outside of the normal chain of command.

There are numerous restrictions on the right to privacy. In August 1997, when RS special police controlled seized control of the police station in Banja Luka, IPTF monitors found tapes and transcripts that were part of an elaborate eavesdropping operation by hardliners loyal to Radovan Karadzic. The operation tapped the telephones, fax machines, and offices of President Plavsic, two judges of the constitutional court, and other prominent figures in Banja Luka.

Discrimination against ethnic minorities continues to be a major problem that takes various forms, including verbal aggression, vandalism, arson, assault, and denial of access to housing for returnees. Often, the courts are complicit in this effort. Women face discrimination in employment and generally do not hold positions of economic power. Bosniacs outside of Bosniac-majority areas often feel pressured to refrain from practicing their religion in public. An indication that things are improving, however, is the fact that in 2000 the first mosque built in the RS in the postwar period was constructed outside Prijedor.

The Dayton constitution provides for an independent judiciary, with the administration of justice reserved for the two Entities. In practice, the ruling nationalist parties have had a considerable degree of control over the judiciary. In 1999, former High Representative Carlos Westendorp claimed that "the political nomination and removal of judges [is] a cancer at the heart of Bosnian society, which calls out for treatment of the most radical kind." Judges are reportedly threatened to refrain from decisions harmful to the interests of the ruling parties. In 1998, for instance, the Federation parliament passed a law allowing authorities to tax oil and gas imports from Croatia. However, since the law never appeared in the government's official gazette, it was unenforceable. Although the case of the missing law went to a Sarajevo court, judges reportedly were afraid to issue a ruling that would threaten the interests of the Croatian mafia. Similarly, in April 2000, the Sarajevo

newsweekly *DANI* reported that 75 criminal indictments had been issued against 14 well-known Sarajevo organized crime figures but that no case had been brought to a conclusion. *DANI* also reported a noticeable reluctance on the part of public prosecutors to issue indictments or to appeal unfavorable verdicts.

In June 1999, the presidents of the associations representing judges and prosecutors in the Federation and the RS adopted identical codes of ethics. The codes provide a common framework for the conduct of judges and prosecutors throughout BiH and ensure that persons receive similar standards of treatment in the judicial process. On May 18, 2000, the High Representative imposed a Law on Judicial and Prosecutorial Service in the Federation. The law is intended to contribute to the depoliticization of the judiciary and the establishment of an effective, politically independent court system by creating independent judicial selection commissions at the Federation and cantonal levels. Under the law, judges and prosecutors will no longer be appointed or dismissed without the affirmative recommendations of the commissions. The law also contains a provision under which all judges and prosecutors will be subject to review during the 18-month period after it takes effect.

Judicial enforcement is a serious problem because the country is divided into three jurisdictions. Consequently, decisions reached in one part of BiH generally have no legal force in another part. Efforts to alleviate this problem are ongoing. On May 20, 1998, the Ministers of Justice of the Federation and the RS signed a memorandum of understanding (MOU) on the Regulation of Legal Assistance Between Institutions of the Federation of Bosnia and Herzegovina and the RS. The MOU addressed such issues as tracing witnesses, serving subpoenas, reenacting and investigating events, and facilitating ad hoc cooperation between the Entities. Within the Entities, even when judicial officials render independent decisions, local authorities often refuse to carry them out.

Corruption

1999-2000	2001
6.00	5.75

A report issued by the U.S. Congress' General Accounting Office in 2000 noted that "there has been no measurable progress in reducing crime and corruption in the four years since the end of the war." Since legal and ethical standards for government officials are weakly developed, the international community has set limitations on the participation of government officials in economic life. In February 2000, the PEC prohibited all elected officials and members of their immediate families from sitting on the board of any company in which the government owns more than 25 percent of its capital or finances more than 25 percent of its annual business activities. Elected officials and members of the government are also prohibited from sitting on the boards of privatization agencies. These new rules forced more than 130 officials to resign from their elected mandates and more than 1,000 politicians to leave management positions in companies. Laws requiring financial disclosure and disallowing conflict of interest are inadequate. To address this problem, the OSCE enacted a ruling that required candidates in the 1998 statewide elections to file declarations of their assets with elections commissions.

Tracing the extent of official corruption in BiH is extremely difficult because the ruling parties control financial flows through socialist-era payment bureaus (i.e., government-controlled clearing and settlement systems for high-value transactions). The primary task of payment bureaus is to ensure payments among banks, enterprises, government institutions, and individuals. The payment bureaus also perform major treasury functions such as collecting taxes, auditing, and servicing fiscal expenditures. Due to the lack of transparency in their operation, however, monies going into the system are often diverted into illegal activities such as funding the campaign coffers of the nationalist parties, paying for Radovan Karadzic's personal security force, or supporting institutions like the SDA's secret intelligence service. Reform plans call for the complete dismantling of the bureaus by December 31, 2000. Their responsibilities being would be taken over by private banks and the BiH central bank.

Top government officials have strong, direct, and often illicit ties to business. For example, Momcilo Krajisnik, the RS member of BiH's collective state presidency, reportedly is involved in export-import businesses that have exclusive contracts to import basic necessities such as sugar, oil, and tobacco. Bakir Izetbegovic, the son of Alija Izetbegovic, is in charge of a government agency in Sarajevo that controls reconstruction projects. The younger Izetbegovic has been accused of numerous forms of corruption, including taking a cut of the extortion money paid by shopkeepers to Sarajevo gangsters.

Several anticorruption cases have captured headlines in Bosnia over the past few years. In 1999, for example, one major investigation covered a variety of activities in the Tuzla-Podrinja canton. In one case, government officials had ordered schoolrooms to be painted four times within one year and the benefits from the work went to one local contractor. The same schools already had been rebuilt and repainted by international aid organizations. Moreover, Tuzla officials had paid two or three times the conventional rate for the work.

Efforts to combat governmental corruption include the November 1998 decision by the Venice Commission (an international group of judicial experts formed to advise on legal matters in BiH) to create judicial institutions at the state level that deal with administrative and criminal offenses committed by government officials. In 1999, the Office of the High Representative set up an antifraud unit to investigate the extent of official corruption in Bosnia. According to a 1999 report in the *New York Times*, inter-

national agencies are reluctant to publicize the extent of corruption in the country for fear of frightening away international donors. In one highly publicized case, Mehmed Alagic, the local SDA mayor and warlord of Sanski Most, was charged in an OHR report with 358 counts of corruption for misuse of state funds and international donations. An anticorruption initiative launched in March 2000 aims to increase public awareness about corruption and its cost to society. In a not-so-subtle attack on the ruling parties, the OSCE made the slogan "Nadglasajte korupciju" (Outvote Corruption) the theme of the November 2000 elections.

Corruption severely hinders implementation of the DPA. For example, for several years international officials have tried to restore inter-Entity rail traffic. In September 1997, though, the Deputy High Representative Jacques Klein announced that inter-Entity rail traffic had not been restored because the truckers' lobby in Bosniac-controlled areas had paid government officials to force the delay.

Bribe requests to gain university or hospital admission are not unheard of, but a more frequent form of corruption involves forcing entrepreneurs to join ruling parties in order to get bank loans. The economic problems such corruption causes are then compounded by the fact that party hacks generally do not invest their loans in factories (where there would be a greater long-term return on the investment for the overall economy) but on cafes and hotels. Businesspeople from the international community are frequently the targets of corruption. In one case, McDonald's decided not to set up an operation in Sarajevo after local officials demanded bribes.

Since civil servants generally have meager salaries, they are especially prone to relying on bribes to supplement their incomes. This is especially true of business inspectors. Many businesspeople claim that they would rather pay bribes to local officials than declare the full extent of their business earnings.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1998	1999-2000	2001
5.50	5.00	5.00

Bosnia's postwar ruling parties inherited a Communist-style economic system in which the government controlled a dominant proportion of economic activity. The exigencies of war increased governmental control over the economy even more. Consequently, the ruling parties have had little interest in implementing meaningful economic reform in the post-Dayton period.

In the absence of reliable statistics, it is difficult to determine what percentage of Bosnia's gross domestic product (GDP) comes from private ownership and what percentage of the labor force is employed in the private sector. The public and socially-owned sectors of the economy account for 59 percent of the jobs in the Federation and 67 percent in the RS. By most accounts, the informal sector of the economy accounts for more than 50 percent of all economic activity.

Privatization in postwar Bosnia and Herzegovina has been delayed repeatedly. First, the delays are in part an inevitable result of the complexities of postwar BiH. Second, they are part of the legacy of the Yugoslav socialist system of property ownership. Third, privatization has been put off because local authorities repeatedly have sabotaged efforts to take economic control out of their hands.

Many businesses, enterprises, and individuals owned property and assets on both sides of what after 1995 became the IEBL. But getting Bosniac, Croat, and Serb authorities to agree on meaningful privatization legislation after the war was, for all practical purposes, impossible. Consequently, in 1997 it was decided that privatization would be carried out by the Entities, instead of on a statewide level. Within the Federation, privatization has been devolved even further to the cantonal level. In total, there are now fourteen official privatization agencies in BiH.

In the RS, a privatization agency was established in 1996. RS citizens are entitled to receive vouchers as compensation for war-related claims, including unpaid salaries and pensions and frozen foreign currency accounts. The vouchers then can be used to buy shares in state-owned enterprises undergoing privatization or to buy apartments. The sale of enterprises valued at less than 300,000 DEM is solely for cash. In July 1999, the privatization of state-owned assets in the RS began with the sale of three small companies in a public auction.

In the Federation, privatization will occur at the Federation level and the cantonal level. The Federation Privatization Agency is tasked with preparing the privatization of large enterprises that have branches in more than one canton. Separately, the Federation parliament must approve the privatization of a list of strategic enterprises.

Several laws form the basis of the Federation's privatization legislation. The October 1996 Law on Privatization Agencies established the Federation Privatization Agency (FPA) and authorized the establishment of Cantonal Privatization Agencies (CPA) to privatize enterprises. In December 1997, the Federation parliamentary assembly passed the Law on Settlement and Realization of Citizen Claims to regulate citizens' claims against property slated for privatization and to authorize the creation of vouchers to settle the claims. Also in December 1997, the Federation parliamentary assembly passed the Law on Privatization of Enterprises, which defines the procedures

and methods for privatizing enterprises that have state or social capital. The FPA is preparing guidelines for selling enterprises and providing details on enterprise privatization, privatization investment funds, and the role of the CPAs. Enterprises will be privatized through a combination of cash sales and vouchers.

The Federation Law on Privatization of Banks (passed in March 1998) makes the Ministry of Finance responsible for bank privatization. These institutions will be privatized on a cash, rather than a voucher, basis through the purchase of bank shares or through the purchase of the assets and liabilities of insolvent banks.

According to the 1998 Law on Opening Balance Sheets of Enterprises and Banks, which establishes the means of valuation for enterprises and banks slated for privatization, the external debt on the books of state-owned banks will be moved to an Asset Liquidation Account. Privatization certificates will be issued to redeem depositors' claims on $2 billion in frozen currency accounts that were transferred to the National Bank of Yugoslavia before the war. A Federation Law on Investment Funds and Management Companies also is being prepared. This law will establish the basis for creating privatization investment funds, govern the funds' participation in the privatization process, and establish the procedures for the funds to invest in enterprises on behalf of citizens.

The total value of assets due to be privatized in the Federation is estimated at $26 billion. The first privatization vouchers, representing compensation for frozen bank accounts and unpaid wages and pensions, were issued on April 23, 1999, to 1.9 million citizens. In December 1999, the U.S. Agency for International Development (USAID) suspended its financial support to the Federation's privatization effort, claiming there was a lack of serious interest in pushing the process forward. Several controversial privatizations in 2000 halted the process completely. Since then, the OHR has drawn up a list of 86 strategic companies in the Federation and 52 companies in the RS that will be privatized under the supervision of foreign experts.

Information on the exact proportion of private ownership in various sectors of the economy is not available. State farms cover approximately 250,000 hectares of arable land in BiH, while 450,000 hectares are family-owned. Much of the housing stock in urban areas is in a nebulous category defined as "socially owned," whereby large state enterprises share some legal rights to housing and property with the occupants of the residential units. Transforming socially owned apartments into privately owned ones has been a major difficulty in the post-Dayton period. About 35 percent of the housing stock in BiH was destroyed during the war. Most small businesses and small service-oriented enterprises are in private hands.

The privatization process in BiH has faced considerable difficulties associated with insider participation. Most observers fear that there is great potential for individuals with ties to the ruling parties to exploit the process. The process itself, moreover, will probably result in an ethnic division of property. Reports circulating in BiH in 1997 claimed that banks in Sarajevo had been instructed to draw up privatization plans according to property owned "in areas under the control of the ARBiH" (i.e., the Bosniac armed forces). This suggests that the SDA has already written off the RS and Herceg-Bosna. Similarly, during the initial stage of privatization in the RS, there were some claims that the process was not transparent and that officials were actively seeking to award factories and enterprises to Serbs instead of Bosniacs.

The distribution of public education materials concerning the privatization process has been limited. USAID is working with both the Federation and the Cantonal Privatization Agencies to educate the public on its rights and obligations under current privatization laws and regulations. Ordinary citizens frequently have voiced concerns that privatization may result in layoffs and increased unemployment. In July 1999, the Union of RS Workers demanded financial support for workers who might lose their jobs. In the absence of such a program, the Union threatened to demand an end to the privatization program and to call for a general strike.

In a public opinion survey completed in the Federation in the summer of 2000, 85.4 percent of respondents believed that privatization would increase the gap between rich and poor; 35.5 percent felt that privatization would work to the advantage of the "political mafia"; and 10 percent believed that war profiteers would gain the most. A further 41.25 percent responded that the current authorities do not know how to implement a just privatization program, and only 4.1 percent expressed faith in the government. Seventy-eight percent of those surveyed believe that the ruling parties will control the privatization process through cadres they have installed on the managing boards of enterprises.

Much opposition to privatization has come from within government institutions. On May 22, 2000, High Representative Wolfgang Petritsch removed the president of the management board of the Federation Agency for Privatization. Among its charges, the OHR accused the individual in question of delaying the adoption of proper tender regulations, which, in turn, produced unsatisfactory tender results and a lack of transparency in privatization efforts.

Macroeconomic Policy

1998	1999-2000	2001
6.00	5.50	5.50

According to the DPA, the Entities are responsible for taxation. The European Bank for Reconstruction and Development has described the tax system in both Entities as "onerous and complex," partly due to the inconsistencies in tax legislation between them. On June 8, 1999, the min-

isters of finance and trade from the RS and the Federation signed a memorandum of understanding to harmonize excise taxes. Similar agreements on sales taxes had already been reached.

Despite these advances, much work remains to be done. BiH still suffers from a bloated government, as measured by either revenue-to-GDP ratios or expenditure-to-GDP ratios. Since payroll taxes (the main form of state revenue) average approximately 50 percent of gross salaries, employers have little incentive to increase their workforces. Tax compliance is generally difficult to achieve because of the connections between the ruling parties and organized crime.

Another major international initiative has been to create a banking sector that conforms to the requirements of a market economy. The DPA created a Central Bank of Bosnia and Herzegovina that formally began operations in August 1997—two months after the parliamentary assembly passed a "Quick Start" package of laws that included a Central Bank Law. The bank is independent and will operate for its first six years as a currency board. This means that the bank can only issue currency backed by an equivalent amount of foreign reserves. As such, monetary policy is largely out of its hands. The bank has one unit in the RS and another in the Federation. Each unit holds its own reserves.

Restructuring and reforming the banking system is one of the most urgent tasks facing postwar Bosnia. Specifically, the continued existence of payment bureaus undermines the development of a proper commercial banking system. Bank reserves in BiH account for only 10 percent of the country's annual social product, while in other transitioning countries the figure is up to 50 percent. This results in tremendous annual losses. In the Federation, for example, despite the fact that the average interest rate in 1999 was approximately 24 percent, banks lose an estimated DEM 86 million annually because they cannot provide credits or loans.

As of mid-1999, there were approximately 50 banks in BiH. Of these, Western officials estimated that only six were solvent. In 1999, the Bosnia and Herzegovina Bank (BiH Bank) in Sarajevo collapsed. Many international agencies and foreign embassies reportedly had tens of millions of dollars on deposit at the bank.

Most private banks are small, undercapitalized, and unable to meet growing deposit and lending needs. According to one estimate, the industrial sector of the economy often has to deal with interest rates of up to three percent per month. Loans that extend for more than three months are rare. Nevertheless, private banks now account for the majority of new loans. Accounting and regulatory standards are still not market-based and need to be updated.

In October 1996, the Federation created a Federation Banking Agency that is responsible for licensing and supervision. By June 1997, it had refused to renew the licenses of 20 banks and had indicated that some of the weaker banks were being sidelined. In May 2000, High Representative Wolfgang Petritsch imposed a decision to amend the banking laws in each Entity. The amendments provided for the protection of bank supervisors, examiners, and officials of banking agencies from personal liability arising for the normal performance of their duties. Efforts are also underway to introduce deposit insurance.

Under the Dayton accords, monetary policy is the responsibility of the central government. In 1998, the Central Bank began to issue an interim currency, the *Konvertibilna marka* (KM). The KM is fully convertible and, under the rules of the country's currency board, is pegged at a parity rate with the German mark. The KM is used throughout BiH for non-cash transactions. Cash payments are made in German marks, Croatian *kunas* (in Croat-majority areas), Serbian *dinars* (in Serb-majority areas), and in the temporary currencies established in the two Entities.

Since its introduction in June 1998, the KM has gained increasing acceptance throughout BiH, and hard-currency reserves have increased substantially. By the end of 1999, hard-currency reserves totaled DEM 877 million, three times the amount available at the beginning of the year.

Microeconomic Policy

1998	1999-2000	2001
6.00	6.25	6.00

Property rights are tenuous throughout Bosnia, but they are somewhat better protected in the Federation than in the RS. Property laws generally have been used to make the return of displaced persons and refugees impossible. In the RS, and, until recently, in the Federation, persons can live in residences that the original occupants have left, even for short periods of time. Authorities have used this provision to block the return of ethnic minority refugees and to allow displaced persons to continue occupying residences owned by others.

The OHR has been active in overturning discriminatory property laws. In July 1999, the High Representative imposed a decision declaring that the Law on Temporarily Abandoned Real Property Owned by Citizens should cease to be applied in the Federation and issued a decree annulling the June 1992 Law on Abandoned Apartments. This law had permitted authorities to declare socially owned apartments as abandoned and to grant temporary occupancy rights to other persons.

The 1997 Law on the Sale of Apartments with Existing Tenancy Rights codifies the procedures for selling socially owned apartments in the Federation. In March 1998, the law was amended so that persons who acquired occupancy rights to apartments declared "abandoned" since 1991 may not purchase the apartments in which they now reside. Likewise, under the Law on the Cessation of Application of the Law on Abandoned Apartments, persons who left their apartments during the war may not purchase their apartments until they have returned and resided in them for six months. They may not sell their

apartments for a period of five years from the date that the purchase is registered.

In April 1999, the High Representative declared various articles and amendments to the 1993 Law on Housing Relations null and void in the RS. He also determined that individuals whose occupancy rights or contracts on use had been cancelled under previous legislation may submit claims to repossess their apartments in accordance with the Law on the Cessation of Application of the Law on the Use of Abandoned Property.

Annex 7 of the DPA established the Commission for Real Property Claims of Refugees and Displaced Persons (CRPC). Due to limited staffing, however, it has operated slowly. The CRPC is maintaining and building an extensive database of property registration records, but this task is complicated by the fact that the Entities do not accept or recognize each other's official property registration documents.

Public companies exercise monopoly control over services and utilities like water, electricity, and telephones. They generally set their prices arbitrarily. Prices for essential commodities like fuel are also controlled by monopoly suppliers that have good political connections. The government also regulates property prices. Prices for basic foodstuffs, however, are set by the market.

According to the EBRD, business in BiH is "constrained by a legal and administrative framework that has yet to move much beyond that inherited from the old Yugoslav system." Consequently, there is an inherent bias against privately owned businesses built into the existing system. Registering a business is estimated to take six to twelve months. Prospective businesspeople must navigate an array of state inspectors to register their firm: sanitation inspectors, market inspectors, municipal inspectors, environmental inspectors, etc. Moreover, these inspectors have the power to close a company or seize goods on the spot, a power frequently used to extort bribes. An effective legal framework is needed for contracts; bankruptcy; the establishment, dissolution, and transfer of businesses; and other areas of commercial law. Access to commercial law is available, but many of the laws are contradictory and inconsistent. Consequently, one recent investigation claimed that practically no business people in BiH obey all the laws in the country.

Another problem confronting businesses is the country's high rate of taxation, which makes it difficult for businesses to make a profit. If a business operates within the law and declares all of its income, it can hope to have a year-end profit margin of 1 to 3 percent—in a *good* year.

The courts generally are not considered an effective means of reaching decisions in property and contract disputes. Bribery continues to be a problem. According to the Helsinki Committee for Human Rights, people who do not have money to pay bribes in the RS can expect to wait at least one year before court proceedings begin. Proceedings that do start earlier are often conducted at a very slow pace. According to testimony from many businesspeople, a typical civil suit for the collection of unpaid accounts can take 14 to18 months to go to trial. Small claims courts are nonexistent, and contract law is considered unenforceable. A 1998 survey of experts from international investment banks and consulting firms ranked BiH 26 out of 27 transition economies in the category of "rule of law."

On the other hand, according to the EBRD, there is generally a meaningful right of appeal from first-instance court decisions. There is also an independent right of judicial review of an administrative action. On average, a party can expect to wait less than six months for a court in Sarajevo to hear a commercial case on its merits. A party can wait two or three years for a final judgment calling for a payment to be executed. Court operations outside of Sarajevo, however, are much slower. Municipal courts are particularly slow to reach decisions under the contentious Law on Abandoned Apartments.

Much of Bosnia's legal and administrative system was inherited from the Yugoslav system. New regulations regarding business competition and monopolistic practices are therefore required. Many key industries such as tobacco and fuel function as monopolies.

Considerable work has been done to liberalize Bosnia's international trade regime. According to the DPA, the central government is responsible for trade matters. In February 1998, the parliamentary assembly passed the permanent Customs Tariff Law, which introduced streamlined, uniform customs procedures for both the Federation and the RS. The new law replaced 21 existing customs tariff rates with four rates of zero, five, ten, and 15 percent.

However, more than a year after the Tariff Law was adopted, the two Entity governments had not enforced the new provisions. In effect, Bosnia has three separate tariff regimes: the RS allows duty free imports from Yugoslavia; Herceg-Bosna allows duty-free imports from Croatia; and Bosniac-controlled areas try to implement the Tariff Law. To deal with these differences and the preferential treatment given to certain trading partners, the three ethnically-based tariff regimes have imposed a variety of illegal taxes on each other. Since the three ethnic governments control various points along Bosnia's international borders, it is even more difficult to enforce a uniform customs regime.

In addition to informal or illegal barriers to foreign trade, there are also barriers to inter-Entity trade such as forcing a potential investor to jump through bureaucratic hurdles or imposing illegal taxes on businesses. This condition exists even though, for legal purposes, Bosnia and Herzegovina constitutes a single trading area and no formal customs controls exist between the two Entities. Generally, to do business on both sides of the IEBL, investors must open branches of their company in both Entities. A recent report by the International Crisis Group noted that "in spite of the international community's best efforts, both the RS and the Federation have erected numerous regulatory barriers, which effectively discourage inter-entity trade . . . As a result of these barriers, almost all inter-entity trade is illegal."

In July 1999, BiH obtained observer status in the World Trade Organization. On January 1, 2000, a new trade agreement between BiH and the European Union came into force. This agreement regulates the import of products from BiH into EU countries and entitles BiH to autonomous trade preferences, including exemption from customs duties and quantitative restrictions on designated industrial products.

Due to widespread corruption, private foreign investment (as opposed to official investment by the international community) in Bosnia has been minimal. In a comparison of transition economies, the Wall Street Journal Europe's *Central European Economic Review* ranked BiH 24 out of 27. An OHR summary of the report noted that "BiH is perceived to rank among the most unstable and badly managed countries of the transition world. This helps to explain why BiH has received almost no foreign investment to date."

In 1997 and 1998, private sector investment in BiH totaled around $160 million (approximately equal to 4.7 percent of donor aid to the country). Of this figure, $129 million came from foreign investors, many of which were reportedly off-shore companies owned or operated by Bosnians. In 1999, foreign direct investment in BiH fell to $60 million. The largest sources of foreign direct investment to date have been Kuwait, Croatia, Germany, Slovenia, Turkey, Italy, and Austria. Investments have been concentrated in small and medium-sized companies in sectors such as food, clothing, and wood processing.

The statewide Law on Foreign Investment, which established policy standards for promoting foreign investors' rights, was passed in March 1998. The Law stipulates that foreign investors have the same rights and obligations as local citizens and that the Entities cannot terminate or eliminate those rights, even under subsequent legislation. The only restrictions are in the areas of armaments (production and sale) and public information where foreign control is limited to 49 percent. The latter includes radio, television, newspapers, and other publications produced in the local market, but excludes cable and the Internet. Article 10 waives customs duties for foreign investments. Article 16 forbids expropriation or nationalization actions against foreign investments, except when they are in the public interest and are carried out with respect for applicable laws and regulations. The law also stipulates that adequate compensation must be provided promptly. There have been no expropriations of foreign investments to date. Article 11 guarantees the right to transfer and repatriate profits and remittances.

Overall, the government has done little to encourage foreign investment and capital flow. Many potential investors fear the possibility of embargoes. They also fear that the government will not honor its commitments or that war will break out again. By 1999, exasperation with local corruption had become so great that the OSCE's chief of mission, Ambassador Robert Barry, noted, "[Y]ou've got to be crazy to invest in this country where it is a given that if you obey the laws you're going to lose money."

In June 1999, Lloyd's of London initiated a program to offer companies cover against war and political risk in Bosnia. The program doubled the level of existing World Bank-backed guarantees offered by Bosnia's Investment Guarantee Agency (IGA) to about DEM 80 million ($42.3 million). Under the plan, IGA puts up DEM 40 million in guarantee funds already received from the World Bank and foreign governments, thus allowing Lloyd's underwriters to provide insurance to companies that trade goods in Bosnia. In May 2000, the OHR issued a decision protecting investors from restitution claims.

During the war, more than 50 percent of BiH's electrical generation and transmission capacity was destroyed. The energy sector in BiH remains largely under state control and is divided along ethnic lines into three separate power utility companies: *Elektroprivreda BiH* and *Elektroprivreda Mostar* (both in the Federation), and *Elektroprivreda RS*. Recent reports claim that coordination between these three companies is improving and that progress is being made on establishing a Joint Power Coordination Center (JPCC).

Bosnia is highly dependent on Russian gas imports because it has no indigenous natural gas production capability. Particular problems have surrounded the supply of natural gas to Sarajevo in the post-Dayton period. According to one estimate, only 15 percent of the citizens in Sarajevo Canton pay their utility bills. Disagreements between cantonal authorities in Sarajevo and BH Gas over the payment of bills to Russian producers (in June 2000, the bill stood at 8 million KM) have frequently threatened the delivery of gas to the city. Problems related to the collection of electrical utility bills are also widespread. In 1999, power tariff collection ratios in Bosniac and Croat areas of the Federation were only 65 and 80 percent, respectively, while in the RS they reached 98 percent.

Social Sector Indicators

Widespread social dissatisfaction with poor economic conditions is, not surprisingly, a common feature of life in postwar BiH. As of mid-2000, the official unemployment rate was just over 40 percent. A large segment of the population—up to 150,000 people in the Federation—is working in the gray economy, in which neither workers nor employers pay taxes or contribute to pension or health insurance funds. These funds are in constant deficit.

Many studies have found that the country's poor economic situation, and the widespread poverty it engenders, has a direct bearing on the political system. This is true insofar as the poorest and the least educated segments of the population tend to be the most likely to vote for nationalist parties. Unemployment in BiH disproportionately af-

fects women and younger members of the workforce. Young people are at a disadvantage either because older workers have more seniority or because they have never had jobs to begin with. This also explains why so many young people in BiH are attempting to emigrate. Women face problems because demobilized soldiers are frequently given preference when job openings occur.

BiH's pension system, which is divided along ethnic lines, is also in disarray. In areas of the Federation covered by the Sarajevo pension system, some 1.3 employed workers are supporting every one retired person in Bosniac-populated areas. (An acceptable ratio of employed to retired individuals is considered to be 3:1.) In Croat-populated areas covered by the Mostar pension system, some 61,539 people are registered as employed, while some 44,940 are registered as retired. The ratio of employed to retired individuals in Croat-populated areas is also 1.3:1.

The amount pensioners receive in BiH varies according to locality. Pensioners in Sarajevo generally receive the highest monthly pensions, averaging 200 KM per month. The average pension in Croat-populated areas is 147 KM. However, pensioners often claim that the reality is quite different because pensions are frequently delayed or not paid at all. In 1998, for instance, the government missed three pension payments; in 1999 it missed five.

In the postwar period, pensions have risen substantially, although probably not in line with overall cost of living increases. In the Federation, average benefits rose from KM 60 in 1996 to KM 202 in 1999 (equivalent to approximately 54 percent of the average wage). In the RS, average benefits rose from KM 14 in 1996 to KM 70 in 1998. The average pension for the RS's 172,000 pensioners in mid-2000 was DEM 140. The pension systems throughout BiH regularly operate at a deficit.

Incomes in BiH have been rising since the end of the war, but they have not reached their pre-1992 levels. There are also significant disparities between the two Entities. The average wage in the Federation in December 1997 was DEM 308 ($174); in the RS it was DEM 210 ($118). By June 2000, the average wage was KM 355 ($184) in the Federation and KM 259 ($134) in the RS.

In April 2000, the Federation government and federation trade unions signed a collective agreement that set the minimum wage at 55 percent of the average salary. This was supposed to be followed by additional branch agreements between the government and some 20 professional trade unions branches. Labor leaders also were urging the government to reduce wage contributions, which amount to 81.17 percent of a total salary.

BiH's educational system was severely effected by the war. Prior to 1992, BiH had a well-developed educational system, with public expenditures on education accounting for approximately 6 percent of the republic's GDP. Almost all children completed the eight-year primary school education, and most went on to complete a secondary education. Four universities, comprising 46 institutes and faculties, rounded out BiH's post-secondary and higher education system, which was geared mainly toward science and engineering.

The war caused tremendous damage to BiH's educational infrastructure. Some 70 percent of schools were destroyed, damaged, or requisitioned for military purposes. Large numbers of teachers either left the country or were drafted into the military. There is also a chronic lack of textbooks and other pedagogical materials. Enrollments in primary, secondary, and higher institutions of education between 1990 and 1995 declined by more than 50 percent.

As with so many other aspect of life in postwar BiH, the educational system is divided along ethnic lines, with Bosniac, Croat, and Serb students learning from three different curricula. Students in the RS rely on pedagogical materials produced in neighboring Yugoslavia; students in Croat-populated areas rely on materials produced in Croatia; and Bosniac students rely on materials based on old prewar textbooks that have been substantially revised and "ethnified."

Enrollment in a recognized educational institution is mandatory until the age of 15. Several private schools have been opened in the postwar period. However, many of these are religious schools that receive funding from foreign states or organizations and often provide an extreme form of religious education, thus furthering the ethnic divide in the country. In the Federation, education management is the responsibility of the cantons, or, where the majority population in a municipality is not the majority ethnic population in a canton, of the municipality itself. In the RS, control over the educational system rests with the Entity.

In 1998, there were 411,089 students enrolled in elementary school in BiH (282,677 in the Federation and 128,412 in the RS) and 161,029 students enrolled in secondary education (105,136 in the Federation, and 55,893 in the RS). In 1998, there were 29,614 full-time students enrolled in the higher educational institutions in the Federation and 12,051 full-time students in the RS. These institutions include university faculties, teacher training institutions, and post-secondary schools. Numbers in each of these categories have been increasing steadily since the end of the war. Exact figures on the proportion of 8 to18 year olds enrolled in the educational system are unavailable, but the vast majority of children do receive a formal education. The statewide student teacher ratio is 16:1 (in the Federation, 13:1, in the RS, 19:1). In 1999, public spending for education was KM 412,128,868 ($219,189,014) in the Federation and KM 109,544,088 ($58,260,565) in the RS).

The devastation of war also affected BiH's health care system. Infant mortality in BiH doubled between 1990 and 1997. According to the World Bank's *World Development Indicators 2000*, infant mortality in BiH in 1998 was 13 per 1000 live births. Life expectancy in the country was 73, and crude birth rates were 13 per 1000 people.

Statewide statistics on the number of suicides in postwar BiH are unavailable. In 1997, though, RS President

Biljana Plavsic made public a report showing that some 4,000 people in the RS population and in the Serb refugee population in Yugoslavia had committed suicide annually in 1996 and 1997. RS Interior Ministry officials believe that for every successful suicide there are ten unsuccessful attempts. Similarly, in Tuzla-Podrinja Canton, the number of suicides rose by 30 percent in 1997.

Postwar BiH suffers from a mismatch of health needs and health services and from the absence of a sustainable health finance system. International organizations such as the World Bank have recommended that BiH's health care system move away from its prewar emphasis on large hospitals and polyclinic and place more emphasis on out-patient facilities, home-based care, and more effective public health, disease prevention and control programs.

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BULGARIA

Polity: Presidential-parliamentary democracy
Economy: Mixed capitalist
Population: 8,200,000
GNP per capita at PPP $ (1999): 4,914
Capital: Sofia
Ethnic Groups: Bulgarian (83 percent), Turk (8.5 percent), Macedonian, Armenian, Tatar, Gagauz, and Circassian (3 percent), Roma (2.6 percent)
Size of private sector as % of GDP (mid-2000): 70

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	3.90	↑↑ 3.55	↑ 3.31	↑↑ 3.06
Rule of Law	na	na	4.13	4.13
Economic Liberalization	5.38	↑↑ 4.08	↑↑ 3.75	↑↑ 3.50

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	1,152.0	1,563.0	1,179.0	1,230.0	1,490.0	1,513.0	1,484.0
Real GDP growth (% change)	1.8	2.1	-10.9	-6.9	3.5	2.4	5.0
Inflation rate	96.3	62.0	123.0	1,082.0	22.2	0.7	9.9
Exports ($ millions)	3,935.0	5,345.0	4,890.0	4,940.0	4,193.0	4,006.0	4,808.0
Imports ($ millions)	3,952.0	5,224.0	4,703.0	4,559.0	4,574.0	5,087.0	5,981.0
Foreign Direct Investment ($ millions)	105.0	98.0	138.0	507.0	537.0	806.0	975.0
Unemployment rate	12.8	11.1	12.5	13.7	12.2	16.0	17.9
Life Expectancy (years)	71.0	70.9	70.8	70.7	70.8	71.1	71.0

INTRODUCTION

After a series of false starts, and having paid a high price in human suffering, Bulgaria has transformed into a stable multiparty democracy with a functioning parliament, a high degree of transparency, and a vibrant civil society. Since the critical winter of 1996-1997, in particular, Bulgaria has made great strides in its transition to democracy. There are four major reasons for this.

First, Bulgaria enjoys strong leadership, which has been attributed chiefly to Ivan Kostov, the leader of the Union of Democratic Forces (UDF). Kostov learned from the mistakes of the first democratic government. He personally rebuilt the Union during the socialist comeback of 1994-1996, emerging as its unquestionable leader. He also restructured it as a single party, whereas it had been a union of more than a dozen parties with unequal strength but equal voting power in the governing body. Thus, he had a unified party to support him in the struggle with the well-organized ex-Communist Bulgarian Socialist Party.

Second, Prime Minister Ivan Kostov had a short list of clear, medium-term priorities. These included the stabilization of finance, privatization of the economy, and Westernization through integration with Europe and joining NATO.

Third was the achievement of economic and political stability. Bulgaria's currency board stopped the hyperinflation spiral that began in the winter of 1996-1997, and the banking system resumed functioning. Kostov then gained enough political support to implement reforms at a relatively high social cost. Kostov's has been the first government since 1989 to stay in power for a full four-year mandate. However, privatization was mismanaged, riddled with corruption, and lacking in transparency. The process took about four years and is now mostly complete.

Fourth, Bulgaria has improved its international standing. After applying for NATO membership, Bulgaria was for the first time since 1989 not intimidated by Russia, which threatened to cut off natural gas supplies, as in the crisis autumn of 1997. The new policy received unprecedented unanimous support in parliament, meaning that Kostov had gained the support of even ex-Communists in foreign policy matters. He received less parliamentary support for the controversial decision to allow NATO warplanes in Bulgarian airspace during the NATO war on Yugoslavia in the Kosovo crisis, but that decision paid off when Bulgaria was invited to begin the European Union membership accession process in the autumn of 1999. One year later, in winter of 2000, Bulgaria became part of the Shengen space. The removal of the visa barrier has a tremendous symbolic value for Bulgarians. Bulgaria's image in Europe has been very slowly improving.

The political price of improved governance in Bulgaria has been the centralization of power with the UDF and in the hands Prime Minister Kostov. This centralization incurs heavy costs in terms of corruption, partisan clientelism, judicial ineffectiveness, and ineffective (but constant) attempts to dictate to the media. The social price of the necessary health care reform, pension funds reform, and slow microeconomic recovery has also been profound. As a result, many people are disillusioned with the UDF. The question for the ruling party now is whether the microeconomy will improve quickly enough to ameliorate social conditions by the time of the next elections in June 2001. This appears unlikely at the moment, but the UDF's success in bringing Bulgaria closer to Europe will undoubtedly boost its popularity and keep economic, social, and political reforms on track.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.25	2.75	2.25	2.00

After ten years of political development, Bulgaria has produced a viable parliamentary democracy with a stable party system, working parliament, and other major institutions. Of these, the judiciary is currently the weakest. Two major parties, that could be described as democrat (right) and socialist (left), have alternately been in power for two terms. Each power change has been effected through fair, orderly, and well-organized elections. Minority representation is currently limited to the party of ethnic Bulgarian Turks, who have been represented in the national assembly from the beginning of the democratization process in 1990. The Roma, who are the second largest minority, have not been represented so far by a party of their own; recently they have been organizing and stand a good chance of sending their representatives to the next national assembly. Parliament has been functioning smoothly, strictly following its rules of order. The constitutional court has repeatedly declared laws proposed by the national assembly to be unconstitutional, and parliament has revoked them. The president has consistently tried to establish himself as a nonpartisan representative of the entire nation. The government has been using its constitution and laws as real instruments of action. For the last three years the government has been primarily concerned with privatization of the once state-owned economy; privatization continues, albeit in a slow and nontransparent fashion. The judiciary has been undergoing a transition in order to reduce its subservience to the state and improve its effectiveness. The print media are free of state control and broadcast media are becoming freer, as private companies successfully set up radio and television stations. There are nongovernmental organizations (NGOs) active in all walks of public life.

The last legislative elections were held on April 19, 1997. According to both domestic and international observers, they were free and fair. These elections are purely proportional: people vote for parties only. The right wing

UDF majority named party leader Ivan Kostov prime minister and formed a coalition government with the People's Union. This produced a strong government backed by a wide majority in parliament and a president from the same coalition. The major opposition party, the Bulgarian Socialist Party, or BSP, still controls a sizeable number of the local governments, especially in smaller localities, which it won in the October 1999 elections.

The last presidential elections were held on November 3, 1996. They were won by Petar Stoyanov of the UDF. All observers pronounced the elections free and fair. According to the Bulgarian constitution, the president of the republic should be a Bulgarian citizen by birth, aged at least forty, meeting the requirements for electing a member of the national assembly and having lived in Bulgaria for the five years prior to election. A presidential candidate may be nominated by registered political parties or coalitions, or by a committee that has gathered at least 15,000 signatures. In addition, each body nominating a presidential candidate must deposit the amount of 250,000 Bulgarian *Lev* in the national bank; that deposit is refunded after the end of the elections, provided the candidate has received at least one percent of the vote.

In the last parliamentary elections, in 1997, the turnout was 59 percent. Voter turnout in local elections has been traditionally lower. The highest recent turnout, 62.7 percent, was registered in the 1996 presidential elections.

Bulgarian women are active voters. Particularly in majoritarian elections (for president of the republic or for local mayor), the number of women voters is higher than that of men. Female representation in government does not reflect the electoral ratio; women are underrepresented in government institutions.

The current electoral law was adopted in 1991 and has since functioned without significant changes. Changes have been repeatedly discussed in the national assembly and the law may in fact be revised before the next elections. The most serious issue has been the vote minimum required to gain representation in parliament. Under the current law it is four percent of the vote.

In the parliamentary elections of April 1997, 38 political parties and coalitions covering the whole political spectrum registered for participation. The number of parties and coalitions registered for the last local elections, in October 1999, was 96. Three parties from the UDF coalition which won the general elections are represented in the current government. Six parties have won seats in parliament and are also represented at the local level. The Movement for Rights and Freedoms (MRF, the Turkish ethnic party) holds 27 out of 262 mayoral positions, in the municipalities with predominantly Turkish populations.

There are 205 registered parties in Bulgaria. The constitution bans the formation of parties based on ethnic, religious, or racial principles. The MRF is practically an ethnic party, representing the interests of the Bulgarian Turks. However, the party's statute says that members are welcome irrespective of ethnicity or religion, and the MRF has a small number of non-Turk members. It is on such considerations that the constitutional court based its 1990 ruling that the MRF is not unconstitutional. That ruling marked the beginning of the successful Bulgarian model of peaceful ethnic coexistence. However, in 1999 the Constitutional Court ruled illegal the Ilinden movement, which claimed to represent the Macedonians in Bulgaria. That decision has been criticized by the opposition, by human rights defenders, and by other NGOs. The Ilinden movement has been and is politically insignificant, but many have defended its right to register on grounds of principle. Ilinden have presented a case against Bulgaria at the International Court for Human Rights in Strasbourg, and a hearing is scheduled before the end of 2000.

Prior to 1989, around 15 percent of the Bulgarian population were members of the Communist party. In contrast, there is a feeling today that significantly fewer Bulgarians belong to the party. A little over ten percent of registered voters (persons over 18) are members of political parties; most of these are members of the UDF or the BSP. There is no precise data on what proportion of party members are women, but 7.5 percent of MPs are women and there are three women ministers in the current cabinet. The caretaker government in 1995 was also headed by a woman. Women are best represented in the judicial branch, where the number of women exceeds that of men. Of 25 members of the Supreme Judicial Council, eight are women.

Civil Society

1997	1998	1999-2000	2001
4.00	3.75	3.75	3.50

According to the *Directory of Nonprofit Organizations in Bulgaria*, published in 1998 by the Information Center of the Open Society Fund of Sofia, there are more than 1,000 nonprofit organizations in the country that are active in crucial areas of social life, including human and minority rights, health care, education, women's issues, charity, environment, culture, science, social services, religion, and sport. Churches are involved in philanthropy and distribute some private aid at the local level. No polling data exist to indicate what proportion of the population is active in private voluntary activity. There are various professional associations and syndicates in the country, and workers who wish to find organized help have a variety of options to choose from. The Bulgarian Women's Union is one of the two major women's unions, with 4,700 members and 49 clubs, including 25 in Sofia. Another women's group is the Democratic Women's Union, which is the successor of the pre-1989 Women's Union. It has 52,900 members nationwide, with branches in every municipal center in the country. All ethnic and religious groups (e.g. Turks, Roma, Bulgarian Muslims, Armenians, Jews) are

represented by their own civic groups. The Roma have not been represented in government so far, and therefore some of the most important NGOs are Roma groups that function as political discussion clubs and proto-parties. There are around 150 functioning Romani NGOs throughout the country.

NGO registration is relatively simple, does not involve any unusual formalities, and is not costly. It takes approximately one month to register an NGO, and a new law adopted in October 2000 should expedite the process. It limits the influence of the Finance Ministry in the affairs of NGOs; places all NGOs in a public register, which enhances transparency; and provides that the assets of defunct NGOs go to other NGOs with similar aims, and not to the state as required under the old law. NGOs helped draft the new law and lobbied for it in the assembly.

The Law for Corporate Taxation has been in force since 1997. This law provides opportunities for NGOs to continue their activities after international donors have stopped financing them. So far, these opportunities have been mostly theoretical due to the economic situation in the country. The law allows potential donors to deduct donations to nonprofit organizations on their tax returns. Project grants are exempt from donation tax under the Law for Local Taxes and Tariffs.

Legally, the state has no obligation to provide information. The Access to Information Act has not yet been adopted by parliament. State institutions do not have accessible information banks, but some of them do have Web pages.

NGOs benefit from Bulgaria's well-educated workforce, which includes many young people educated in United States and Europe. Most of the well-known NGOs are well-managed; there have been only two major NGO scandals in ten years. There is plenty of information on NGO management in the Bulgarian language, published by NGOs themselves. Several experienced NGOs, which also act as donation money distributors within the country, are dedicated to supporting the institutional development of the nongovernmental sector. Super-NGOs, or NGOs that are formed especially to institutionalize NGO unions, have been established (e.g. the Union of Bulgarian Foundations and Alliances). They have not on the whole been very effective.

During the last year and a half international donor organizations have redirected their attention from central to southeastern Europe, and more organizations came into Bulgaria, thus improving the financial situation of Bulgarian NGOs. Some donors, such as the EU PHARE Program, the ???? Foundation, the German Marshall Fund of the United States (GMF), MATRA (Dutch Government), and the United States Agency for International Development (USAID), provide institutional development grants that contribute to the sustainability of NGOs. USAID is one of the major sponsors of Bulgarian NGOs. The USAID Program Democracy Network, designed to strengthen the nonprofit sector, has provided $3 million in assistance to Bulgarian NGOs.

In-country support for NGOs continues to be weak, mainly because Bulgarian business is still relatively poor, and enjoys very few tax incentives to donate. On the other hand, the government does not tax the NGOs themselves. NGOs comply with the Law for Local Taxes and Tariffs (1997), which says, "exempt from donation taxes are not-for-profit legal entities and the donations they receive or accept provided that such donations correspond to their charter mission and goals" In practice NGOs do not pay taxes on donations.

Most of the major NGOs carry out annual audits. Organizations registered as nonprofit have no right to earn income or collect cost-recovery fees while working for their major declared aims, but under law they are allowed to carry out additional for-profit activities, provided that these activities do not clash with their aims and are separately registered. The NGOs then pay normal taxes on all such for-profit activities, and the net profit must be invested in the NGO to finance its main activities.

The government has gradually learned to be tolerant of NGOs, and occasionally even takes the initiative to use their expertise. Some NGO experts have been recruited as advisors to parliamentary committees that organize public hearings on issues of national importance. However, most central government officials continue to see NGOs as rivals. The media, and through them society as a whole, perceive NGOs as an alternative source of analysis and information. However, it is difficult to persuade the media that NGO news is news, despite the fact that some NGO projects outperform government initiatives in the same areas of activity.

There are three major independent trade unions in Bulgaria. The successor of the pre-1989 trade union is the Confederation of Independent Trade Unions in Bulgaria (CITUB). The second trade union, Podkrepa (Support), was established in 1989 as a political opposition group; and the third, Promyana (Change) emerged in 1997 with the support of the UDF during the civil unrest against the BSP. These trade unions represent around two million workers. There are growing numbers of farmers' groups and small business associations. There is, however, a declining membership trend. Despite that fact, the overall influence of trade unions has recently increased. This is due chiefly to the restructuring of the economy, which has caused all-time unemployment highs. Unemployment for October 2000, according to the National Statistical Institute, was 16.2 percent. According to the National Employment Bureau, unemployment for the same month was 17.8 percent. Trade unions take part in the so-called "tripartite commission" for negotiations with the government regarding wages in different branches of industry, management policies, and the privatization conditions concerning particular enterprises. Workers may bargain collectively and strike.

The participation of interest groups in politics is not legally regulated, and interest groups have little power in the political process. Think tanks have repeatedly lobbied the national assembly to legalize and regulate lobbying on the grounds that this would result in better transparency, and reduce corporativism and clientelism. They have been unsuccessful so far.

Independent Media

1997	1998	1999-2000	2001
3.75	3.50	3.50	3.25

All print media in Bulgaria are privately owned. The largest national private newspapers are: *Trud* (circulation approximately 330,000); *24 Hours* (180,000); *Sega* (28,000); *Standard* (22,000); *Novinar* (21,000); *Monitor* (19,000); and *Zemya* (18,000). Both the BSP and the UDF run their own dailies. Initially, they functioned as national newspapers, but as of about five years ago they have been reduced to party mouthpieces with circulation of around 20,000. The most respected Bulgarian weekly is *Capital*, with a circulation of about 25,000. There is also a wide range of privately owned magazines.

While print media have emancipated themselves from government control, the state has been tenacious in prolonging its grip on the electronic media. The national radio and TV are state-owned and are still the most influential in the country. They cannot be considered politically independent of the government. Still, in the radio business things have radically changed, with private radio stations such as Darik and Kom attracting audiences on a par with the state-owned stations. These private radios offer political news and commentary. On the whole, there are about 90 private radio stations, some of which function without licenses. There is one state-owned TV channel and two privately owned TV channels with national coverage. There are also more than 20 private regional cable networks.

The generally bad economic situation in the country has had a negative effect on the independent media. In the first place, market conditions in the country are such that big tycoons, or media companies, easily monopolize ownership. Second, economic stagnation makes it difficult for media to rely on advertising as a primary source of revenue. Two of the biggest dailies, *Trud* and *24 Hours*, were bought by a German publishing group, the Westdeutsche Algemaine Zeitung (WAZ), which now controls an estimated 70 to 80 percent of the daily newspaper market. A lawsuit against WAZ was brought by the Commission for Defense of Competition. WAZ was found guilty, paid a negligible fine, and went on publishing the newspapers. The Radio and Television Act, adopted in 1996, stipulates that news and information programs can neither be sponsored nor interrupted by commercials, and that advertising time not exceed 15 percent of the total length of a program. This act was repealed in 2000, and as private electronic media exist mainly because of commercials, they have a better chance now.

Distribution of media as a rule is handled through organizations owned by the media themselves. The government still controls part of the printing of newspapers, as the major printing house is still state-owned; however, this has not resulted in political pressure.

Newspapers are practically independent. The exceptions are the above mentioned party-run newspapers, which have repeatedly sacrificed editors of quality in the name of the party line, and some smaller publications, which defend the economic interests of their owners. The same applies to radio stations. The government attempts to influence them with its discretion over granting licenses; as a rule this line of influence has not worked. On the other hand, the state-owned radio and television are dependent on the governing majority. This has been the situation since 1990, largely because of the unwillingness of the two main parties to provide the legal framework for independence of the national radio and TV.

Advocates of independence of the state-owned media refer to the Bulgarian constitution, which provides for the freedom of speech: "The press and the other mass media shall be free and shall not be subjected to censorship." (Article 40) However, the government has not been called to account for this in the constitutional court, because individuals cannot bring complaints to that court. Parties in the assembly, which could address the court, have not done so; they prefer to maintain their influence on the electronic media.

Bulgarian legislation provides for a penalty of up to three years' imprisonment for libel. The practice of Bulgarian courts in matters of freedom of speech on the whole meets international standards. When criticizing government officials, journalists may be accused of libel, a felony offense. If accused of libel, a journalist is referred to the courts by the state prosecutor. This allows for abuses on the part of the state, and has a general chilling effect on the work of reporters. The law is also not clear on the issue of privacy.

One of the most important journalists' associations is the Free Speech Civil Forum Association. There is a Journalists' Union, which was the Communist-run union before 1989. More then 50 percent of the journalists in Bulgaria are women.

Based on data from the Bulgarian Telecommunications Company, about 200,000 people, or 2.7 percent of the population, have access to and use Internet and e-mail services. Unofficial sources put the number at 500,000, or about 6.3 percent of the population. There are no restrictions on Internet access for private citizens.

According to the Freedom House *Survey of Press Freedom*, Bulgaria's media have been "Free" since 1990.

Governance and Public Administration

1997	1998	1999-2000	2001
4.25	4.00	3.75	3.50

The system of central Bulgarian government after 1989 was redesigned along democratic lines with provisions for checks and balances. According to the constitution of 1990, Bulgaria is a parliamentary democracy, which means that supreme power resides with the legislature. The executive is appointed from the majority and there are adequate provisions for minority rule should the majority fail to form a government acceptable to the national assembly. The president of the republic has the formal initiative during the formation of a government and in times of cabinet crisis, and he or she can appoint provisional governments to prepare for general elections. Throughout the last ten years that system has been tested heavily and repeatedly. It has delivered infallibly, and all government changes have been effected strictly according to the constitution and other relevant laws. The president represents the country abroad and is nonpartisan. He or she also has practically no executive powers. On the other hand, the president is elected directly by the people, and so enjoys the same level of legitimacy as the national assembly. Although the president could not translate this extra legitimacy into executive decisions, he or she may exercise influence as a facilitator of difficult political deals. The constitutional court decides whether the national assembly and other major institutions work according to the law; in its ten-year history the court has repealed many unconstitutional laws. The supreme court in its turn has the right to declare void unlawful decisions of the Council of Ministers and has used that discretion repeatedly.

Under the Bulgarian constitution, the national assembly is the only body competent to formulate rules with the force of law. Normative acts can be adopted by other bodies, mostly the executive branch, but their legal force is less than that of laws. The legislature adopts laws by a simple majority, approves the national budget, elects and dismisses the Council of Ministers, and decides on issues of war and peace, troop deployment, and ratification of international agreements. While the president of Bulgaria can veto laws, the veto can be overridden by a simple majority of all members of parliament (121 out of the constitutionally defined 240).

The work of the legislative body is fully open to the public. Hearings by committees are open, the media have unobstructed access to plenary sessions, and all draft legislation can be found on the national assembly's Internet site. Some of the sessions of the national assembly are broadcast live. The work of the Council of Ministers is observable through the regular press conferences of its members, through the access of the media to the sessions of the government, and through the daily bulletin published on the Bulgarian government's Internet site. A law on freedom of information has been drafted and is being debated in the national assembly. It is expected to be adopted in 2001.

According to the Bulgarian constitution, the national territory is divided into municipalities and regions. The basic territorial and administrative unit in the country is the municipality, while the division into regions is only for coordination between the national government and the municipalities. The municipalities are juridical persons. They have the right to own property and to have independent budgets. They have authority to deal on a normative and executive level with all issues of local importance, including governance of municipal property, municipal development policies, education, health care, culture, provision of local public goods, social aid, and environmental protection. However, local budgets are decided by the central government. In 2000 the UDF government took a first cautious step in giving local governments more power over their own money, but an effective decentralization still has a long way to go.

According to the constitution, the regional governors are appointed by the Council of Ministers. Municipal councils and mayors are elected. A law introduced in 1999 stipulates that localities with fewer than 500 inhabitants do not have the right to elect a mayor; their mayors are appointed by the local government of the nearest biggest locality. Between 1989 and mid-1999 every municipality in Bulgaria has elected councils and mayors at least twice. All elections have been free and fair, with changes in the parties in power occurring frequently.

The changes in local government started in 1991 with the adoption of the new constitution and of the Local Self-Government and Local Administration Act. Municipal governments have two sources of revenue: central budget subsidies and local and property taxes. Due to the constitutional requirement that all tax rates be approved by the national assembly, local and property tax rates are defined by each municipality and then adopted by the parliament. Once they receive the money centrally, municipalities have complete control over their own budgets, except when they receive money from the central budget for specific targeted national programs. Traditionally, most municipalities rely on the central budget subsidy for many of their needs. On the whole, budgets in the last ten years have been inadequate and municipalities have as a result neglected many of their basic services to the community. On the other hand, they have as a rule not demonstrated enough energy and inventiveness to find new local sources for their budgets.

There is a general lack of managerial expertise at the local government level. However, through the democratic process people have been are able to select more capable local leaders and civil servants, and many municipalities are making significant progress in this direction. The local civil servants are employees of the municipalities and not of the central government. Still, there is a lot of partisan and government interference in local work, both at the appointment and policy levels.

With the Administration Act of 1998 and the Civil Servant Act of 1999, the legislative reform of the civil service

has begun. The Civil Service Law was adopted in 2000. So far little improvement has been noted, but not enough time has elapsed since the adoption of the new legislation to allow for a fair judgement of its effectiveness.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.25	3.75	3.50	3.50

The post-Communist constitution in Bulgaria, which was adopted in July 1991, has not been changed since. The current UDF parliamentary majority has announced plans to bring it into line with EU legislation; e.g., to allow foreigners to own land (for the moment they can only lease land). However, constitutional changes require a two-thirds parliamentary majority. This makes any constitutional reforms highly improbable before the next elections in the spring of 2001.

The Bulgarian constitution is interpreted and enforced by a the constitutional court. The court consists of 12 members, appointed in equal quotas (four members each) by parliament, by the president of Bulgaria, and by a joint meeting of the justices of the Supreme Court of Cassation and the Supreme Administrative Court. Each justice serves only one nine-year term on the court. Every three years the term of one-third of the justices expires and new justices are appointed.

The constitutional court resolves definitively all disputes about the constitutionality of acts of parliament and of the president, and provides binding interpretations of the constitutional text. Some of the more important decisions include the pronouncing of the unconstitutionality of several amendments of the Judicial Power Act and of several texts of the Radio and Television Act, and the pronouncing of the constitutionality of the agreement between Bulgaria and NATO for the provision of Bulgarian airspace to be used by NATO during the war in Kosovo.

While no basic reforms in the penal system have taken place, there have been numerous changes in both substance and procedure. Some of them include the substitution of monetary fines for imprisonment in libel cases, the abolition of capital punishment and the introduction of life imprisonment, and the requirement that all arrests be confirmed by judges after an initial period. Suspects have the right to be represented by a lawyer from the moment of detention by the police. Searches and arrests are authorized by judges, except in cases when an arrest is necessary to stop a criminal act. In such a case the arrest must be approved by a judge within 24 hours.

The record on beatings and abuse of suspects and prisoners is mixed. The 1999 annual report of the International Helsinki Federation for Human Rights on Bulgaria defines the occasions of police violence during detention as "sporadic," but states that violence is "virtually systematic" at the time of arrest. There have been occasions in which the courts have disregarded confessions for criminal acts when the defense has credibly charged that these confessions were made under duress. In recent years there have been many cases of policemen being convicted for murder, torture, or inhuman and degrading treatment of detainees. Such cases are widely publicized and their number is growing. Enforcement officials have very broad powers to use firearms, and accountability for the excessive use of force is still weak, even though there have been occasions when police officers were punished or fired for excessive violence or use of firearms. The criminal justice system is very slow. Delays of several years are ubiquitous.

There is adequate provision for fundamental human rights in the Bulgarian constitution, as the post-Communist constitution was designed with the intention of adopting the latest human rights standards (See Articles 4, 6, 12, 13, 14, 15, and 16). There is also explicit constitutional protection of the freedom of economic initiative, supported by a prohibition of the abuse of monopoly power (Article 19), and protection of the right to private property, which is declared to be inviolable and can be revoked by the state only under limited circumstances and only after just compensation (Article 17).

Article Six of the Bulgarian constitution bans discrimination based on race, nationality, ethnic identity, sex, and religion. The 1999 annual report on Bulgaria of the International Helsinki Federation for Human Rights states that Bulgaria has recognized previously controversial religious denominations, and has guaranteed all religious communities equal access to the broadcast media. However, there have been numerous reports about religious harassment. There appears to be no improvement in this area.

On February 18, 1999 the Bulgarian national assembly adopted a law for the ratification of the Framework Convention for the Protection of National Minorities of the Council of Europe. After years of obstruction, the Bulgarian courts registered an organization representing Bulgarian citizens with Macedonian self-identity as a legitimate party. The constitutional court, however, later pronounced that registration invalid; at present the case is before the Strasbourg Court. The Roma minority continues to suffer from discrimination and harassment by ethnic Bulgarians, and on several occasions by the police.

The work of the courts is not highly regarded in the public opinion. This is due to several factors: the slow speed of justice, the lack of sufficient expertise, bureaucratic complications, and perceived corruption in the courts.

There are guarantees for a fair trial in the Bulgarian court procedures. Court hearings are open as a rule, with few explicit exceptions. The defense may examine evidence, develop a case and defend it, and appeal court decisions. The problems of the court system stem from the fact that there is an insufficient number of judges, judge turnover is

high, and the court system is not computerized and communications are slow and unreliable. In some places there is a scarcity of courtrooms.

Under the Bulgarian constitution, the judicial system is independent from the other branches of power. The courts are not subject to political control on a case-by-case basis, as in Communist times. However, appointments are not free of partisan bias. The Minister of Justice plays a role in the Supreme Judicial Council by chairing its sessions (although without the right to vote) and by making proposals to the Council. However, power in the judicial branch is vested in the Supreme Judicial Council, whose election is not influenced by any other government body. The application of the law by the courts as well as by the executive branch is overseen by the Supreme Court of Cassation and by the Supreme Administrative Court.

The state is not under obligation to provide public defenders, with the following exceptions: in criminal cases where severe punishment (a minimum of 10 years' imprisonment) is possible, where the defender is a minor, and also in several other exhaustively described occasions (Article 70 of the Criminal Procedure Code).

The authority of the courts is recognized and, once made, judicial decisions are enforced. However, the process of enforcement is considered to be slow. Corruption of court officials at all levels is a chief reason for this.

Corruption

1999-2000	2001
4.75	4.75

During the period covered by this report, Bulgaria made praiseworthy attempts to tackle the roots of corruption. In March 2000, Bulgaria joined a Council of Europe initiative to review public procurement laws and improve transparency in public spending. On May 29, 2000, President Stoyanov signed an agreement with President Rexhep Meidani of Albania to pursue join efforts against prostitution and drug trafficking. Bulgaria also received a $7.5 million loan from the World Bank to fight corruption in customs operations. In May 2000, General Kiril Radev, the head of the National Service for Fighting Organized Crime, was fired for "lagging behind" in the battle against economic corruption. His replacement, police chief head Rumen Milanov, has been much more aggressive.

As a result of strong public pressure, all members of the governing coalition have severed existing ties with private businesses. Such ties remain, however, at the lower levels of administration. There have been numerous media reports linking different businesses with administrative officials. Legal standards for boundaries between the public and private sectors are still rudimentary. First steps in that direction are the Civil Servants Law (adopted in 2000) and a public register, in which all MPs and the executive must register their possessions and incomes. The register is in the process of being completed, and the public is eager to peruse it. The adoption of codes of conduct for different civil servants and policy makers is still in the planning stages.

The legislative framework for financial disclosure and disallowing conflict of interest is insufficient. The continuing reforms in the legal and law enforcement systems are creating modest opportunities for effective actions against corruption. During 1998 the number of criminal corruption cases handled by the courts was 124. On several occasions, relatively highly-situated individuals have been arrested and tried for corruption, but the number of these occasions does not create the impression that there is a decisive campaign.

Since racketeering was one of the major problems of transition, specific amendments to the penal code have been enacted to address it. As a result, reports show a significant decrease in the scope and significance of this phenomenon. All government bodies controlling budgetary resources are audited by the National Audit Office, and every member of these bodies can be investigated.

Although no leading government officials were prosecuted for corruption during the period covered by this report, there were repeated charges of government collusion with corruption. Bulgaria's chief negotiator for the European Union, Alexander Bozhkov, was forced to step down in June 2000 over charges of financial irregularities. The Bulgarian media dubbed him "Mr. Ten Percent," in reference to the cut he received from business deals. Former Interior Minister Bogomil Bonev accused former Prime Minister Kostov of covering up for corrupt officials in his government, but Kostov strongly denied the allegation.

An anticorruption commission was established in the national assembly in 1997. Since then, the assembly has reportedly adopted 14 laws related to corruption, including changes to the penal code, customs and tax procedures, and insurance regulations. The government has also adopted a national strategy for fighting corruption, and has ratified most major international anticorruption conventions, such as the Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; and the Council of Europe Criminal Law Convention on Corruption.

Two of the more important civil society initiatives against corruption are the establishment of Transparency Without Borders, which is the national branch of Transparency International, and the Coalition 2000 program, which brought together a number of Bulgarian nongovernmental organizations with the aim of fighting corruption in society.

The potential share of private business in the Bulgarian economy is significantly greater than the official numbers suggest due to the informal economy. The informal sector is the focus of many public and political debates, and society seems sensitive to it. Different estimates place the size of the informal sector at between 20 and 40 percent of measured GDP. Possibly the best measure, based on a

recognized methodology, is provided by a discussion paper by the Bulgarian National Bank. In a study using the comparison of cash in circulation and the overall money aggregates to reach an indirect estimate of the size of the informal sector, the paper determines that the size of the informal sector relative to the officially-measured GDP has dropped from 35.3 percent in 1998 to 24.1 percent in 1999, with the estimate for the second half of 1999 being below 20 percent. The continuing tendency for taxes collected to exceed the projected values in the Budget Act confirms this trend.

According to the annual reports of the state privatization agency for 1997, 1998, and 1999, more than 60 percent of all privatizations have involved insider dealings. As a result, major parliamentary parties have pronounced the whole process corrupt and inefficient, and have declared their readiness to reverse already concluded privatization deals (the term in use is "reprivatization") and to postpone the privatization of large structural enterprises. On two occasions, with regard to the privatization of an oil refinery and the national air carrier, there has been strong pressure on the government to annul deals.

Surveys regularly indicate that corruption is among the top five concerns of Bulgarians. The majority of the people believe that corruption is widespread. Bribing bureaucrats is not always necessary to obtain services. Most of the time, bribes are used to speed up bureaucratic procedures. The areas where corruption is perceived to be most common are customs, tax administration, health care, business licensing, the police, the courts, and the universities.

The average salary of civil servants is relatively low, close to two-thirds of the average for the country. Civil servants' pay is unevenly distributed; lower-level civil servants receive especially low salaries.

Surveys by Coalition 2000 and Transparency Without Borders show that concern with corruption is relatively high in the public mind. Coalition 2000 data for 1999 and 2000 show corruption sharing third to fifth place in concerns, together with poverty and crime, while unemployment and low incomes steadily occupy first and second place, respectively. Due to a series of corruption scandals that have surfaced in the media recently, the public has been sensitized to the problem.

Bulgaria received its first Transparency International ranking in June 1998, and has improved incrementally ever since. In 1998, it scored 2.9 on a scale of 1 (most corrupt) to 10 (least corrupt). The index ranked Bulgaria 66th of 85 countries studied, indicating a high level of corruption. In 1999, Transparency International placed Bulgaria 63rd of 99 countries, with a score of 3.3. The 2000 Transparency ranking puts Bulgaria in 52nd place of 90 countries, with a score of 3.5.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
5.00	4.00	3.75	3.50

The Bulgarian economy has been mostly privatized. For the four quarters ending June 30, 2000, the share of gross value added by the private sector was 67.2 percent of total gross value added, and 58.7 percent of GDP. For the twelve months ending with August 2000, the share of the total labor force employed in the private sector rose from 43.5 percent to 52.1 percent, according to the National Statistical Institute. Close to 100 percent of agricultural production, agricultural land, housing, and small business is in private hands, as is more than two-thirds of the service sector, along with around 50 percent of industry. The restitution of the forest lands is in its early stages. Arable land restitution has been de facto completed, but its formalization through the issuing of proper deeds is still in progress.

According to the state privatization agency, in the period July 1999 to September 2000, the total value of privatization (in payments, liabilities undertaken, and investments pledged) was more than $1.5 billion. This is somewhat of a slowdown relative to the previous period, reflecting the fact that most enterprises have already been sold and privatization, except for some large structural monopolies, is nearing its end. The failure to sell the telecommunications monopoly BTC has to do with political issues internal to the ruling party, but it cannot change the overall assessment of the privatization progress over the last year.

Although more than 75 percent of State assets for sale have been sold, the process has generated active debates in society. Preserving public support for privatization has not been a priority for the government, while at the same time the public trust in the process has been high on the agenda of the interest groups opposing privatization. These groups include entrepreneurs thriving on the possibility to siphon resources away from public enterprise, workers whose jobs are endangered, middle- and lower-level administration officials who stand to lose power and influence when control over assets is transferred from the state to the private sector, and political parties that see an opportunity to increase their political influence by opposing privatization.

Macroeconomic Policy

1998	1999-2000	2001
4.00	3.50	3.25

Macroeconomic policy in Bulgaria has continued to be sound, with some effects on economic dynamics. In terms of taxation, there have been no significant changes in the

tax system. The implementation of the tax laws is inconsistent and causes problems for businesses, mainly due to the philosophy of the laws and the tax administration that there should be ex-ante, rather than ex-post, control over the fulfillment of tax obligations. This approach makes the process costly for the firms, and creates a deadweight loss for the economy. The overall stability in the tax environment and the relative improvement in the administration have led to continued growth of tax collection. The issue of efficiency in administering the tax laws and the tax procedure code, and the issues of the tax rates, have become an important part of the public debate and the political process.

Tax legislation amendments are being debated as of this writing, and it is not clear what changes will be made. Currently, the consolidated budget surplus is about one percent of the forecasted 2000 GDP. However, December is the biggest spending month in the year, and what the final figures for 2000 will be is unclear. It is important to note that the government's introduction of these changes in the first place was a response to a significant public demand for a change in the economic policy from a more Keynesian approach (exemplified by the large public investment program) to a more liberal one, leaving more money to private agents and relying on the market.

With respect to monetary policy, the currency board regime introduced in 1997 has continued to operate in Bulgaria. It involves a ban on the use of most monetary policy tools and a fixed exchange rate with the monetary base tied to foreign currency reserves at the central bank. The central bank is independent and has used the only tool at its discretion, the required reserves ratio, once during the period under review, when it decreased the ratio as of July 2000 from eleven percent to eight percent. As a result the financial system and the price level have remained relatively stable. The developments in the banking sector have been positive, and according to the Bulgarian National Bank, as of June 2000 more than 80 percent of all bank assets were in private hands. However, retail banking remains underdeveloped and the variety and quality of financial services is below international standards.

Since the conflict in Yugoslavia, inflation has increased to double digits. The increase is related to three things: oil prices, dollar rates, and the increase in economic growth. The first two are temporary, and the third is desirable. Such inflation, combined with external imbalances (which are manageable so far), reasonable fiscal position, and growing productivity and exports, should not adversely affect the currency board sustainability.

There is speculation that the IMF may withdraw from active lending to Bulgaria, as the country seems to be managing by itself. The present government has explicitly said that any new agreement with the IMF will be negotiated by the next government after the 2001 elections. Meanwhile, in July 2000 Moody's downgraded its perspective for Bulgaria from "positive" to "stable." Though a negative sign, this downgrade does not affect Bulgaria's credit rating.

The Bulgarian Stock Exchange in Sofia has registered very low volumes and all indices have indicated substantial decreases. At the same time, commodity markets and bond markets exhibit more promising signs, and may be considered to correspond with the overall development of the financial system.

Microeconomic Policy

1998	1999-2000	2001
4.25	4.00	3.75

Property rights in Bulgaria are constitutionally and legislatively guaranteed. However, enforcement is lagging, and often rights are not protected due to delays in the judicial system and the ineffectiveness of other government organs. The government information systems are underdeveloped, including land registers and property recording.

Prices have been liberalized for several years, with the percentage of prices under government control or influence being relatively small compared to international standards, at around 15 to 17 percent. Subsidies still continue mostly in the energy and public service sectors, but they are scheduled to decrease under different government programs. Foreign trade is also liberalized to a high degree, but the operation of the customs administration is cumbersome and inefficient. Customs officers regularly rank high in corruption perception polls, and the customs information system is not yet in place after years of preparation. At the beginning of 2000, the new Foreign Currency Act dropped the impediments to the movement of capital, and the regime has been liberalized according to international standards.

There is no legal impediment to owning and operating a business in Bulgaria. Enforcement of bankruptcy and insolvency procedures by the courts is slow, although there are noticeable improvements in the courts' ability to handle different cases, because of experience. The number and scope of licensing regimes remains problematic. One of the major criticisms of the government is that the nontransparent licensing regimes impose a significant cost on businesses, particularly small- and medium-sized enterprises. As a response, the government has started a comprehensive program of revision and/or revocation of all existing licensing regimes. So far, a number of licensing regimes have been revoked, and more have been proposed for revocation by parliament.

Courts continue to be an ineffective tool for resolving property and contract disputes. Their procedures are slow, and their practice inconsistent. However, there have been improvements in recent years due to the accumulation of experience in previously underdeveloped areas such as bankruptcy and more complicated contractual arrangements. Also, out-of-court procedures are taking root as a legitimate means of resolving disputes. The courts suffer from a high personnel turnover rate, from lack of logistical support, and from

low levels of public confidence. Judicial reform is among the major issues on the public agenda, and will be an important aspect of future political programs.

A framework for competition promotion in Bulgaria is in place, with an active state body, the Competition Protection Commission (CPC), becoming an important player in the economy. The CPC has considered many cases, and has issued rulings against numerous entities, including state-owned monopolies. The monopolies themselves are in process of restructuring. Privatization of electricity and rail transport has been made possible through laws introducing the possibility of competition in these sectors. But while the laws are in place, it is still too early to judge their effectiveness and consequences. One area where much remains to be done is the energy sector, where competition is almost nonexistent. Bulgaria remains dependent on energy supplies from Russia, and demonopolization of the electricity, heating, and gas markets has not occurred. The restructuring of this sector will have a substantial impact on Bulgarian politics in the medium term, because liberalization of energy markets is a cornerstone of European integration. On the other hand, liberalization involves substantial increases in energy prices for the consumer, and so may lead to growing Euroskepticism.

Social Sector Indicators

Between July 1999 and October 2000, Bulgarian society has seen the beginning of reform programs in two important spheres: retirement and health care.

The Bulgarian social security system is based on three pillars: a pay-as-you-go pillar to ensure the pensions of the people born before 1960, a mandatory, fully-funded pillar, and a voluntary, fully-funded pillar. Funding of the second pillar has already started, with employers providing 80 percent and employees 20 percent of contributions (the first and second pillar payments, which are mandatory, comprise 35.7 percent of the wage, and after January 1, 2001 will comprise 33 percent). The third pillar will start on January 1, 2001. Several pension funds have been licensed and are already accumulating funds from the second pillar and from private pension schemes developed before social security reform. The reform also envisages a gradual increase in the effective retirement age and a gradual decrease of the relative weight of the first pillar as more and more people who can rely on the other two pillars retire. The goal is to reduce the proportion of beneficiaries to contributors to less than 60 percent from the current proportion of more than 80 percent, and to increase the ratio of average pension to average wage from the current 30 percent to nearly 50 percent. So far there have been no major political and social tensions with respect to the implementation of the reform, because society and the political parties all agree that the previous system was unsustainable. However, the issue of the rates of mandatory contributions will become more and more a political issue.

The other major change during the period under review concerns the health care system. After a one-year preparatory period during which a health care contribution amounting to six percent of the gross wage was paid to a state health care fund, which negotiated a contract with the national medical professional organizations, implementation began on July 1, 2000. The reform included closing down the previously used polyclinics and the selection by every Bulgarian of a personal doctor and dentist. The medical services included in the national contract are covered by a small fee by the patient for each visit, with the balance covered by the state health care fund. Health care reform covers only pre-hospital care. The health care reform was one of the major political topics during the period in review, and the effectiveness and the funding of the system is still being debated.

The other major trends in the social sector during the review period concern employment and some changes in the demographic statistics. The overall labor force has decreased from 3,457,400 in June 1999 to 3,386,200 in September 2000, according to the National Statistical Institute (NSI). Unemployment (measured by the National Employment Service) was 13 percent in July 1999, 19 percent in April 2000, and 17.78 percent in September 2000. The sharp increase, associated with the closure and restructuring of large insolvent enterprises, cuts in state bureaucracy, and reform of the health care system, is one of the major reasons for the quick drop in the present government's popularity. Unemployment is unevenly distributed, with very high rates in some districts; in seven of the 28 districts it is more than 25 percent. In addition, more than half of unemployed people have been so for more than a year. Unemployment is highest among young people and in villages. There are no major differences in the unemployment rates between men and women, except for the higher participation of men in the labor force. Unemployment is a major political issue, and there is a specific government program dedicated to the problem.

In 1999 the overall decline in Bulgaria's population continued, but at a slower pace. Fertility rose in 1999 to 8.8 live births per 1,000 people, up from 7.7 in 1997 and 7.9 in 1998. Mortality has decreased to 13.6 deaths per 1,000 people in 1999 from 14.7 in 1997 and 14.3 in 1998. During the same period infant mortality has dropped from 17.5 to 14.6 per 1,000 live births. The preliminary NSI data for 2000 indicate a continuation of these trends.

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CROATIA

Polity: Parliamentary democracy
Economy: Mixed capitalist
Population: 4,600,000
GNP per capita at PPP $ (1999): 6,915
Capital: Zagreb
Ethnic Groups: Croat (78 percent), Serb (12 percent), Muslim (1 percent), Hungarian (0.5 percent), Slovenian (0.5 percent), other (8 percent)
Size of private sector as % of GDP (mid-2000): 60

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	4.20	↓ 4.25	↑ 4.19	↑↑ 3.25
Rule of Law	na	na	5.00	↑↑ 4.13
Economic Liberalization	3.88	↑ 3.83	↑ 3.67	↑ 3.58

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	3,137.0	4,029.0	4,422.0	4,398.0	4,833.0	4,443.0	4,211.0
Real GDP growth (% change)	5.9	6.8	6.0	6.5	2.5	-0.4	3.6
Inflation rate	97.6	2.0	3.5	3.6	5.7	4.2	6.2
Exports ($ millions)	4,260.0	4,633.0	4,546.0	4,210.0	4,605.0	4,395.0	4,570.0
Imports ($ millions)	5,432.0	7,900.0	8,236.0	9,435.0	8,773.0	7,693.0	7,924.0
Foreign Direct Investment ($ millions)	106.0	96.0	509.0	302.0	781.0	1,374.0	750.0
Unemployment rate	14.5	14.5	10.0	9.9	11.4	13.6	15.1
Life Expectancy (years)	71.3	72.1	72.4	72.5	72.6	73.0	72.0

INTRODUCTION

Casting aside the party and the program of Franjo Tudjman, the late autocratic ruler of Croatia, voters handed victories to the opposition in parliamentary and presidential elections in early 2000. Even before Tudjman's death in late 1999, several polls taken in the months leading up to the parliamentary elections showed the Croatian Democratic Union (HDZ) trailing the opposition. The decline in the HDZ's popularity appeared to be driven by the public's anger over the poor state of the economy and rampant official corruption. Ultimately, Tudjman's death contributed to the HDZ's fragmentation and provided an opening for the opposition to take power.

The new reformist government of President Stipe Mesic and Prime Minister Ivan Racan moved quickly to end Croatia's international isolation and to stabilize an economy that had been wracked by corruption and mismanagement. It faced a number of immediate challenges, including high unemployment, escalating external debt, and a nationalist backlash against cooperation with international efforts to prosecute ethnic Croat war criminals. Hardliners from the HDZ continue to obstruct reform efforts through their key positions in the judiciary, state media, and local agencies charged with reintegrating ethnic Serb refugees, but the party's fragmentation has rendered it less effective as an opposition party in parliament.

Since coming to power, the new government has improved Croatia's human rights record significantly by curbing the surveillance powers of the domestic security agencies, revising criminal and civil libel and defamation laws that the Tudjman regime used against the independent press, and beginning to reform the state radio and television services. It also has begun complying with longstanding Western demands to end support for ethnic Croat hardliners in neighboring Bosnia, to allow Serb refugees to return to their homes, and to cooperate with the International War Crimes Tribunal for the Former Yugoslavia in the Hague. The country's Roma minority continues to face unofficial discrimination and harassment.

Signaling support for the new government's efforts, NATO granted Croatia membership in its Partnership for Peace Program in May 2000, and the World Trade Organization admitted Zagreb in September. Likewise, the Croatian government and the European Union (EU) are expected to begin negotiations on a Stability and Association agreement. The government's efforts to bring several laws into compliance with international norms appears to have been geared in part toward eventual EU membership. The International Monetary Fund has agreed to discuss new loans in 2001, and this could help improve Croatia's credit rating and attract investment.

Both President Mesic and Prime Minister Racan are committed to reducing the powers of the presidency. The president currently serves as the head of state and the commander of the armed forces, nominates the prime minister, and makes many key local and regional appointments. Parliament passed a bill in October 2000 that would make the government responsible to parliament instead of the president and would increase the prime minister's role in foreign and domestic policy making. However, these changes alone will not necessarily reform Croatia's highly centralized political system, which allowed Tudjman and the HDZ to use state resources in election campaigns and to control or influence judicial appointments, elections commissions, and the state-run Croatian Radio and Television. The lack of separation between party and government under Tudjman prevented the opposition from contesting elections on a level playing field.

In the economic sphere, many changes will be painful and will take time to improve the plight of ordinary citizens. With unemployment at 21 percent and expectations high following a decade of authoritarian rule and financial mismanagement, the government is likely to come under popular pressure to show fast results or slow the liberalization process. In particular, it could face pressure to ease its policy of forcing ailing companies into bankruptcy. At the local level, the government's ability to provide security and to create the conditions for economic development will help determine its success in repatriating Serb war refugees.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
4.00	4.25	4.25	3.25

During the period covered by this report, Croatia made its most visible progress in the area of political rights. In the parliamentary elections in January 2000 and the two rounds of presidential elections in January and February 2000, voters changed their government for the first time since the country achieved independence from Yugoslavia in 1991. The Vienna-based Organization for Security and Cooperation in Europe (OSCE) generally praised the conduct of the elections, but it noted numerous legal, procedural, and institutional problems and irregularities. The elections took place following nearly a decade of authoritarian rule by the late President Franjo Tudjman, who stifled democracy by wielding his strong executive powers and control over the state media to partisan advantage. By October 2000, though, Croatia's new government was carrying out its campaign pledge to reduce the powers of the executive with President Mesic's support.

The HDZ came to power in 1990 in Croatia's first multiparty elections in decades. At the time, the country was still one of the six constituent republics of the Federal People's Republic of Yugoslavia. The HDZ won reelection in Croatia's first post-independence elections in 1992.

Though authoritarian in nature, the Tudjman regime never banned political parties. In the early 1990s, authorities asked the constitutional court to ban the far-right Croatian Party of Rights and began legal proceedings against three party members. However, the court ruled in favor of the party, which won seats in the October 1995 elections. In its report on the April 1997 legislative and local elections, the OSCE said that Croatia had more than 60 registered parties. Several parties represent ethnic minorities. These include the Istrian Democratic Assembly, which is composed largely of ethnic Italians and other minorities in Istria; the Serbian National Party, which opposes Serb separatism; the Independent Democratic Serbian Party; and the Croatian Muslim Democratic Party.

United into two coalitions, six opposition parties won an overwhelming victory in Croatia's parliamentary elections on January 3, 2000. The center-left Social Democratic Party (SDP) (the successor to the Yugoslav-era League of Communists) contested the election in a coalition with the center-left Croatian Social Liberal Party (HSLS), a party that is somewhat more populist and nationalist in nature. The second coalition, the so-called "Porec group" of centrist parties, included the Liberal Party, the regional Istrian Democratic Congress, the Croatian People's Party, and the Croatian Peasant's Party. The final results of the January 3 balloting were as follows: the SDP/HSLS coalition, 71 seats; the HDZ, 46; the Porec group, 24; and the right-wing coalition of the Croatian Party of Rights and the Croatian Christian Democratic Union, 5. Several smaller parties failed to win seats.

Coming just weeks after the death of Franjo Tudjman, the change in regime and the new government's policies helped Zagreb end its international isolation and secure Western aid to revive the country's moribund economy. The victorious "Opposition Six" formed a coalition government under Ivica Racan, the president of the SDP, but the new government narrowly missed gaining the two-thirds parliamentary majority needed to change the constitution. The ousted HDZ won more seats than the smaller of the two coalitions now in government, but the party is split between moderates and hardliners. Some moderates have already defected from its ranks.

While noting some problems and irregularities, the OSCE said in its final report on the election that the balloting "marked progress towards meeting the country's commitments of democratic governance as a participating state of the OSCE." The OSCE also reported that news and editorial coverage by the state-run Croatian Radio and Television (HRT) was more balanced than in previous elections but remained "excessively biased" in favor of the ruling party both in quantitative and qualitative terms. Similarly, the U.S. Department of State noted that HRT's coverage had improved noticeably over previous elections but was often biased in favor of the HDZ. While private electronic media provided more balanced coverage, private print media were often partisan in their coverage.

The OSCE also raised concerns about the quality of political party representation in election commissions, the accuracy and transparency of voter registers, the effectiveness of campaign finance provisions, and vague provisions in the election law. On election day, there were isolated cases of intimidation of voters and domestic observers. More importantly, observers reported serious irregularities in some polling stations in Bosnia, one of 47 countries in which nonresident Croats could vote and where the bulk of out-of-country voting took place. Despite these problems, the 2000 election was considerably freer and fairer than the October 1995 lower house election, which the OSCE and other international observers considered flawed because of problems with the election law, arbitrary and nontransparent changes to constituency boundaries, the HRT's heavily pro-government campaign coverage, and irregularities in the voting process.

On October 31, 1999, Croatia's outgoing parliament passed a new election law to guide the January 2000 parliamentary election. Under this law, 140 seats were filled by proportional representation; 6 seats were allocated to so-called diaspora voters, or Croatian citizens who do not have permanent residency in Croatia and live outside the country; and 5 seats were reserved for ethnic minorities. For the 140 general seats, the country was divided into ten geographical districts, each of which returned 14 seats. Under the previous election law, 28 seats were filled in single-member districts and 92 seats according to proportional representation, including 12 seats for diaspora voters. Seven seats were reserved for minorities. The 1990 constitution only requires the lower House of Representatives to have between 100 and 160 members who are elected for a four-year term.

Perhaps the biggest change to the parliamentary election law was the reduction in the number of diaspora seats. While diaspora voters only account for 2 percent of the population, the previous law granted them 12 seats, or ten percent of the total number of seats. Most diaspora voters are ethnic Croats, and some 85 percent of them cast ballots for the HDZ in the 2000 parliamentary election. The United Nations, the Council of Europe, and the OSCE have criticized the existence of diaspora seats, arguing that ethnic Croats in Bosnia-Herzegovina and elsewhere are citizens of those countries and should not be allowed to vote in Croatian elections. Under the new law, diaspora voters receive seats in proportion to their share of the total electorate.

While the OSCE generally considers the new election law to be an improvement over the previous one, it has noted several concerns. Most notably, the law reduced the number of minority seats from seven to five. Of these seats, it reduced the number reserved for ethnic Serbs from three to one, or less than one percent of the total number of seats, even though ethnic Serbs account for approximately six percent of the population. Of the four remaining ethnic minority seats, one is reserved for ethnic Italians, one for ethnic Hungarians, one for the Czech and Slovak

community, and one for the combined Russian, Jewish, German, Austrian, and Ukrainian minorities. Seats for national minority representatives are allocated on a first-past-the post basis. Ethnic minority voters have the option of voting in their respective minority constituencies or in their geographic constituency. Either way, their ethnicity is indicated on voter registers, which increases the risk of discrimination and intimidation.

Another problem is that the Law on Citizenship, and therefore voting rights, is biased in favor of ethnic Croats and discriminates against ethnic Serbs. The law allows any ethnic Croat living outside the country to claim citizenship and thereby vote. In practice, this has allowed many ethnic Croats who reside permanently in Bosnia and who have acquired Croatian citizenship to vote. Meanwhile, the government has made it difficult for ethnic Serbs who fled Croatia in 1995 to document their Croatian citizenship and, therefore, to vote. The 1999 election law also distinguishes between two categories of internally displaced persons, "expelled" and "displaced." The former are overwhelmingly ethnic Croats, and the latter are overwhelmingly ethnic Serbs. On election day, authorities provided a disproportionate number of polling stations for expelled voters.

The OSCE also noted that the election law's campaign finance provisions for parties provide only limited transparency and establish a formula for public funding that favors the majority party. In addition, since many procedural guidelines for voter registration and identification and for vote counting are vague, authorities did not implement polling and counting procedures uniformly.

The OSCE did note several positive features in the new law. They include provisions that for the first time permitted domestic NGOs to monitor elections and allowed representatives of some political parties to sit on election commissions at all levels. The law also eliminated the separate and higher thresholds that coalitions needed to win party list seats. Coalitions now only need to pass the same five-percent threshold required for individual parties.

The new law also required media to allocate broadcast time and print space to all parties on an equal and nondiscriminatory basis. While this provision applied to both public and private media, the opposition's primary concern heading into the elections was the HDZ's partisan use of the state-run HRT. The outgoing lower house also adopted regulations stipulating that HRT provide balanced news and editorial coverage of the election campaign, but this measure stopped short of the opposition's demand to transform HRT into an independent public broadcaster.

In contrast to previous elections, all parties had wide latitude to campaign freely. In accordance with the new law, 12 nongovernmental organizations (NGOs) and civic associations monitored the elections. The largest organization, Citizens Organized for Monitoring Elections (GONG), deployed more than 5,000 observers. A coalition of 148 NGOs formed Voice 99, which encouraged voter participation and conducted a voter education campaign.

The 2000 elections were only for the lower house of parliament, which has general lawmaking duties. Elections for the upper house, which can review legislation, are due in 2001. At the last upper house elections in April 1997, the HDZ won 40 of the 63 directly elected seats. The OSCE reported at the time that "the degree to which these elections could be considered free and fair was limited by the clear bias of the state-run broadcast media in its news coverage and by the effect of regular attempts to limit the diversity of the print media." Zagreb and the country's 20 counties fill three seats each in the upper house. The president can appoint additional seats.

Croatian voters completed a speedy and sweeping change of their political leaders when they elected Stipe Mesic, a reformist, as president in a second round of voting on February 7, 2000. The election capped a two-month period that saw the death of authoritarian President Franjo Tudjman in early December 1999, an opposition victory in parliamentary elections in early January 2000, and a first round of presidential voting that sent two pro-Western moderates to the February runoff. Both Mesic and his second-round opponent, Drazen Budisa, the leader of the center-left SDP, pledged during the campaign to liberalize the economy, reduce the powers of the president, promote basic rights, and integrate Croatia into Europe and NATO. Mesic—the last leader of Yugoslavia's rotating presidency, a onetime Tudjman associate, and the candidate of the small centrist Croatian People's Party—won the second round with 56 percent of the vote.

Tudjman had come to power in May 1990 when Croatia's newly elected parliament named the HDZ leader state president of what was then one of the six constituent republics of Yugoslavia. Tudjman won a reported 56.7 percent of the vote in Croatia's first post-independent elections in August 1992. In the June 1997 presidential election, which the OSCE called "fundamentally flawed," Tudjman won a second and final five-year term with a reported 61 percent of the vote. Had he lived, Tudjman would have been required to stand down in 2002.

While Tudjman easily won the 1997 election with the backing of a strongly partisan state media and ample use of other state resources, the 2000 campaign was tightly and vigorously contested and the state media were far more balanced. The OSCE noted some problems with the legal framework of the election but said the vote "marked further progress in fulfilling the country's commitments as a participating state of the OSCE." The election was called following President Tudjman's death on December 10, 1999, after a long illness. In the first round of voting on January 24, Mesic won 41.11 percent; Budisa, the candidate of the center-left coalition between the SDP and the Croatian Social Liberal Party (HSLS), 27.71 percent; and Mate Granic, the foreign minister in the outgoing HDZ government, 22.47 percent. Six other candidates split the remainder of the vote. Mesic and Budisa advanced to the second round since, according to the constitution, Mesic

had failed to win a majority. Turnout was 63 percent in the first round and 61 percent in the second round. In both cases, the figures were pulled down by several percentage points by extremely low turnout—in the high teens—in the out-of country voting that took place mainly in neighboring Bosnia.

In its final report on the election, the OSCE said that voting was generally carried out in a fair and transparent manner, although there were irregularities in some polling stations. The state broadcaster HRT was more balanced in its news and editorial coverage, particularly in contrast to previous presidential elections but also when compared to the 2000 parliamentary elections. While private broadcast and print media generally provided balanced coverage, there were some instances of biased coverage, particularly in the print media.

The OSCE expressed many of the same concerns it had voiced about the parliamentary elections, including the disparity in voting rights between ethnic Croats and ethnic Serbs that was mentioned earlier. It also noted that (1) voter lists continued to identify voters by ethnicity, a practice that increases the risk of discrimination and intimidation; (2) voter registers, particularly those for voters without a permanent residence in Croatia, had accuracy and transparency problems; and (3) election authorities had segregated internally displaced voters into two categories and provided a disproportionate number of polling stations for internally displaced ethnic Croats compared with internally displaced ethnic Serbs. Moreover, due to vague provisions in the electoral law, polling stations did not carry out voting and counting procedures in a uniform manner. The legal provisions on campaign financing were poorly drafted, did not set limits on individual contributions or require disclosure of funding sources, and contributed to a lack of transparency in campaign financing. Observers also reported serious irregularities during the first round of voting in some polling stations in Bosnia, one of nearly 50 countries in which nonresident citizens could vote. The procedures in Bosnia improved noticeably during the second round.

While the country held the 2000 parliamentary vote under a new election law, the presidential election law has remained essentially unchanged since its passage in 1992. However, the State Election Commission (SEC) carried over some reforms from the new parliamentary election law for the presidential election. Most notably, the SEC permitted domestic NGOs to monitor the election, even though the law makes no explicit provision for domestic monitoring. The SEC also continued its previous practice of allowing political parties to observe the work of electoral commissions at all levels, even though there is no provision for this in the election law. However, the 1992 presidential law explicitly prohibits party representatives from officially sitting on the commissions.

Civil Society

1997	1998	1999-2000	2001
3.50	3.50	3.50	2.75

Croatia's sweeping changes in political leadership in early 2000 created a more tolerant environment for NGOs. While the Tudjman administration had begun to show greater tolerance for NGO activities in its last year in office and had permitted NGOs to conduct voter education programs and to monitor the 2000 elections, the new government accelerated this trend. However, the registration process for NGOs remains slow, and, more importantly, most NGOs are having trouble raising money domestically. This is due in part to the country's weak economy and to the persistence of limited tax incentives for charitable contributions to NGOs.

The election of a reformist president and parliament in early 2000 has enabled NGOs to work with less harassment. There have been fewer reports of harassment of NGOs by so-called financial police, i.e., finance ministry officials who can enter a property and examine records without a warrant and shut down an organization without due process. Still, the government has considerable power to regulate NGO activities under the 1997 Law on Associations, which gives authorities broad powers to block the founding of an NGO, monitor NGO activities, and suspend an NGO's activities without going through the courts. The law also permits the government to appoint a temporary administrator to manage and dispose of an NGO's property until the NGO proves its innocence in court.

The slow pace of the registration process continues to be a key problem for NGOs. In addition, the Law on Associations constrains fundraising by not granting a tax deduction for contributions to NGOs and by requiring NGOs to pay taxes on contributions that can be classified as income. In part because of these legal provisions and in part because of the country's dire economic situation, many NGOs rely almost exclusively on international support.

The two largest NGOs involved in the January and February 2000 elections were GONG and Voice 99, itself a coalition of 148 NGOs. Both groups organized pre-election informational campaigns. The OSCE's final report on the presidential elections noted that many of Voice 99's activities were partisan and urged NGOs to remain neutral in the electoral process. GONG deployed more than 5,000 observers and was the largest of twelve NGOs and civic associations that monitored the vote. In 1997, the election commission had refused to allow GONG to monitor the balloting.

The Zagreb-based Croatian Helsinki Committee has been in the forefront of domestic human rights monitoring. Several NGOs provide legal assistance to ethnic Serbs when they experience discrimination in matters related to housing and citizenship. There are no national NGOs that work on women's rights, but smaller groups such as Be Active, Be Emancipated are active in Zagreb and other large cities.

Early indications suggest that the new government has been more receptive than its predecessor to working with NGOs. Under the Tudjman administration, a government-appointed ombudsman met frequently with representatives of human rights organizations. However, the ombudsman's office had limited institutional capacity and lacked enforcement powers. Ministries and government and parliamentary committees on human and minority rights also met with NGO representatives. According to the U.S. Department of State, though, most groups reported that while the government occasionally responded to specific cases, it generally failed to remedy the underlying institutional problems. Moreover, the State Department noted that senior Tudjman administration officials frequently equated criticism of the government with disloyalty to the state and thereby spread suspicion of NGOs among the public. In addition, the state-owned press occasionally criticized NGOs sharply.

Trade unions in Croatia are generally independent. The labor movement includes five major labor confederations and several large unaffiliated unions. The largest labor confederation is the Union of Autonomous Trade Unions of Croatia (SSSH). The others are the Association of Trade Unions of Croatia (the SSSH's main nationwide competitor), the Confederation of Independent Trade Unions of Croatia, the Coordinating Council of Professional and Public Employees, and the Association of Trade Unions of Public Servants of Croatia. Roughly 64 percent of workers are union members. However, the country's painful transition to a market economy has limited the unions' bargaining power. With unemployment at around 20 percent in 2000, unions were generally limited to seeking marginal improvements in wages and working conditions rather than pushing for comprehensive improvements in these and other areas.

The constitution permits workers to stage strikes but excludes members of the armed forces, police, government administration, and public services. Unless otherwise specified in their contract, workers may strike only at the end of their contract; even then they first must go through mediation. In reality, though, Croatian authorities generally tolerate strikes that fail to meet these requirements. Collective bargaining is legal and practiced freely.

Independent Media

1997	1998	1999-2000	2001
4.75	4.75	5.00	3.50

The end of the Tudjman regime and of the HDZ's control of parliament brought about a marked improvement in press freedom. Freed from government control, the constitutional court struck down articles on defamation and libel from the Law on Public Information in February 2000 and from the penal code in April. The Tudjman regime and its allies had used these articles to file hundreds of lawsuits against independent media. The new government took the first steps toward turning state-run HRT into an independent public broadcaster and replaced the hard-line HRT director with a respected journalist. Nevertheless, many independent newspapers remain in weak financial condition; the main newspaper distributor is tottering on the edge of bankruptcy; and HDZ hardliners continue to hold some top positions in HRT, which does not always provide the new government with equal airtime.

Clearly, the most important changes have been the constitutional court's decision to strike down legislative articles on libel and defamation and the government's quick response to these rulings. Amendments to bring the penal code into line with the ruling passed their first parliamentary reading on June 1, 2000. In its 1999 country report on Croatia, for example, the U.S. Department of State reported that some 300 criminal and 600 civil prosecutions of journalists were ongoing. Government officials or their close relatives or associates had brought many of the suits. Even though defendants sometimes prevailed in cases like these during the Tudjman era, they had to bear the legal costs of mounting a defense. Outspoken publications such as the satirical weekly *Feral Tribune* and the weekly *Nacional* often faced multiple suits.

Despite positive changes, Croatia's economic crisis and the high licensing fees for newspapers continue to have a detrimental impact on print media. Moreover, newspapers still face fallout from the financial problems at Tisak, Croatia's largest news distributor. Tisak was driven into near bankruptcy by its owner Miroslav Kuttle, a businessman close to the HDZ, and then began withholding payments to newspaper publishers for sales of periodicals. This caused serious hardship for independent newspapers. While creditors took control of Tisak in 1999, independent media still had trouble recovering their money. In a positive development, some new distribution companies have formed.

HDZ loyalists still run Croatia's three major dailies: *Vjesnik*, *Slobodna Dalmacija*, and *Vecernji List*. All three have considerable financial problems. The state-owned *Vjesnik* largely survives on subsidies. *Slobodna Dalmacija* was nearly bankrupted by the fraudulent dealings of Miroslav Kuttle and is now largely owned by the state Bank Rehabilitation Agency. Investigators are still trying to determine the true owners of *Vecernji List*, Croatia's biggest-selling daily with a circulation of 200,000. Evidence suggests that when the paper was privatized in 1998, a group of persons close to Tudjman bought the paper using front companies. In addition to these three papers, Croatia has at least four other dailies.

Under the Tudjman regime, print journalists occasionally were subjected to threats and physical assaults, although it was not always clear who the perpetrators were. The Interior Ministry acknowledged in 1998 that the intelligence services had monitored and wiretapped journalists at the independent weeklies *Nacional* and *Feral Tribune*, but the ministry defended its actions under the constitution. While Tudjman authorities also temporarily closed down independent radio and television stations, often on the pretext of

minor infractions, the number of closures began to decline in 1999.

Croatia's new government has worked both to reform HRT and to improve conditions for private broadcast media. As of October 31, 2000, the end of the period covered by this report, a draft law on transforming HRT into an independent public service corporation was pending before parliament and expected to pass. The OSCE said that the draft law appeared to incorporate some of the Council of Europe's recommendations for reforming HRT.

The EU has conditioned improvements in its relations with Croatia on reform of HRT, whose HTV television service is the main source of information for 75 to 90 percent of the population. While HRT's news coverage has been fairer and more balanced since the change in government, HDZ hardliners in key positions at HRT have given government officials little airtime on the news. While the government appointed the respected journalist Mirko Galic as the general director of HRT in March 2000, it retained most middle managers in order to avoid the appearance of a political purge.

Under the 1998 law that regulates HRT, the government and political parties have considerable influence over the broadcaster. Parliament appoints the director of HRT, and ten out of 23 members of the policy-setting HRT Council are members of parliament. Under the Tudjman regime, managers at HRT occasionally cancelled programs, fired or took presenters off the air, and suspended editors for deviating from the political line. Television and radio shows sometimes aired propaganda against minorities.

The new government also has submitted amendments to parliament to reform the 1999 Law on Telecommunications, which regulates private electronic media. As of October 31, 2000, the amendments were still pending but were expected to pass. The amendments should offer greater transparency and fairness in the licensing process. The existing law allows local independent radio and television stations to jointly produce and broadcast national programming for five hours per day to compete with state-run television. In November 1999, in accordance with the law, several independent television producers established a new network under the auspices of the National Television Association.

The impact of these and other changes under the 1999 law were limited because the HDZ continued to control and manipulate the regulatory framework and the licensing of radio and television. The OSCE reported in March 1999, for example, that while Croatia's broadcast-licensing body, the Telecommunications Council, had dispensed 110 radio concessions and 11 television concessions to date, only Zagreb's Radio 101 provided a serious alternative to HRT's news programming. The report indicated that the licensing procedure had occasionally been manipulated to the ruling party's advantage and that the cost of applying for, purchasing, and retaining a broadcast license was extremely high. In 1999, the Telecommunications Council awarded the license for a fourth national television license to Nova TV, whose owners have close links to the HDZ.

Governance and Public Administration

1997	1998	1999-2000	2001
4.00	4.00	4.00	3.50

Croatia's December 1990 constitution vests legislative power in a bicameral parliament. Members of both houses are elected directly for four-year terms. The lower house, the House of Representatives, has general law-making powers that are subject to review by the upper house, the House of Counties.

Having been a tool of Tudjman since Croatia gained independence in 1991, the parliament is being transformed into more of a check on the executive branch. Parliament is also taking an active role in revising legislation so that it conforms to international norms. However, the democratic transition at the national level has filtered down only partially to the local level, where many officials are HDZ hardliners who came to office in elections that were neither free nor fair. Moreover, local governments are plagued by financial problems and limited in their ability to raise revenue.

Ever since Croatia's landmark elections in early 2000, the country's political system has been experiencing a shift in influence and power from the president to the government and the parliament. Following a decade of dominant-party rule, part of the change simply reflects the fact that the president and the prime minister represent different parties. But more importantly for the long run, both President Mesic and Prime Minister Racan are backing reductions in presidential powers. In October 2000, parliament adopted a draft bill on constitutional changes that would make the government responsible to the parliament rather than the president. The government would also assume greater responsibilities in foreign and domestic policy-making. Still chosen in direct elections, the president would continue to serve as the supreme commander of the armed forces, control the domestic security services, and have some responsibility over foreign policy.

After the opposition gained control of the presidency and parliament in early 2000, the executive branch and parliament began operating with far more transparency than they had during the Tudjman era. However, the HDZ still controls many local governments and the housing commissions charged with reintegrating citizens who were uprooted by war in the early 1990s. A 1999 Human Rights Watch report noted that Croatians have coined the term "administrative silence" to describe the failure of the housing commissions to respond to inquiries and requests. The report noted that administrative silence is a common feature of Croatian public administration that disproportionately affects Serbs and persons married to Serbs, especially in housing cases. In a related critique, the World Bank said in

September 2000 that the government needs to improve "the efficiency of public administration" and recommended that public expenditures be "managed in a transparent and efficient manner." In a February 2000 report, the International Monetary Fund (IMF) similarly criticized what it called "the absence of an adequate public sector expenditure oversight and control mechanism."

While international organizations have criticized the conduct of Croatia's local elections, there have been some positive developments. Local elections in 1997 and 1995 were held concurrently with national elections, and many of the OSCE's criticisms of the national elections applied to the local elections as well. Most importantly, the OSCE noted that the ruling HDZ enjoyed an unfair advantage because of highly favorable coverage in the state media and the questionable independence of election commissions. The OSCE reported in mid-2000, though, that HTV's coverage of elections for Zagreb's 50-seat city council on May 7, 2000 was "more balanced and impartial than in the past." The SDP, the largest party in the coalition government, finished first with 21 percent of the vote. Local elections across the country are due in spring 2001.

As of mid-2000, the government had fulfilled its commitment to establish and cofinance a Joint Council of Municipalities in Vukovar that will serve as an umbrella organization for elected Serb municipal representatives from the Danube region and will be able to propose Serb candidates for some senior government positions. The government made this commitment in the 1995 Erdut Agreement, which separated Croatian and Yugoslav-backed Serb forces in Croatia and established the United Nations Transitional Authority in Eastern Slavonia (UNTAES). Under its mandate, UNTAES wound down its activities in January 1998 when it returned full sovereignty over the region to Croatia.

Croatia's economic problems and the institutional arrangements for funding local governments have contributed to serious financial problems in the country's 20 counties, 122 cities, 421 municipalities, and in the capital, Zagreb. The Council of Europe's Congress of Local and Regional Authorities of Europe (CLRAE) 1998 report said that revenue-sharing arrangements did not provide sufficient funds to meet the needs of local governments. Zagreb can impose a surcharge of up to 60 percent on income taxes collected by the central government. Other cities with populations greater than 40,000 can impose a surcharge of up to 30 percent. In addition, Zagreb city gets 45 percent of income tax revenues collected in the capital, and the remainder goes to the central government.

Income taxes collected outside Zagreb are shared between the central budget (70 percent), cities (25 percent), and counties (5 percent). The money is redistributed in proportion to the amount that each municipality or country collects. The government also sets aside 40 percent of a tax on profits for municipalities and the counties. In practice, these arrangements provide local governments with relatively little revenue. According to the CLRAE report, the incomes of local authorities only account for 6 to 9 percent of their budgets; the government distributes the remainder on a discretionary basis. The report also criticized the 1992 local administration act's broad definitions of the responsibilities of municipalities, towns, and counties, which it said "do not suffice to identify clearly, in operational terms, the powers assigned to local authorities." It further noted that laws relating to education, health, culture, and other areas often give ministries powers that overlap with those of local authorities.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.75	4.75	4.75	3.75

Croatia's human rights situation has improved considerably since the death of President Tudjman in late 1999 and the elections of a reformist parliament and president in early 2000. The new government generally has respected basic rights, committed itself to helping ethnic Serbs return to their prewar homes, curbed the surveillance power of the domestic security services, and cooperated with the international tribunal on war crimes in the region. However, HDZ hardliners who continue to hold key positions in the state media, judiciary, and local institutions have tried to block reform efforts. Moreover, some official and unofficial discrimination and harassment of ethnic Serbs and Roma has continued.

Significant human rights issues remain. These include citizenship legislation that discriminates against ethnic Serbs; unofficial harassment and discrimination against Serbs, Roma, and other ethnic minorities; and a pattern of unofficial discrimination against women. Despite the government's stated commitments, the process of returning ethnic Serbs to their homes has proceeded slowly in part because HDZ hardliners still control local housing commissions. In recent years, these commissions have forcibly evicted ethnic Serbs from homes owned by ethnic Croats but have actively discouraged ethnic Serbs from returning to homes occupied by ethnic Croats. Ethnic Serbs also have had trouble receiving pensions and other social security benefits, gaining property restitution, documenting their citizenship, and voting, particularly in the four former UN protected areas of Eastern Slavonia, Western Slavonia, the Krajina, and Banija-Kordun, which had formed a self-styled Serb republic in the early 1990s.

Nevertheless, the new government's more tolerant attitude toward the Serb minority and its willingness to cooperate with international investigations and prosecutions of war crimes have been particularly striking, given the fact that Tudjman drove the country into international isolation

over these issues. Perhaps most importantly, authorities have helped facilitate the return of thousands of displaced ethnic Serbs from their temporary residences in Eastern Slavonia to their former homes. In April 2000, the government replaced the controversial Commission on Return with a new high-level body that will oversee return. In June, it also changed the law governing reconstruction so that it offers the possibility of equal treatment for internally displaced or refugee Serbs. Likewise, in May 2000 the constitutional court reversed a civil court decision that had stripped a Montenegrin of his tenancy rights based on alleged wartime activities. Authorities had frequently used similar arguments to deprive Croatian Serbs of their tenancy rights in the early 1990s.

In another positive development, refugee associations in Croatia and Bosnia's Republika Srpska agreed in June 2000 to cooperate on returning Bosnian Croats to Bosnia and Croatian Serbs to Croatia. Human Rights Watch reported that by September more than 10,000 Serbs had returned through organized programs and several thousand more had returned unassisted, although many did not remain in Croatia. However, HDZ-dominated local authorities and local courts have continued to discriminate against ethnic Serbs and have made little progress on providing restitution to Serb property owners whose homes were damaged, destroyed, or occupied by ethnic Croats. In the Krajina, Western Slavonia, and other areas to which Serbs sought to return, housing commissions and courts have refused to remove current Croat occupants from Serb homes. In Eastern Slavonia, though, housing commissions and courts have continued to evict temporary Serb occupants in order to facilitate the return of Croats.

The divisive issue of returns stems from Croatia's violent conflicts with Yugoslavia in the early and mid-1990s. After Croatia declared independence from Yugoslavia in June 1991, the Serb-dominated Yugoslav army and rebel Serb forces wrested control over parts of Western Slavonia and Eastern Slavonia and joined predominantly-Serb areas of Bosnia and Herzegovina under the self-styled "Republic of Serbian Krajina." Fighting in late 1991 and Serb abuses forced tens of thousands of ethnic Croats to flee the region. A 1992 peace plan placed a UN Protection Force (UNPROFOR) in areas under Serb control in order to protect Serb civilians and facilitate the return of displaced Croats. The Croatian army launched Operation Flash, which recaptured Serb-held territory in Western Slavonia, in May 1995 and Operation Storm, which recaptured further Serb-held territory, in August. This left only Eastern Slavonia in Serb hands. The United States and several other Western governments provided diplomatic support to the two offensives, which led to the displacement of 150,000 to 200,000 Serbs from Western Slavonia, the Krajina, and elsewhere into Eastern Slavonia, Bosnia, and Yugoslavia.

Faced with huge numbers of internally displaced persons, the government passed the Law on the Temporary Takeover and Administration of Specified Property (LTTO) in 1995. The law permitted authorities to grant temporary use of "abandoned" private property to other persons. The LTTO also established municipal-level administrative bodies to implement its provisions. In practice, the housing commissions primarily allowed ethnic Croats—who were either displaced from Eastern Slavonia and elsewhere in the early 1990s or came, with the government's encouragement, from Bosnia and Yugoslavia—to occupy the property of ethnic Serbs who had fled their homes in Western Slavonia, the Krajina, and elsewhere during Operations Storm and Flash and earlier conflicts.

Many refugees and displaced persons also simply occupied property on their own. In particular, many ethnic Serbs who were displaced by Operations Storm and Flash moved into homes in Eastern Slavonia and elsewhere that had been abandoned by ethnic Croats in the early 1990s. The Law on the Status of Displaced Persons and Refugees prohibits evictions until alternative accommodations can be found. However, a 1995 amendment to the law rendered most Serbs ineligible for this protection.

The Tudjman administration came under increasing international pressure to implement fair return procedures in January 1998, when the United Nations handed control of Eastern Slavonia back to Croatia. The handover followed a two-year transitional period under international administration, as called for in the 1995 Dayton accord that ended the conflict in Bosnia. Eastern Slavonia was the last Serb-occupied territory not in Croatian hands, and its return theoretically removed the largest remaining obstacle to a full repatriation of persons displaced by the war.

Faced with this new reality, the regime passed two laws that nominally facilitated return in an evenhanded manner. The 1998 Procedures for Return of Persons Who Have Left the Republic of Croatia established mechanisms for ethnic Serb refugees in Bosnia and Yugoslavia to regulate their Croatian citizenship status, obtain citizenship documentation, return to Croatia, and reclaim their property. The 1998 Program for Return and Accommodation of Displaced Persons, Refugees, and Resettled Persons established municipal housing commissions with minority members to resolve housing disputes between current occupants and property owners in order to allow displaced and refugee Serbs to return to their homes. The HDZ-dominated parliament also repealed the LTTO.

However, local authorities applied the new laws in a discriminatory manner, and this practice generally continued in 2000. Ethnic Serbs also have had difficulty regaining tenancy rights. Under a law on the Lease of Apartments in Liberated Areas that was in effect between 1995 and 1998, authorities had stripped persons who left "socially owned" apartments in war-affected areas of their tenancy rights if they did not return to them within 90 days. Most Serbs who had fled to Eastern Slavonia, Bosnia, or Serbia in the wake of Operations Storm and Flash could not return and thus lost their tenancy rights. Courts in Eastern Slavonia hearing claims for restoration of lost tenancy rights often applied standards differently depending on the ethnicity of the plaintiff (i.e., rec-

ognizing tenancy rights for Croat returnees but not for displaced Serbs).

Another factor making reintegration of ethnic Serbs difficult has been the uneven application of the 1997 Law on Convalidation. This law commits the government to validate documents, decisions, and acts passed by Yugoslav authorities in formerly occupied areas of Croatia and thereby allows ethnic Serb citizens who possess these documents to access state services. The OSCE has noted that the implementing decrees for the law impose deadlines that make it difficult for persons who remained in occupied areas during the armed conflict to obtain pension and child benefits.

Croatia's new government has undermined its attempts to facilitate the return of Serb refugees living abroad by announcing the names of alleged Serbian war criminals and arresting several ethnic Serbs on war crimes charges. The actual results of court proceedings have been mixed. In May 2000, a court in Vukovar convicted eleven Serbs of war crimes, ten of them in absentia. In July, however, an Osijek court acquitted five prominent Serbs who had previously been convicted on dubious charges. At the same time, in September the government arrested several ethnic Croats who were suspected of war crimes, including the killing of ethnic Serbs in the town of Gospic during the 1991 war. The International Criminal Tribunal for the Former Yugoslavia (ICTY) at The Hague is seeking none of them. If the government hands down indictments, it would be the first time Zagreb has prosecuted ethnic Croats for war crimes. The prosecution of war crimes is contentious because the Tudjman administration vigorously pursued suits against ethnic Serbs for crimes committed during the Yugoslav occupation of some 30 percent of Croatian territory but largely failed to prosecute ethnic Croats for crimes committed during or after Croatia's military offensives in 1995. Likewise, the trials of ethnic Serbs for alleged war crimes failed to meet minimum standards of fairness.

Croatia's new government won praise abroad by moving quickly to cooperate with international investigations into alleged war crimes. In January 2000, it acknowledged that the ICTY had jurisdiction over crimes committed during Operation Storm in 1995. In April 2000, it allowed ICTY investigators to examine the site of the 1991 Gospic killings. Reuters reported in early October that the government had extradited all but one of the ethnic Croats indicted by The Hague for war crimes. The remaining suspect is believed to be in the Serb-ruled part of Bosnia.

Another area of concern is Croatia's 1991 Law on Citizenship, which discriminates against non-Croat minorities. The law enables ethnic Croats to become Croatian citizens purely on ethnic grounds. Non-Croats must satisfy stricter requirements. The U.S. Department of State reported in its 1999 human rights report on Croatia that non-ethnic Croats frequently have been denied citizenship under Article 26 of the Citizenship Law, which allows authorities to deny citizenship to otherwise qualified persons for reasons of national interest, and under Article 8, which requires applicants to demonstrate that they are "attached to the legal system and customs of Croatia" and have maintained a permanent residence in Croatia for the five years preceding their application. Non-Croats also must indicate proficiency in the Croatian language and the Latin script.

Authorities also have prevented many ethnic Serb citizens who fled the country during the war from documenting their citizenship, generally through lengthy administrative procedures. When their applications are successful, ethnic Serbs must pay a high fee to become citizens. Ethnic Croats are generally exempt from the fee. The lack of citizenship makes it difficult for Croatian Serbs to return to Croatia. Likewise, it is difficult for returnee Serbs and those who remained inside Croatia to receive reconstruction assistance, to find work, and to apply for repossession of property. Muslims reportedly have found it difficult to confirm their citizenship. And Roma frequently face discrimination in receiving state housing and other benefits, have difficulty obtaining citizenship, and are victims of hate crimes. Police also allegedly beat Roma on occasion.

Given the tensions in Eastern Slavonia and the international community's role in returning it to Croatia, the OSCE has been monitoring the police there since October 1998. The OSCE reported in 2000 that the police's performance overall has been satisfactory. However, police do not always conduct thorough investigations, particularly when a victim of harassment or another crime is an ethnic Serb.

With the change in regime, Croatian citizens are increasingly able to exercise basic rights and liberties. This has been particularly true in the area of freedom of assembly, although there were some signs of improvement even before Tudjman's death. Beginning in 1999, the authorities increasingly granted the opposition the same opportunities for assembly as the ruling party. The government did not keep opposition parties from holding rallies and demonstrations in advance of the January 2000 elections. Previously, authorities frequently had denied opposition groups access to Zagreb's main square and other gathering places, while granting permission for HDZ rallies and other public events at these sites. In October 1999, the government passed a law that permitted demonstrations at approved locations but failed to specify the process by which authorities would approve or deny applications for permits. In another positive development, in April 2000 the government repealed Article 18 of the internal affairs law that had given the police wide powers of surveillance over citizens. During the Tudjman administration, press reports and some opposition politicians claimed that authorities wiretapped independent media, opposition political figures, and even HDZ members.

Violence against women is reportedly relatively common. Women also face some unofficial discrimination in employment opportunities and are underrepresented in the government and politics. Religious freedom is respected. However, the U.S. State Department's 1999 report noted that there are occasional acts of vandalism at Serb Orthodox cemeteries and that basic information provided to students about Judaism is, according to Jewish officials, inaccurate.

Until December 1999, Croatia's judiciary largely functioned as a tool of the Tudjman regime. Since the election of the new government, though, the judiciary has begun slowly to function as an independent body. This was evidenced most noticeably in three constitutional court rulings in spring 2000 that enhanced press freedom, freedom of association, and due process in housing matters. However, since many lower court judges are HDZ loyalists who were appointed during the Tudjman era, lower courts do not always rule fairly and impartially. Observers had expressed concern not only about the partisanship but also the competence of the constitutional court in late 1999, when the HDZ and the opposition cut a deal to replace eight retiring judges on the 11-seat bench with party loyalists. Nevertheless, the OSCE said that the newly constituted court ruled impartially and competently in its first major test, namely, when it was called upon to resolve disputes that arose during the 2000 elections. Under the Tudjman regime, the constitutional court occasionally ruled against the government, but authorities frequently ignored these rulings.

The U.S. State Department reported in its 1999 report on Croatia that local authorities often have refused to implement court decisions, particularly when a court has ordered the eviction of an ethnic Croat occupant from a Serb-owned home. However, such cases have been rare, since judicial decisions overwhelmingly favor ethnic Croats in property claims that involve returning refugees and displaced persons.

Defendants have the right to see an attorney within 24 hours of their arrest. While authorities reportedly often deny defendants access to any attorney during parts of the investigation process, it appears that they are doing so less frequently. At time, judges have failed to uphold due process rights that the constitution mandates. Croatia's court system is highly inefficient and severely backlogged; pre-trial detention periods are often lengthy. The Tudjman government took measures to reduce what had been a severe shortage of judges, but many of the newly appointed judges were inexperienced.

At the end of the period covered by this report, the Croatian government and parliament were establishing new minority rights legislation. Parliament passed amendments to existing minority rights legislation in April 2000 but instructed the government to prepare a new minority rights bill with stronger legal protections within six months. The April amendments to the 1991 Constitutional Law on Human Rights and the Rights of Ethnic or National Communities or Minorities abolished provisions ensuring representation in parliament and other public institutions for minorities that account for more than eight percent of the population. These provisions had been suspended since 1995. The Venice Commission of the Council of Europe had urged Croatian authorities to ensure representation of minorities in legislative bodies and the government in accordance with the European Charter of Local Self-Government.

Recognition of minority groups has been a contentious issue in Croatia. In 1998, the government dropped Muslims (the largest minority after Serbs), Albanians, and Slovenes as recognized national minorities from the constitution's preamble on the grounds that they are not indigenous groups. At the same time, the government established the independent Council on National Minorities as a forum for minority views on policy proposals that affect them. In practice, though, the Council appears to have had limited influence.

Corruption

2000-2000	2001
5.25	4.50

Almost immediately upon taking office, Croatia's new reformist government began combating the nexus of corruption and politics that had reached the highest levels of the Tudjman administration and had allowed well-connected presidential supporters to gain control of, loot, and bankrupt numerous companies. The new government has investigated and begun prosecuting businessmen and former senior officials. However, it has moved more slowly to establish legal and institutional safeguards against corruption.

During its first few months in office, the new government indicted several tycoons on charges that included embezzlement, tax evasion, and money laundering. Most notably, in February 2000 police arrested Miroslav Kuttle, a tycoon who allegedly had bankrupted the main newspaper distributor, one of the three main newspapers, and other companies through fraudulent dealings. The government also laid charges against textile tycoon Josip Gucik and car dealer Pavao Zubak. Gucik, along with his son and five other associates, was accused of siphoning off $24 million from the NIK textile company. Zubak was charged with embezzling $6 million from a newspaper distribution firm.

Likewise, in March 2000 two former officials in the Tudjman government's Transportation Ministry, Zvonimir Vedris and Davor Zuvic, were charged with embezzling $2 million in an airport construction scandal. In September, police began to investigate whether Tudjman's daughter, Nevenka Tudjman, had accepted bribes in a series of business dealings. For example, she allegedly took $300,000 in kickbacks for arranging the sale of Alcatel telephone switchboards to Croatia's Ministry of Science. An investigation into military corruption that same month revealed that around 70 high-ranking officers had faked injuries to receive higher pensions.

Prime Minister Racan put Deputy Prime Minister Slavko Linic in charge of a task force to investigate the legality of privatizations that the old regime carried out. The government also established a financial police unit, acceded to the NATO Stability Pact's anticorruption initiative, and extended its anticorruption campaign to the grassroots level. Police arrested two former soccer officials for embezzlement. The Interior Ministry cracked down on crime and corruption among police. And the government initiated Croatia's first legal proceedings ever against suspected or-

ganized crime figures.

The discovery of tapes of conversations between Tudjman and political aides has provided the most gripping evidence of corruption under the last administration. The Tudjman government apparently maintained spending accounts off the books, manipulated the privatization of state-owned companies, and granted contracts to friends, family members, and political supporters. A September 2000 "Investment Climate Report" prepared by the U.S. Embassy in Zagreb said that under the Tudjman regime "corruption ranged from the petty expectation that bribes were to be paid at any and all stages of a business transaction to money laundering and the large-scale siphoning-off of assets by so-called politically-connected 'tycoons.'" The report also said that procurement processes were generally "rife with corruption." Many observers believe that corruption was one of the issues that led to the HDZ's defeat in the January 2000 parliamentary elections.

Reflecting the improved situation, the Berlin-based Transparency International's September 2000 Corruption Perceptions Index ranked Croatia 51 out of 90 countries. On a scale of 1 to 10, with the top-ranked and least-corrupt country Finland receiving a 10, Croatia received a score of 3.7. This score was still low, but it represented a significant improvement over Croatia's ranking of 71 in 1999. While the new government's anti-corruption prosecutions and other initiatives are positive changes, it still needs to improve the legislative framework on corruption. The U.S. Embassy's statement noted that current laws to combat corruption are "not extensive or effective." The previous government did pass several anticorruption laws but only honored them in the breach.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.00	4.00	3.75	3.50

Macroeconomic Policy

1998	1999-2000	2001
3.75	3.50	3.50

Microeconomic Policy

1998	1999-2000	2001
3.75	3.75	3.75

Croatia's economic problems arguably were a major factor in the ruling party's defeat in the January 2000 parliamentary elections. These problems possibly pose the greatest challenge to the new reformist government. In its first few months in office, the new government maintained macroeconomic stability, cut the budget and public spending, and took steps to attract foreign investment. Yet it will take time for the impact of these measures to filter through the economy. By mid-2000, for example, unemployment had not declined from its level in January of around 20 percent.

According to a September 2000 "Investment Climate Report" by the U.S. Embassy in Zagreb, the new government has begun across-the-board reforms in fiscal, pension, and health policy, as well as in commercial law, capital markets, privatization, agriculture, and customs. The report also noted that the new government has placed a high priority on efforts to encourage foreign investment, including drafting legislation to provide incentives for investors, reducing payroll taxes, and undertaking a study of administrative barriers to foreign investment. The report contrasted these efforts with those of the Tudjman government, which had "gone out of its way to obstruct foreign investors and protect the spoils of industry for its political cronies."

Croatia appeared in 2000 to be pulling out of a recession that hit the country in 1998 and 1999. The IMF estimated in March that gross domestic product (GDP) would increase by 2.5 percent in 2000, after having declined by 1 percent in 1999. (The World Bank estimated later in the year that GDP had declined in 1999 by only .3 percent.) GDP grew 3.5 percent year-on-year in the second quarter of 2000. Third quarter year-on-year inflation was a modest 6.7 percent, according to the Economist Intelligence Unit.

Yet these figures understate the economic damage caused by Tudjman's policies. The new government said that it had inherited a worse-than-expected fiscal balance because the Tudjman government had accumulated huge debts off the books and concealed many spending accounts. The *Washington Post* reported in June 2000 that the former government had failed to keep up with pension obligations and now may owe up to $8.5 billion, domestic and foreign debt totals had reached $15.1 billion, and many private businesses had stopped paying their bills. The bank accounts of 20,000 companies are now frozen. The *Post* also reported that 50,000 people lost their jobs between January and June 2000. Another 40,000 were likely to lose their jobs by December, since the new government had reversed the HDZ's policy of bailing out bankrupt companies. In addition, dozens of state-owned companies had not paid their employees in months. The World Bank pointed out that these salary arrearages meant that companies were also not making payments into the social welfare system and, thereby, were denying health coverage to workers. Moreover, the September 2000 U.S. Embassy report noted that the costs of corruption under the Tudjman regime had a ripple effect throughout the economy. It blamed corruption for "increasing economic inefficiencies manifested in the form of higher costs and prices, and declining competitiveness."

Reversing the Tudjman administration's policies, Croatia's new reformist government moved to cut off state

funds to ailing companies and to privatize large state-owned enterprises. Authorities also began investigating the hugely flawed privatization process. At the same time, the state's large stake in the economy and the country's 21 percent unemployment rate forced the government to proceed cautiously. While cutting off funds to many insolvent companies, the authorities forced few of them into bankruptcy. The London-based *Financial Times* reported in June 2000 that the state holds stakes of greater than 25 percent in some 900 companies. About 400 of these companies have been insolvent for more than a year.

While the Tudjman administration made limited progress in privatizing large enterprises (including oil, power generation, railroad, and telecommunications companies), the country's weak economy could undermine the new government's privatization efforts, which include plans to sell off the state's 11 largest companies. In addition, the lower house of parliament approved legislation in July to break up and privatize energy monopolies. The new round of privatizations will be carried out under amended privatization legislation and a reformed Croatian Privatization Fund (CPF). According to the U.S. Embassy in Zagreb, the CPF is developing a business strategy and transparent procedures for selling companies.

As mentioned above, Prime Minister Racan has placed Deputy Prime Minister Slavko Linic in charge of a task force to investigate the legality of previous privatizations. The Tudjman government frequently used nontransparent auctions to sell companies to politically connected supporters. Many owners looted the profits of these companies and drove them into bankruptcy. Of the more than 1,800 state companies that have been privatized, roughly half are insolvent. Moreover, the *Christian Science Monitor* reported in January 2000 that 200 families connected to the HDZ control most of the economy.

Croatia's banking sector is slowly recovering from serious difficulties that emerged in 1998 and contributed to the economic recession that began late that year. In a process that began under the previous HDZ administration, authorities have rehabilitated and sold several ailing banks, tightened prudential requirements, and upgraded the legal and regulatory framework that governs the banking sector. Since December 1999, the government has sold to foreign companies majority stakes in the state-owned Splitska Banka, Privredna Banka, and Rijecka Banka. Together, these banks had accounted for more than 60 percent of all state-owned bank assets. They were among a group of six large banks that the state Banking and Rehabilitation Agency took over and revived after the Tudjman government reversed its policy of propping up weak banks. Combined with the sale of Slavonska Banka in 1998, these sales left the government with full ownership in only two banks—Croatia Banka and Dubrovacka Banka—by the end of the period covered by this report. Authorities hoped to sell both banks by the end of 2000.

In addition to reviving and selling these six large banks, authorities have also shut down or restructured several smaller banks whose failure would not pose a systemic risk to the economy. In 1999, the Croatian National Bank (CNB), the central bank, appointed temporary administrators for 14 commercial and savings banks that it considered insolvent and initiated bankruptcy proceedings for 11 of them. The administrators of the three other banks introduced better management procedures with the aim of preparing them for mergers with healthier banks.

Along with stricter prudential requirements and improved regulations, these measures have increased the liquidity of the banking sector. However, the poor state of the Croatian economy has meant that the newly strengthened banks have had few viable lending opportunities. Moreover, many banks are still heavily exposed to local economies, which have suffered considerably from downturns in the tourism sector. In April 2000, the government issued $11.1 million in state bonds for 15 banks that were facing liquidity problems. Roughly $7.1 million of the proceeds went to the Pula-based Istarka Banka, the largest of the newly ailing banks. Some observers criticized the bailout for its potential to create moral hazard problems and for its timing. That is, the bailout occurred after the Istrian Democratic Congress, a member of the ruling coalition with ties to Istarka Banka, put pressure on the government.

The banking crisis has cost taxpayers around $6.2 billion in bailout expenses, caused ordinary depositors to lose millions of dollars, and stunted small business growth. The crisis began in 1998 following a period of rapid expansion in the banking sector that was fueled in part by the repatriation of savings held abroad. The Tudjman government facilitated this expansion by injecting cash into several large banks and by failing to adopt an adequate regulatory framework for the banking system as a whole. The government also allowed political allies and tycoons to buy banks and use the assets to purchase other companies, which they subsequently plundered. The overall result was that while lending rose sharply, many loans were of poor quality.

The banking system's structural weakness was exposed in 1998 when the sector came under pressure from a tighter monetary policy, a weakening economy, and the drying up of repatriated capital. By the end of 1998, problem loans accounted for roughly a quarter of total bank assets. The government began to clean up the banking system in December 1998, when it introduced a new banking law that strengthened the CNB's enforcement and regulatory powers and allowed it to place banks under a temporary administrator. The law also increased minimum initial capital requirements, raised the minimum capital-adequacy ratio to ten percent, and decreased maximum exposure limits to single clients. Faced with the need to attract foreign expertise and capital, the HDZ government also abandoned its initial reluctance to allow foreign ownership in banks.

Published figures suggest that the government's social expenditures compare favorably to those of other countries in the region. According to a February 2000 report by the IMF, the Croatian government spent 16.3 percent

of GDP on social security and welfare, 6.5 percent on health, and 3.0 percent on education in 1998. The expenditure of 25.8 percent of GDP on these three categories was slightly higher than the average of 23.4 percent of GDP for all Central and Eastern European countries. Total spending in these three categories increased from 51.1 percent of total consolidated government expenditure in 1994 to 56.4 percent of total spending in 1998. The IMF said that the majority of spending for social security and welfare is devoted to retirement, invalidity, widows' and veterans' pensions, sickness and maternity benefits, unemployment benefits, and child benefits.

However, an increase in the number of pensioners combined with a decrease in the number of contributors has placed considerable strains on the country's pay-as-you-go system. Between 1994 and 1998, spending on benefits remained stable at around 2.75 percent of GDP, while pension expenditure rose by more than four percentage points to 11.2 percent of GDP. According to the IMF, the expansion of pension expenditures between 1994 and 1998 largely reflected the aging of the population, an increase in 1996 in the minimum guaranteed pension, retroactive indexation of pensions to wages, and the granting of pensions to war veterans, invalids, and the families of war victims. Along with the reintegration of Eastern Slavonia and other regions in 1997, these factors increased the number of pension beneficiaries by more than 26 percent between 1993 and 1999. As a result, the ratio of pensioners to total unemployment jumped from 63 percent in 1993 to 96 percent in 1999. Moreover, the country's high unemployment rate and the shift of many workers into informal employment have led to a decrease in the number of contributors to the pension fund.

The Tudjman government spent considerable sums on post-war housing reconstruction and cash benefits for veterans. For the period between 1995 and 1999, on-the-books post-war budget expenditures totaled 21.7 billion kunas (approximately $3.2 billion, or 15.3 percent of 1999 GDP), some of which is reflected in the above figures for social security and welfare.

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CZECH REPUBLIC

Polity: Parliamentary democracy
Economy: Mixed capitalist
Population: 10,300,000
GNP per capita at PPP $ (1999): 12,289
Capital: Prague
Ethnic Groups: Czech (81.2 percent), Moravian (13.3 percent), Slovak (3 percent), Polish (1 percent), German (0.5 percent), Roma (0.5 percent), other (1 percent)
Size of private sector as % of GDP (mid-2000): 80

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	1.50	1.50	↓↓ 1.75	↓ 1.81
Rule of Law	na	na	2.75	↓↓ 3.13
Economic Liberalization	1.88	↓ 2.00	↑ 1.92	↓ 2.00

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	3,977.0	5,049.0	5,620.0	5,109.0	5,412.0	5,148.0	4,797.0
Real GDP growth (% change)	2.2	5.9	4.8	-1.0	-2.2	-0.8	3.1
Inflation rate	10.0	9.1	8.8	8.5	10.7	2.1	3.9
Exports ($ millions)	15,929.0	21,463.0	21,691.0	22,777.0	26,351.0	26,265.0	29,034.0
Imports ($ millions)	17,310.0	25,140.0	27,568.0	27,317.0	28,905.0	28,167.0	32,320.0
Foreign Direct Investment ($ millions)	749.0	2,526.0	1,276.0	1,275.0	2,641.0	6,234.0	4,477.0
Unemployment rate	3.2	2.9	3.5	5.2	7.5	9.4	8.8
Life Expectancy (years)	72.9	73.3	73.6	73.9	74.5	74.6	75.0

INTRODUCTION

Democracy in the Czech Republic has taken a clear turn for the worst. During the period covered by this report, the ruling coalition of the Civic Democratic Party (ODS) and the Social Democratic party (CSSD) passed an election law that effectively would exclude smaller parties from participation in parliament and other elected bodies and make it impossible for independent candidates to run in the regions. President Vaclav Havel challenged the law before the constitutional court, and a decision is pending. The ruling coalition would also like to amend the constitution to curtail the executive powers of the president and the independence of the central bank.

The coalition of the ODS (chaired by Vaclav Klaus) and the CSSD (chaired by Milos Zeman) is a curious phenomenon. During the 1998 election campaign, Zeman called the ODS a fraud and Klaus painted the CSSD as a red danger. Yet, when the CSSD had to choose a coalition partner, it found the smaller democratic parties unacceptable. Zeman's sole goal, it seems, is to finish one term as prime minister. Klaus, meanwhile, aims to return to power in 2002 and is likely to become the next Czech president in 2003.

The Czech economy, while receiving relatively positive evaluations from international observers, is struggling. In 1999, GDP declined by 0.8 percent, but it is now picking up. This is largely thanks to the inflow of foreign investment and general growth in the world economy. Almost all Czech banks have gone bankrupt and been sold to foreign banks. The last bank is currently for sale. The terms of the sale, however, have been secret, and there are signs that secret deals beneficial to the ruling parties are being made. Large companies that remain under state control are also facing financial troubles. The government is renewing monopolies in the energy sector, and its intentions are unclear.

Law enforcement is also deteriorating. The judiciary, with the single exception of the constitutional court, cannot be relied on to uphold justice, especially in commercial or organized crime cases. The government has purged almost all security agencies of people who were hired after 1989. Membership in NATO and the goal of accession to the EU thus appear to be the only forces pushing the Czech Republic toward democratic norms.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
1.25	1.25	1.75	1.75

The 1993 constitution established a multiparty political system with a bicameral parliament that approves the government. The government is fully answerable to parliament. The system's main flaw appears to be the proportional voting system for electing representatives to parliament's decisive lower chamber. As a result, Czech politics is dominated by party secretariats and, in effect, by powerful party chairmen. Party secretariats even influence the senate, which was established in 1996 and is elected by majority voting in single-seat electoral districts. Most party leaderships have claimed the power to approve their parties' senate candidates.

In the spring of 1999, according to media reports, the ODS began to press the CSSD to move forward with changes in the electoral system, reductions in the independence of the Czech National Bank, and a decrease in the president's powers. These measures, all of which would require constitutional amendments, were Klaus' key conditions for allowing the CSSD to rule with a minority government according to their 1998 "Opposition Treaty." Under the treaty, the ODS leads both chambers of parliament. In July 2000, parliament approved a new election law, but President Havel refused to sign it. He filed a complaint against the law with the constitutional court on the grounds that it does not conform to the constitutional requirement of proportional representation in the chamber of deputies.

Under the Constitution, the president and the senate may return a law to parliament, but a simple majority of all chamber of deputy members (101 out of 200) is sufficient to approve it. For constitutional amendments, the senate enjoys equal power with the chamber. A quorum in both chambers is a supermajority of 60 percent.

If the constitutional court approves the new election law, elections to the chamber of deputies will be affected in a number of ways. Instead of eight electoral districts, there would be 36 with five or six deputies each. The law would also introduce an electoral arithmetic that would give more weight to some votes and require parties to meet a 5-percent threshold to gain representation in the chamber of deputies. The combination of these provisions would make it practically impossible for smaller parties to win a mandate in parliament. In fact, the new law would make it possible for the strongest party to get 50 percent of the seats even if it won only 30 percent of the vote.

Under the new law, coalitions would need a percentage of votes that is five times more than the number of coalition members. That is, the Coalition of Four, which was created to unify the democratic opposition against the ruling coalition and is silently backed by the Communists, would need to win 20 percent of the vote before it could seat a single member. The coalition could win the election with, say, 19 percent of the vote, but it would not qualify for membership in the chamber of deputies. The coalition includes the Union of Freedom, which split off from the ODS in November 1997; the Christian Democratic Union-Czechoslovak People's Party (KDU-CSL); the ODA; and the DEU. The Coalition of Four leads in current polls with around 25 percent of pubic support, but it is experiencing considerable internal tension.

Klaus and his ODS colleagues have given only the barest of explanations for proposing these changes. They have said that it is necessary to adjust the election system so that majority governments can be formed. They also have suggested that the new law could lead to the development of a two-party system based on the Anglo-Saxon model. In reality, the new law would effectively exclude small parties from participation in parliament and make it forbiddingly difficult for new parties to form. The CSSD has failed to provide any explanation except to say that it would go along with the ODS's wishes in exchange for its continued support of the CSSD's minority government. The new system would likely benefit the ODS, the CSS, and the Communists more than any other parties.

Civil Society

1997	1998	1999-2000	2001
1.50	1.50	1.50	1.50

Since 1989, some 3,500 foundations, 500 publicly beneficial organizations, and 41,000 civic associations have registered in the Czech Republic. Of the few organizations that work on public policy, only one or two are truly independent of the government and political parties.

About 60 percent of all foundations and NGOs perform some charitable functions. Civic associations typically pursue leisure interests such as sports and youth activities. Some support cultural, ecological, family, and other issues. A number of women's organizations emerged after 1989, including the well-known South Bohemian Mothers and the Prague Mothers. They typically focus their activities on family issues, ecology, and nuclear energy. The group La Strada fights trafficking in women. There are also educational women's groups like Gender Studies, Profem, and the Circle for the Coordination of Prevention Against Violence. About 80 percent of the population participates in some kind of private voluntary activity. However, all locally led philanthropic and voluntary efforts are frustrated by a lack of funds.

Private financing for voluntary activity is limited. The country is poor after 40 years of communism, and the newly rich have little interest in financing NGOs. Stringent limits on tax-deductible donations also curtail the growth of NGOs. Companies may use only 2 percent of their pretax profits as tax-deductible donations. Individuals may use 10 percent. NGOs themselves may earn income and collect cost-recovery fees. About 70 percent of NGO financing comes from the government, mostly to provide social and health care services. But the delivery of these services by NGOs is now threatened because the current government appears to be trying to curtail all private social work.

NGOs in the Czech Republic are free to register and pursue their work, but bureaucratic delays in processing applications are common. The income tax on NGOs is lower than that on commercial companies. Profits, if any, must be used for voluntary activity and may not benefit people associated with the NGO. The gift tax does not apply to NGOs. Disclosure of revenue sources in yearly tax reports is required.

Czech citizens have enjoyed freedom of access to public information since January 2000, but Czech authorities have not yet established a culture of disclosing information. One of the most important functions of the governmental Council for Non-Government Non-Profit Organizations is the allocation of government funds to NGOs.

No voluntary organizations focus specifically on improving the legal and regulatory environment. The only known organized and voluntary legal activities take place in prisons. Some local governments encourage voluntary work more than in others. The ruling ODS and CSSD seem to regard NGOs with suspicion or to ignore them. The only important public official who consistently supports voluntary activity is President Havel, who is personally involved with several charitable foundations. The attitudes of smaller parties such as the Union of Freedom and the People's Party are, on the whole, positive. Media coverage of voluntary activities is considerable and helps to balance any negative impact of politicians' attitudes.

Only about 45 percent of NGOs employ full-time employees; 39 percent employ at least one part-time worker. Altogether, NGOs employ an estimated 100,000 people. Government-financed organizations involved with social and health care issues employ most of the full-time professionals.

The Information Center for Foundations and Other Non-Profit Organizations, the Foundation for the Development of Civic Society, and the Center for Community Involvement provide information and assistance to interested NGOs. Charles University in Prague and Masaryk University in Brno offer post-graduate courses on NGO management. Most NGOs, however, do not look for such instruction. Either they are too small to require sophisticated management or they cannot afford the cost.

Trade unions in the Czech Republic are free. Most of them descended from the former Communist Revolutionary Trade Union Movement, which has managed to keep itself afloat and to retain its property and organizational structure. About 40 percent of the workforce belongs to 35 trade unions. Membership, at the moment, is stable. About 31 percent of workers in private companies with more than 20 employees are trade union members. Less than one percent of employees at small businesses belong to trade unions. The proportion is much higher in public administration and large state-owned companies. Farmers do not belong to trade unions; instead, they associate in professional organizations, of which there are several. Small business associations do not participate in the trade union movement.

Legal participation of interest groups in politics is limited. An exception is the strong position that trade unions enjoy in their yearly "collective treaty" negotiations with

the government and employers' associations. Professionals like medical doctors, attorneys, and architects come together in professional chambers.

NGOs may participate in regional development plans, but this right is threatened by an ODS proposal to bar them from related proceedings. There is no form of official recognition for lobbying groups. These groups do exist, but the public has practically no knowledge of them. They range from legitimate professional lobbying groups to groups suspected of being fronts for powerful organized crime interests. The Charter of Basic Human Rights and Liberties recognizes the rights to strike, petition, and assemble, but these rights are exercised timidly.

Independent Media

1997	1998	1999-2000	2001
1.25	1.25	1.75	2.00

With the exception of three public media outlets—Czech TV with two channels, Czech Radio with four programs, and the Czech Press Agency—all other media in the Czech Republic are private. Two private television stations cover the whole country, and another one aspires to do so. There are about 60 radio stations, and a vast number of print publications, all of which are privately owned. Foreign investors finance a significant number of broadcasters and print publications.

Among the country's newspapers are *Lidove noviny* (The People's Newspaper), *Mlada fronta DNES* (Young Front Today), *Pravo* (the former Communist *Rude Pravo*, or Red Law), *Zemske noviny* (Lands Newspaper), and *Slovo* (Word). The private TV NOVA, which until now has attracted the most viewers, is currently undergoing an ownership dispute. Radios Frekvence 1 and Evropa 2 are among the most popular private radio stations. Czech Radio Free Europe, which no longer receives support from the U.S. government, but, rather, from Czech Radio, retains the highest standards. It is the only Czech radio station to provide all-talk programs seven days a week. Private media are generally financially viable. Since Czech media operate in a free market, competition is strong. Some media outlets, including the two private television stations, might be subject to political influence.

There were growing signs during the period covered by this report of government tendencies to interfere with press freedom. Several journalists were indicted for different criminal acts. The most notorious and serious case involves two journalists from the daily *Mlada fronta DNES* who in June 2000 published a slanderous document created in the Office of the Government of the Czech Republic by one or more of Prime Minister Zeman's advisors. The document outlined a strategy to discredit Petra Buzkova, the vice chair of the Czech parliament and the former vice chair of the Social Democratic Party. She resigned from her party post in opposition to the new CSSD-supported election law. The journalists were indicted for not revealing their source, but the prime minister's advisors have kept their jobs. The suspected author of the document has also been indicted. Havel pardoned the journalists, but they vowed to force a court decision on their right to protect sources. Another journalist is being prosecuted for reporting that the CSSD-appointed director of the Czech counterintelligence agency perpetrated a fraud and lied about it, but the director continues to serve.

Czech journalists are expected to meet reasonably high ethical standards. Presently, no laws penalize the libeling of public officials or establish an ethical code for journalists. In libel cases, a journalist is in the same position as an ordinary citizen and can be sued. The Syndicate of Journalists of the Czech Republic, the only association of its kind in the country, has established its own code of ethics and a supervisory committee that enjoys a good reputation. The Syndicate has approximately 3,850 registered members, including about 1,360 women. It concerns itself with issues of freedom of expression, freedom of information, and journalistic ethics.

Czech public television experienced serious upheavals in 1999. Its director and most other senior employees were dismissed and replaced. The parliamentary commission that supervises the media is a tool in the hands of the ODS and the CSSD and appears to want to micromanage the station.

Legally, there is full freedom of the press and the media in the Czech Republic. Article 17 of the Charter of Basic Rights and Freedoms, a part of the Czech constitution, states that "everybody has the right to express their [*sic*] views by word, script, print, image or other means, as well as freely search for, receive, and distribute ideas and information without regard to state borders." Censorship, according to the Charter, is unacceptable. Freedom House's annual *Survey of Press Freedom* has rated the Czech Republic (until 1992 Czechoslovakia) "Free" since 1990.

The distribution of newspapers is in private hands. The Communist monopoly, Post Newspaper Service, was privatized partly by vouchers. Renamed the First Newspaper Company (PNS), it has retained its near-monopoly on newspaper distribution. Some other companies distribute newspapers, but their territorial reach is limited. There have been complaints that the PNS has refused to deliver some newspapers and magazines, including *Cesky denik* (Czech Daily), a privately owned paper that was very critical of the Klaus government. *Cesky denik* stopped publication in 1996 after alleged problems with distribution.

A new Law on Free Access to Information went into effect on January 1, 2000. According to this law, public officials must make all unclassified information available to the public, but the law's application to media operations is not clear. The Communist press law was provisionally amended in 1990, but a new press law has not been enacted. The latest proposal introduced serious limitations on a journalist's right to protect sources, but it was returned

to the government for adjustments. The EU has pressured the Czech Republic to adopt a new law on the media, but the ruling majority thwarted the law's passage in parliament by proposing changes that were obviously in the interest of current license owners and against EU directives. The minister of culture withdrew his proposal last September rather than allow the law to be approved with such changes.

According to qualified estimates, only about 1 percent of private households are connected to the Internet. However, 100 percent of universities, 70 percent of secondary schools, and 40 percent of elementary schools are online. In large companies, about 100 percent of management has access to the Internet; in medium companies, 80 percent; and in small private companies, about 30 percent. Likewise, about 80 percent of public administration workers are connected. Apart from the cost, there are no restrictions on Internet access. The cost is high because of Czech Telecom's monopoly of on the use of fixed telephone lines. The Internet is popular, and many people use it at school, at work, in libraries, at Internet cafés, etc. According to some estimates, around 3 percent of the population uses the Internet.

Governance and Public Administration

1997	1998	1999-200	2001
2.00	2.00	2.00	2.00

The Czech constitution establishes a relatively good system of checks and balances among the legislative, executive, and judicial branches of government. It also provides for an independent constitutional court; the Supreme Control Office, which oversees the management of state property; and the central Czech National Bank.

The effective rule-making institution in the Czech Republic is the chamber of deputies, the lower house of parliament. Individual members of the chamber of deputies, the senate, and the government may propose laws. However, budgetary constraints limit support staff and hinder the preparation of legislative proposals. Legislative initiative thus primarily rests with the government whose legislative proposals are prepared by the ministries. Basic re-codifications of the criminal code and civic and criminal law have not been implemented, despite constant reminders from legal experts that without reforms the country continues to function within the framework of Communist law.

Legislative proposals must pass readings within government ministries, chamber committees, the full chamber, and the senate. Then they must receive the president's signature. This process has been described as painstakingly slow, and more complicated laws might take years to be approved.

The public has access to parliament's chambers and committees. Since 1998 there also has been a Freedom of Information Act that gives the public access to all unclassified government documents. However, the law lets the government charge arbitrary fees for copies of documents, and it provides no sanctions for failure to answer information requests. The present government, and especially Prime Minister Zeman, has a record of regularly refusing to provide information. Draft legislation prepared by the government becomes available to the public when it is submitted to parliament. Information about draft laws often is provided even earlier.

In November 2000, regional governments will be joined with communal ones, leaving only two levels of local government. Since 1990, the Czech Republic has had freely elected communal governments with sufficient authority to allow effective communal administration. This year, however, as another part of the coalition's push to centralize authority, towns and villages will lose their entitlement to individual income taxes paid by their citizens and, thereby, lose the only bit of financial independence they enjoy. Well-run active communities that have attracted prosperous businesses will lose a substantial part of their income and, in many cases, will not be able to pay for investments in infrastructure that they already have begun. It is feared that the measure will weaken the motivation for local governments to be active on behalf of their communities.

Regional governments will be elected for the first time in November 2000, even though the constitution has called for them since 1993. The laws required for their establishment were finally approved last April under pressure from the European Union and after years of resistance by the ODS. Ultimately, though, the ODS succeeded in minimizing the authority of regional governments and in preventing independent candidates from running in regional elections. There will be no independent taxation, and regional governments will not be entitled to any income. The central government will continue to redistribute all finances. An amendment to the law on communities, which was approved in October 2000, will end the participation of independent candidates in village and town halls. The domination of Czech politics, both national and local, by the ODS and the CSSD thus appears complete.

The most fundamental shortcoming of public administration in the Czech Republic is an ethical one. Citizens understand ethical norms well. When top government officials behave correctly, so do their subordinates. Unfortunately, honest civil servants tend again to disappear from management positions in public administration. The top levels of public administration, the ministries, and parliament appear to be the most corrupt. The Czech civil service does not have an official code of conduct yet.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
1.50	1.50	2.25	2.50

When regional governments are elected on November 12, 2000, almost all constitutional requirements will have been fulfilled. The only outstanding commitment will be the creation of an administrative court. Already, though, the constitutional provision on the independence of the central bank has come under attack. The Czech National Bank (CNB) has been the target of attacks by the ODS ever since the Klaus government fell in November 1997. Klaus has accused the bank of causing the economic decline in 1996 and has missed no opportunity to denounce the governor of the bank, Josef Tosovsky. After eight years of a rather successful governorship, Mr. Tosovsky offered his resignation in 2000, citing increasing political pressures. The offer generally has been seen as a move to allow President Havel to appoint the new governor. In January 2001, a new law on the CNB will go into effect and leave the president with no more than the ceremonial power to sign government appointments to the bank. The law may be challenged in the constitutional court.

The claim about the role of the CNB in the country's economic turmoil is a myth. The decline in 1996 was caused by the fact that then-Prime Minister Klaus stopped practically all economic reforms and insisted on his "Czech way" of transition. As a result, incompetent and corrupt socialist managers remain in charge of major Czech companies until they are driven into bankruptcy.

The ODS-sponsored and much-criticized amendment to the Law on the Czech National Bank is close to receiving parliamentary approval. The vice governor of the bank, Zdenek Tuma, has been critical of a number of its provisions, including the revocation of president's authority over appointments. He is unhappy with the provisions that would give parliament control of the bank's budget—a measure that would threaten the bank's financial independence—and oblige the bank to agree with the government on inflation targets, even though the responsibility for price stability remains solely with the bank. Lastly, Tuma has opposed the requirement to adjust bank salaries to the state administration's level because the bank competes in a much more competitive labor market. If salaries were lower, the CNB would not be able to afford sufficiently qualified personnel. According to Tuma, the proposal goes against the worldwide trend of giving more independence to central banks to prevent politically motivated interference from governments.

The constitutional court is reviewing the new election law and might cancel some of its provisions. But according to Miroslav Macek, the ODS first vice chairman, if the court strikes down the law, the next election campaign will include a call to amend the constitution. The most serious problems plaguing the constitutional court are attempts to monopolize the entry of new players into politics. Recently, for example, the court canceled an amendment requiring new parties to show proof of financial deposits when they apply for registration. The court's most frequent agenda involves restitution cases. The rights of families are regularly upheld.

While the constitutional court can be commended for its performance, the same cannot be said of the rest of Czech law enforcement. In its most recent annual evaluation of the Czech Republic, the European Commission noted that the judiciary is one of the country's most serious problems. In cases of economic and organized crime, in particular, either the police fail to properly investigate a crime, or the state prosecutor's office fails to act. When crimes like these make it to the courts, sentences are often light.

Obtaining a business license from the commercial courts takes ages, and this has long been interpreted as a way to extract bribes from those who either do not want to or cannot wait. Persons also encounter obstacles when dealing with other numerous government bureaucracies. Since Czech courts suffer from serious delays and complications, seeking redress in then can be difficult. In serious economic and criminal cases, receiving justice in Czech courts can be practically impossible. Likewise, since businesses and companies cannot rely on courts to uphold their rights, doing business in the Czech Republic now means finding niches in the economy in which payments are guaranteed. These include selling items for cash only and generally avoiding situations in which resorting to the courts might be necessary. Under pressure from the EU, the government is making some half-hearted efforts to reform the judicial system. Parliament had failed, though, to pass the reform proposals; the minister of justice, who prepared the proposals, has resigned. Compared to the bloated bureaucracy of state administration, courts operate with shortages of practically everything from space to personnel to computers.

Public opinion reflects the situation well. According to a November 1999 headline in *Lidové noviny*, "Czechs have reached the conclusion that the state will not protect them from lawlessness." The complaints are manifold: bureaucrats are arrogant, they make unfair excuses on the grounds that legislation is bad, reported crimes go unsolved, the country is being fleeced by thievery and corruption, and communist crimes have gone unpunished. Twenty percent of respondents to a SC&C poll have no trust in Czech justice (up from 8 percent in 1991), and a further 57 percent have little trust in it (up from 47 percent in 1991). The number of people whose trust in the government is high declined from 13 percent in 1991 to only 6 percent today. Seventy percent of respondents to an August 2000 poll believe that the country is run by organized crime.

A *Lidové noviny* article recounted eight main blows to trust in the Czech justice system. These are: 1) Leaders of the Communist Party former state security officials have

not been punished for communist crimes. 2) Voucher privatization has been discredited by the owners of privatization investment funds. 3) Only a few small players in the diesel/heating oil tax evasion scheme have been brought to trial. About 20 people have been murdered in connection to the case. 4) The Czech Republic has become a target of organized crime from the former Soviet Union and the Balkans. The police have had only one successful strike against it: the arrest of 200 people in Prague in 1995. 5) Formidable legislative loopholes have been used to drain assets from banks, companies, and investment funds without punishment. 6) All political parties with the exception of the communists—who have been allowed to retain considerable property and have the most registered dues-paying members—are guilty of uncovered financial frauds. Most of those responsible for the fraudulent behavior are still active in politics. 7) Many restitution cases have not been resolved. Hundreds of thousands of private farmers are still waiting for land to which they are legally entitled. 8) Suspicion of corruption seems to surround almost every government procurement case. Reports concerning corrupt police or customs officers are frequent, but only small players ever seem to get caught.

The Ministry of Interior has proposed a comprehensive criminal code amendment that aims to shorten criminal proceedings. The proposal is, in fact, a concealed re-codification. The government plans to submit it as an amendment to avoid the more thorough legislative examination that a re-codification would require. The proposal also has not been properly coordinated with the judicial reform being prepared by the Ministry of Justice.

Perhaps the most important asset of the proposal is the abolition of the Offices of Investigation. Investigators and the police would be subsumed under regional police departments and would lose their independence. The regional police director would have power over investigations and, most notably, would have the authority to decide which cases would be investigated. And since police directors are subordinate to the minister of interior, the potential for political influence would exist. In addition, the personal responsibility of the investigator would be replaced by that of the police department. This means that the police director could routinely claim that he/she cannot oversee everything that is happening in the whole department.

Another proposed provision would allow the authorities to start criminal proceedings without the knowledge of the accused citizen, and, thus, denying him or her the opportunity to retain legal counsel. The provision is a direct contradiction of EU directives. Public prosecutors would no longer give direction to an investigation but, rather, would only supervise the process. Finally, since the investigation offices would be abolished, all evidence would have to be submitted before a judge. This would place an overwhelming burden on the judges and could lead to considerable delays.

There is no doubt that the Criminal Code needs improvement and that criminal proceedings need to be shortened. But this must not happen at the expense of freedoms and the right to effective legal counsel. Public officials should not have disproportionate powers, and there should be no openings for political influence in the law enforcement process.

Corruption

1999-2000	2001
3.25	3.75

In March 2000, President Havel expressed grave concern about corruption in the Czech Republic. "Tens and hundreds of millions of crowns are disappearing," he said, "and the state shows a strange inability to clear up these cases and find the perpetrators." Indeed, corruption in the Czech Republic has long passed the idyllic stage of occasional unrelated bribes to government officials.

A part of the country's Communist legacy, corruption exists on a national scale as a sophisticated enterprise that is parallel with public service. Contracts and other services are regularly awarded on the basis of participation in interest groups or through bribes. Individuals who naively expect fair play rarely win government contracts. Obtaining a business license takes months, unless one is willing to accelerate the process with a bribe. According to newspaper reports, an average bribe equals about 10 percent of the contract price. This arrangement can be found at all levels of government, from city magistrates to central government agencies. Some of the Czech Republic's major political parties, including the ruling parties, are under investigation for corruption. Likewise, many senior party and government officials (both current and former) are under investigation for activities like tax evasion, money laundering, and embezzlements.

This universal climate of corruption has even penetrated private companies. In large companies, which sometimes determine the economic life of entire cities or districts, private contracts are subject to the same corrupt patterns as government ones. The owners, who more and more often are foreigners, are probably not even aware of it. And when corruption is uncovered, indictments and convictions rarely follow.

Shops, workshops, and smaller pieces of real estate were auctioned off from 1991 to 1993 without much trouble, but ordinary Czechs could rarely participate or win in these auctions. People wondered who had the money to participate in the auctions, and since most of the buyers were former communists, they started speculating about dirty money. Famously, Vaclav Klaus, the prime minister at that time, responded that he did not distinguish between clean and dirty money as long as it benefited the privatization process. Most of the money used to privatize small enterprises came from Czech banks that were managed by former

Communists. Quite naturally, their friends and cronies found it easy to get loans from the banks, often without any collateral. Ultimately, irresponsible lending practices contributed to the collapse of practically every Czech bank, with the total cost to taxpayers now nearing 400 billion Czech crowns ($10 billion).

Direct sales of enterprises were organized on a competitive basis. Government ministries evaluated privatization projects and made recommendations. Final decisions were made by the Privatization Ministry or, in the case of larger companies, by the government. There were several flaws in the process. In most cases, for example, only former managers or employees competed to purchase an enterprise. Foreigners were excluded. It is widely suspected that the decisions were reached through insider dealings mainly led by the Ministry of Industry and Trade and then-Minister Vladimir Dlouhy. However, corruption in the privatization process was apparently universal.

The voucher privatization program was hailed as the most creative and generous part of the process because anyone who was interested received property practically for free. Later, however, so-called privatization investment funds mismanaged some two-thirds of the property purchased with vouchers and transferred it improperly at rigged prices. The extent of the fraud may never be fully ascertained, since insufficient regulation meant that many of the transfers did not break any valid laws. Sadly, the voucher program suggests that the whole process may have been designed to make the thefts possible. First, the time frame during which privatization investment funds could be registered was only three months at the end of 1991, and there were no advertisements. Only financial institutions and well-informed individuals (almost all former Communists) were able to establish such funds.

Some large-scale corruption cases have an international component. The most famous case involved the importation of diesel oil under the label of light heating oil. This tax-evasion scheme cost the Czech government tens of billions of crowns between 1993 and 1996 and is the cause of major headaches for some Central European governments even now. The mastermind of this scheme reportedly was Semyon Mogilevich, the famous Russian organized crime leader who holds an Israeli passport and who allegedly moved his headquarters from Prague to Hungary in 1995. It is far from clear what criteria are used to select foreign investors and what kinds of deals are made with them. Nomura, which purchased stakes in the IPB bank between 1995 and 1998, must have made a deal with the Klaus government to retain Communist-era managers. The Austrian Erste Bank, which bought Ceska sporitelna (Czech Savings bank), has kept Livie Klausova, the wife of Vaclav Klaus, on its supervisory board for no apparent reason.

The capital market is also riddled with corruption. While company shares can be traded through several institutions, most transactions can be characterized as insider trading. Markets are being used for illegal transfers known as "tunneling." Property worth hundreds of billions of crowns, mostly state-owned, has apparently been embezzled with the help of such transfers.

In Transparency International's 2000 Corruption Perceptions Index, the Czech Republic was ranked 42 out of 99 countries surveyed and received a score of 4.2 (where 10 represents the least corrupt and 0 the most corrupt). There are very few anticorruption measures in place in the Czech Republic, and government agencies do not have formal codes of conduct. By law, the president, government ministers, the heads of both chambers of parliament, and other government officials may not participate in private business activities. Elected officials may engage in private business activities without any limitations. There are no restrictions on the participation of family members of government officials in business.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
2.00	2.00	1.75	1.75

Privatization in the Czech Republic was welcome. Economists and politicians explained the need for privatization well, and people were eager to dismantle the Communist economy. In the first few years after communism, literally hundreds of thousands of small private businesses were created.

The privatization process has had several components: returning property to families as restitution, selling smaller properties at auctions, offering vouchers, and selling large properties directly. Restitution was by far the cleanest and most successful process. Families immediately started taking good care of their properties, and towns and cities, especially their older central parts, became beautiful once again. Restitution applied only to small businesses and residential housing. Enterprises with more than 50 employees were not returned entirely to the families of former owners. Rather, families were only entitled to the parts of factories and companies that existed at the time they were nationalized, usually about 10 to 15 percent of the contemporary value of the company. Only rarely were families able to compete in the privatization process and buy back the entire property.

Since 1998, foreign investors have purchased all but one Czech bank. And most government shares in enterprises have either been sold or are being prepared for sale. The last bank, Komercni banka, is slated for sale in the first half of 2001. On the whole, these developments, apparently forced on the government by economic necessity, are good news. But, as mentioned earlier, there is reason to beware potentially unsavory side deals.

The current coalition government has exhibited a clear tendency to keep or recreate monopolies. Czech Telecom's monopoly, for example, delayed until 2002, despite pressure from the EU. After a fall in Czech Telecom's share price, Deutsche Telecom withdrew its bid.

Macroeconomic Policy

1998	1999-2000	2001
2.00	2.00	2.25

With public spending accounting for more than over 50 percent of GDP, the Czech tax burden is one of the highest the world. The system has been fully overhauled and is now largely based on value added taxes, personal and corporate income taxes, and compulsory social security payments. The average personal income tax, which includes social security payments paid partly by employers, comes close to 50 percent of wages. Despite promises, the Klaus governments did little to ease the tax burden. The current social democratic government even plans to raise taxes because it is anxious to lower budget deficits.

The acknowledged amount of unpaid taxes was nearly 100 billion crowns as of September 2000. The culprits are mostly large state-controlled companies that should have declared bankruptcy long ago. Tax-collection agencies allegedly fail to enforce compliance with tax laws because they are threatened with violence. Tariff and tax evasion on imports from Southeast Asia are estimated at 50 to 100 billion crowns.

The independent Czech National Bank (CNB) is responsible for maintaining currency stability. To comply with EU directives, it will soon be in charge of price stability. Vaclav Klaus has accused the CNB, and particularly its governor, Josef Tosovsky, of causing the economic decline that accelerated the fall of his government in 1997. Klaus' claim, however, is false. The decline actually began when Klaus halted almost all economic reforms and insisted on a "Czech way" of transformation. As a result, incompetent and corrupt socialist managers have remained in charge of most major Czech companies.

In 2000, the ODS proposed a much-criticized amendment to put the bank's budget under parliamentary control and, thereby, threaten the bank's independence. The amendment would also require the CNB to agree with the government on inflation target's and to bring salaries in line with state administration levels. If salaries were lower, though, the CNB could not employ sufficiently qualified personnel. CNB Governor Zdenek has criticized the proposed amendment and has argued that it goes against the global trend of giving more independence to central banks. Parliament has approved the amendment, but President Havel is expected to veto it. If the chamber of deputies were to override the veto, Havel would likely challenge the amendment before the constitutional court.

The CNB largely has been praised for its work. One of its most unsuccessful and questionable acts, however, was its licensing of several dozen private banks after 1989. Every bank has gone bankrupt, and billions of crowns in government loans and private deposits lost have been lost or, probably, embezzled. The government and private depositors will never see their money. As a result of this debacle, though, the level of obligatory insurance on deposits has been raised twice, partly because of EU pressure. Deposits are now insured up to 25,000 euros.

The Czech crown, now fully convertible, has been stable since 1989. It was tied to the U.S. dollar at first but is now linked more closely to the euro. Despite huge trade deficits, the Czech Republic country has large hard currency reserves. These amount to approximately $12 billion.

The capital market, on the other hand, simply does not work. Company shares can be traded in several institutions, but most trading has been insider trading at often rigged prices. Although an overseeing agency exists, it does not have the authority or the determination to introduce reforms. Since the market is not sufficiently regulated or respected, it is not used for raising development capital. It fact, the very concept of funding company development in capital markets has yet to be introduced to Czech business.

Microeconomic Policy

1998	1999-2000	2001
2.00	2.00	2.00

The Czech business environment, in many respects, has the qualities one would expect in a democratic country. There is full freedom to own and operate a business. The market determines prices, with a few exceptions like energy, water, or residential rents. Domestic and international trade is free and tariffs are comparable to EU levels. Private property rights are generally secure, although the legal use of computer software has raised questions about the stability of intellectual property rights. In fact, some 60 percent of computer software in the country is being used in violation of ownership rights.

Although state-controlled banks provided enormous credits to keep large Communist-run companies afloat, they found it extremely difficult to lend to small and medium-sized businesses. Even though most banks are now under foreign ownership, the situation has not improved—it actually has worsened. The amount of credit extended by Czech banks declined by almost 70 billion crowns (or about 6.2 percent of all bank loans) between August 1999 and August 2000. Most of this credit was withdrawn from small and medium-sized businesses whose loans were financed by IPB Bank, the third largest bank in the country. IPB's new owner, the Czechoslovak Trade Bank, terminated their loans. The situation is grave and may wipe out many of these businesses. American and other foreign banks have been reluc-

tant to get involved in these complicated schemes. It is also possible that foreign banks are involved on the wrong side, wittingly or unwittingly.

On the positive side, the government has introduced rather powerful incentives for foreign investments. Soon after it assumed power in 1998, the Zeman government waived corporate income taxes for ten years. And in 1999, foreign investments topped more than $5 billion dollars. In 2000, foreign investment is expected to be even higher. In comparison, total foreign investment between 1989 and 1998 was less than ten billion dollars.

The government's energy sector policies do not deserve as much praise. The government appears set to monopolize the electricity and gas industries again and to sell them en bloc, purportedly in the hope of getting a better price. Thus, energy distribution companies may again become part of the state-owned electricity producer, CEZ, and the state-owned gas importer, Transgas.

Social Sector Indicators

The so called "bank socialism" of the Klaus governments from 1992 till 1997 preserved overwhelming state control of the economy. Unrestructured companies remained under Communist management and were kept afloat with easy credits. Unemployment was artificially kept below 5 percent but soared to around 10 percent when unsustainable banks and companies ground to a halt.

When the CSSD came to power in 1998, it moved quickly in to privatize banks and the government's remaining shares in the largest companies. The new government also introduced investment incentives for foreign companies that led to boon of some $5 billion in 1999. The building industry started growing again, and in September 2000 unemployment fell below 9 percent.

The Czech pension system, already in deficit, is still fully financed by the state. And the current government has no plans to reform it. The only pension-related reform of the previous Klaus governments was the introduction of a gradual increase in the retirement age which, if left in place, would lead to a retirement age of 62 for men (up from 60), and 60 for women (up from the average of 55), depending on the number of children raised, by 2007. The current economic situation and the rapidly growing state debt will force the government to undertake more radical reform long before then.

Pensions are rather low and egalitarian, ranging from 5,000 up to 7,000 crowns per month. However, former employees of the Communist police and the secret police enjoy generous pensions, while surviving former political prisoners often live in beggarly conditions. Likewise, many retired members of the Communist police also run profitable private businesses that are probably based on their former influence networks.

The Czech welfare system is poorly designed and does not motivate people to work and take responsibility for their lives. A family of four regularly gets more money from the state when the parents remain unemployed than when they make an effort to earn a living. Unemployed persons lose their unemployment benefits after six months but then become entitled to social benefits that often are even higher. Roma have exploited these social payments for two or three generations, and it is to be feared that their ability to be responsible for their own lives has suffered.

Wages are still growing faster than productivity or inflation. While inflation in 1999 reached only 2.1 percent, the average wage that year rose, according to the Czech Office of Statistics, by 8.2 percent to 13,097 Kc per month (about $325). In contrast, the highest wages are still in financial services, where salaries 22,998 Kc. This disparity in incomes has existed since 1990 and has been unable to escape notice. This was especially true when banks were still state-owned and family members of former communists occupied most positions in local branch offices. The salaries of teachers, doctors, and intellectuals are still extremely low. A teacher's salary averages 11,082 Kc. A university-educated museum researcher with five years of experience earns only 9,000 Kc ($225).

The low wages in the education system are driving talented people to other professions and undercutting the country's key source of potential growth. Likewise, the return of academic independence to universities has actually cemented in place former Communist management structures. The quality of university education is, in fact, so law that many students try to escape to study in the West. Foremost among these people, however, are the affluent sons and daughters of former Communist families.

Although the Czech health care system has many flaws, its services are relatively good. Since 1989, doctors have managed to raise the standards of medical facilities substantially, despite financial and other shortcomings. Despite the introduction modern technologies and Western standards, though, wages are low, health insurance companies are inefficient and possibly corrupt, and most equipment and medicaments are in short supply. The proportion of GDP spent on health care is close to 8 percent, but one must take into account that Czech GDP is about four times lower than that of developed Western countries.

The situation of the country's significant Roma minority is worrisome. Some 80 percent of Roma are unemployed, and they are disproportionately involved in crime. These unpleasant statistics, along with strong anti-Roma sentiment and racism, are one of the worst legacies of communism in the Czech Republic. Unfortunately, the post-1989 governments have done little to improve the situation.

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ESTONIA

Polity: Parliamentary democracy
Economy: Mixed capitalist
Population: 1,400,000
GNP per capita at PPP $ (1999): 7,826
Capital: Tallin
Ethnic Groups: Estonian (65.1 percent), Russian (28.1 percent), Ukrainian (3 percent), other (4 percent)
Size of private sector as % of GDP (mid-2000): 75

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	2.10	↑ 2.05	↓ 2.06	↑ 2.00
Rule of Law	na	na	2.63	↑↑ 2.38
Economic Liberalization	2.13	↑ 2.00	↑ 1.92	1.92

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	1,530.0	2,405.0	2,982.0	3,187.0	3,607.0	3,563.0	3,409.0
Real GDP growth (% change)	-2.0	4.3	3.9	10.6	4.7	-1.1	6.4
Inflation rate	47.7	29.0	23.1	11.2	8.2	3.3	4.0
Exports ($ millions)	1,226.0	1,697.0	1,813.0	2,294.0	2,690.0	2,452.0	3,289.0
Imports ($ millions)	1,583.0	2,363.0	2,832.0	3,419.0	3,805.0	3,329.0	4,077.0
Foreign Direct Investment ($ millions)	212.0	199.0	111.0	130.0	574.0	222.0	241.0
Unemployment rate	7.6	9.8	10.0	9.7	9.9	12.3	13.7
Life Expectancy (years)	67.0	67.8	69.8	70.1	68.8	70.6	70.0

INTRODUCTION

Since the reestablishment of its independence in 1991, Estonia has implemented some of the most extensive political and economic reforms among the former Soviet states. Estonia's successful progress toward a democratic system of government and a market economy owes much to the stability of the country's political institutions and to the presence of a broad consensus among successive governments throughout the last decade. Most of Estonia's government and business leaders have supported the ongoing drive to European Union (EU) membership as a means of achieving political and economic reintegration into Western Europe. They also have advocated entry into NATO as a possible guarantor of national security. Estonia has enjoyed free and fair national and local elections, and it respects basic civil liberties, including freedom of the press, religion, and the judiciary. While corruption remains a less serious problem than in most other countries in the region, Estonia's government continues to work with the nonprofit sector to publicize and enact anticorruption initiatives. The status of the large noncitizen, mostly ethnic Russian, population remains a source of tension between Estonia and Russia, although various legislative and policy initiatives continue to address this issue.

Estonia's ongoing commitment to fiscal discipline and structural reforms has led to remarkable progress in the establishment of a market-oriented economy. During the last decade, Estonia privatized most state-owned enterprises, enacted very liberal trade policies, welcomed foreign investment, and pursued generally prudent monetary and budgetary policies. At the same time, the country has struggled with a large current account deficit, high unemployment, and relatively slow progress in social sector reforms during these often difficult years of transition.

Estonia's political situation at both the national and local levels remained largely stable between mid-1999 and late 2000. The October 1999 municipal elections produced a victory for the three-party national ruling coalition in two-thirds of the country's municipal councils, including the capital, Tallinn. Since entrance into the EU and other Western institutions remains a cornerstone of Estonia's economic and foreign policy, the necessity of meeting often strict EU membership criteria drives much of the country's current reform efforts. Estonia continues to proceed rapidly in its membership talks, having closed nearly half of its negotiation chapters by the middle of 2000. Following an economic recession caused by the August 1998 Russian financial crisis, the economy began to recover in late 1999 and exhibited increasing growth throughout the year 2000. The last phase of privatization, which involves large infrastructure and energy enterprises, slowly moved forward amid political and financial controversies.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
2.00	1.75	1.75	1.75

After three and a half years of fragile minority coalitions and left-right partnerships, the March 1999 parliamentary elections saw a center-right coalition form a majority government with greater prospects for stability. In contrast to the previous minority government of Prime Minister Mart Siiman's, which had faced increasing difficulties in carrying out his political programs, the new leadership of Prime Minister Mart Laar was able to use its majority in parliament to pass various legislative measures in 1999 and 2000. Among the government's initiatives were emergency spending cuts in August 1999 and radical tax code changes in December of that year, both of which were part of the coalition's broader economic liberalization program.

Following the restoration of Estonia's independence in 1991, the country's first post-independence national legislative elections in September 1992 brought the right-of-center Pro Patria Union to power. Two years later, Prime Minister Mart Laar was ousted in a no-confidence vote over alleged financial improprieties and was replaced by Environment Minister Andres Tarand. The victory of the center-left Coalition Party/Rural Union alliance in Estonia's second parliamentary vote, held in March 1995, marked a political shift in the legislature. The results reflected popular dissatisfaction among elderly and rural voters, who were hardest hit by the Pro Patria-led government's market reforms. Tiit Vahi, a moderate who was chosen prime minister, formed a center-left coalition with the left-wing Center Party, while promising to continue the previous government's reform policies.

In October 1995, the government collapsed amid an illegal wiretapping scandal that implicated Interior Minister Edgar Savisaar, who was dismissed and whose Center Party left the ruling coalition. Vahi subsequently formed a new coalition in which the right-of-center Reform Party joined the Coalition Party and Rural Union. This fragile left-right minority coalition held until February 1997, when Vahi resigned over allegations that he had illegally obtained luxury apartments during the privatization process between 1993 and 1995. In March, President Lennart Meri approved Mart Siiman of the Coalition Party as the new prime minister. Throughout 1998, the ruling left-of-center minority coalition, composed of the Coalition Party, Rural Union, the Country People's Party, and the Party of Pensioners and Families, failed to increase its membership and its support in parliament. Consequently, Prime Minister Siiman was unable to carry out many of his political programs, including difficult legislative reforms necessary for EU membership.

The most recent national legislative election, which observers called free and fair, took place on March 7, 1999. More than 1,800 candidates representing 12 parties, as well

as 19 independent candidates, competed for the 101 seats in parliament. The Center Party of Edgar Savisaar won the largest share of votes, 23.4 percent, and captured 28 seats. The other six parties that met the five percent threshold needed to enter parliament were Pro Patria, which gained 18 seats; the Estonian Reform Party, 18 seats; the center-left Moderates, 17 seats; the centrist Coalition Party, 7 seats; the left-of-center Country People's Party, 7 seats; and the left-wing United People's Party, representing some of the country's large ethnic Russian population, 6 seats. Although the Center Party received the most votes of any single party, the Reform Party, Pro Patria, and the Moderates, who together captured 53 seats, formed a majority coalition government and evenly divided the 15 cabinet seats among them. Despite differences between the right-wing Reform Party and Pro Patria and the more left-leaning Moderates, the new coalition, which had signed a cooperation agreement the previous December, promised to be more stable than previous governments. On March 22, 1999, parliament approved Pro Patria's Mart Laar, who had served as prime minister from 1992 to 1994, as the new premier.

On September 20, 1992, Estonia held its first direct post-independence presidential election. According to the constitution, any citizen by birth who has reached the age of 40 may be nominated as a presidential candidate by at least one-fifth of the membership of the Riigikogu. When none of the four candidates received an absolute majority of the popular vote in the 1992 election, parliament held the deciding round of voting and elected former Foreign Minister Lennart Meri. After the 1992 poll, the procedure reverted to the election of a president by parliament.

In the last presidential election, which took place in August and September 1996, former Chairman of the Supreme Soviet Arnold Ruutel challenged incumbent President Meri. Following two rounds of voting in which neither candidate received the necessary two-thirds vote by members of parliament, the elections were moved to a vote by the electoral college, which comprises the full parliament plus 273 local government representatives. Both candidates automatically entered this round of voting and were joined by three new candidates who had been nominated by at least 21 members of the electoral college. After two rounds of voting, Meri was reelected to his post by a comfortable margin. The next presidential election is scheduled for 2001.

In late 1999, parliament voted down a bill on direct presidential elections that was sponsored by the opposition Center Party. Public opinion polls taken at the time indicated that almost 75 percent of Estonians support a direct vote for president. However, opponents of the measure, including the ruling coalition, claimed that a direct vote would create confusion about the respective roles of the president and prime minister and concentrate too much power in the executive branch at the expense of parliament.

Estonia's parliamentary electoral law encourages the formation of larger, and therefore fewer, political parties. Specifically, it requires parties running in national legislative elections to receive at least five percent of the vote in order to enter parliament. Since the early 1990s, many smaller parties have merged in an attempt to gain wider public support. More recently, the number of political parties registered in Estonia has declined by roughly half: from 28 in July 1998 to 18 in mid-1999 to some 13 as of mid-2000. In October 1998, two months before the registration deadline for the March 1999 parliamentary elections, an amendment to the 1994 Law on Parties raised the membership requirement from 200 to 1,000 for a political party to register and run in an election. Smaller parties raised concerns about the late introduction of these changes and claimed that the move was prejudicial against them.

In November 1998, just four months before the March 1999 parliamentary ballot, parliament voted to abolish electoral unions. The law's purpose was to prevent political parties from forming ultimately unstable coalitions prior to elections for the sole purpose of passing the five percent threshold to enter parliament, as occurred during the 1995 vote. The law was further amended in February 1999 to allow parties in parliament to form only one parliamentary faction, ostensibly to lead to a more cohesive legislature. Some analysts speculated that the ban also may lead to the eventual reduction in the total number of parties in Estonia by encouraging additional mergers of existing parties.

Despite the continuing decrease in the number of parties, Estonia's electoral system remains multi-party based at all levels of government. Seven electoral coalitions and nine parties competed in the national legislative elections in March 1995, and 12 parties took part in the March 1999 elections. In September 1998, 13 political parties were represented in parliament. After the 1999 poll, the number decreased to seven, largely as the result of the merging of smaller parties. While 19 parties participated in the 1996 local elections, the number decreased slightly to 14 in 1999.

In December 1998, parliament adopted controversial amendments to the parliamentary election law and the local government council election law. According to the amendments, members of these two bodies must possess sufficient Estonian language skills to be able to participate in their respective assembly's work and to understand legal acts. The amendments, which took effect in May 1999, did not affect candidates in the March 1999 legislative elections. In a report by the Council of Baltic Sea States, the organization's commissioner expressed concern that the amendments would restrict a citizen's right to run for office and the electorate's right to vote for candidates of its choice.

Voter turnout for parliamentary elections increased slightly from 67 percent of eligible voters in September 1992 to approximately 70 percent in March 1995 but fell sharply to around 57 percent in March 1999. Reasons cited for the decline include confusion over the large number of candidates and parties, many of which espoused similar platforms, and the belief that voters are unable to influence the political system. While lower than figures at the national

level, voter turnout for local elections has remained steady. Approximately 52 percent of eligible voters, including noncitizen permanent residents, took part the October 1993 and October 1996 local elections. For the October 1999 local elections, turnout dropped below the 50 percent mark to 49.4 percent. Turnout was 50.9 percent for citizens and only 43 percent for noncitizens.

Apathy has also been expressed in the low levels of party membership in Estonia. In a survey conducted by the domestic Saar polling agency in 1997, only two percent of Estonians and one percent of non-ethnic Estonians stated that they had joined a political party. A June 2000 European Forum provided the following membership figures for some Estonian parties: Center Party, 2,100 members; Pro Patria Union, 1,400 members; Reform Party, more than 800 members; and Coalition Party, more than 500 members. According to figures from October 1998, women accounted for 45.5 percent membership in registered parties. Under the constitution, only citizens of Estonia may be members of political parties. However, noncitizens, the majority of whom are Russian-speaking non-ethnic Estonians, may vote in local elections. Several political parties have been formed to address the concerns of both citizen and noncitizen Russian speakers and to increase their involvement in Estonian politics. Most recently, the Russian Baltic Party of Estonia was established in June 2000.

Civil Society

1997	1998	1999-2000	2001
2.25	2.25	2.50	2.25

Although Estonia's nongovernmental organizations (NGOs) continue to suffer from organizational and financial shortcomings, efforts have been made to improve the state of nonprofit groups through training programs, research and publications, and information exchanges. In late 1999, for example, a number of nonprofit groups and political parties signed an agreement to increase cooperation between the third sector and national and local government officials.

In the years of political upheaval immediately preceding independence, the nonprofit sector in Estonia underwent significant changes. With the disappearance of large Soviet-era organizations in the late 1980s, some voluntary associations active before 1940 were restored and many new independent NGOs were established. Among the first new organizations were mass movements such as the Popular Front and the Cultural Heritage Protection Society, which supported the restoration of Estonia's independence and helped to set the tone for the country's emerging political parties.

In the first several years after the disintegration of the Soviet Union, Estonia's nonprofit sector grew rapidly. Hundreds of educational organizations, sports associations, professional groups, and other groups met the registration requirements by submitting a founding agreement, articles of association, a bank statement of funds, a list of board members, and a nominal fee. Since 1988, more than 70 cultural societies and associations addressing the interests of ethnic minorities have been established, including the Estonian Union of National Minorities and the Union of Slavic Educational and Charity Organizations. Diverse organizations such as Estonian Women in Film, the Estonian Businesswomen's Association of Rapla, and the Estonian Environmental Women's Union represent women's issues. According to official statistics, Estonian civil society currently includes a remarkably large number of NGOs. As of October 9, 2000, the Estonian Central Registry listed 13,182 nonprofit associations and 357 foundations. However, the majority of these organizations are either very small, with staffs of fewer than ten people, or largely inactive.

Popular participation in NGOs remains constrained partly because the existence of an independent third sector characterized by genuine volunteerism, as opposed to enforced voluntary activities during the Soviet period, is still a relatively new phenomenon. Other factors include larger economic concerns, which limit much of the population's activities with charitable and other groups, and a belief that civic initiatives will not solve the country's problems. While the exact proportion of the population involved in NGOs is difficult to determine, one study found that less than 40 percent belongs to at least one nongovernmental group, broadly defined to include political parties, trade unions, professional and educational associations, and cultural and charitable organizations.

In addition to staff and volunteer shortages, most NGOs continue to suffer from limited institutional and organizational capacities. One of the greatest challenges facing Estonian nonprofit organizations is the need to improve their overall level of professionalism. Senior staff members frequently have insufficient management and administrative experience, while other NGO employees exhibit poor skills in areas such as proposal writing, accounting, budget elaboration, and public relations. Most NGOs are not well-versed in public relations efforts with the media, which favor politics, economics, and entertainment over NGO issues. The boards of directors of nonprofit organizations are frequently inactive or unfamiliar with the responsibilities of board members.

The long-term financial viability of most Estonian NGOs remains uncertain because of decreasing foreign aid, inadequate private financial support, and unfavorable provisions in tax laws. Recent legislation governing the operation of nonprofit organizations includes the 1996 Law on Nonprofit Associations and the Law on Foundations, which allow groups to earn income that can be used to achieve statutory objectives. However, all NGOs pay taxes on earnings from business activities related to their work; some groups must pay taxes on funds received from donors. According to the Income Tax Law of 1994, only organizations engaged in activities for the public benefit, including science, culture, education, sports, religion, health care,

social welfare, and environmental protection, may qualify for tax exemptions on financial contributions.

Financial support from the business community, for which the idea of donating to charitable organizations is still a relatively novel concept, remains low. Under existing laws, companies are only exempt from paying income taxes on the first ten percent of their annual profits donated to charities; for individuals this figure is five percent. NGOs in larger cities largely depend on private sector donations and decreasing foreign assistance, while those in smaller towns and rural areas receive most of their funding from state and local administrations and through membership fees. The government supports the nonprofit sector through tax revenues from items like alcohol, tobacco, and gambling, which totaled $5 million in 1998, and through direct funding from the state budget, which exceeded $7 million the same year. Sixty-eight percent of respondents to a December 1999 public opinion poll said that the government should be the primary source of financial support for nonprofit groups.

In an effort to help remedy the organizational and financial concerns of NGOs, nonprofit groups have demonstrated an increasing willingness and ability to exchange information and cooperate on joint projects. The Network of Estonian Nonprofit Organizations (NENO), an umbrella group for NGOs, provides training programs on diverse topics such as nonprofit management, strategic planning, fund-raising, attracting and using volunteers effectively, and working with board members. In 1998, NENO helped to organize Estonia's first NGO forum for nonprofit groups to discuss issues of mutual interest and concern. NENO also issues publications on various NGO topics in Estonian, Russian, and English. An online NGO database maintained by the Jaan Tonisson Institute allows local organizations to obtain and share information and to inform the public of their activities.

The government's perception of the NGO sector has continued to improve, as a result of various efforts by some nonprofit groups. In an attempt to strengthen cooperation between the state and the nonprofit sector on shaping public policy and legislation, approximately 20 leaders NGOs and political parties signed a memorandum of cooperation in December 1999. The groups established a chamber of cooperation for maintaining regular contact between the two sides and worked out a blueprint for the continued development of Estonia's civil society.

Membership in Estonia's trade union sector, which operates independently from the government, is in decline. According to the U.S. Department of State, membership in the Central Organization of Estonian Trade Unions (EAKL), the country's principal trade union alliance, has decreased from a reported high of 500,000 in 1992 to 330,000 in 1993, 200,000 in 1994, and only about 65,000 in 1999. This decrease has been attributed largely to the privatization and breakup of large state-owned enterprises and to the subsequent shift of workers into smaller firms and the service sector. Only about 15 percent of Estonia's 600,000 wage earners currently belong to trade unions. In late 1999, the government finally registered the EAKL under the 1996 Law on Nonprofit Associations, after having threatened to liquidate the group unless it met the strict registration requirements for trade unions. The International Labour Organization assisted in the process by finding a compromise on applying the registration procedures in practice. In June 2000, parliament adopted a long-delayed Trade Unions Act that defines the following: the rights of labor unions to oversee the interests of their members; the relationship of unions to employers and public and local government agencies; and the requirements for the establishment, operation, and dissolution of unions as nonprofit associations. Representatives of trade unions have praised the law for protecting employees' rights, including in cases of collective disputes.

Entrepreneurs' organizations have grown in Estonia since the mid-1990s. The Estonian Chamber of Commerce and Industry has a membership base of more than 26,000 large companies and smaller enterprises, while the Estonian Association of Small and Medium-Sized Businesses encompasses approximately 300 member groups. The Estonian Farmers' Federation, whose membership declined from 10,000 in 1991 to approximately 5,000 in 1999, represents the interests of farmers. The Estonian Chamber of Agriculture and Commerce, which represents Estonian agricultural producers and processors, has about 200 member organizations and companies.

Although the constitution stipulates that only citizens of Estonia may belong to political parties, noncitizens may form nonprofit and social groups. Political parties and associations whose activities promote the violent change of the country's constitutional system or violate criminal law are prohibited. Politically active interest groups focus on education, the environment, minority rights, and social welfare.

Independent Media

1997	1998	1999-2000	2001
1.75	1.75	1.75	1.75

Since the collapse of the Soviet Union, Estonia has witnessed the development of a vibrant media sector characterized by a surprisingly large number of print and broadcast outlets for the country's small population. Partly as a result of this intense competition for limited advertising and subscription revenues, financial difficulties continue to plague newspapers and broadcast media. Despite some legislative shortcomings, particularly regarding the criminalization of libel, Estonia enjoys an independent press that is free from government interference.

The operation of privately-owned media began shortly before the restoration of Estonia's independence in 1991. The first new privately run newspapers were established in

the late 1980s. The first paper to be privatized was the daily *Postimees*, which has consistently been the biggest selling paper in the country. The first private radio station began broadcasting in 1990, and the first licenses for private broadcasters were issued in 1992.

For a country of only 1.4 million people, Estonia boasts three national private television stations: TV3, which enjoys the country's second largest viewership, Kanal 2, and TV1. The state-owned public service channel, Estonian Television (ETV), enjoys the highest ratings in Estonia, despite competition from independent stations. State and private channels broadcast Russian language programs, while cable and satellite networks offer programs from throughout Europe. More than 30 radio stations are privately run, and the state-owned public service Eesti Raadio broadcasts a mix of popular and classical music, news, and Russian-language programs on four channels. The country's two most popular stations are the public non-commercial Vikerradio and the independent Radio Elmar, which plays older Estonian pop music.

All Estonian-language daily newspapers are privately owned and receive no state subsidies. Of the country's seven national daily newspapers, five are printed in Estonian and two in Russian. There are dozens of weekly papers and magazines, as well as local and regional publications. The three most popular daily newspapers continue to be *Postimees* (The Postman), with a circulation of about 60,000, *Eesti Paevaleht* (The Estonian Daily), and *Sonumileht* (The Daily Story). The two main news agencies are the Baltic News Service (BNS), a privately-owned agency headquartered in Tallinn with branches in all three Baltic states, and the previously state-run Estonian News Agency (ETA).

Following the restoration of independence, the government monopoly on printing and distribution facilities was abolished. While the government formally owns the newspaper printing plant in Tallinn, it does not interfere in a private company's management of the facility. The country's various regional printing plants and distribution networks are privately owned and operated.

One of the country's primary media organizations is the Estonian Newspaper Association (EALL), an umbrella group of newspaper publishers, editors, and journalists that was established in 1990. Uniting more than 40 newspapers printed in Estonia, the EALL defends the common interests and rights of newspapers and fights against violations of freedom of the press. In 1991, the EALL established the Estonian Press Council, a self-regulatory body for the media. Of the Estonian Press Council's 15 members, six are women. Other media associations include the Association of Estonian Broadcasters, the Journalists' Union, and the Media Educators Association.

Many private media outlets continue to face financial difficulties. This is due, in part, to diminishing advertising revenues and to the large number of competing media organizations relative to the small size of the country's population. In 1999, the total volume of media advertising was 639 million *kroons*, or ten percent less than the previous year. Nearly half of all advertising revenues were spent on newspapers, followed by television, with 20 percent, and magazines and radio with about 12 percent each. However, according to the media research company Baltic Media Facts, the advertising market is expected to grow by five to ten percent in the year 2000.

Despite receiving government funding, the state-run ETV faced numerous financial problems in 1999 and 2000 that resulted in deep funding cuts, staff dismissals, and reductions in programming. The station's budgetary problems peaked in early 1999 after the country's three main private television stations agreed to pay ETV a fixed sum to stop running advertisements from January 1998 through August 1999. ETV, which previously had drawn its revenues from both the state budget and advertising, would be financially compensated by the three private stations. The director general of ETV, Toomas Lepp, explained that the decision was motivated by a desire to stop commercial considerations from interfering with public service programming decisions. In May 1999, however, ETV began airing commercials again after the private channels, particularly TV1, had been consistently late with their payments and thereby had violated the agreement. The government subsequently intervened and declared that ETV should not show advertisements. In June, ETV's board of directors resigned in protest over what they called Lepp's autocratic leadership style and decisions that were harmful to ETV. By the end of 1999, citing management failures and financial irregularities, the Estonian Broadcasting Council had dismissed Lepp.

The Estonian constitution prohibits censorship and guarantees the right to freedom of expression. The government respects these provisions in practice. According to article 45, "everyone shall have the right to freely circulate ideas, opinions, persuasions and other information by work, print, picture and other means," and "there shall be no censorship." While there is no specific press law, print media are regulated through various other pieces of legislation, including the copyright, competition, language, and state secrets acts. Electronic media are governed by the May 1994 Broadcasting Law, which enshrines the right of television and radio stations to make independent decisions about the content of their transmissions. In its annual *Survey of Press Freedom*, Freedom House rated Estonia Partly Free in 1992 and Free from 1993 to 2000.

Although Estonia's overall legal framework adequately protects press freedom and does not contain legal penalties for "irresponsible journalism," cases regarding libel continue to be punishable under criminal law. The ENA has lobbied the government to make defamation and libel civil offenses. In 1997, in a high profile case, the Estonian supreme court upheld a lower court's conviction of investigative reporter Enno Tammer on criminal charges of insulting the wife of Estonian politician Edgar Savisaar during an interview. Tammer was ordered to pay a fine of 220 kroons

(approximately $15) and court costs. PEN and the Estonian Newspaper Association (ENA) condemned the decision—the first of its kind in post-Soviet Estonia—as an attempt to limit freedom of speech. In 1998, the case was brought before the European Court of Human Rights. In late 1999, the court ruled that it would continue with its investigation, a decision that does not guarantee that the case will go to trial.

Estonia's press, which is now entirely privately owned, enjoys editorial independence from the government. Likewise, public service radio and television, which receive financing from the state budget, do not face government interference in their editorial decisions. While the country's major newspapers have particular political leanings, not all of them openly endorse individual parties or candidates. Nevertheless, much of the press demonstrated a bias against the Center Party of Edgar Savisaar during the 1999 parliamentary election campaign, and some newspapers have published paid political advertisements as part of their editorial content. Although much of the media frequently conduct probing investigative reports, some journalists tend to publish rumors and allegations as facts; "yellow journalism" is not uncommon. The Estonian Press Council, a group composed of various broadcast and print-related organizations, hears cases involving journalistic improprieties or problems with the authorities. Although its decisions are not legally enforceable, the Estonian News Agency can publish the results and thereby exert pressure on the government to recognize the editorial independence of the country's media.

Estonia continues to have one of the highest levels of Internet penetration in the former Soviet Union and Eastern Europe and more Internet users than some European Union member states. According to a BMF Gallup Media survey, approximately 28 percent of persons aged 15 to 74 used the Internet as of spring 2000, compared to 16 percent a year earlier. A national campaign (code-named "Tiger Leap") launched in 1997 and sponsored by the United Nations Development Programme has helped to extend Web access throughout the country and to establish more than 80 public access sites where Estonians can use the Internet for free. The only restriction that private citizens face regarding Internet access remains the high cost of Internet connections and computers.

Governance and Public Administration

1997	1998	1999-2000	2001
2.25	2.25	2.25	2.25

The October 1999 local elections largely mirrored the parliamentary poll held earlier that year, as the center-right grouping of Pro Patria Union, the Reform Party, and the Moderates secured victories in two-thirds of Estonia's local councils. Their most important win also proved particularly difficult: this "triple alliance" secured a slim majority in Tallinn's City Council by forming a coalition with other parties, including those representing Russian speakers.

Under Estonia's constitution, which was adopted in 1992, a clear division of power exists between the executive and legislative branches of government. Among the main responsibilities of the country's 101-member parliament are the adoption of laws and regulations, the passage of a state budget, the election of the president, and the authorization of the prime ministerial candidate to form a government. The executive branch, which is represented by the prime minister and his cabinet, executes domestic and foreign policy, prepares draft laws, administers the implementation of acts adopted by parliament, and directs the work of government institutions. Estonia's president, who serves as the country's head of state, commands a largely ceremonial position. The legal chancellor, an independent official who examines the conformity of legislation from the legislative and executive branches and local governments with the constitution, enforces a system of checks and balances. If a conflict is found and appropriate changes are not made within 20 days, the legal chancellor appeals to the supreme court (the court of constitutional review) for the law's repeal.

The constitution guarantees transparency in the work of the executive and legislative branches of government. Article 44 requires all state and local governments to provide information about their activities to Estonian citizens at their request. This requirement does not include information that is intended for internal use only or that is prohibited by law to be revealed. However, it has been reported that government officials, particularly at the local level, arbitrarily deny citizens and journalists access to information that they have requested. Most sessions of parliament are open to the public, and all laws adopted by the legislature are published in the official State Gazette. The government press office, along with each ministry's press secretary, disseminates official information to the news media.

Despite pressure from various local and international organizations, Estonia has not adopted a freedom of information act. In July 1999, a working group composed of media, government, and academic representatives presented a draft public information law to the Interior Ministry. The law was intended to ensure the right to gain access to documents produced by state and local authorities. In March 2000, parliament passed the Digital Signatures Act, an important precursor to an eventual public information law. The Digital Signatures Act, which will go into effect in January 2001, requires the government to digitally code every online document it prepares in order to ensure its authenticity, facilitate the placement of government documents on the Internet, and provide the public with easier access to such information.

During the period of political upheaval in the Soviet Union in the late 1980s, the local council elections of 1989 restored Estonia's system of local self-government system. From 1989 to 1992, Estonia had a two-level local government system formed by 15 counties with self-governments

at the regional level and six larger cities at the municipal level. The Local Government Organization Law of 1993 abolished elected county governments and reorganized the county system into regional units of the central state administration. The one remaining level of local government consisted of more than 200 towns and rural municipalities, all of which enjoy the same legal status. While the 1992 constitution provided the general legal basis for local power, subsequent laws addressing specific issues of subnational government included the Territory of Estonia Administrative Division Act, the Municipal and Town Budget Law (June 1993), the Law on the Correlation between Municipal and Town Budgets and the State Budget (August 1993), and the Local Taxation Law (September 1994).

According to the constitution, local authorities autonomously manage and resolve all local issues. The basic functions of local government include the provision of public services, the organization of social services, and the maintenance of local public transportation and roads. Local authorities also share certain responsibilities with the central government, including in the field of education. Although currently there is no regional level of self-government, county governments are responsible for organizing and coordinating the work of national institutions at the local level.

During the last several years, considerable debate has been focused on reducing and consolidating the number of local authorities. Since 70 percent of Estonian municipalities have less than 2,500 residents, establishing fewer but larger local governments would help the authorities improve their financial and administrative capacities. By the end of 1999, 18 municipalities had decided to merge on their own initiative; this decreased the number of local governments from 256 to 247. One of the primary objectives of current local administrative reform is to oversee the eventual reduction of municipalities to between 60 and 80 by October 2002. Under the plan, municipalities would need to have at least 3,500 inhabitants. In order to fulfill joint tasks more efficiently and protect regional interests, local governments continue to work together through national and regional associations, including the Association of Estonian Cities and the Association of Estonian Rural Municipalities.

Since the restoration of its independence, Estonia has held local elections three times: in October 1993, October 1996, and October 1999. International election observers described all three elections as free and fair. While only Estonian citizens may stand as candidates, noncitizen permanent residents who have lived in their respective municipality for at least five years may to vote in local elections. In the 1999 elections, the Pro Patria Union, the Reform Party, and the Moderates—nicknamed the triple alliance—took power in two-thirds of Estonia's major cities and towns. In the race for the Tallinn City Council, considered by many to be second in importance only to the national legislature, the Center Party won the most votes and secured 21 of 64 seats. The triple alliance, which also formed the ruling coalition in parliament, received 28 seats altogether. Though neither side had won an absolute majority, the triple alliance cobbled together a bare majority coalition of 33 seats. The coalition included the four members of the People's Trust and one of the nine members of the People's Choice, both electoral alliances of Russian speakers' parties. The Coalition Party subsequently added its two seats to the ruling coalition. Interior Minister Juri Mois of Pro Patria became Tallinn's mayor. In September 2000, the Coalition Party withdrew from the ruling coalition when Mois called for the removal of two prominent Coalition Party city officials based on allegations of corruption. Nevertheless, the coalition retained its absolute majority in the city council.

Municipal governments receive funding from the state budget through both direct budgetary appropriations and shared taxes; they also raise revenues autonomously. Money is allocated from the state budget to local budgets for purposes which may include supplementing budget revenues and helping to finance teacher salaries and capital expenditures. At the same time, the constitution calls for local governments to keep independent budgets and grants them the right to levy and collect taxes and to impose fees. The Local Taxation Law stipulates the kinds of taxes that local authorities may levy, including a local sales tax, an entertainment tax, and a motor vehicle tax.

Local governments continue to face financial difficulties and to operate at a deficit. According to Estonian Ministry of Finance statistics for the first nine months of 2000, total revenues and grants of local governments equaled 4.846 million kroons, while total expenditures totaled 4.866 million kroons. During the same period, the revenue from personal income tax (a shared tax that is centrally imposed and collected) constituted 56 percent of the total income of local budgets, while grants from the national government accounted for 25 percent of total income. The financial independence of local governments is effectively limited by the fact that the vast majority of their revenues comes from the central government. To address this problem, recommendations have been made to increase the number of local taxes and improve the efficiency of local tax collection measures.

Although Estonia's public administration underwent six reorganizations between 1987 and 1995, substantial reform of the civil service system began in 1996 when three key pieces of legislation came into effect. The Public Service Act, the Government of the Republic Act, and the State Public Servant Official Title and Salary Scale Act, which together established a legal framework for public service, address issues such as the rights and duties of public servants, their recruitment and evaluation, and the salary scales for 35 different levels of employment. According to the Public Service Act, local civil servants are considered local government employees. A recent reform effort was the establishment in 1999 of the Office of Public Administration Reform (OPAR) within the State Chancellery. However, a comprehensive strategy for public administration reform has not been developed, and the

tasks of OPAR remain unclear.

Most of Estonia's civil servants conduct their work in an impartial and politically neutral manner. At the same time, the public service administration continues to suffer from a lack of qualified candidates because of competition from higher paying jobs in the private sector. Some of the specific problems that have been identified are difficulties in recruiting and retaining higher level officials (turnover rates are estimated at 15 percent), a skewed distribution of staff toward senior positions, and inequality in the remuneration of salaries. At the same time, recent positive developments include the launch of a new civil servants evaluation system that was adopted in 1999.

RULE OF LAW

Constitutional, legislative, and judicial framework

1997	1998	1999-2000	2001
2.25	2.25	2.00	2.00

Estonia's judicial and legal systems, which operate free from state political control, have continued to undergo various reforms during the last decade. Prison reform efforts gained additional momentum in 2000 with the announcement of plans to build a new facility in southern Estonia. Recent salary increases for police officers should help to attract more qualified and professional candidates. Nevertheless, delays in the criminal justice system, reports of abuse of suspects by law enforcement officials, and poor prison conditions remain serious problems.

One of the first legislative priorities following the restoration of independence was the reestablishment of Estonia's constitution, which was adopted by public referendum on June 28, 1992, with 93 percent of the vote. The constitution includes a chapter on the rights and obligations of citizens and noncitizens; establishes the separation of authority of the executive, legislative, and judicial branches of government; and contains sections on the national budget, foreign relations, national defense, and local government.

There is no separate court for addressing constitutional matters in Estonia. Rather, the Supreme Court serves as the court of constitutional review through its five-member Constitutional Review Chamber. On the proposal of the chief justice, who also serves as the Chamber's chairman, the supreme court elects members of the Chamber for no more than two five-year terms. During the first five months of 2000, the Chamber issued six rulings. One important ruling involved an austerity budget law of June 1999 that cut funding to individuals who had been forced out of restituted homes according to a 1994 housing law. The legal chancellor submitted an appeal to the Chamber in January, arguing that the move violated article 116.2 of the constitution, which states that parliament cannot reduce or eliminate budget expenditures prescribed by other laws. Unable to reach a consensus, the Chamber submitted the case to the full 17-member supreme court. In its final ruling in March, the court argued that the housing law did not specify the amount needed to implement the law. Therefore, the court could not declare the budget amendments null and void because it could not assess whether the cuts would effectively halt implementation of the housing law and, thus, constitute a violation of the constitution.

Chapter two of the constitution guarantees fundamental human rights, including freedom of conscience, religion, thought, and assembly. Article 12 prohibits discrimination on the basis of nationality, race, color, sex, language, origin, creed, political or other persuasions, or financial or social status. Estonian citizens have the right to engage in commercial activities and to form profit-making associations. Foreign citizens and stateless persons residing in Estonia also enjoy this right unless otherwise determined by law. Under the constitution, property may not be expropriated without the owner's consent, except in cases of the public interest and in exchange for appropriate compensation. In practice, the government generally respects these political, social, and economic rights.

Over the last decade, Estonia has overhauled its system of criminal legislation. An interim criminal code, which went into effect in June 1992, revised the Soviet-era law and eliminated political and economic crimes. A code of criminal procedure was adopted in 1994, and amendments to the criminal code in 1996 provided police and prosecutors with more tools to combat organized crime. Under Estonian law, a warrant is required for the search and seizure of property. During the investigative stage, the prosecutor issues warrants after probable cause has been shown. Once a case has gone to trial, the court is responsible for issuing warrants. According to the constitution, detainees must be informed promptly of the reasons for their arrest and given the immediate opportunity to choose an attorney. If a defendant cannot afford legal counsel, the state must provide it.

In late 1999 and early 2000, several hundred police officers were dismissed as part of an effort to cut expenses from the Interior Ministry while providing salary increases for the remaining law enforcement officials. Since some police officers reportedly have used excessive physical force and verbal abuse during the arrest and questioning of suspects, the controversial move was designed to help attract and retain qualified individuals. In April 2000, parliament announced plans to construct a new prison near the southern town of Tartu. The decision represents part of the government's multiyear plan to improve conditions in Estonia's prisons, which continue to suffer from a lack of resources, inadequately trained staff, and overcrowding.

Estonia's constitution establishes an independent judiciary, which in practice is generally free from interference from other branches of government. The Status of Judges Act, which regulates various aspects of the judiciary, also includes basic guarantees for the independence of judges.

Although most judges are politically impartial in their rulings, some judges continue to show uncertainty in their application of the law. The quality of court decisions varies considerably, but it remains particularly unsatisfactory in the lowest-level courts. To address this problem, training programs have been conducted for judges and prosecutors, with some 60 percent having undergone 112 hours of training each. Many qualified lawyers still regard a career in the judiciary as unappealing, particularly since judges' wages lag behind those in the private sector. In August 2000, a Ministry of Justice bill proposed increasing the salaries of judges by 20 percent as of 2001. Most judges would receive around 18,000 kroons per month. The fact that 14 of 238 judges' posts remained vacant during the first half of 2000 contributed to the persistent backlog of cases, that is, criminal cases pending for more than one year and civil cases pending longer than two years. In 1999, the number of pending cases in Estonia's courts equaled 42.4 cases per judge per month.

The judiciary operates under a three-tier system of lower-level rural and city courts, district courts, and higher courts, including the supreme court. All judges are appointed for life and may be removed only by a court decision. To help ensure transparency, the constitution calls for public court proceedings; closed sessions may be held only for specific reasons such as the protection of state or business secrets or in cases involving minors. The lower levels of the court system are linked financially to the Ministry of Justice, while at the highest levels judges are paid from the state budget independently of the ministry. The enforcement departments of county and city courts generally implement judicial decisions effectively in both criminal and civil cases.

The status of Estonia's large ethnic Russian population has continued to strain relations with Russia, which has accused Estonia of violating the rights of its Russian-speaking population. However, according to a recent EU report on Estonia, the rights of the Russian-speaking minority, both citizens and noncitizens, are largely observed and safeguarded. All residents—citizens or not—can file complaints directly with the supreme court about alleged violations of human or constitutional rights. In some cases, the court has decided in favor of complainants. In predominantly Russian-speaking regions of the country, the Russian language continues to be used extensively in the court system and administration. While the 1993 Law on Cultural Autonomy of National Minorities provides for the preservation of the languages and cultures of national minorities, some noncitizens have termed the law discriminatory since it only applies to citizens.

During the Soviet era, large numbers of non-Estonians (mostly Russians) migrated to Estonia. They and their descendants now account for approximately one-third of the country's total population of 1.4 million. Under the 1992 Citizenship Law, which readopted legislation from 1938, anyone born after 1940 to a citizen parent of pre-World War II Estonia is a citizen by birth. Those who arrived during the Soviet period are regarded as immigrants and must apply for citizenship. A new Citizenship Law adopted in 1995 toughened certain requirements for naturalization, including lengthening the residency period. The Russian government, Russian-speakers in Estonia, and some international organizations criticized elements of the law as discriminatory. In December 1998, the government adopted amendments that allow stateless children who are born in Estonia after February 26, 1992, to legally resident yet stateless parents to acquire Estonian citizenship. They can do so at the request of their parents and without having to pass a language test. As of August 2000, more than 1 million residents of Estonia are citizens, of which more than 112,000 have been naturalized since 1992. Bureaucratic delays and the language requirement continue to be cited as among the primary disincentives for securing citizenship. There is a dearth of qualified teachers to provide Estonian language training, and the growing demand to take the national language test has left the state exam center with insufficient funding to administer the test to all who are interested.

The issue of knowledge of the Estonian language remains important not only with regard to citizenship, but also in terms of education, employment, and political participation. In February 1999, parliament adopted amendments to the Language Law that require private sector workers, public servants, and local government officials to use Estonian when providing goods and services to the public. The law attracted considerable criticism from many Russian speakers. Some international organizations believed the law was in conflict with EU criteria by violating the principle of free movement of labor and services.

In June 2000, the Language Law was amended further. It no longer requires the unconditional use of Estonian in the private sector Estonian—only in cases where it is in the public interest such as security or safety. The 1998 Parliamentary and Local Elections Law, which requires candidates for public office to have a sufficient command of Estonian for participating in debates and understanding legal acts, has been criticized for restricting the rights of non-Estonian speakers to choose their candidates at the local level. In the area of education, the Law on Basic and Upper Secondary Schools was amended in April 2000 to allow 40 percent of teaching in upper secondary schools to be in a language other than Estonian after 2007. Initially, all such instruction was to be provided exclusively in Estonian.

During the last decade, the government has taken a number of steps to further the integration of nonethnic Estonians into society. In 1993, President Meri established a Roundtable of National Minorities to participate in the state's national minorities' policy. Its members are representatives of ethnic minorities, stateless persons, and political parties. The post of minister without portfolio, responsible for population and integration issues, was created in 1997. The following year, a state Integration Foundation was also established. In 2000, the government approved the State Integration Program for 2000 to 2007. Implemented by the Estonian Integration

Foundation, the program focuses on education, language training, public awareness campaigns, and the preservation of cultural identity.

Corruption

1999-2000	2001
3.25	2.75

Despite its reputation as one of the least corrupt Eastern European or former Soviet countries, Estonia continued its efforts in 1999 and 2000 to address corruption through legislative reforms and accession to international treaties. One of the most publicized and long-lasting corruption cases, that of former Bank of Estonia president Siim Kallas, drew to an apparent close in late 2000 when Kallas was cleared of all charges against him. However, the authorities continue to pursue other cases against officials. NGOs engage in anticorruption public education and research projects.

In Transparency International's 2000 Corruption Perceptions Index, Estonia received a score of 5.7 on a 10-point scale, where 10 represents the lowest possible level of corruption. With a ranking of 27 out of the 90 countries Transparency International surveyed, Estonia's placement was better than any Eastern European or former Soviet country. A Business Environment and Enterprise Performance Survey (BEEPS), which the European Bank for Reconstruction and Development (EBRD) and the World Bank conducted from June to August 1999, included questions to more than 3,000 firms in 22 transition countries on their impressions of various forms of corruption. Of the 132 Estonian companies surveyed, approximately 65 percent admitted to having paid bribes at least once. Most of the payments were for government contracts (34.5 percent), licenses (26.5 percent), and customs (15.2 percent). However, when asked how often bribes are demanded of them, only about 12 percent of respondents answered "mostly" or "frequently." This was the second lowest number among the countries surveyed.

These findings appear to be largely supported by an October 1998 public opinion survey of perceptions of and experience with corruption conducted by the Jaan Tonisson Institute and the Saar polling organization. When asked whether a government or private enterprise official had ever requested a bribe in exchange for favorable treatment, 69.4 percent of the 1,002 people surveyed answered "not at all," 17.4 percent said "rarely," 7.4 percent replied "hard to say," 4.4 percent responded "often," and only 1.2 percent said "very often." Among the persons or groups perceived to be the most corrupt were state officials (33.5 percent), followed by politicians (19.2 percent), police (13.3 percent), businessmen (11.4 percent), members of the court system (7.8 percent), and other persons (4.5 percent); 10.2 percent of respondents provided no response. Not surprisingly, the majority of those polled demonstrated a greater tolerance for corrupt practices involving smaller sums of money, less expensive gifts, or more common personal activities. The following activities were described as not qualifying as corruption: a teacher or a doctor accepting gifts from a pupil or a patient in exchange for preferential treatment, 56 percent; using a company car for personal errands, 46.9 percent; favoring an official's relative or friend in a real estate deal, 26.7 percent; and a government or business official accepting money or gifts in exchange for special favors, only 6.9 percent.

Most personal services such as telephone installation and hospital admission do not require bribes. However, the generally low salaries of public servants (relative to the private sector) and certain wage discrepancies within the civil service have raised concerns about the potential for corruption. According to a recent World Bank study, although the pay system is relatively straightforward, it is not particularly transparent or fair because most of an employee's remuneration does not relate directly to job performance. The State Public Servants' Official Titles and Salary Scales Act established a uniform scale of 35 salary grades supplemented by a system of bonuses based on length of service (up to 15 percent), language and education qualifications (up to 10 and 20 percent, respectively), and performance (based on the supervisor's discretion). Anecdotal evidence suggests, though, that higher level officials can receive bonuses of up to 30 percent and enjoy perks such as cars and housing that are not available to lower level staff. In addition, some officials at the same salary grade reportedly have earned significantly different amounts. A new civil servants evaluation system adopted in 1999 should help to address this problem.

The primary anticorruption initiative in Estonia was the 1995 Anticorruption Act, a new version of which was passed in January 1999. The law contains provisions for amending legislation such as the Criminal Code and the Public Service Act that address corruption issues. It also introduced a legally enforceable Code of Ethics that sets standards for the behavior of civil servants. Estonia signed the Council of Europe Civil Law Convention on Corruption in January 2000 and the Criminal Law Convention on Corruption in June 2000.

To help combat corruption and prevent conflicts of interest, public officials must declare their financial assets and adhere to restrictions on private sector employment. Under the Anticorruption Act, government officials must submit yearly declarations of economic interests—real estate holdings, vehicles, income sources, shares or interests in businesses, and expensive gifts—to their respective agency heads. In May 2000, parliament adopted amendments to a law on wages that allow the release of information about the salaries of top state officials and heads of state enterprises without their consent.

Government officials may not belong to directory bodies of commercial enterprises, unless the enterprises are partly state-owned. They may engage in enterprises if they receive permission from their government agency; however, the enterprise must not hinder their work as public servants.

A public servant who is a member of a state enterprise directorship may not receive financial compensation, but this rule is not always followed in practice. The amendments to the law on wages are intended to improve the transparency of top officials' salaries, particularly with regard to illegal financial compensation from private sector activity.

Various government institutions implement anticorruption legislation. The State Audit Office, which is the country's supreme independent audit institution, conducts external audits of the entire public sector and reports directly to parliament. The Security Police, the Select Committee of the Parliament on the Application of the Anticorruption Act, and the Procuracy are involved in detecting and investigating corruption, while regular court systems conduct trials for alleged corruption. In 1999, the number of registered corruption cases was 51, compared to 45 in 1998, 38 in 1997, 78 in 1996, 45 in 1995, 42 in 1994, and 45 in 1993.

Estonian authorities have pursued several corruption cases involving both senior and lower-level officials during the period covered by this report. In December 1999, a customs inspector from the town of Valga received a two-year suspended sentence and was fined 1,250 kroons ($80) for having accepted a bribe of nearly 30,000 kroons ($1,900). In October 2000, a former finance ministry chancellor and a former deputy chancellor received a one-year suspended sentence and a fine of 24,000 kroons ($1,343), respectively, when they were convicted on corruption charges stemming from a questionable auto sale deal. In May 2000, the former manager of the now-bankrupt Maapank was convicted of misusing deposited funds. The Tallinn District Court overturned the ruling in September; the state has 30 days to appeal the decision.

One of the highest profile corruption cases in recent years involved Siim Kallas, former president of the Bank of Estonia. The case centered on a 1993 loan of $10 million by the Bank of Estonia to the now-defunct North Estonian Bank for investment in a Swiss fuel company. While the firm repaid $2 million worth of interest, the rest of the money was never recovered. In June 1998, Kallas' immunity as a member of parliament was lifted to allow charges to be brought against him. Accused of submitting false information and abusing his power, Kallas was acquitted on March 5, just two days before parliamentary elections. After subsequent appeals by the prosecutor and the return of some indictments to the Tallinn city court, Kallas was finally cleared of all charges in October 2000.

In an effort to further publicize and combat corruption, the Jaan Tonisson Institute (JTI) has conducted educational programs and research projects on corruption-related issues, often in cooperation with state agencies, other nonprofit organizations, and private enterprises. JTI directed a program from 1998 to 1999 that consisted of conferences, studies, and training programs for journalists. The Estonian Law Center initiated a two-year project in December 1999 to analyze current anticorruption legislation.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
2.25	2.00	1.75	1.75

Macroeconomic Policy

1998	1999-2000	2001
2.00	2.00	2.00

Microeconomic Policy

1998	1999-2000	2001
2.00	2.00	2.00

Having experienced a recession after Russia's August 1998 financial crisis, Estonia' economy began to recover during the last quarter of 1999. A return to growth in late 1999 and 2000 helped ongoing government efforts aimed at harmonizing Estonian legislation and practices with EU membership requirements. However, political and financial concerns continued to delay the last phase of privatization of large infrastructure and energy firms; reforms in the social sector struggled to catch up with those in the economy.

Since regaining its independence in 1991, Estonia has experienced significant changes in its political sphere and, perhaps even more dramatically, in its economic sector. Beginning with major monetary reforms launched in 1992, the country drew upon a broad political consensus for the successful implementation of a wide range of stabilization and structural reform policies. Among the country's most notable achievements are the introduction of a fully convertible currency under a currency board system, extremely liberal trade practices, a rapid and extensive privatization program, comprehensive price liberalization, and highly favorable policies towards foreign investment. After a banking crisis in the early 1990s, Estonia's surviving banks consolidated and adopted more prudent financial and administrative practices. Sound economic management led to a drop in inflation rates from triple to single digits between 1992 and 1998, and real growth in gross domestic product (GDP) ranged between four to ten percent between 1995 and 1998. While two speculative runs were attempted against the currency in 1997 and 1998, both were thwarted by the currency board's strict requirements for revaluation. The government has a limited direct role over most of the economy because of the currency board arrangement and a

balanced budget requirement in the constitution. As a result, Estonia now has one of the most free and competitive market systems in the former Soviet Union and Eastern Europe.

Despite impressive structural changes and growth, the Estonian economy suffered considerably from the Asian and Russian financial crises in 1997 and August 1998, respectively. The country's tiny stock market was among the first areas to be negatively affected when what had been only upward movement since its inception ended in October 1997. Estonia felt the impact of the Russian crisis in 1999, when real GDP declined by 1.1 percent and the federal budget deficit reached nearly 5 percent of GDP. The direct effect on most of the country's banks, which had invested less than one percent of their assets in Russia, was more modest; still, Estonia's general economic downturn hurt their profits.

Immediately preceding the Russian crisis, Russia had accounted for about 13 percent of all Estonian exports. This figure dropped to just under 9 percent in 1999. Hardest hit by this decline were Estonia's agricultural producers, for whom Russia was an important market. Consequently, many dairy, fish, and other food industries struggled to find other export destinations, merged, or went bankrupt. The percent of GDP coming from agriculture had already been decreasing, falling from 21.0 percent in 1989 to 6.4 percent in 1998 and 5.8 percent in 1999. But the Russian crisis accelerated the decline, as evidenced by average annual growth rates of -0.8 percent in 1998 and -1.4 percent in 1999. During the same period, the industrial sector also contracted. The share of GDP from industry decreased from 40.6 percent in 1989 to 28.1 percent in 1998 and 25.7 percent in 1999. By contrast, the service sector has grown considerably, with its share of GDP rising from 38.4 percent in 1989 to 65.5 percent in 1998 and 68.5 percent in 1999. Estonia's dramatic shift during the last ten years from a largely industrial and agricultural economy to one increasingly based on the service sector is illustrated by average annual growth rates for the period of 1989-1999 of -5.0 percent in agriculture, -5.7 percent in industry, and 0.3 percent in services.

The Russian crisis served to lessen Estonia's significant current account deficit, which had reached a high of 12.1 percent of GDP in 1997 before declining to 9.2 percent in 1998 and dropping further to 5.8 percent in 1999. Although exports dropped substantially, a general recession caused domestic demand to contraction substantially. This, in turn, led imports to decline at an even faster rate. Foreign direct investment (FDI) doubled from $267 million in 1997 to $581 million in 1998 because of Swedish investments in Estonia's two largest banks; this severely distorted current account calculations in 1998.

During the second half of 1999, signs of economic recovery were evident. After declines in GDP of 5.6 percent, 3.9 percent, and 2.6 percent in the first, second, and third quarters of 1999, respectively, GDP began to grow in the fourth quarter of 1999. By the middle of 2000, the economy had resumed much of its previous growth. GDP increased by more than 7 percent in the first six months of 2000 over the same period in 1999. The draft 2001 budget, which assumes GDP growth of 5.5 percent and an inflation rate of 4.1 percent, is 3 percent larger than that of 2000. In the banking sector, the largest of Estonia's six banks achieved positive financial results in 1999 and 2000. Finnish Sampo Finance's June 2000 agreement to purchase the Bank of Estonia's 58 percent shareholdings in Optiva Bank will leave the Bank of Estonia with no ownership interests in the country's commercial banks.

The upturn in the economy has also led to increased imports, a rise in the current account deficit, and a slight acceleration in inflation from 3.9 percent in 1999 to 4.1 percent as of July 2000. Unemployment levels remain high, which official statistics listed as 6.2 percent in September 2000. More accurate labor force surveys put the number at more than 13 percent in the second quarter of 2000.

While grappling with the effects of the Asian and Russian crises, Estonia's government has focused during the last few years on preparations for EU membership. In the economic sector, this has meant ongoing efforts to bring national legislation and practices into harmony with EU directives in areas such as agricultural policy, energy production, customs administration, and the completion of pension, health care, and land reforms. Supporters of EU membership insist that Estonia's entry will produce positive effects on the country's future development, including improved administrative procedures, better quality control through stricter regulations, and even greater attractiveness for foreign investors. Estonia applied for EU membership in 1995 and began accession negotiations in March 1998. By mid-2000, Estonia had closed 13 of the 31 negotiation chapters of EU regulations with which applicant countries must comply to qualify for membership. Compared to the other Central and Eastern European candidates, Estonia has proceeded the most rapidly with its membership talks.

While much has been written about the potential benefits of belonging to the EU, the possible negative consequences of Estonia's membership have received less attention. The need to comply with EU standards in areas such as infrastructure and environmental upgrading will increase government expenditures, at least in the short term. While Estonia's current trade policies are governed by agreements with countries on an individual basis, EU regulations specify which EU member states are allowable export destinations for Estonian goods. While a number of trade concessions have been addressed in the accession negotiations, trade issues will remain relevant because Estonia's main trading partners are EU countries. The country's struggling agricultural sector will face particularly significant repercussions such as greater impediments to sending goods to EU and other markets. Ironically, the Estonian government's earlier tariff-free policy, which international organizations

and Western governments praised, has been amended to meet the EU's strict membership criteria. Specifically, Estonia introduced customs tariffs on agricultural products from non-EU countries and from countries with which Estonia does not have free trade agreements.

During the last several years, Estonia's government has advocated EU membership for economic and political. Many regard entry into the EU as yet another step along the road back to the "community of European nations," as well as a necessary precursor to NATO membership. However, others have argued that Estonia's government has pursued various policy changes necessary for EU accession too rapidly and without sufficiently considering the possible negative effects. While successive governments have continued to push for EU membership, public support declined from 52 percent in January to 43 percent in October 2000. According to one recent poll, 73 percent of those surveyed believe that EU membership will have a negative effect on consumer prices; 41 percent believe that membership will make it more difficult to reduce unemployment.

By 1998, Estonia had largely completed its rapid and comprehensive privatization program, which involved the purchase and sale of vouchers on secondary markets with listed prices. The private sector now generates approximately 70 percent of the country's GDP. Despite such impressive achievements, the last phase of the privatization process, i.e., the sale and subsequent modernization of the few remaining large infrastructure and energy enterprises to conform to EU requirements, has met with considerable difficulties. For example, after negotiations for the sale of the national freight carrier Eesti Raudtee were criticized for having taken several years, the ruling coalition's election promise in March 1999 to privatize the railroad by the end of May renewed what soon became a stalled process. In April 2000, the government announced plans to sell 66 percent of Eesti Raudtee to a strategic investor who will undertake a much needed modernization program. Likewise, the privatization of the national power utility Eesti Energia has been fraught with political battles. Successive governments have negotiated with the U.S.-based NRG Energy for nearly five years about a partial sell-off of the firm. But Estonia's president, opposition parties, business leaders, and the management of Eesti Energia oppose the plan because they fear, among other things, higher energy prices. Nevertheless, an agreement was signed on August 25, 2000, for the sale of a 49 percent government stake in two Narva power plants that supply more than 90 percent of the country's electricity.

In contrast to the relatively quick progress made in Estonia's economic sector, reforms in the country's social sector generally have proceeded more slowly. However, certain EU requirements combined with the country's declining birth rates and general aging of the population are creating a growing sense of urgency about pension and health care reforms. Estonia has started the gradual implementation of a three-pillar pension system that includes a pay-as-you-go system, a fully-funded contribution program, and a voluntarily funded scheme. Implementation of the second pillar has proven especially problematic because the idea of mandatory employer and employee contributions has not gained widespread acceptance. In the health sector, improvements in overall efficiency and financing policies will supplement earlier reforms in primary care.

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GEORGIA

Polity: Presidential-parliamentary democracy
Economy: Mixed capitalist (transitional)
Population: 5,500,000
GNP per capita at PPP $ (1999): 3,606
Capital: Tbilisi
Ethnic Groups: Georgian (70.1 percent), Armenian (8.1 percent), Russian (6.3 percent), Azeri (6 percent), Ossetian (3 percent), Abkhaz (2 percent), other (5 percent)
Size of private sector as % of GDP (mid-2000): 60

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	4.70	↑ 4.55	↑↑ 4.00	↓ 4.19
Rule of Law	na	na	4.50	↓ 4.63
Economic Liberalization	4.13	↑ 4.00	↑↑ 3.67	↓ 3.75

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	232.0	535.0	838.0	633.0	644.0	517.0	555.0
Real GDP growth (% change)	-11.4	2.4	10.5	10.8	2.9	3.0	2.0
Inflation rate	15,607.0	162.7	39.4	7.1	3.6	19.2	4.1
Exports ($ millions)	381.0	363.0	417.0	494.0	478.0	477.0	521.0
Imports ($ millions)	746.0	700.0	768.0	1,052.0	1,164.0	1,018.0	1,105.0
Foreign Direct Investment ($ millions)	8.0	6.0	54.0	236.0	221.0	60.0	101.0
Unemployment rate	3.6	3.1	2.8	7.5	14.7	14.9	15.1
Life Expectancy (years)	na	na	na	72.5	72.6	72.9	73.0

INTRODUCTION

Georgia's political process since independence has been marred by instability. In the early 1990s, Georgia suffered two ethnic-territorial wars with Ossetian and Abkhazian secessionist groups (both were lost by the central government). The first democratically elected president, Zviad Gam-sakhurdia, was ousted in January 1992 by the military, which accused him of incompetence and autocratic behavior. Competing paramilitary groups exerted considerable power for several years afterwards. Since 1995, mostly due to the skills of President Eduard Shevardnadze, political processes have taken a much more orderly course: a new constitution was adopted, ethnic and civic peace were mainly restored, elections were conducted in a fairly orderly manner, a number of institutional reforms were carried out with reasonable success, and independent media and nongovernmental organizations became an influential political force. However, about fifteen percent of the country's territory is under effective control of Abkhaz and Ossetian secessionist governments, and a final resolution of either conflict is unlikely in the short term. Thus, the future is uncertain for over 200,000 internally displaced persons (IDPs). The political status of Ajaria, an autonomous region that continuously defies general constitutional order without putting forward any separatist claims, continues to be uncertain as well. Numerous electoral violations undermine fairness of the political process, and widespread corruption undermines public trust in both political institutions and law enforcement agencies.

Economic developments have largely paralleled political ones. After a dramatic economic collapse during the period of political turmoil, the government embarked on a comprehensive structural reform program that brought significant achievements beginning in the mid-1990s: the national currency stabilized, inflation was brought under control, the fiscal deficit was reduced, a large-scale privatization program was initiated, and real GDP began to grow. Further economic development is impeded by factors including ongoing corruption, low levels of tax collection, a continued energy crisis, and an inadequate infrastructure system.

Despite the introduction of new democratic legislation in some areas, in the review period negative trends outweighed positive ones. The last parliamentary and presidential elections (in October 1999 and April 2000, respectively) were notable for serious violations that damaged public trust in the electoral process. Scheduled reform of the procuracy was postponed due to open resistance. Public opinion tightened against religious minorities who on several occasions were attacked with impunity by groups of fanatics. The government failed to overcome the fiscal crisis, and no success was achieved in fighting corruption.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
5.00	4.50	4.00	4.50

In the period under review, political processes in Georgia developed without notable disruptions. However, widespread corruption and an ongoing fiscal crisis contributed to the inefficiency of major public institutions as well as to general disillusionment. Relations with Russia, which maintains several military bases in Georgia, seriously worsened after Vladimir Putin's accession to power. Conflict in neighboring Chechnya led to an influx of refugees and the deterioration of the security situation in Pankisi Gorge, whose indigenous Kisti people are Chechens' kin. Public statements by both government and opposition leaders about the possibility of economically or politically motivated disruptions contribute to a general atmosphere of insecurity.

The last parliamentary and presidential elections strengthened positions of those already in power and are widely seen as a setback for democratic development. Elections to the national parliament took place on October 31, 1999 on a mixed principle: 150 members of parliament (MPs) were elected by party lists and 85 were elected on a majoritarian principle from single-mandate constituencies. The mandate of 12 MPs elected from Abkhazia in 1992 was extended for another four-year term. In all, 33 parties and blocs contested proportional seats, and approximately 3,000 candidates contested majoritarian races. As in all other elections after 1992, self-proclaimed Abkhazian and South Ossetian republics stayed out of the electoral process.

For the first time since 1990, the campaign was fought on a clearly two-party basis. The governing Citizens' Union of Georgia (CUG) was opposed by the four-member Revival bloc, a pragmatic alliance of left- and right-wing parties that rallied around Aslan Abashidze, the leader of Ajarian autonomous republic. Revival was encouraged by relative success in 1998 local elections, and capitalized on popular discontent with economic conditions. Several relatively credible parties promised a "third way": the National-Democratic Alliance, the populist Laborist party, and the bloc Industry Will Save Georgia. The CUG skillfully used Abashidze's image as a "pro-Russian" autocrat to undermine initially significant support for Revival. According to official results, turnout was 67 percent, and the proportional vote was divided among the CUG, which gained 41.75 percent; Revival, 26.58 percent; Industry Will Save Georgia, 7.08 percent; Laborist, 6.59 percent; and National Democrats, 4.45 percent. Only the first three achieved the seven percent threshold to enter parliament. Together with majoritarian MPs, the CUG created a comfortable majority in parliament.

Elections were marred by serious violations. Parties other than Revival had scarce opportunity to campaign in Ajaria (where 95 percent of the vote went to Revival), but

Revival supporters were often harassed outside Ajaria, and election fraud was reported in different areas. Violations in favor of major contestants might have canceled each other out, though, as final results were close to the previous polling data. The Organization for Cooperation and Security in Europe (OSCE) observer mission noted a number of irregularities, but concluded that "Georgian voters were generally able to express their will." Only 13 of 19 members of the Central Electoral Commission endorsed the final election results, while opposition representatives refused to confirm the fairness of the elections process.

The crushing defeat of Revival ensured that incumbent president Shevardnadze would face no viable challenger in the April 2000 presidential elections. Jumber Patiashvili, a former Communist leader, was his major opponent. According to the official results, the incumbent carried 78.82 percent of the vote, with Patiashvili taking 16.66 percent and four other candidates winning less than one-half percent each. Turnout was reportedly 76 percent. However, the real turnout was evidently much lower than in October, presumably due to the predictability of the election result and voter disillusionment over previous violations. In their assessments of the presidential elections, both OSCE and Council of Europe observers noted serious irregularities, including instances of ballot stuffing, media bias, and a lack of transparency in vote counting and tabulation.

In all other parliamentary and presidential elections since 1990 the turnout was registered at between 65 and 86 percent. In November 1998 local elections the turnout was 41 percent, though it varied considerably from one region to another (98 percent in Ajaria). There are no data on voter participation with regard to gender.

Election legislation in Georgia changes from one election to another, though a mixed system of nationwide party lists and majoritarian representation in parliamentary elections prevails (with the exception of the 1992 elections). The threshold for parliamentary representation was increased from four percent in 1990 to five percent in 1995 and seven percent in 1999 in an effort to encourage larger coalitions. Another significant change is the manner of appointing electoral commissions. From 1990 to 1995, they consisted of political party representatives, which made them relatively balanced but provided opportunities for backroom deals. In accordance with June 1999 amendments to the election law, commission members were appointed by parliament and the president, allowing for ruling party control of commissions at all levels and damaging popular trust in the fairness of the election process. In March 2000, less than three weeks before presidential elections, further amendments to election legislation increased opposition representation on electoral commissions. This move did not sufficiently address the existing concerns, but rather "caused confusion among the election administration and some political parties," according to the OSCE report.

Weakness of political parties is a problem. By and large, there are no serious barriers to their creation and activities (other than in Ajaria). By October 30, 2000, 130 parties were registered. There has been only one case in which a party was denied registration: in 1998, Virk, a group based in an ethnically Armenian-populated region of Javakheti, was deemed to have violated the 1997 Law on Citizens' Political Associations, which bans the creation of regionally-based parties. Some followers of ousted president Gamsakhurdia consider the acting government illegal and refuse to register their parties. The police often disrupt their rallies and demonstrations and detain or imprison their activists on various charges.

The fact that both major contestants in the 1999 parliamentary elections rallied around central and regional power centers and the personalities of Eduard Shevardnadze and Aslan Abashidze, highlights the fact that parties are very weakly anchored and political processes often revolve around personalities. After the elections, internal divisions within both ruling and opposition groups in parliament became evident. In the fall of 2000, a group of MPs from the CUG faction broke away to create a "New Faction" that, paradoxically, opposes the CUG but claims to support President Shevardnadze. The latter's personality evidently bears disproportionate weight in Georgian politics: he is considered more important than his party, and major political battles continue among different groups who profess to support him and to prepare for succession when his last term ends in 2005.

Civil Society

1997	1998	1999-2000	2001
4.50	4.25	3.75	4.00

The NGO sector that has grown since 1993 is fairly vibrant and plays an important role in public and political life, but comprises only a small sector of society. In 1997, a new civic code defined two legal forms for noncommercial organizations: foundations (to be registered with the Ministry of Justice) and associations (to be registered with local courts). About 493 foundations were registered by the end of October 2000. The directory issued by the International Telecommunication and Information Center, a Georgian NGO, includes data on 643 organizations. The total number of registered organizations may be estimated at about 2,000 to 2,500, though many of them exist in name only.

The civil code allows NGOs to register fairly easily, though they may face difficulties in some regions. NGOs are not allowed to call for a violent overthrow of a political regime, violate the sovereignty and territorial integrity of the country, propagate war, or incite hatred on ethnic, regional, religious, or social grounds. Only courts have the right to suspend or ban NGO activities for such offences, but so far there have been no legal examples of this. There is no special tax status for NGOs, but the 1996 Law on Grants makes exempts moneys received as grants from all

taxes except income tax. Georgian businesses have no tax incentives to donate for charitable purposes. A group of NGOs is promoting draft legislation that would introduce a legal category for charitable activities and organizations and define a special tax regime for them, as well as for business donors to such organizations. Section Three of the 1999 administrative code is the main tool for NGOs with regard to gathering public information. However, some government bodies are reluctant to comply with the requirements of the code. In 1999, parliament passed in its first reading a bill on procurement, which would allow NGOs contracted by the government to carry out certain functions on a competitive basis. However, the bill did not progress to a second reading.

Most organizations depend on small groups of activists and, with few exceptions, have no effectively developed organizational structure. The best organizations have stable staff and are technically well-equipped. Sociological surveys confirm that only a small portion of society is involved in NGO activities; in a 1997 survey conducted by the Arnold Bergstraesser Institute and the Caucasian Institute for Peace, Democracy, and Development, 1.2 percent of those polled belonged to an NGO. Respectively, public awareness of NGO activities is quite low. According to the Institute for Polling and Marketing, most people, particularly residents outside Tbilisi, have difficulty distinguishing between NGOs and government organizations. NGO membership for the most part includes younger and more educated members of society. Geographically, civil society activism is unevenly distributed. Much more advanced in the capital city, it is dormant in some regions, but happens to be relatively developed in areas like Khashuri, Lanchkuti, and Akhaltsikhe. By sector, NGO activism is more conspicuous in such areas as policy advocacy, legal reform, human rights, conflict resolution, civic education, environmental protection, social problems, health care, humanitarian assistance, youth issues, and women's and ethnic communities' issues. The number of community-based organisations is small but growing in some regions.

Many women are active in, or lead, NGOs, and some 60 groups work on women's issues specifically. Experts estimate the number of active members of these NGOs at about 500, though formal membership is much higher (37 women's organizations surveyed by the International Center for Civic Culture in 1998 reported 27,000 members). The last two years have witnessed a significant increase in number and activism of ethnic community organizations (such as Armenian, Azeri, Kurdish, and other groups). About 60 groups work in this field, and the number of active members is estimated at 400 to 500 people. Formal membership is reportedly about 50,000. Many of these groups are united in a coalition called Multinational Georgia, whose main aim is to encourage minority participation in civic and political life and to influence respective legislation.

There have been several programs aimed specifically at NGO development in Georgia. The Horizonti Foundation (which has grown out of a Georgian branch of ISAR, a U.S.-based NGO) has for several years conducted training programs on NGO management issues in Tbilisi and other regions throughout the country, and publishes a monthly newsletter in Georgian, Russian, and English on various issues of concern to NGOs. It and other organizations have published advisory materials for NGOs in the Georgian and Russian languages.

Membership dues constitute only a small portion of NGO income. Grants from Western foundations constitute the main source of financial support. Based on research by the Horizonti foundation in 1997, volunteerism is not common in Georgian society. Some NGOs use incomes from their own businesses to support their activities. Support from Georgian business is negligible. The Cartu Foundation, established in late 1997 by a financial-industrial group of the same name, was the first notable exception, but others did not follow this lead, and the foundation soon ceased to exist. In 1999, legislation aimed at committing public funds for a foundation supporting civil society was discussed in parliament, but was dropped due to an ongoing fiscal crisis.

While there have been several attempts to create large associations of NGOs, none of them has been successful. Most leading NGOs resist such initiatives for fear of becoming involved in political manipulations. Ad hoc coalitions aimed at influencing legislation or organizing public campaigns have proven more effective. NGOs often exercize their right to participate in sittings of parliamentary committees, and in some cases they are successful in blocking or encouraging legislation. For example, the third section of the administrative code, which is an effective equivalent of the Freedom of Information Act, was enacted mainly due to the activism of the NGO and journalistic communities. The Georgian Young Lawyers' Association and the Institute of Liberty are especially notable for taking active part in legislative activities.

Parliament, and particularly its pro-reform leadership, has been quite open to cooperation with NGOs since 1995 and has considered them an important political and intellectual resource. This cooperation has produced a number of laws aimed at democratic reform, and after the 1999 elections some NGO activists found themselves in parliament. The president's chancellery also cooperates with NGOs, and a new unit was created in the fall of 2000 to develop this cooperation. In some cases, agencies involve NGOs in the process of drafting policy documents. In particular, the Ministries of Environmental Protection, Justice, State Property Management, Health and Social Security, Education, Foreign Affairs, and Defense, as well as the public defender's office and others have a record of cooperation with NGOs. However, many agencies – most notably law enforcement and most regional and local governments – tend to resist working with NGOs. Media coverage of NGO activities is sympathetic for the most part. Some newspapers, however (such as *Alia, Akhali Taoba*) prefer to look for hidden political alliances between NGOs and political groups. Some

media are more critical of Western liberal values, such as Literaturuli Sakartvelo newspaper, and are sharply critical of NGOs as harbingers of Western influence.

The trade union movement traditionally has been weak in Georgia. Descendants of the Soviet-era unions formally exist but do not play any role, and until recently there have been no serious attempts to create viable independent unions. According to a poll conducted by the Arnold Bergstraesser Institute and the Caucasian Institute for Peace, Democracy, and Development in 1997, only 1.6 percent of respondents claim to be union members. The only recent and notable exception is Solidaroba (Solidarity), a schoolteachers' union that was formally established in May 2000 in Kutaisi, the second largest city in Georgia. By November 2000, its membership had reached 2,500, including schoolteachers in several districts around Kutaisi, but it plans to establish itself as a national union. While it has faced harassment by the local government, it has developed much better cooperation with the Ministry of Education.

Farmers' groups and small business associations are weakly developed. Large businesses defend their interests much more effectively. While much of this is done through backroom and usually corrupt deals, some interest groups organize themselves as public associations. The Industrialists' Union has been the most successful and conspicuous of them; it developed into the Industry Will Save Georgia electoral bloc that managed to place third in the 1999 elections. Other important organized interest groups include the Large Taxpayers' Union, the Bankers' Association, the Union of Petrol Importers, and the Union of the Disabled.

Independent Media

1997	1998	1999-2000	2001
4.50	4.25	3.75	3.50

Georgia's media are free from censorship. However, the government maintains control over some strategic outlets, while most independent media lack professionalism, credibility, and financial viability.

Television is the major source of information for the vast majority of the population. Both national channels are state-controlled and give preference to official points of view. While competition from independent TV companies has forced state TV to make its programming more balanced in the last two years, it is still far from editorially independent. In Tbilisi, viewers have enjoyed much greater choice since 1997, when Rustavi-2, the first powerful independent TV station, survived government attempts to close it down. Rustavi-2 attracts higher ratings than official TV and, according to early 2000 data, carries about 55 to 65 percent of the national advertising market. Seven other independent TV stations compete for the TV market in the capital, but unless supported by powerful business or political interests, they are hardly financially viable. In summer 2000, control over Iberia TV went to the Batumi-based Omega cigarette distribution network. Sakartvelos Khma is seen to represent the views of Aslan Abashidze, an Ajarian regional leader, while Kavkasioni leans toward opposition views.

There are a number of TV stations outside the capital that try to maintain their independence but struggle financially. In 1996 five of them created the Television Network of Georgia (TNG), and membership eventually increased to 18. Due to disagreements between Rustavi-2 and regional stations, TNG broke up in 1999 but in January 2000, a 10-member United Television Network (UTN) was created in its place to pool advertising revenues for small regional stations.

Whether or not state domination of television outside Tbilisi will be broken may depend on the results of a tender for the use of a broadcasting frequency that had been occupied by the Russian ORT. A decision by the National Regulatory Commission for Communication (NRCC) is pending. The creation of the NRCC in May 2000 was considered a major step in ensuring fair competition in broadcast media, though it is still too early to assess its success or failure.

A number of independent radio stations broadcast on AM and FM frequencies, but most of their programming consists of music. State radio is still strong outside Tbilisi. The investment of the American company Metromedia in the Georgian-language Fortuna and Russian-language Era radio stations appeared to be successful in 1998 and 1999. Of late, the popularity of Radio 105, which carries political satire rather than musical programming, has increased considerably.

Though all print media are formally private, descendants of erstwhile Communist newspapers, such as the Georgian-language *Sakartvelos Respublika* and the Russian-language *Svobodnaya Gruziya*, receive government subsidies, have editors appointed by the president, and serve as official propaganda outlets. Since government agencies are obliged to subscribe to *Sakartvelos Respublika*, its circulation reaches 6,000 to 7,000. However, the market is dominated by independent newspapers. Major dailies include *Alia* (circulation approximately 8,000 to 9,000 copies), *Akhali Taoba* (7,000), and *Resonansi* (3,000). *Kviris Palitra* is a popular weekly digest (35,000), followed by a tabloid, *Asaval-Dasavali* (23,000). The tabloid weekly magazine *Sarke* circulates about 18,000 copies. Small newspapers outside the capital struggle to maintain both financial viability and independence. Grants received from foreign foundations give newspapers some temporary relief. The circulation as well as the quality of print media have deteriorated, particularly during the last few years. Competition from newly-emergent independent television as well as waning interest in politics may be among the explanations for this negative trend.

Six major information agencies compete on the market. One of them, Sakinpormi, is government-controlled and also serves as the president's press center. Apart from government subsidies, it enjoys privileged access to official information. Gea, Iprinda, and Prime News are mostly ori-

ented towards Georgian-language information markets, while Black Sea Press and Caucasus Press cater mostly to international organizations and embassies in Georgia.

Both state and private agencies are active in the distribution market, and the distribution share of private agencies is increasing. PGS Ltd. (Press Distribution Service), established by four independent newspapers (*Alia, Akhali Taoba, Resonansi,* and *Shvidi Dghe*) in 1996, is the largest distributor in Tbilisi (some 50 percent of the market). The state agency Sakpresa dominates distribution outside Tbilisi, but the private Presinfo has gained a foothold there as well.

While direct government interference in the activities of media does not take place, Georgia's dire economic situation makes media vulnerable to influence through financial pressure. Major independent newspapers have been known to publish stories commissioned by rivalling clans who provide indispensable revenues for them.

Apart from constitutional provisions that stipulate freedom of speech, major laws that regulate media activities include the Law on Press and Other Mass Media (enacted in 1991 but amended several times) and civil, administrative, and criminal codes. The Law on Press and Other Mass Media stipulates that "activities of a mass media outlet may be banned or suspended if it repeatedly violates the law thus contributing to crime, endangering national security, territorial integrity, or public order."

Antidefamation clauses in Georgian legislation are used by public figures against the media. However, cases are frequently dropped or become entangled in lengthy court proceedings. In a number of incidents, police have harassed journalists trying to gather information, particularly during public demonstrations, and despite several cases of litigation no police officers have been punished for such harassment. In a notable case, the anchor of the popular weekly investigative program Sixty Minutes on Rustavi-2 stated that he had received death threats from the deputy procurator general. NGOs and the media held protest rallies until the president publicly expressed his support for media demands.

The media face greater restrictions outside the capital. In Ajaria, independent broadcasts on political issues do not exist. In February 1999, when Channel 25, the only independent TV company in Ajaria, began to broadcast news programs, three of its four owners were forced under threat to cede 75 percent of the company's shares to a local boss. The issue is in the courts. In the self-proclaimed Abkhazian and South-Ossetian republics, a few independent outlets have appeared, but most media are controlled by authorities.

Only a small fraction of the population has access to the Internet. Experts estimate that Georgia has some 10,000 to 12,000 Internet users, compared with 7,000 to 8,000 in 1999. Competition on the Internet provider market is extremely high, with Sanet, ICN, and a newcomer, Georgian Online, owned by Rustavi-2, holding the strongest positions.

There are a number of journalists' associations and NGOs promoting media issues. The Liberty Institute may be the most aggressive in promoting free speech through backing respective legislation, or by organizing protests when media freedom is endangered. Figures on the number of women members of these associations are unavailable. In the journalistic community itself, however, women are quite active and may constitute more than 50 percent of all reporters (thought not of all editors).

Freedom House's annual *Survey of Press Freedom* rated Georgia Partly Free in 1992 and 1993, Not Free from 1994 through 1996, and Partly Free from 1997 through 2000.

Governance and Public Administration

1997	1998	1999-2000	2001
4.50	5.00	4.50	4.75

The Georgian constitution calls for separation of powers among the executive, the parliament, and the judiciary. The president cannot dissolve parliament and must secure its agreement to the main principles of his budget before passage. Under Article 73 of the constitution, the president issues decrees and orders on the basis of the constitution and other legislation. According to the 1996 Law on Normative Acts, laws adopted by parliament take precedence over presidential decrees. In practice, however, an effective system of checks and balances has yet to be established, and the relations between different branches of power often depend on personalities and political circumstances rather than on rules. Despite the presumed political strength of President Shevardnadze, he is not a strong leader of the executive, which is openly divided, and government ministers openly promote conflicting agendas. Thus, the president tends to mediate between them rather than pursue his own policies. Particularly during the last two to three years, there has been a general lack of direction in Georgian politics, as noted by both domestic and international observers.

Parliament is independent in its legislative activities. The 1999 parliament has adopted only nine new bills and a number of amendments to existing legislation during its first year. Continuing infighting within the majority coalition may be the main reason for this. Although the parliamentary majority belongs to the president's party, it has clashed with the president on some issues. In May 2000, parliament rejected the candidacy of Bakur Gulua, the president's nominee for Minister of Agriculture, and several other nominees were confirmed by narrow margins. An anticorruption commission in the previous parliament was quite aggressive in attacking several ministers, and its pressure effected the resignation of Communications Minister Pridon Injia.

Contrary to the Law on Normative Acts, some government agencies still give precedence to internally-issued regulations over laws. Though the law obliges ministers to have a deputy in charge of relations with parliament, effective contacts are quite weak. The disproportionate influence and intransigence of the so-called "power ministries," especially

the Ministry of Internal Affairs, constitutes the major weakness in the system of public governance. In summer 2000, MPs accused Internal Affairs Minister Kakha Targamadze of eavesdropping on parliament offices.

Branches of power differ with regards to openness and transparency. Chapter Three of the Administrative Code enacted on July 23, 1999 is an equivalent of the Freedom of Information Act. It requires government officials to make available to the public original versions of public documents at no cost. In effect, while parliament is open enough to the media and public, most agencies of the executive, and most notably "power ministries" and law-enforcement agencies, are reluctant to comply with these requirements.

The broad self-governance enjoyed by certain regions results from the weakness of the central government and/or legal confusion rather than from orderly devolution of power. The 1995 constitution does not define a territorial arrangement for the country, since the required two-thirds of parliament could not agree on this issue and postponed it until the resolution of the Abkhazian and Ossetian conflicts. Under a law enacted in February 1997, the country is divided into 12 regions, or mkhares, which include the capital, Tbilisi, and the autonomous republics of Abkhazia and Ajaria. This arrangement follows the Soviet legacy of autonomous units, of which there were three in the Soviet Georgia: the Abkhazian and Ajarian autonomous republics, and the South Ossetian autonomous oblast. The Georgian Supreme Soviet abolished the latter in 1990 during the conflict over secession. Currently, the territories of Abkhazia and most of South Ossetia are outside the government's control and do not participate in Georgia's political life in any way save for the Tbilisi-based Abkhazian government in exile. That government is recognized by the Georgian government as the sole legitimate representative of Abkhazia, and in effect handles IDP issues. Ajaria's leadership often defies Georgian legislation. On April 20, 2000, the Georgian parliament amended the constitution to include a clause on the autonomy of Ajaria, but legislation defining separation of powers between the center and Ajaria has yet to be developed. The fact that the central government's jurisdiction does not extend to breakaway provinces and that its laws are only selectively observed in Ajaria while the government does not formally relinquish its claims to these territories poses additional challenges to the efficiency of governance. These include the uncertain status of IDPs and difficulties in relations with neighboring states; uncontrolled territories have become safe havens for activities such as smuggling.

Administrative-territorial arrangements at the local level have not changed since the Soviet era; they comprise districts, towns, communities, settlements, and villages. Executive power at the regional and district levels belongs to the president's appointees, known as governors and gamgebeli, respectively. The mayors of the seven most important cities are also appointed by the president (though in three of them, Sukhumi, Tskhinvali, and Batumi, the capitals of Abkhazia, Ossetia, and Ajaria, respectively, these appointments have not been enforced). New elected bodies (sakrebulos) were only created at the level of districts and towns after the November 1998 elections. Their responsibilities, as defined by legislation, are limited. For example, local councils approve budgets submitted by gamgebeli, but if they fail to do so in the first two months of the year, they may be dismissed by the president. The next local elections are due in the fall of 2001. In his pre-election speech in March 2000, President Shevardnadze pledged that in 2001, gamgebelis would be elected by direct popular vote, a measure required by the Council of Europe.

Under law, municipal governments collect revenues from managing municipal property and from local taxes, but in practice, they remain heavily dependent on transfers from the state budget. This increases the power of the centrally-appointed gamgebelis, since the timeliness of the transfers depends on their activities. Tbilisi and Kutaisi, the two major municipalities, are exempt from laws that require the mkhare to contribute a fixed percentage of their revenues to the central budget.

An October 1997 law introduced a legal basis for the civil service. This law distinguishes between civil servants at the state and local levels. However, there is no effective provision for improving the efficiency or professionalism of civil servants. New leaders of state agencies generally conduct major staff overhauls motivated more by political loyalty and personal connections rather than by professional competence. Extremely low remuneration of civil servants also makes it difficult to attract honest and competent personnel. The U.S.-funded Georgian Institute for Public Affairs and the Office of Regional Management under the president's chancellery conduct training for public servants. In 2000, the Ministry of State Revenue introduced exams for potential tax and customs employees.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
5.00	4.75	4.00	4.00

The 1995 parliament, elected under the first post-Communist constitution, brought Georgian law closer to democratic standards. The implementation of this legislation, however, is questionable. The Ministry of Internal Affairs and the procuracy have lost some of their powers, but resist reform efforts. The reform of the judiciary is a relative success story, but it did not dramatically change the system.

A constitutional court was created in 1996. Its nine members are nominated for ten-year terms by the president, parliament, and the supreme court (three by each branch of power). There have been more than ten cases in

which the court has ruled against the state in favor of individual citizens and organizations. In common law courts, direct appeal to the constitution has become a relatively established practice, especially in civil cases.

From 1997 to 1999, parliament enacted a package of laws designed to reform the law enforcement system, including the criminal justice system: On General Courts (June 1997), On the Office of the Public Prosecutor (1997), the Civil Procedures Code (November 1997), the Criminal Procedures Code (February 1998), the General Administrative Code (June 1999), and the Criminal Code on Imprisonment (July 1999). The aim of these reforms was to create a legal system that would reduce the pervasive powers of the procuracy, increase the rights of defense attorneys, and enhance the independence and authority of the judiciary. Now, only courts may issue search and arrest warrants. The death penalty was abolished in November 1997. In January 2000, the penitentiary system was removed from the Ministry of Internal Affairs and placed under the Ministry of Justice. The reform of the procuracy, however, has been delayed. During his confirmation hearings in the spring of 2000, the Minister of Internal Affairs presented a plan to reform his agency by creating a separate investigative department. However, there has been no progress on this initiative. The police and procuracy retain their investigative functions.

Chapter Two of the 1995 constitution provides for basic human rights and freedoms. It guarantees freedom of speech, movement, and assembly, as well as freedom from torture, inhuman punishment, and discrimination based on race, language, religion, or sex. Article 21 of the constitution guarantees the right to own and inherit property. Article 30 requires that the state foster conditions conducive to the development of free enterprise. Business rights are further elaborated in the 1994 Law on Entrepreneurs, the 1996 Law on the Promotion and Guarantees of Investing Activities, the 1997 civil code, and other legislation. Individual citizens have the right to appeal to the constitutional court directly on claims of human rights violations. Article 43 creates the post of public defender, who is nominated by the president and elected by parliament for a five-year term, but is not accountable to the president or to the parliament. In May 1999, Georgia joined the European Convention on Protection of Human Rights and Liberties. It also joined the European Convention on Protection of Ethnic Minorities. A number of laws passed between 1996 and 1999 created more specific mechanisms to protect these freedoms, but in some cases restricted rights provided by the constitution. For instance, the Law on Meetings and Manifestations requires special permission for protests on streets and near government offices.

The criminal code enacted in July 1999 was largely modelled after its Soviet predecessor, with the latter's most notorious aspects eliminated. The main hope for criminal justice reform was placed in the Criminal Procedures Code adopted before Georgia's accession to the Council of Europe in April 1999. The code was meant to demonstrate Georgia's readiness to comply with democratic standards of human rights. However, in May and July 1999, parliament adopted over three hundred amendments to the code that were later denounced by Human Rights Watch as "backtracking on reform." Of concern is a provision that allows officials to detain suspects for up to 72 hours without charge or access to counsel. In practice, detainees are frequently denied access to counsel even after 72 hours' detention. Legally, a suspect may be remanded for up to nine months in pretrial detention, but this period is often exceeded in practice. Police continue to carry out searches without warrants and to make unregistered arrests, usually to extort money. Legal complaints against such violations are rare, as the legal awareness of most citizens is low and intimidation by the police is widespread. Defendants often state during court proceedings that they admitted to crimes that they did not commit because of physical and psychological pressure. There have been several publicized cases in which suspects suspiciously fell to their deaths from the detention wards of the procurator's office. All of these cases were officially called suicides.

There is no specific legislation on ethnic minority or gender rights. The last two years have seen an increase in religious intolerance. On several occasions, police did not stop groups of religious fanatics from violently attacking members of small religious sects such as Jehovah's Witnesses. These cases are in court as of this writing. During September 2000 the police twice disrupted planned congresses of the Georgian organization of Jehovah's Witnesses. In spring 2000, a district court in Tbilisi cancelled their registration. The issue is currently being appealed in higher courts.

A new judicial system has been in place since May 1999. According to the constitution, the judiciary is independent from any other branch of power, and judges are prohibited from joining political parties or participating in political activities. Judges are now appointed by the president upon nomination by the Council of Justice, a 12-member consultative body that includes nominees of the president (four members), parliament (four members), and the supreme court (one member), with the chairman of the supreme court and the chairmen of the supreme courts of Abkhazia and Ajaria participating as ex officio members. New judges must pass exams conducted by the Council of Justice with help from international organizations. Judges receive salaries of about $250 to $350, which is very high by the standards of the Georgian public service. However, their honesty and impartiality is not guaranteed, and corruption appears to have replaced political pressure as the major problem of the courts, particularly as the state cannot guarantee timely payment of salaries. Courts have also proven liable to public pressure when cases of religious minorities were considered. Enforcement of court decisions, especially in civil cases, is lacking.

The role of defense attorneys in court proceedings has considerably increased, but their professional and ethical standards are often low. The state provides public defend-

ers, but can only pay them very small remuneration. There is still no law on the bar, though a draft is has been submitted to parliament.

Corruption

1999-2000	2001
5.00	5.25

There is a strong consensus in Georgia that corruption has become a major handicap for political and economic development. While the government recognizes the scope and urgency of the problem, no effective measures have been taken to remedy it.

According to the 1997 law on Corruption and the Incompatibility of Interests in the Public Service, high-ranking public officials (including parliament members, ministers, and their deputies) and members of their families cannot hold positions in commercial agencies whose activities are supervised by the government agency for which the said public official works. He or she must also submit a public declaration on property and income. This requirement was extended by presidential decree to all civil servants.

Though most high-ranking officials complied with the conflict of interest legislation by formally giving up their positions in businesses, privately many public officials perceive conflict of interest legislation as unrealistic. It is commonly recognized that major business groups have close ties to the government and the ruling party, and promote their interests through these ties. For instance, United Georgian Bank, the largest bank in Georgia, is represented by Vano Chkhartishvili, the Minister of Economy, Trade, and Industry; and Zaza Sioridze, the chairman of a parliamentary committee. Several close relatives of president Shevardnadze run successful businesses and are widely believed to enjoy unfair advantages over their competitors. In Ajaria, most high-ranking officials are related to the leader, Aslan Abashidze, and the whole of the regional economy is believed to be under direct control of the Abashidze clan.

Corruption is rampant in various spheres of public life, though its scale varies from one region to another. Obtaining a passport in the capital city requires a bribe only if a citizen does not wish to wait for a required time limit; but in many regions passports cannot be obtained at all without bribing officials. The police, the procurator's office, tax inspectors, and customs officers are reputed to be the most corrupt. University entry procedures in the most prestigious schools are widely believed to be corrupt as well. Some services that were corrupt in Soviet times (such as hospital admission or telephone installation) have been commercialized, and bribes have been replaced by official fees. Nevertheless, additional payments are still often extorted for telephone installation. Requiring various licences and certificates, often illegally, is another way for public servants to extract illegal payments from businesses. Extortion of protection money by law enforcement agencies has become an established practice. In addition, businessmen are forced to pay countless other "inspection agencies" in order to continue operating.

Smuggling, mostly of fuel and cigarettes, is another problem. In May 2000 alone, an estimated 800 tons of fuel and 100,000 packs of cigarettes were smuggled into Georgia. Trade Minister Vano Chkhartishvili estimated in August that the black economy represents some 27 percent of gross domestic product. The government reportedly has been investigating a plan to legalize some elements of the black market by liberalizing tax rates and fiscal policy.

Extremely low salaries in the public service encourage corrupt activity. In 2000, a government minister's salary was 165 *lari* (about US$85). However, due to the fiscal crisis of 1998-2000, even those salaries had not been paid for months. Many government agencies have so-called extra-budget incomes from their activities. The failure to account for such income is a problem of public finance management, though some of this money is paid as bonuses to public servants. As a result, actual remuneration in various public agencies varies considerably.

Until recently, there were almost no cases of high-level corruption being prosecuted. During 1999, only six cases of bribery (against low-level public servants) reached the courts. Moreover, those cases in which the procurator's office took action may have been considered politically motivated. For example, the near-collapse of Georgia's merchant fleet led the procuracy to accuse the mayor of Batumi, Aslan Smirba, of misappropriating some $370,000 from the fleet funds, including $250,000 or more transferred from a London bank to a special fund controlled by Aslan Abashidze, the Ajarian leader. However, while the accusation might have been well grounded, it happened against the backdrop of political feud between Tbilisi and Batumi. The Minister of Communications, Pridon Injia, was forced to resign in 1998 under severe criticism from NGOs and parliament over his using his position to create a network of companies owned by himself, his family, and his associates to dominate the communications business in Georgia. A criminal case against him, however, was only filed in late 1999, when prior to elections he openly challenged the government as a parliamentary candidate from the opposition Laborist party.

A parliamentary anticorruption commission, active between 1996 and 1999, had limited success in exposing corrupt officials. The Chamber of Controls, which is responsible for financial and economic oversight of state revenues and expenditures, has a reputation for being an honest agency, and its audits of many state agencies have been critical. However, the procuracy never acted on its reports until the fall of 2000, when several former high-ranking officials of the Ministry of Energy and a major state-controlled power generating company were arrested and charged with embezzlement of public funds.

The media have been active in investigating corruption cases, often at great personal risk. For example, Shevardnadze ordered the police to give journalist Akaki Gogichaishvili special protection after he received death threats. According to protesters who staged a demonstration on May 23, 2000, Gogichaishvili was warned by the prosecutor general to leave the country. For several years, newspapers were the leading force in unmasking corruption. Since early 2000, though, 60 Minutes, a weekly program of Rustavi-2, has preoccupied itself almost exclusively with exposing high-level corruption in state agencies. The program has become one of the highest rated shows on Georgian television and has prompted the first national channel to introduce its own anticorruption program.

Various surveys have indicated high levels of public concern and cynicism with regard to corruption. In July 2000, President Shevardnadze created a seven-member working group to elaborate a national anticorruption program, chaired by the head of the supreme court, Lado Chanturia. The group also included four high-ranking public officials and two NGO representatives. It enjoyed fairly high credibility with the public. In September, it submitted guidelines for anticorruption measures, which focused on liberalizing the business environment, improving management of public finances, increasing the general efficiency of governance, reforming law enforcement bodies and the educational system, and overcoming political corruption. The group recommended the creation of a coordinating body under the president that would focus on elaborating anticorruption policies and monitoring their implementation, mobilize public support and participation in anticorruption measures, coordinate public anti-corruption education, and work with international agencies on coordinating anticorruption initiatives. How the program will be implemented remains to be seen, but its content has for the most part met with positive response. Also as part of its anticorruption plan, Georgia has recruited former Polish deputy premier Leszek Balcerowicz to serve as a special economic advisor.

In a survey conducted in 1997 by the Arnold Bergstraesser Institute and the Caucasian Institute for Peace, Democracy, and Development, only 1.5 percent of those surveyed said that they expected fair treatment in the tax office, and only 1.7 percent expected police investigations to be fair. The court received a relatively high rating of 12.1 percent. Georgia was rated 84th of 99 countries in Transparency International's 1999 Corruption Perceptions Index, and it received a score of 2.3 (where 10 is least corrupt and 0 is most corrupt). Transparency International did not rate Georgia in 2000.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.25	4.00	3.00	3.25

According to the State Department of Statistics (SDS), more than 82 percent of GDP was produced by the private sector in 1999, compared to 74 percent in 1998. Official statistics indicate that 55 to 60 percent of the labor force is employed by the private sector, but the large shadow economy (40 to 70 percent of GDP by different estimates) makes this figure unreliable. The United Nations Development Program (UNDP) *Human Development Report* estimates that over 75 percent of the economically active population is engaged in the private sector. This is supported by the GORBI household survey, which demonstrated that 73 percent of the average household income comes from private sector activities.

The 1997 Law on State Property Privatization regulates the privatization process except for land and housing privatization. Housing was largely privatized at the beginning of the decade under the appropriate Soviet law, which allowed citizens to privatize the housing that they occupied at a nominal price and with a minimum of bureaucratic procedures. The 1996 Law on the Ownership of Agricultural Land regulates the privatization of agricultural land, and the 1998 Law on Urban and Industrial Land Privatization declared the land allocated to privatized enterprises, private legal entities, and citizens to be private, based on existing drafts and documents. Privatized land is registered rapidly without additional surveying, after payment of a one-time fee. Over 80 percent of agricultural production is in private hands. A new land registry is being developed with the help of the German government.

Voucher privatization was the initially adopted model. However, while the vouchers were distributed to all citizens of Georgia, only one in 17 or 18 families actually participated in the process, while most people sold their vouchers for well below the nominal price. For privatization of medium and large enterprises, the vouchers were accumulated in special investment funds. Yet these funds bought just 0.3 percent of shares in former state enterprises and a significant portion of their investments went to unpromising enterprises. No dividends on securities have been paid yet. The staff of privatized enterprises enjoyed special privileges in the privatization process, including the right to buy shares directly at a minimum price. In health care, 415 out of 474 privatized enterprises were directly sold to employees; the same held for 52 of 99 bakeries. However, with regard to almost all valuable enterprises privatized, ownership by employees was only formal, with Soviet-era managers exercising real control. From 1993 to 1995, directors of the largest state enterprises avoided privatization by citing the enterprises as strategic national

assets. These were set aside for privatization later, but in the meantime their attractiveness to investors declined due to plunder of their assets and accumulation of debts.

On May 30, 1997, the president declared the termination of voucher privatization. The Ministry of State Property Management launched a new project of privatization of large state-owned enterprises by selling them via international tenders prepared in close collaboration with Western advisers. The Georgian government considers reforming three crucial sectors of the economy—energy, telecommunications, and transportation—to be the priority for the coming years. In late 1998, the Tbilisi electricity distribution company Telasi was sold to the American firm AES, which also took ownership of the two largest blocs of the Tbilisi thermal power station (Tbilsresi), the major power generating capacity in Georgia, in April 2000. German Kommerzbank is developing terms of reference for privatization in the telecommunications sector. In the second half of 2000 some leaders of the ruling party made statements about the possibility of reversing cases of illegal privatization, though without mentioning specific mechanisms for this.

Macroeconomic Policy

1998	1999-2000	2001
4.00	4.00	4.00

In June 1997, the Georgian parliament adopted a new tax code, which was elaborated in close collaboration with a number of foreign advisors and relies heavily on the Western (especially German) models. The main taxes stipulated in this code include income tax (at a rate of 12 to 20 percent), profit tax (20 percent), value-added tax (20 percent), excise tax, property tax (1 to 2 percent), land tax, a tax on ownership of motor vehicles, a tax on transfer of property (2 percent), social tax, a tax on the use of natural resources (up to 10 percent), and a tax on dividends (10 percent). However, the introduction of the new tax code coincided with a significant decrease in tax collection. According to the UNDP, the share of tax revenue execution to the state budget dropped by about 13 percent between 1995 and 1999. Apart from poor tax administration, inadequate tax collection is often blamed on complicated and/or contradictory tax regulations. Amendments to the tax code developed by a team of advisors under the umbrella of USAID and the Barents Group have been submitted to parliament. Action is expected by early 2001.

Despite the general crisis in the fiscal sphere, the National Bank of Georgia (NBG) has become a truly independent financial institution. A June 1995 law strengthened the NBG's authority to implement anti-inflationary monetary policy and supervise the banking system. The lari was introduced in 1995 and was kept stable at a rate of about 1.3 per U.S. dollar until the Russian financial crisis in 1998. After an initial drop, it stabilized at 1.85 to 2.05 per dollar. The lari is freely converted in both directions.

NBG policy also contributed to consolidation of the private banking sector by increasing the minimum foundation capital of commercial banks to $5 million. Thus, the number of Georgian commercial banks was reduced to 18. In the fall of 2000, the TBC bank became the first Georgian bank to obtain the international rating by the Thomson Financial BankWatch. Despite improved confidence in banking institutions (between 1996 and 1999, commercial bank deposits increased threefold), the absolute volume of deposits is still low and major banks largely depend on servicing government spending and international credits. Lending is even more problematic: Interest rates range from 2 percent per month, at best, to the most common rate of 3 to 5 percent or even 6 to 7 percent.

With the Caucasus Stock Exchange winning a tender on management of the Georgian Stock Exchange (GSE) at the end of 1999, the creation of a Georgian capital market infrastructure was initiated. According to the GSE, more than 2,200,000 securities had been sold by August 2, 2000.

The foreign debt burden is an increasingly important problem. According to the Ministry of Finance, as of 30 September 2000 the amount of national foreign debt amounted to $1,490 million. The 2000 state budget allocated 133.4 million laris for foreign debt servicing, but during the first nine months of 2000 only 56.7 million were disbursed (with revenues of the state budget during the same period constituting 629 million).

Microeconomic Policy

1998	1999-2000	2001
4.00	4.00	4.00

Article 21 of the constitution guarantees the right to property and inheritance. Intellectual property rights are guaranteed by Article 23 of the constitution, the 1997 Civil Code, the 1997 Copyright Law, the 1999 Patent Law, and the 1999 Law on Trademarks. Georgia has also joined a number of international conventions protecting property rights. The constitution permits the expropriation of property, with full compensation, for "necessary social need" in cases determined by law or by a decision of the court. No expropriations have taken place.

Liberalization of prices was mostly complete by 1996. Prices for energy and urban electric transport are the only ones that remain controlled.

The 1994 Law on Entrepreneurial Activity codified and fundamentally changed many corporate laws and regulations. According to the 1997 civil code and Civil Procedures Code, commercial companies should be registered by the district court of justice and added to the state register. New, simpler regulations for the registration of businesses are being discussed. The main obstacle to entrepreneurial activities, however, is the interference of numerous inspections and law enforcement bodies that con-

stitute a web of informal taxation which, by some estimates, considerably exceeds the volume of formal taxation.

Since judicial reform was implemented in 1999, economic disputes were moved from a separate court of arbitration to common law courts. This increased the speed and transparency of the proceedings. However, while new judges are more competent than their predecessors, their competence in new economic legislation is insufficient, and corruption continues to be an important problem.

Under Article 30 of the constitution, the state is required to foster conditions for the development of free enterprise and competition. The 1996 Law on Monopoly Activity and Competition created an agency charged with antimonopoly enforcement on all goods markets, while the NBG regulates the securities and financial markets. Business competition is hindered, however, by the continuation of Soviet-era patronage networks that practice insider dealing among preferred economic actors. Illegal monopolies reportedly protected by top state officials exist in the profitable liquid fuel and cigarette markets. Government-granted monopolies exist in such sectors as rail, air and sea transport, telecommunications, and energy.

In June 2000 Georgia joined the World Trade Organization. According to its membership terms, Georgia must make changes in legislation to meet all requirements of the international trade body within five years.

The energy sector has become a symbol of the Georgian economic crisis. Since independence, Tbilisi typically enjoys only four to six hours of electricity per day in winter, while most of the country averages three to four hours and some parts of the country even less. Since 1995, the sector has been divided into independent entities responsible for generation, transmission, dispatch, and distribution. The distribution sector was broken up into more than 70 municipally-owned companies. The regulatory framework was considerably strengthened by the 1997 Electricity Law, which created the independent National Electricity Regulatory Commission. The commission adopted a transparent tariff methodology and issued licenses to sector enterprises. A wholesale electricity market has been created. Major power distributing and generating companies were privatized, and the government has begun to extend the same approach to the natural gas sector. However, there has been no material improvement so far. Georgia currently imports its gas from Russia and its electricity (aside from what is generated domestically) from Russia and Armenia.

Social Sector Indicators

According to official statistics, unemployment in 1999 was near 13 percent, and somewhat higher for men than for women. The main trend, however, lies in the structure of employment. The squeeze in employment possibilities following a dramatic drop in production forced many Georgians into a survival economy, which increased the number of so-called self-employed. More than 78 percent of self-employed are engaged in agricultural activities that prevent hunger but provide very small – if any – monetary income. For many involved in the public sector, the problem is underemployment; that is, limited employment at low remuneration. Unemployment has hit the most educated sectors of Georgian society; its levels are significantly higher in Tbilisi (about 30 percent of the economically active population) than in any other region. Unemployment compensation provided by the state is 63.20 lari (approx. $32), paid over a period of six months. The average monthly salary increased from 10 to about 35 lari between 1995 and 1997. It increased sharply, to about 90 lari, in 1998, declined to about 55 lari in 1999, and rose to about 65 in 2000.

Pensions are paid from the United Social Welfare Fund. All female citizens over age 60 and male citizens over age 65 are entitled to pensions. The rate of pensions is universal (14 lari per month), save for some special categories. Between 1998 and 2000, the state accumulated huge arrears to pensioners (41.9 percent in 1998 and 20.6 percent in 1999) due to a severe fiscal crisis and rampant corruption. In the second half of 2000, against the backdrop of somewhat improved tax collection, the accumulation of arrears in pensions ceased, but old arrears persist.

Education in Georgia is on par with that of high-income countries. With shrinking public funding for education, however, there is a trend towards deterioration. In 1999, 2.2 percent of GDP was spent on education, as compared to about 5.4 percent in Eastern Europe or 3.7 percent in Latin America. Currently, 70 percent of rural schools and 84 percent of urban schools need significant capital repair.

Data on school enrollment and graduation in Georgian primary and secondary schools show that 95 percent of pupils enrolled in primary schools graduated from them. Of this total, 97 percent entered Level I secondary school and approximately 96 percent of them graduated. However, only 58.84 percent of Level I graduates continued to Level II secondary schools.

The infant mortality rate has remained generally steady since 1993, at between 10 and 20 per 1,000 live births. The rate was about 16 in 1999. Maternal mortality for the same period increased. In 1993 it was about 32 per 100,000 live births. It peaked at close to 71 in 1997, and then declined to 66 in 1999.

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HUNGARY

Polity: Parliamentary democracy
Economy: Mixed capitalist
Population: 10,000,000
GNP per capita at PPP $ (1999): 10,479
Capital: Budapest
Ethnic Groups: Hungarian (89.9 percent), Roma (4 percent), German (2.6 percent), Serb (2 percent), other (1 percent)
Size of private sector as % of GDP (mid-2000): 80

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	1.50	1.50	↓↓ 1.75	↓ 1.94
Rule of Law	na	na	2.13	↓↓ 2.50
Economic Liberalization	1.63	↓ 1.67	↓ 1.75	↓ 1.92

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	4,052.0	4,374.0	4,441.0	4,512.0	4,659.0	4,853.0	4,734.1
Real GDP growth (% change)	2.9	1.5	1.3	4.6	4.9	4.5	5.2
Inflation rate	18.8	28.2	23.6	18.3	14.3	10.1	9.8
Exports ($ millions)	7,613.0	12,810.0	14,183.0	19,637.0	20,749.0	21,827.0	25,369.0
Imports ($ millions)	11,248.0	15,252.0	16,828.0	21,600.0	23,102.0	24,011.0	27,723.0
Foreign Direct Investment ($ millions)	1,097.0	4,410.0	1,987.0	1,653.0	1,453.0	1,414.0	1,650.0
Unemployment rate	12.4	12.1	11.8	11.6	10.1	9.9	6.4
Life Expectancy (years)	69.3	69.8	70.2	70.6	70.9	70.6	71.0

INTRODUCTION

The Republic of Hungary has been a constitutional democracy since October 1989—the year it adopted a vastly revised constitution. Over the last decade, power has changed hands both at the national and at the municipal level through a series of free and fair elections. The rule of law is formally guaranteed by independent courts and by a constitutional court. Hungary's constitutional framework guarantees human rights and protects minorities, although a general antidiscrimination act is lacking and certain existing provisions violate basic civil liberties.

The Hungarian economic system is overwhelmingly capitalist, and during the 1990s the vast majority of state-owned assets was sold to private investors. Property rights and the freedom to engage in economic activity are guaranteed by law and generally respected. Most price regulations have been removed, and state monopolies are limited to economic sectors that are considered strategically important. Outside the public sector, market factors largely determine prices and wages.

During the period covered by this report, no significant changes occurred within the formal structures of Hungary's political and economic life. Yet the same period witnessed renewed attempts by the executive branch of government to limit control over its activities. As a result, the general ability of the legislature to hold the executive accountable for its dealings was considerably diminished. Through a series of government initiatives, the number of plenary sessions of the parliament was reduced by more than a third, and all attempts by opposition parties to create parliamentary investigation committees were obstructed. Furthermore, the introduction of two-year budget cycles has limited the legislature's ability to review the executive's spending plans.

The constitutional framework and specific laws provide for freedom of the press. However, state-owned media are completely controlled by the governing parties, and both the government and private corporations use economic pressure extensively to influence editorial decision making.

Generally, the stability of the constitutional regime is threatened less by open attempts to overthrow it than by the increasing irrelevance of formal democratic institutions. This is due to the lack of effective enforcement, or neglect, of existing laws and is most prevalent in areas such as public procurement over which the national government or local governments have direct control. The absence of effective law enforcement is also related to the media's inability to cover these areas in depth and to the slow pace of legal proceedings, especially in civil cases. The fragility of Hungary's democratic institutions explains in part the urge to strengthen the executive branch. Yet the lack of legislative control over the executive also contributes to the instability. The future of Hungary's system of free elections and its basic constitutional framework are not in question. Rather, there is the risk that widespread dissatisfaction with established and formal procedures for regulating government agencies and investigating allegations of wrongdoing may encourage the development of informal and less controllable channels. Likewise, the imbalance between the executive branch and other branches of government may lead to a systematic distortion of the regime.

During the period covered by this report, Hungary experienced a near-complete halt in, and in certain areas the reversal of, the privatization process. The government also tried repeatedly to force price regulations on the private sector, most recently on drug companies and energy suppliers. While it is unlikely that these efforts will lead to a total abandonment of the market system—even if they are intensified—it is very likely that they could destabilize areas of economic life that are more immediately affected by government actions. The stock market is a case in point. There are already clear signs that major foreign investors are concerned about these developments.

Hungary's greatest political and social problem concerns the Roma (or Gypsy) minority, which experiences frequent police brutality and widespread discrimination in employment and education. While the poor treatment of Roma is a longstanding problem in Hungary, there were signs during the period covered by this report that the overall political climate has deteriorated in this respect. There were also clear signs that a large segment of the population, Roma first and foremost, faces enduring poverty and deprivation. This, in turn, may lead to instability and pose further challenges to Hungary's democratic institutions.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
1.25	1.25	1.25	1.25

The Hungarian political system has not undergone any significant modification since the reshaping of its constitution in October 1989 and the adoption of a new electoral law in the same period. Under the constitution, Hungary is a parliamentary democracy in which popular sovereignty resides in the *Országgyulés* (parliament). The government, led by the prime minister, is the main executive body. The functions of the president are largely ceremonial.

Hungary's electoral law establishes a mixed system of proportional and direct representation based on national party lists and a two-tier first-past-the-post procedure in territorial constituencies. The aim of the system is to guarantee a viable majority of like-minded political parties in the legislative body while retaining the proportionality of the system. Despite its apparent complexity, it is fair to say that the current system has hitherto served its dual objective well. All three post-1989 elections resulted in a peaceful

transfer of power to a government whose composition closely reflected the electorate's will.

A significant indicator of stability is the fact that none of Hungary's post-transition governments has been forced to resign prematurely. Likewise, the effectiveness of proportional representation in the mixed electoral system is evidenced by the fact that in all three post-transition elections several minor parties have gained entry into the Országgyulés. However, the overall number of parties represented in parliament has remained remarkably stable. Over the course of three legislative elections, only six parties have received a mandate, with only one party falling out and one new party gaining entry in 1998. This is largely due to the five percent threshold parties must meet.

Domestic and international election monitoring organizations such as the Organization for Security and Cooperation in Europe (OSCE) have judged all three post-Communist legislative elections as free and fair. The most recent parliamentary elections occurred in May 1998 and resulted in the dismissal of a left-of-center coalition that consisted of the post-Communist Hungarian Socialist Party (HSP) and the liberal Alliance of Free Democrats (AFD). The present governing coalition, led by Prime Minister Viktor Orbán, comprises three right-of-center parties: the Fidesz-Hungarian Civic Party (Fidesz-HCP) with 148 seats, the Independent Smallholder Party (ISP) with 48 seats, and the Hungarian Democratic Forum (HDF) with 17 seats. The HSP controls 134 seats, while the AFD has 24. The 1998 legislative election also witnessed the emergence of the extreme right-wing Hungarian Justice and Life Party (HJLP), which took 14 of the 386 seats in the Országgyulés.

The most recent presidential election took place in June 2000, and the process was free and fair. Since the constitution sets a two-term limit on presidential mandates, President Árpád Göncz, who completed his second five-year term in 2000, was not eligible to run. In keeping with the essentially ceremonial character of the office, the constitution establishes that parliament, and not the general electorate, elects the president. Nominees must demonstrate the support of at least 50 members of parliament to become candidates. To win in the first two rounds, a candidate must receive a qualified majority (or two-thirds of the total number of seats). In the third round, a simple majority of the representatives present is sufficient. In the 2000 presidential election, Ferenc Mádl, a well-known professor of jurisprudence and a member of the right-wing government between 1990 and 1994, was elected in the third round by a simple majority. The coalition parties supported his candidacy. The opposition parties did not nominate candidates.

Low voter turnout figures for national and municipal elections highlight a weakness in Hungary's democratic regime; namely, an arguable lack of popular support. This is evidenced by a number of independent circumstances. First, popular participation in the political process has remained relatively low, ranging from 55 to 68 percent in the first round of national legislative elections and from 42 to 58 percent in the second round. Voter turnout for municipal elections has been even lower, ranging from 38 to 45 percent. The lack of popular interest in the political process has manifested itself most remarkably in the case of by-elections when, on a number of occasions, voter turnout has not even reached 20 percent. As a result, certain constituencies have gone without legislative representation for long periods of time.

Another indicator of insufficient popular backing for the democratic regime is the fact that membership in political parties is notoriously low. Even according to their own records, the aggregate membership in the six parties represented in the Országgyulés does not exceed 200,000; this is less than 2.5 percent of the adult population. Furthermore, party officials readily admit that only an insignificant portion of that figure can be regarded as effectively taking part in party activities. By all accounts, active party membership has declined since 1989. Currently, there are an estimated 70 to 80 officially registered parties. This is an all-time low, compared to the nearly 200 parties that existed in the early 1990s. These data, if taken together, suggest that only a statistically undetectable number of Hungarian citizens has substantial experience in democratic politics.

These widely acknowledged phenomena suggest that the populace lacks strong trust in Hungary's new, and still fragile, democratic institutions. Thus, the country's political stability is not vulnerable to defects in its institutional setting or to imminent threats against the entire constitutional establishment. Instead, a major cause of concern is the fact that the existence of democratic processes is not substantiated by the actual participation of the citizenry.

Civil Society

1997	1998	1999-2000	2001
1.25	1.25	1.25	1.25

According to the Central Bureau of Statistics, there were 61,907 registered nongovernmental organizations (NGOs) in Hungary in 1999. Experts agree, though, that no more than 20,000 to 30,000 of these actually carry out continuous activity. An amendment to the law on nonprofit organizations in 1998 created a special category for NGOs whose activity promotes the "public interest." Courts consider applications on an individual basis before granting this status, which confers special rights and obligations to NGOs. There are an estimated 10,000 organizations that have this status.

The number of major NGOs dealing with women's issues does not exceed 15; and not all of these are national organizations. Most ethnic groups have their own civic and cultural organizations, although many are not financially viable and therefore cannot engage in costly activities like bringing lawsuits against government agencies. While there are no exact figures on the share of the population that participates in NGOs, it is estimated that no more than 1 to

2 percent undertakes voluntary activity. NGOs employ approximately 60,000 people.

Regulation of the nonprofit sector was rather lax in the early 1990's, and this led to a number of criminal cases. Consequently, stricter regulations were introduced in the second half of the decade. Hungary was the first post-Communist country to adopt a law specifically regulating the activities of public interest NGOs. Organizations that receive this status must disclose their revenues annually. Under the new regulations, taxpayers may donate one percent of their personal income tax payments to a public interest NGO of their choice. The beneficiaries of these donations are obliged to disclose the way they spend them. While there is a core of experienced trainers and practitioners who regularly organize courses in NGO management and fundraising, the overall situation is still characterized by a lack of information and proper management.

According to official estimations, no more than 5,000 NGOs have annual budgets exceeding 5,000,000 *forints* (approximately $18,000) and, therefore, can be considered financially viable. Most tax breaks apply only to public interest NGOs whose activity is subject to strict financial control.

A variety of trade union associations has emerged in Hungary since 1989. Still, the post-Communist National Association of Hungarian Trade Unions (NAHTU) is by far the most organized and has more members and vaster financial resources than the newly formed unions. An estimated 800,000 to 900,000 workers (or 21 to 24 percent of the labor force) belong to a union. Membership is significantly lower in the private sector, especially in companies with less than 10 employees.

The single largest social problem in Hungary is the situation of the Roma (or Gypsy) minority. Roma, who represent six percent of the Hungarian population, are subject to widespread discrimination in employment, education, and housing. By all accounts, they are the most disadvantaged group in Hungarian society. Their average life expectancy is 10 to 15 years shorter than that of the majority (the latter is 75.2 years for females and 66.1 for males). Approximately a quarter of the Roma population does not complete primary school, while only one percent completes secondary school and 0.3 percent completes college. There are various forms of discrimination against Roma students, including the existence of purely Roma schools and classes. A more concealed form is the practice of redirecting Roma pupils to so-called auxiliary schools, regardless of their preparedness to participate in regular education. Roma accounted for 42 percent of all auxiliary school students in 1992, even though they account for only 16 percent of their relevant age group.

By the mid-1990s, traditional forms of "separate settlements" for Roma (i.e., rows of huts on the outskirts of cities and villages) had largely been eliminated. However, in 1994 the Sociology Institute of the Hungarian Academy of Sciences conducted a major survey which found that 60 percent of Roma were still living in segregated neighborhoods. Cases were reported in which local governments made efforts to prevent Roma families from moving into their territory or even to force out settled families. The most publicized case occurred in 1997, when the local government of Zámoly, a small village near Budapest, decided to demolish the houses of a number of Roma families. The families were forced to move to a series of temporary settlements because no local government would accept them. Finally, in July 2000, the families emigrated to Strasbourg, France, and filed a suit against the Hungarian government at the European Court of Human Rights. The families contend that the government violated their constitutional right to choose their homes. Subsequently, Péter Harrach (Fidesz-HCP), the minister of social affairs, declared that the intention of the families was to "defame the nation."

Discrimination against Roma is also pervasive in employment. The shrinkage of the economy in the early 1990s affected the Roma population disproportionately. By 1994, employment for non-Roma was 63.4 percent for men and 63.1 percent for women. Among working-age Roma men and women, however, employment fell to 26.2 percent and 16.9 percent respectively. The unwillingness of local governments to employ Roma for so-called public interest work is also a serious cause for concern, when one considers a recent amendment to the Social Security Act that made the performance of such work a precondition for receiving supplementary income support (i.e., long-term unemployment benefits). Roma do not receive preferential treatment in public employment.

Independent Media

1997	1998	1999-2000	2001
1.50	1.50	2.00	2.25

The vast majority of Hungary's media is in private hands. More than 80 percent of print media and around 70 percent of radio and television stations are privately owned. There are an estimated 220 commercial television stations and 30 radio stations in private hands. The market-oriented restructuring of Hungary's media was accompanied by profound changes in the population's media consumption patterns. While in the early 1990s a relatively high proportion of the population read newspapers on a daily basis (400 to 500 per 1000 adults), only 300 did so by the end of the decade. Moreover, as a result of significant restructuring in the market for daily newspapers, tabloid and quasi tabloid papers gained significant ground at the expense of papers with high-quality political and cultural coverage. Likewise, when national television channels were privatized during the same period, entertainment magazines largely replaced political and cultural programs. These changes may be said to reflect the larger underlying process of disillusionment with democratic politics.

With 210,000 copies sold daily, the newspaper *Népszabadság*, which is owned by the multinational Ger-

man company Bertelsmann, traditionally has enjoyed the highest circulation rate in Hungary. Recently, however, *Metro*, a freely distributed quasi tabloid founded less than two years ago, surpassed *Népszabadság* with a daily circulation of 236,000 copies. After the merger in 2000 of the right-leaning newspapers *Napi Magyarország* and *Magyar Nemzet,* only four nationally circulated political dailies, including *Népszabadság,* remained. Analysts generally agree that the Hungarian market is not strong enough to sustain four political dailies. The two tabloids with the largest circulation, *Blikk* and *Mai Nap*, have increased their sales slightly in recent years, and their aggregate circulation now equals that of *Népszabadság*.

Hungary has five national television channels, three of which three are state-owned. The two private channels, tv2 (owned by a Hungarian-American-Scandinavian consortium) and RTL-KLUB (an affiliate of the Belgian-French RTL-UFA), enjoy 85 percent of total viewership and advertising. Since privatization of the television market only began in 1997, it is difficult to estimate the financial viability of these stations. Nevertheless, observers tend to agree that tv2 and RTL-KLUB can remain profitable in the long run.

Privately run media in Hungary are, for the most part, editorially independent. It is true, as the Freedom House report "Media Responses to Corruption" pointed out, that government agencies and party leaders have attempted at times to influence editorial decisions. Yet it is fair to say that corporate interests, rather than fears of direct government retaliation, are the major source of media bias. Nevertheless, the existence of a pluralistic, largely privately owned media market limits the possibility for substantial censorship in political broadcasting.

The situation is fundamentally different in the state-owned media sector. The 1996 law that regulates public television and radio channels sought to attain a reasonable degree of nonpartisanship by a establishing a board of trustees for each channel. Each board has an eight-member presidium (or standing committee) with a four-year mandate. Positions on the presidia are filled by delegates who represent the political parties in the Országgyulés.

In 1998, shortly after the new government came to power, the presidium for Hungarian Television was dissolved. This action followed a series of failed attempts to elect the chairman of the institution. The new governing parties soon named their four representatives to the presidium and claimed that the opposition parties could not enjoy representation on the presidium until they agreed on their appointments to the remaining four slots. However, this task proved impossible when the extreme right-wing HJLP, which has only 14 seats in the Országgyulés, demanded two out of the four slots. The HSP and the AFD, with a total of 158 seats in the Országgyulés, strongly disagreed. Thus, even though the opposition parties made nominations, the presidium was formed solely with the four persons whom the governing parties appointed.

This process was essentially repeated in early 2000 when the mandates of the presidia overseeing national radio and Duna Television (a state-owned satellite channel) expired. As a result, the three presidia of the boards of trustees for state television and radio are currently controlled by representatives of the governing parties. Prosecutor General Kálmán Györgyi, whose responsibilities include supervising the lawful functioning of public institutions, stated in writing that he had concerns about the procedure adopted by the governing parties. Parliamentary Speaker János Áder (Fidesz-HCP) declared, however, that Györgyi's statement lacked legal force. The prosecutor general subsequently resigned, after holding his office for ten years. Many observers viewed this case as a further move to weaken the control over the executive. Opposition leaders and journalists' associations protested the eventual restructuring of programs and the firing of well-known reporters and editors.

It is widely recognized now that Hungary's public media are biased in their coverage of political events. According to the National Radio and Television Body, an organization established to supervise the programs of all broadcasting stations, in 1999 between 80 and 90 percent of political programming at public television and radio was devoted to representatives of the ruling parties. This trend continued in 2000.

The Hungarian press has had rather modest success in uncovering illicit state activities, but government and corporate interference are not the only contributing factor. Difficulties associated with enforcing a vague freedom-of-information act, Law No. 63/1992, also play a role. It is common practice among the ranks of government officials and even members of the cabinet, for example, to refuse to respond to inquiries about government activities.

In July 1998, through Act No. 1090/1998, the government lifted existing regulations about recording the content of government sessions. It ruled that no written or audio-visual records would be made in the future, save a summary containing the names of participants and the agenda. In a well-publicized statement in July 1999, László Majtényi, the Parliamentary Commissioner for Data Protection and Freedom of Information (one of four ombudsmen elected by the Országgyulés for six years), voiced concerns about this practice and suggested that it violates every citizen's constitutional right to have access to important public information. Nevertheless, the government refused to revise its recording practices.

It is generally agreed that Hungary has established the necessary legal environment in which a free press can function. The constitutional court ruled in 1994 (Decision 36/1994 [VI.24.]) that Article 232 of the criminal code, which deals with libel, is unconstitutional because the public's right to criticize government officials or other politicians must be protected to a much greater extent than its right to criticize private citizens. This decision essentially ruled out the possibility that libel laws could be used to harass journalists who criticize government officials. Furthermore, in 2000

the constitutional court struck down (Decision 18/2000 [VI.6.]) a criminal prohibition against deliberately spreading panic that occasionally was used against journalists. At the same time, though, the court upheld in 2000 prohibitions against desecrating national symbols and displaying authoritarian symbols (Decisions 13/2000 [V. 12.] and 14/2000 [V. 12.], respectively)—a move that some have viewed as a retreat from an earlier decision to overturn a law against "inciting [persons] to hatred against ethnic or other communities." In this case, the court had ruled (Decision 30/1992 [V. 26.]) that "the law must secure the right to free speech regardless of its value- or truth-content."

Governance and Public Administration

1997	1998	1999-2000	2001
1.75	1.75	2.50	3.00

Hungary has a parliamentary system of government in which the legislature is the only rule-making institution. The government may introduce lower-level provisions within a limited range, provided they do not contradict acts of parliament. Parliamentary sessions provide the main stage for debates between the government and the opposition. Governing is essentially based on a majority of the coalition parties within the legislative assembly. Since the executive body is not elected independently, the nation's system of checks and balances between the legislative and the executive branches gains special significance.

One of the most important barriers to the power of the executive branch is the constitution itself, which may be amended or modified only by a two-thirds majority vote of the legislature. Modification of the laws concerning fundamental human rights and basic democratic institutions requires wide consensus. Furthermore, Act No. 46, adopted in 1994, specifies that members of the government are obliged to answer interpellations and questions posed by members of the parliament during at least one plenary session per week. The act also states that, upon the initiative of at least 20 percent of all representatives, special committees must be established to investigate the dealings of any government agency in any field of activity. These rules aim to ensure the ability of even a relatively small minority of representatives in the legislative assembly to draw public attention to issues it deems important and to uncover government activities that it believes are contrary to the national interest. In recent years, these rules have been important instruments in the process of making the work of the executive branch more transparent and accountable.

During the period covered by this report, however, Hungary witnessed a fundamental shift in the balance of power between the legislative and the executive branches of government. The shift concerns two distinct areas: (1) the overall continuity and quantity of legislative control over the executive and (2) the specific means of legislative control established by existing regulations. In early 1999, for example, representatives of the ruling coalition parties decided that plenary sessions of parliament would be held every third week, rather than every week. Consequently, the number of plenary sessions per year declined from an average of 95 to a mere 64 in 1999. In the first half of 2000, parliament held only 37 plenary sessions. Likewise, the number of weeks for plenary sessions declined from an average of 40 to only 16 in 1999. This essentially means that for 36 out of 52 weeks in the year the legislature has been deprived its right to pose questions to representatives of the executive branch. The amount of time spent for interpellations and questions during plenary sessions declined from 90 minutes per week to 180 minutes every third week and from 60 minutes per week to 60 minutes every three weeks.

Even more significant is the fact members of the government may postpone answering a question two times. Since as many as two months might pass between a question and an answer, the question frequently loses its relevance altogether. The resulting discontinuity in plenary sessions of parliament severely limits all efforts to make the executive branch accountable for its actions.

A similar tendency may be observed in the executive's attitude toward special investigatory committees. In the past, committees like these were a major force in publicizing and uncovering unlawful government actions. Even though investigations did not always result in criminal proceedings, the lengthy and extensively covered hearings of these bodies played an important role in drawing public attention to illicit activities. The parliamentary minority's right to call such investigations is safeguarded by the provision that special committees must be established at the request of at least 78 representatives. By contrast, since the 1998 legislative elections, opposition parties have called seven times for investigations of a variety of cases, but not a single request has resulted in the creation of a special committee. Rather, representatives of the coalition parties either voted against the creation of investigative bodies or tried to alter the proposed agenda of the committees. Even though both of these actions are explicitly forbidden by existing provisions, the legislative body effectively has been deprived of another important means of making the executive's activity more transparent.

Two recent developments have shifted the balance of power between the executive and the legislative branches of government even further. The first concerns a government initiative to change the order for parliamentary debate of the annual budget. Hitherto, the minister of finance has submitted budget plans for the coming year to the Országgyulés for consideration from October to December. On September 15, 2000, though, the government submitted budget proposals for both 2001 and 2002 and declared its intention to perpetuate the two-year-budget system. Under this system, members of the legislative body would be deprived the opportunity to review the executive's

plans for expenditures and revenues on an annual basis. The new order of debate further implies that the amount of time spent discussing individual annual budgets would be reduced by half. This assumes, of course, that the time frame for budgetary debates goes unchanged.

The second development concerns the balance of power between the executive and the legislative branches more generally. Issued on March 31, 2000, government statute No. 2069 introduces a plan to extend the executive's statutory rights by partially replacing the legislature's rule-making function with government acts. Since statute No. 2069 contains only a general statement of purpose, though, it is difficult to predict how the plan might affect the legislature's law-making authority in practice.

Hungary established a system of local governments in 1990. The only major change since then has been the introduction of direct elections of city mayors in 1994. Until then, representative bodies had the right to elect mayors. The country held free and fair municipal elections in 1990, 1994, and 1998.

The Hungarian political system recognizes two levels of subnational government that have varying amount of authority. Every Hungarian settlement has a directly elected mayor and, with the exception of small villages, an elected representative body that enjoys substantial decentralized power. These bodies are responsible for maintaining health care institutions and primary and secondary public schools, and for levying taxes on real estate and industrial activities. Furthermore, they possess statutory rights within a limited range of fields. County assemblies that hold minor regulatory functions constitute the second, though relatively insignificant, level of subnational government.

Municipal governments receive most of their revenues from the central state budget on a normative basis, with predetermined standards of distribution in accordance with the sort of institutions they maintain. The proportion of revenues that municipal governments may allocate without predetermined standards has been diminishing ever since the introduction of the new system of local governments. In 1992, local governments controlled spending resolutions over as much as 50 percent of personal income taxes. This proportion was reduced to 30 percent in 1995, to 15 percent in 1999, and, finally, to five percent in 2000. In 1998, local governments raised no more than 33 percent of their total revenues. Various associations of municipal governments have expressed concern repeatedly about their growing dependence on the central state budget.

Another development that affected the independence of municipal governments is the national government's increasing inclination to distribute central subsidies based on political ties rather than actual needs. In 2000, at least 36 cities received central budget subsidies to finance major investments that fell outside the scope of regular municipal activities. Of these 36 municipalities, not one is led by a mayor who belongs to an opposition party. The situation was slightly better in 1999, when two of the 29 cities that received central subsidies were led by a mayor representing an opposition party.

In East European terms, Hungary's civil service is fairly competent and professional. Low salaries and career uncertainties due to political influence, however, have resulted in a considerable degree of brain drain from the civil service to the private sector. Low salaries are also considered the major cause of corruption in the civil service, and the positions of highest authority are increasingly filled with political nominees. This state of affairs has discouraged new professionals from entering the civil service, increased instability during changes of government, and, ultimately, undermined the professional competence of the civil service.

RULE OF LAW

Constitutional, Legislative and Judicial Framework

1997	1998	1999-2000	2001
1.75	1.75	1.75	2.00

The last major effort to modify the Hungarian constitutional setting took place in early 1998, when the establishment of the National Justice Council (NJC) resulted in a substantial increase in the independence of Hungary's courts. This action deprived the Ministry of Justice of its often controversial ability to influence judicial appointments. The NJC, which is chaired by the president of the supreme court, has the authority to appoint supreme court judges and some lower level judges. It also supervises the constitutional functioning of the courts. Although the minister of justice is an ex officio member of the NJC, the majority of the body is made up of judges and representatives of the bar association.

The Hungarian Constitutional Court consists of eleven members, who are elected for nine years by a two-thirds majority of the Országgyulés. By law, it is charged with interpreting the constitution and overturning any piece of legislation it deems unconstitutional. This court is widely seen as one of the most powerful and activist courts of its kind in the world. Over the past ten years, the constitutional court has resolved major political conflicts and ruled that far-reaching measures by the government were unconstitutional. Recent examples of judicial review of legislative initiatives include those mentioned above in connection with freedom of speech and a ruling on procedural grounds that certain parts of a law against organized crime were unconstitutional. This law was passed as an amendment to the Criminal Code (Decision 1/1999 [II. 24.]).

Between 1998 and 2000, there were significant changes in the court's approach to interpreting the constitution. With the expiration of the mandate of the first judges elected in 1989 and 1990, the court experienced a near-complete turnover in its membership in less than two years. Eight of the

eleven current judges were elected between March 1998 and June 1999. Constitutional lawyers generally agree that the new court has adopted a markedly less activist stance than its predecessor. That is, they believe that the court has taken a "formalist turn," tending to examine laws exclusively from a procedural point of view rather than undertaking a substantive interpretation of the constitution (See Kim Lane Scheppele, "The New Hungarian Constitutional Court," *East European Constitutional Review* Fall 1999, pp. 81-87.) Some fear that the court's new attitude towards its own role in interpreting the constitution may increase the executive's power significantly at the expense of other branches of government.

Generally, Hungary's criminal justice system may be regarded as one that respects the rule of law and the rights of persons taken under criminal procedure. The state provides public defenders to defendants, and there have been considerable efforts to establish a balance of rights and responsibilities between the prosecution and the defense. However, in 1998 the new government postponed the enforcement a substantially reshaped Criminal Procedure Law. Under current regulations, the Public Prosecutor's Office issues searches and warrants.

The core problem, once again, concerns the enforcement of existing laws. In 1996, two NGOs, the Constitutional and Legal Policy Institute (COLPI) and the Hungarian Helsinki Commission (HHC), conducted a major field study and found that approximately 20 percent of all persons under pretrial detention (and 43 percent of all Roma suspects) confessed to having been beaten or otherwise tortured at least once at the time of their arrest, during their interrogation, or both. The COLPI-HHC report notes that the treatment of suspects under pretrial detention is often worse than that of persons convicted and already in jail. While there have been some well-publicized cases of forced interrogation, typically all charges have been dropped because of the extremely difficulty associated with proving a case without witnesses.

The constitutional framework provides for human rights. Individual citizens or groups of citizens may make appeals to the constitutional court about any law or statute that they believe violates basic human or civil rights. Furthermore, the four Parliamentary Commissioners (or ombudsmen), who are elected for six years, must investigate all complaints filed by citizens against statutes, institutions, organizations, or employers. Even though these commissioners have access to all documents pertinent to a complaint, the fact that their recommendations cannot be enforced severely limits their authority vis-à-vis the institutions under investigation. Thus, the legal framework for human rights is more or less satisfactory, but problems arise with regard to law enforcement and, in certain areas, the content of specific laws. The law regulating the police, for example, is one of the most frequently criticized pieces of legislation because of the high levels of authority and autonomy its grants to police officers. Furthermore, the police and the military both lack efficient civilian control. In fact, recently retired high-ranking army and police offices have filled senior staff position at both the Ministry of Defense and the Interior Ministry—including, in the latter case, the incumbent minister himself.

In addition to the constitution, Hungary has enacted laws and signed international conventions that seek to protect minorities. The most important law, the Minorities Act (LXXVII of 1993), establishes both individual and collective minority rights, including the right to preserve one's cultural identity, to use one's language, and to enjoy educational autonomy. It also establishes provides for local and national minority self-governments the task of which is to articulate special minority interests. While Hungary does not have general antidiscrimination legislation, Article 70/A of the constitution prohibits all forms of discrimination. It fails, however, to define the concept of discrimination and to specify sanctions for discriminatory actions. Most experts in the field favor the adoption of a general antidiscrimination act. They also have argued that, in keeping with international legal developments, the burden of proof should be reversed in alleged cases of discrimination. Both NGOs that deal with minority issues and the parliamentary commissioner for minority rights have observed that government agencies and local governments often use neutrally worded legal provisions in discriminatory ways (i.e., as tools of "indirect discrimination").

Corruption

1999-2000	2001
2.50	3.00

The greatest consequence of pervasive corruption—real or perceived—is not the unfavorable economic effects it produces but, rather, the considerable extent to which it makes democratic institutions seem irrelevant. To understand this in the Hungarian context, it is important to consider the very definition of corruption first. While it is difficult to define, corruption broadly refers to "the use of public power to one's private benefit." In the context of post-transition Eastern Europe, though, an opposite meaning could be equally justified, namely, that corruption is "the use of private wealth to influence government decisions." It is generally understood that the first definition implies an unjust and disproportionate distribution of public goods that benefits certain private individuals. The second definition, however, refers to a kind of corruption that threatens the very integrity of the rule of law and the constitutional order. If sufficiently prevalent, it can considerably limit the sovereignty of democratic institutions. In a September 2000 report called "Seize the State, Seize the Day," the World Bank adequately described this form of corruption as "state capture."

In Transparency International's 2000 Corruption Perceptions Index, Hungary was ranked 32 (along with Tuni-

sia) out of the 90 countries examined and received a rating of 5.2 on a scale of 0 to 10, where 10 represents the minimum amount of perceived corruption and 0 the maximum. This ranking implies a medium level of corruption as perceived by the Hungarian public. To be sure, the average Hungarian citizen does not have to bribe a bureaucrat for ordinary services such as obtaining a passport or a business license. Likewise, property rights and the freedom to engage in economic activity and private enterprise are generally not threatened by arbitrary government interference. Still, it is often possible to avoid excessive bureaucratic regulations and to obtain speedier service by paying a bribe.

Hungary does regulate the participation of government officials and members of parliament in economic life. A new civil service bill proposed in June 2000 would require all civil servants, including police, border guards and employees of the armed forces to declare their assets. This law, if passed, would affect an estimated 100,000 people. Likewise, according to the conflict of interest act passed in 1996, federal government representatives may not serve on boards of directors and supervisory committees of companies in which the state's stake exceeds 10 percent. However, members of parliament may own private companies that are not excluded from public procurement procedures. Representatives and members of the cabinet must disclose their financial status, but there are no sanctions for providing false data. While regulations like these are formally observed, it is all too easy for government officials to evade them lawfully by transferring positions and assets to family members. All government agencies and other public institutions, including civil organizations that receive budget subsidies, are subject to audits. Critics claim, however, that the State Audit Office has insufficient access to financial records and that its findings frequently have no legal consequences. Hungary does not have a conflict of interest regulation for local government officials and representatives.

Two distinct types of corruption are considered ubiquitous in Hungary. The first type concerns procurement procedures for local governments and national government agencies. A 1996 act states that, as a rule, public procurements must be carried out through open bidding. There is, however, an increasingly stronger tendency at all levels of government to limit bidding opportunities to a few preselected companies. In 2000, for example, the national government decided to evade public procurement regulations for a highway-construction program worth 600 billion *forints* (around $2.14 billion) by financing it indirectly through a government-owned investment bank. Not unjustifiably, entrepreneurs generally feel that only persons with close ties to incumbent government officials receive public procurement contracts.

The second type of corruption concerns more direct forms of malfeasance by politicians and police officers. Since September 1999, a number of medium- and high-ranking police officers have been forced to resign. Some of them came under investigation when former police officers made a series of allegations about links between police headquarters and organized crime bosses. Other related allegations have concerned nationally recognized politicians such as incumbent Interior Minister Sándor Pintér, who between 1991 and 1996 served as the national commander of the police.

In 2000, a former police lieutenant claimed that as many as 120 current members of parliament were involved in "Oilgate." According to the accusations, Interior Minister Sandor Pintor and members of the police were involved in illegal oil sales between 1992 and 1999 that siphoned off an estimated $350 million from the Hungarian economy. However, none of the charges, including forgery, "oil diluation," smuggling, and tax evasion, were backed up by published evidence. Investigations against the interior minister and other officials were dropped. Public opinion surveys showed, though, that a majority of Hungarians believed the allegations of a close association between politicians, bureaucrats, and organized crime. The prevalence of this belief—justified or not—undermines the stability of the Hungarian political system. And analysts fear that further allegations—proved or unproved—could discredit Hungary's entire framework of democratic institutions and precipitate a collapse of the current establishment. One should not assume that the realization of this fear would reverse democratic developments or lead to major changes in Hungary's basic institutions. What is more likely is that new political movements would emerge or that non-institutionalized and less controllable forms of political and social activity would spread.

It is also worth noting that Hungary is a hub for transnational criminal activities. The accused Russian-Ukrainian mafia boss Semyon Mogielevich lives in Budapest and has allegedly made the city a center of his money laundering and criminal activities, including siphoning illegal sums to the Bank of New York. Likewise, Uralmash, a powerful crime group in Yekaterinburg, Russia, has an active branch in Hungary.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
1.50	1.50	1.50	1.50

Hungary's economy became overwhelmingly capitalist in the 1990s, and more than 80 percent of gross domestic product (GDP) now comes from privately owned companies. However, around 21 percent of all employees (approximately 816,000 out of 3.8 million people) are still employed in the public sector, and an estimated 20 to 25 percent of

GDP is produced by the informal sector. Most privatization has taken place since 1995, when Hungary adopted an amended privatization act that favors cash-based privatizations (not vouchers) by strategic foreign investors, including portfolio-investors. The bulk of the energy and banking sectors, for example, was purchased by large multinational companies between 1995 and 1997.

Since 1998, however, there has been a clear trend to slow, or even reverse, the privatization process. No major company was privatized in 1999 and 2000, even though under the privatization act an estimated 285 billion forints ($1.05 billion) in state assets still must be sold. The only major privatization occurred when the government sold some of its stock in companies like the Hungarian Telecommunications Company (Matáv) that are already in private hands. Furthermore, the government has successfully nationalized companies like Postabank, Hungary's second largest popular and investment bank, which suffered from serious financial problems because of poor management. Most recently, government officials informally voiced plans to nationalize the Hungarian Oil Company (Mol), a 50-percent privately owned oil company, after a severe conflict between the government and the firm over oil and gas prices. The overall picture might improve substantially, though, if the government succeeds in privatizing Malév, the state airline. Alitalia, the Italian airline, purchased a stake in Hungarian Airlines (Malév) in the early 1990s, but enduring financial problems resulted in renationalization. The government has also decided the privatizate a majority share in Antenna Hungária, the national television and radio transmitting company, through the stock market.

expected to decline to 38 percent by 2002. The decrease is largely due to privatization and to a significant cut in social security contributions. Meanwhile, Hungary's system of taxation has not been reformed significantly since the early 1990s, apart from a simplification in tax brackets. The overall personal income tax burden was 20.9 percent of all taxable incomes in 1999; this number is expected to remain stable. The value-added tax is 25 percent on the vast majority of goods. Economists tend to agree that the overall tax burden is too high and that the value-added tax in particular should be lowered to improve economic performance.

The independence of Hungary's central bank is guaranteed by law. The prime minister appoints the governor of the bank for a term of six years, and only parliament can order his or her removal. The central bank has the authority to set central interest rates and to devalue the national currency whenever it deems necessary. Its primary responsibility is to safeguard the stability of the national currency. Attempts by the government to influence the central bank's monetary policy are not uncommon. The previous government forced central bank governor Péter Ákos Bod to resign in 1994. For a long time, the incumbent governor György Surányi was also under pressure to resign. Surányi's six-year term will expire in 2001, and it is unlikely that he will be reappointed. In the fall of 1999, Prime Minister Orbán (Fidesz-HCP) refused to appoint any new vice governors to the board of the central bank until certain allegations about its past dealings were cleared. Currently, only one vice-governor serves on the board, but three are required by law. Moreover, the government's proposed two-year budget cycle could threaten the stability of Hungary's economic environment.

Macroeconomic Policy

1998	1999-2000	2001
1.75	2.00	2.25

Hungary's economy has grown steadily since 1997, despite a temporary slow-down in 1998 caused by the Russian financial crisis. GDP is generally expected to grow by more than five percent in 2000. In 1999, GDP grew by 4.5 percent. Annual inflation is expected to reach 9.7 percent in 2000, showing only a marginal decrease from 9.9 percent in 1999. This is largely due to higher-than-expected oil prices. Improvements in the foreign trade balance and in the balance of current accounts that began in the second half of the 1990s is likely to continue in 2000. Hungary's external national debt fell from a record 61.4 percent of GDP in 1995 to 36 percent in 1998, and it is still falling. The overall national debt (internal and external) fell from 100.3 percent of GDP in 1995 to an estimated 58.1 percent late in 2000.

Between 1995 and 2000, the amount of central redistribution in the GDP fell from 62 percent to 41 percent and is

Microeconomic Policy

1998	1999-2000	2001
1.75	1.75	2.00

By and large, property rights and the freedom to engage in economic activity are respected in Hungary. Despite extensive regulations, there are no substantial bureaucratic obstacles to owning and operating a business. Prices were liberalized in the early 1990s in the vast majority of economic fields. Large-scale government subsidies only remain in the agricultural sector, which, unlike the rest of the economy, has not recovered from the transition. Agriculture is marked by a complex system of guaranteed producer prices and export subsidies, and productivity is severely limited because foreigners and Hungarian cooperatives are not allowed to purchase land. Therefore, the agricultural sector lacks the capital it badly needs for restructuring.

Until the end of 1999, total foreign capital inflow was $20.7 billion. This is the highest ratio in Eastern Europe in terms of per capita investment. Foreign companies rep-

resent around 33 percent of gross national product. The inflow of capital has slowed more recently because the majority of state assets have already been privatized. A July 2000 report in the *Financial Times* also suggests that capital inflows have slowed because of the government's ever increasing propensity to interfere in the economy and to adopt non-market tactics. The report specifically mentioned the government's attempt to regulate energy prices—a move that resulted in the resignation of János Csák, the chairman of Mol, and in a 50-percent decline in the company's share price. Responding to peaking oil prices on international markets, the government intended to protect household gas customers, who enjoy special protections and are entitled to need-based compensations. In practice, the government's intervention significantly undermined Mol's economic stability. Having made huge profits in previous years, MOL is expected to produce a loss of nearly 100 billion forints (around $357 million) in 2000. The most likely resolution of the conflict is the introduction of a differentiated price increase for large corporate users and small and household users. When the government also tried to force drug companies to cap prices early in 2000, share prices fell.

Social Sector Indicators

Not unlike other societies in transition, Hungary has suffered a major decline in nearly every domain of social life. Between 1989 and 1993, an 18-percent drop in overall economic production was accompanied by a similar drop in living standards. Today, production exceeds the 1989 level, and the worst manifestations of the crisis have begun to fade. Yet the benefits of recovery have been distributed unevenly. Whereas in 1989 the wealthiest ten percent of the population owned four times as much as the poorest ten percent, the same figure was 7.5 times in the mid-1990's and more than nine times in 1999. Between 25 and 30 percent of the population lives below the poverty line. Unemployment peaked at 663,000 (or 12.3 percent of the working-age population) in 1992 and was only 380,000 in 2000. However, the average length of unemployment was 17 months in 1999, two months longer than in 1998. This suggests that certain segments of the society face enduring poverty.

The growing gap between private and public sector wages and salaries may cause further tension. While the average monthly median income reached 77,187 forints ($276) in 1999, the public sector has experienced only marginal real growth. Thus, by 1998, private sector wages were 18 percent higher than public sector wages. The substandard performance of the country's education and health care systems can be explained in part by wages that are 12 and 22 percent, respectively, below the national average. According to a recent World Health Organization report, persons are in poorer health in Hungary than in any other Central European nation. Similarly, per capita health care spending in Hungary is lower than spending in Croatia, Czech Republic, Poland, Slovakia and Slovenia. Although the proportion of students who only complete primary school fell from 33 percent in 1990 to 20 percent in 1995, it rose to 22 percent in 1999. Likewise, according to the National Public Education Institute, education expenditures fell from five percent of GDP in 1991 to four percent in 1995 but rose to 4.7 percent by 1999.

Another cause for concern is the growing inequality between the value of retirement benefits and the value of salaries. In 1999, the average monthly pension was 29,600 forints ($105), or 38.3 percent of the average salary. This is one of the worst ratios among Central European countries. The situation of pensioners is all the more worrisome because Hungary's population is aging rapidly. And while the number of retirees is growing, the size of the labor force is shrinking. This phenomenon forced the previous government to privatize part of the pension system and to raise the retirement age from 57 for women and 60 for men to 62 for both sexes. While the public pension system covers 100 percent of retirees, its ability to provide sufficient benefits is declining. In the long run, the private pension system, if extended, might resolve some of the problems caused by the aging population.

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KAZAKHSTAN

Polity: Presidential (dominant party)
Economy: Mixed statist (transitional)
Population: 14,900,000
GNP per capita at PPP $ (1999): 4,408
Capital: Astana
Ethnic Groups: Kazakh (46 percent), Russian (34.7 percent), Ukrainian (3 percent), Uzbek (2 percent), Tatar (1 percent), other (13 percent)
Size of private sector as % of GDP (mid-2000): 60

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	5.30	↓ 5.35	↓ 5.38	↓ 5.56
Rule of Law	na	na	5.75	↓↓ 6.00
Economic Liberalization	4.38	↓ 4.50	4.50	4.50

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	721.0	1,040.0	1,333.0	1,429.0	1,452.0	1,123.0	1,225.0
Real GDP growth (% change)	-12.6	-8.2	0.5	1.7	-1.9	1.7	9.6
Inflation rate	1,892.0	176.3	39.1	17.4	7.3	8.3	13.2
Exports ($ millions)	3,285.0	5,440.0	6,292.0	6,899.0	5,871.0	5,989.0	9,586.0
Imports ($ millions)	4,205.0	5,326.0	6,627.0	7,176.0	6,672.0	5,645.0	6,945.0
Foreign Direct Investment ($ millions)	635.0	964.0	1,137.0	1,320.0	1,136.0	1,584.0	1,150.0
Unemployment rate	8.1	13.0	8.6	7.3	6.6	6.3	4.0
Life Expectancy (years)	65.7	64.9	64.1	64.5	64.6	64.8	65.0

INTRODUCTION

Since the adoption of a new constitution by nationwide referendum in August 1995, Kazakhstan has had a French-style model of government that combines strong presidential authority with a republican system. The new constitution, which grants unchecked powers to the executive, was adopted after President Nursultan Nazarbaev extended his term in office through another referendum earlier the same year. In 2000, Nazarbaev secured a permanent place in Kazakh politics when both houses of parliament unanimously approved a bill that grants lifelong powers and privileges to Nazarbaev in order to "prevent an erosion of the country's achievements" after his presidency. The legislation guarantees Nazarbaev membership on key advisory bodies and control over future presidents and governments.

While maintaining the rhetoric of democratization, Nazarbaev has backtracked from an initial commitment to political reforms and a transition to democracy. Since 1995, the Nazarbaev regime has acquired extensive control over most strategic resources and distribution networks. The president's unlimited powers have been enhanced by a de facto concentration of political power in a circle that consists of the president himself, close family, and other trusted kin. The takeover in 1996 of the state-owned news agency Khabar by Dariga Nazarbaeva, the president's eldest daughter, has led to the closure of almost all independent media and unrelenting intimidation of all opposition. The appointment of Nazarbaeva's powerful son-in-law Rakhat Aliev as the chief of the Almaty City National Security Council suggests an effort to elevate him as the president's successor. The effective clampdown on independent political activity and the concentration of political and economic resources within the first family have paved the way for a personalistic dictatorship that will severely limit the prospects for democratic reforms.

Kazakhstan's vast mineral and oil resources, and its self-proclaimed image as an "oasis of stability," have attracted considerable Western support and foreign investment. After an economic slowdown over the past three years, Kazakhstan's gross domestic product (GDP) witnessed the fastest growth in the region last year, largely due to an increase in oil exports. However, the prospects for sustained long-term growth are still uncertain. There is growing skepticism about how these macroeconomic indicators can be translated into better living conditions for the citizenry as a whole. The discovery of an estimated 40 billion barrels of oil in the offshore Caspian region (one of the world's largest oil deposits) and the promise of petrodollars have already brought to the fore high-level corruption and bribery scandals and triggered massive capital flight.

The January 1999 presidential election, in which Nazarbaev's political opponent and former premier Akezhan Kazhegeldin was denied registration, and the October 1999 parliamentary elections, which returned a parliament full of pro-regime parties and supporters, have been widely condemned by international observers. The Office for Democratic Institutions and Human Rights (ODIHR) at the Organization for Security and Cooperation in Europe (OSCE) boycotted the presidential election, which was held almost two years ahead of schedule after the constitution was hurriedly amended to extend the term of office for the president from five to seven years and to remove the age limit of 65 for a presidential candidate. The OSCE noted that the parliamentary elections fell short of OSCE commitments formulated in the 1990 Copenhagen document. Nazarbaev accused the OSCE of behaving like Communist Party officials and maintaining double standards.

The OSCE's criticism spurred the consolidation of opposition groups into a broad-based alliance called the Forum of Democratic Forces. The Republican People's Party is the linchpin of this alliance and the most threatening challenge to the regime. It was founded by Kazhegeldin, who has been living in the West since 1998 along with other long-standing critics of the regime.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
5.50	5.50	6.00	6.25

The parliament elected in October 1999 is the third popularly elected parliament since Kazakhstan proclaimed independence in 1991. The first post-independence parliament, elected in 1994, frequently clashed with the executive on a number of legislative acts. Nazarbaev dissolved parliament in March 1995 following a contrived verdict by the constitutional court declaring the body to be unconstitutional. The second parliamentary elections were held in December 1995 after the adoption of a constitution that severely limited legislative authority. Political parties had the right to nominate candidates, but the candidates could not refer to their party affiliations. Several constituencies had only one candidate.

Kazakhstan has a bicameral parliament that consists of the senate (upper house) and the *Majilis* (lower house). The senate has 39 members who serve six-year terms. Thirty-two senators are elected by indirect vote at a joint session of the deputies of *Maslikhats* (local assemblies) in the country's 14 oblasts and in Astana and Almaty, all of which have two seats. The president nominates the remaining seven members.

The Majilis has 77 members who are elected for five-year terms. In 1999, in response to the OSCE's recommendations, the election law was reformed. Ten out of 77 members are elected from a party list on the basis of proportional representation with a seven percent threshold. The remaining 67 members are elected in single-mandate constituencies in which winning candidates must receive more than 50 percent of the votes cast in the first round.

Both the senate and the Majilis elections of October 1999 were marred by serious procedural violations and irregularities. For example, since Maslikhat elections were scheduled for November 1998, outgoing Maslikhat deputies rather than new ones elected the senate. As expected, the Majilis elections produced an overwhelming victory for parties and candidates supported by the regime.

In terms of formal markers such as registration requirements, the number of contenders and parties, and the level of electoral competition, the 1999 parliamentary elections were an improvement over the previous ones. Acceding to the OSCE's demands, Kazakhstan authorities liberalized the registration process for parties and candidates and reduced the registration fee for candidates by 75 percent. The fee demanded previously was equal to 100 times the minimum monthly salary and, thus, was beyond the reach of ordinary citizens.

Out of 547 candidates registered for the single-mandate constituencies, political parties nominated 20.7 percent and public associations put forward 14.6 percent. The remaining 64.7 percent were self-nominated. As the OSCE noted, more than a third of the self-nominated candidates in fact had very close ties with the regime and the pro-regime party Otan (Fatherland). The large pool of contestants, averaging about eight per seat, made it more difficult for candidates to obtain more than 50 percent of the votes cast in order to win in the first round. Since a second round of elections had to be held in 27 out of 67 constituencies, widespread complaints about intimidation and vote-counting procedures cast doubts on the validity of the first round.

Independent observers and opinion polls confirmed outright victories for Pyotr Svoik of Azamat and Gaziz Aldamzharov of the Republican People's Party in their respective constituencies in Almaty and Atyrau. However, the official results indicated that no candidate obtained 50 percent of the vote and, therefore, that a second round of elections had to be held. In Almaty, OSCE monitors noted the discovery of forged returns in favor of the candidate opposed to Svoik. The chairman of the district election commission in Atyrau denied international observers access to the vote tabulation process, claiming that their security could not be guaranteed. In Almaty, vote rigging denied Svoik a victory; whereas in Atyrau, violence allegedly triggered by authorities led to a suspension of elections and the disqualification of all candidates.

The Central Election Commission (CEC) took over a week to announce the results of the party list and the first round of elections. The delay was caused by the high degree of pressure placed on the CEC by local *akims* (heads of administration), who often act at the behest of high-ranking authorities to produce desirable results. Otan, the nomenklatura party, topped the party list with four seats. The pro-presidential Civil and Agrarian parties won two seats each. The Communists, who now constitute the major opposition, won two seats. Other parties failed to win any seats. In a number of constituencies between pro-regime candidates, bitter contests took place. The CEC failed to provide any details on the number of votes received by the losing candidates; it only offered the percentage of votes received by the winners and those advancing to the second round. The second round of elections was held just two weeks later, despite warnings by the OSCE that this allowed insufficient time to rectify anomalies and guarantee proper procedures.

Composition of the Majilis After the 1999 Elections

Political Parties	Seats, single member districts	Seats, party list
Otan (p)	20	4
Civil Party (p)	9	2
Agrarian Party (p)	1	2
Communist Party (o)	1	2
RNPK (p)	1	-
People's Co-operative Party (p)	1	-
Self-nominated candidates		
Business	10	-
Government Associated	20	-
Other/Unknown	4	-
TOTAL	**67**	**10**

Source: OSCE/ODIHR Final Report on the 1999 Parliamentary Elections of Kazakhstan, Warsaw, January 20, 2000.
Note: (P = pro-regime; O = opposition).

More than two-thirds of all members of parliament were up for reelection, and 61 percent failed to retain their seats. Business and financial interests that are closely connected to the regime dominate the current parliament. Parliament is also strongly biased in favor of ethnic Kazakhs, who hold 58 out of 77 seats. Only eight deputies are women. This is consistent with the low rate of female representation in political affairs.

Official figures report high voter turnout, but this is simply implausible because of pervasive voter apathy and disinterest in electoral and party politics. Turnout was reported to be about 90 percent for the 1995 referendums on the presidency and the new constitution and about 86 percent for the 1999 presidential election. Turnout in December 1995 parliamentary elections was reported 79 percent in the first round and 65 percent in the second round. No voter turnout figures for the last elections were released by the CEC for the first round of elections. Turnout for the second round of elections was 52.4 percent. Even this number is considerably exaggerated, given the extent of voter apathy. Polls conducted by the Association of Social and Political Scientists (AsiP) noted that turnout was below 35 percent in Almaty and much lower for voters under the age of 30.

The OSCE's condemnation of a lack of transparency in elections facilitated the consolidation of the opposition into the Forum of Democratic Forces. The new unified opposi-

tion includes a broad spectrum of parties and public associations opposed to the regime, including the Communist Party, the Republican People's Party, the Political Alliance of Women's Organizations, Kazakhstan's International Bureau of Human Rights and the Rule of Law, the ecological union "Tabigat," the pensioners' group "Pokoleniye," the Association of Independent Electronic Mass Media in Central Asia, the Workers Movement, and the Association of Russian and Slavic Organizations.

Notwithstanding some reforms to the election law, legal and institutional impediments to fair electoral procedures persist. First, the election law disqualifies people who have been convicted of corruption, fined by a court of law during the year preceding registration, or not cleared of a conviction by the time of registration. The regime has used this provision widely to prevent opposition leaders from contesting elections. Akezhan Kazhegeldin was barred from contesting both the presidential and the parliamentary elections of 1999 under this clause.

Second, according to the OSCE, the 7 percent threshold required to win seats on the party list is too high and seriously limits the prospects of small parties. The "soft" opposition Azamat, which enjoys significant popularity in Almaty, did not gain a single seat even though it obtained 4.6 percent of the vote.

Third, the CEC is not a neutral body but, rather, works at the behest of the government. Its chairman and members are appointed by the president and confirmed by the Majilis. Its chairperson, Zagipa Balieva, was dispatched to the United States in November 1999 to lobby Nazarbaev's visit in December. The CEC presides over lower level election commissions in oblasts, districts, and precincts. In practice, it is ineffective in controlling and overseeing the functions of the local commissions, whose composition and activities remain under firm control of local *akims*. In most cases, local heads are closely associated with Otan, the party that was created by the nomenklatura and garnered the largest number of seats in parliament.

Despite the introduction of a party list, it is premature to talk about a party system in Kazakhstan. Existing parties, whether pro-regime or opposition, lack organizational structures and active membership bases across the country. The only exception is the Communist Party, which has inherited the grassroots organizational structure from the Soviet era and has a large following among the older citizenry. However, it lacks financial support, leadership, and a reform agenda. Since 1991, Kazakhstan has seen the emergence of numerous parties, the vast majority of which have been founded by personalities within the regime or by forces indirectly supported by the regime. Parties like these have surfaced and vanished with the rise and fall of their founders.

There are no legal or constitutional obstacles to the formation of political parties and their participation in elections, although the president has the right to ban any party. According to the constitution, the president is above any political party. However, all pro-regime parties pledge allegiance to the president, who serves as their ultimate patron and benefactor. Among the prominent pro-regime parties currently represented in parliament are Otan, the Civil Party (Grazhdanskaia Partiia), and the Agrarian party. Otan was launched in January 1999 by Sergei Tereshchenko, a former premier (1991-1993) and the head of the presidential election campaign staff, with the explicit purposes of contesting the forthcoming parliamentary elections and consolidating the presidential program of "democratization of the society." Otan utilized its control over the central, regional and local administrative machinery to muster a large membership and to secure the most seats in parliament.

The Civil Party, which gained the second highest number of seats, represents powerful industrial interests. It is supported by the Eurasia group and headed by Aleksandr Mashkevich, a leading metallurgist and the founder of the Eurasian Bank in Kazakhstan. Mashkevich is now an Israeli citizen. The Eurasia group is estimated to produce almost one quarter of the country's GDP. Among its other key members are the leaders of six major metallurgical enterprises in Kazakhstan. Though the Civil Party has periodically contested the authority of Otan, it has pursued a clear pro-presidential agenda.

The Agrarian Party, nominally an organ of peasants and *kolkhoz* (collective farm) workers, can be seen as a subsidiary of Otan. It draws support from the heads of collective and state farms in southern Kazakhstan. The Agrarian Party was pushed into the electoral arena to counteract the Civil Party. Other smaller parties that are patronized by the regime but not represented in parliament are the Republican Party of Labor, the Renaissance Party, Azat, and Alash. The latter two parties are sustained by various interests and leaders within the regime to champion the notion of special rights for indigenous Kazakhs. The key objective of pro-presidential parties is to oppose the independent opposition.

Azamat and the Communists were the only recognizable opposition parties from 1996 to 1998. Lacking financial resources and patrons, though, Azamat fell prey to intimidation and gradual cooptation. Murat Auezov, one of its founding leaders, became the head of the Soros Foundation in Kazakhstan and shunned politics.

Rather than imposing a legal ban, Kazakhstani authorities have relied on the use of intimidation and coercion to control the opposition. In one dramatic case of cooptation, opposition leader Vitaly Voronov, Kazhegeldin's lawyer and a key figure in the Republican People's Party, appeared on state television in August 1999 and severed all ties with the former premier. A few months later, internal security officers filmed opposition leader Seidakhmet Kuttykadam with a woman friend at a sauna and released the film on state television. Since then, Kuttykadam has virtually ended his political activities. Leaders of the opposition who have resisted the persistent offers of a buy-off from the authorities continue to face harassment and surveillance. Amirzhan Kosanov and his fellow members of the Republican People's Party have been denied exit visas.

In June 2000, both houses of parliament unanimously approved a bill on the "first president of Kazakhstan," which was introduced by the pro-presidential Civil Party. The new law confers lifelong powers and privileges on the "first president" in order to "prevent an erosion of the country's achievements" after the end of Nazarbaev's presidency. This legislation guarantees Nazarbaev membership on key advisory bodies and control over future presidents and governments. It lends credence to the view that Rakhat Aliev, the president's son-in-law, is being molded as Nazarbaev's successor. In a parliament packed with pro-regime supporters, there are few stumbling blocks to enacting further legislation that grants some form of immunity to other elected officials.

Civil Society

1997	1998	1999-2000	2001
5.25	5.00	5.00	5.00

The post-Soviet transition in Kazakhstan—at least its first decade—has culminated in the consolidation of authoritarianism through patronage networks. The virtual closure of all independent newspapers and media, tightened censorship, and strict governmental regulation of the civic sphere, on the one hand, and pervasive citizen apathy, on the other, present serious obstacles to civic activism and the rule of law.

Kazakhstan's Law on Public Associations, adopted in 1998, contains severe restrictions on the right to free assembly. Specifically, holding a public rally requires prior permission from the authorities. Those accused of participating in an unsanctioned rally or meeting face arrest and fines. Persons convicted and fined in a court of law may not occupy public office or contest elections. Furthermore, Article 337 of the Criminal Code provides stiff penalties for participation in an unregistered public association. Overall, surveillance by the interior ministry, legal restrictions, and harsh penalties make it extremely difficult to organize spontaneous public action. The authorities have frequently used this provision to break up public meetings and protests.

Nongovernmental organizations (NGOs) have encountered fewer governmental obstacles and have continued to grow. There were 3,050 registered NGOs in early 1997. The Counterpart Consortium estimates that as of October 2000, 814 of these were fully functioning. NGOs together produce 35 newsletters and form seven major associations. More experienced organizations like the Counterpart Consortium, the Feminist League, and ISAR serve as umbrella organizations for newer NGOs.

Like political parties and public organizations, NGOs must register with the Ministry of Justice. NGOs devoted to social welfare issues are, on the whole, less subject to governmental pressures. Public interest organizations, human rights organizations, and Uighur rights advocacy groups have faced greater struggles in obtaining registration, and maintaining their legal status. Nonetheless, some efforts at building up a mutual dialogue and partnership between the government and NGOs can be discerned.

In a poll of government officials in five cities conducted by the Association of Social and Political Scientists (ASiP), 41.5 percent of respondents recognized the need for the government to "collaborate" with NGOs. Kazakhstan's Ministry of Labor and Social Protection has hired an NGO to supply hearing aids for the elderly. An ecological organization has received funds from the Akimat oblast to examine the level of air pollution. However, partnerships like these are still rare. NGOs essentially depend on external funding, usually from the West. And since international aid is on the decline, the sustainability of NGOs is a serious issue.

Negative attitudes to NGO activities are still common. However, the more successful NGOs, particularly in the health and education sectors, are slowly altering official and popular perceptions of their roles. Many NGOs came into being in order to tap into the funding opportunities created by international development programs. A significant number of these groups lack internal accountability and are primarily networks of friends and families with limited organizational capacity. The majority of available grants are for specific projects designed by development agencies, rather than for specific local initiatives. This has inspired some opportunistic individuals to organize into NGOs simply for profiteering purposes. Another problem is that NGOs have tended to cluster around Almaty and in the southern regions. About 45.7 percent are concentrated in the Almaty oblast, and an overwhelming proportion of these are in Almaty city. More remote regions, particularly in central and northeastern Kazakhstan, remain unaffected by NGO activity.

Obstacles to NGO activities are informal rather than legal. A common way to counteract their influence is to create a government-sponsored network of "'independent" organizations that received favorable treatment in registering and obtaining funds. Genuinely independent groups, meanwhile, are subjected to legal, financial, and judicial pressures. Government-supported NGOs also compete for international aid. For example, the children's health and charity fund Bobek, headed by Sara Nazarbaeva, serves as an umbrella organization and funnels international aid to smaller NGOs.

NGOs that promote women's issues have been quite effective. The Women's Network of Almaty, a support group set up in 1998, established the Political Alliance of Women's Organizations to contest the 1999 elections. This led the government to sponsor a parallel group, the Association of Women Entrepreneurs, which was quickly granted registration, an office, and publicity.

Financial pressures push NGOs to cultivate informal patronage networks within the regime, but NGOs have to tread delicately between establishing good relations with officials and maintaining their autonomy. Groups working

on human rights, interethnic, and religious concerns are prime targets of governmental surveillance.

In January 2000, Kazakhstan instituted one of the most progressive changes in NGO taxation in Central Asia. The country's tax code was amended so that NGOs receiving grant money from international organizations are no longer obliged to pay the "social tax." (The amendment also applies to donor organizations themselves.) Previously, NGOs that engaged in business activities to supplement their incomes ran the risk of being defined as businesses and, therefore, of being taxed accordingly.

The closure of industrial enterprises and mining sites because of inadequate financing and equipment has caused a rapid deterioration in the socio-economic conditions of industrial workers. Industrial unrest has been on the rise, and independent worker's unions have challenged the dominant status of the state-sponsored Association of Trade Unions. This union is a successor to the Soviet-era General Council of Trade Unions and, with a declared membership of four million, remains the largest organization of its kind in the country. The Confederation of Independent Trade Unions, which receives support from the Human Rights Bureau and many other nonprofit groups, has expanded its grassroots organizations across the country and claims 250,000 members. It is the first organization of its kind in the former Soviet Union to join the World Labor Confederation.

The Kazakhstan Workers' Movement, which is affiliated with the Independent Confederation of Trade Unions, has been in the forefront of several industrial actions. It succeeded in obtaining a settlement on overdue salaries and pensions for workers at the Taraz Phosphorous Plant in the Zhambyl oblast after a prolonged phase of protests and hunger strikes. Madel Ismailov, the leader of the Workers' Movement, was arrested in 1998 for demanding the annulment of the law that defines the preconditions for holding mass gatherings. Kazakhstan's labor law requires that employees receive notification of a strike no less than 15 days before its commencement. Workers are coerced routinely to join the state-sponsored trade union. Their jobs are threatened if they associate with independent trade unions or NGOs that champion their rights. In early 2000, the independent union Energetik was ordered to merge with its governmental branch Shymkentenergo.

Independent Media

1997	1998	1999-2000	2001
5.25	5.50	5.50	6.00

Freedom House's annual *Survey of Press Freedom* rated Kazakhstan "Party Free" in 1992 and 1993 and "Not Free" from 1994 to 1999. The working conditions for independent media and journalists have greatly deteriorated since the October 1999 elections. In 1999, Nazarbaev was included among the ten worst enemies of the press by the Committee to Protect Journalists (CPJ).

The media enjoyed a brief spell of freedom between 1993 and 1996. The populist *Karavan*, for example, became the largest circulating newspaper. It also controlled major television and radio stations and a major publishing house. *Karavan*'s popularity because it published some articles that exhibited serious investigative journalism and others that bordered on sensationalism. After persistent raids, intimidation, tax audits, and arson, a business group close to Rakhat Aliev finally bought the company in 1998.

In 1996, state control of the media was effectively reinforced when a government decree transformed the state media into a joint-stock company. Its shares were bought by Dariga Nazarbaeva, the president's eldest daughter, who now heads the state news agency Khabar and controls three television and two radio stations. When a series of closed auctions for broadcast frequencies were held in 1997, pro-regime groups acquired licenses by posing as private companies.

The 1998 Media Law has severely restrained independent media and resulted in self-censorship. A new Law on Confidential State Affairs, adopted in March 1999, makes the "disclosure or publication of information about the president and his family and their economic interests or investments into the realm of state secrets punishable by severe sanctions." Those charged with the "infringement of the dignity and honor of the President" can be prosecuted under Article 318, Part 2, of the criminal code. Although there are 45 independent broadcast outlets, which include 17 television stations, 15 radio stations, and 13 combined radio and television stations, all broadcast transmission facilities are government-owned. Almost all existing newspapers are financed by financial and business groups associated with the regime.

The government lifted many restrictions on the media during the 1999 parliamentary elections. Representatives of all nine registered parties were invited to a nationally televised debate on the state channel Khabar. However, pro-regime commentators and academics appeared frequently on state media to commend Otan's high degree of professionalism in conducting its election campaign and raising funds. The opposition was portrayed as disorganized and fragmented.

Nazarbaev has accused the media of distortion and has warned that the right to freedom of speech "must not be turned into an instrument for settling personal scores, misinforming society, and discrediting the state." He has also called for an investigation into the ownership and financing of individual media outlets that are allegedly linked with unspecified hostile organizations abroad. In August 2000, Prosecutor-General Yurii Khitrin advocated a "code of honor and journalistic ethics," claiming that 44 out of 148 critical articles checked by his office for "accuracy" contained unfounded allegations.

Human Rights Watch has identified four methods that the government employed before the January 1999 elec-

tions to hamper the independent media. These related to (i) alleged violations of the Law on Media that resulted in the award of massive libel damages to government officials; (ii) disruption and intimidation by various state agencies, including the tax inspectorate, custom agents, and state printing and distribution networks; (iii) formal and informal censorship, including unwritten orders issued to journalists; and (iv) violence and terror.

The National Security Law forbids foreign ownership of more than a 20-percent share in the media. This severely limits external assistance to independent media. During the period covered by this report, almost all the independent newspapers received some level of financing from Kazhegeldin. The premises of *21st Century*, *Soldat*, *451 Fahrenheit*, *Nachnem s ponedelnika*—all opposition newspapers—have been persistently raided and copies confiscated. One by one, all of these newspapers were forced to shut down because no publishing house would agree to print copies, fearing intimidation by the National Security Council. Ermurat Bapi, the editor in chief of *Soldat*, was charged with insulting the dignity of the president after he published reports on Nazarbaev's wealth. Temirtas Tleleusov, the author of a book alleging the "illegal" activities of some members of the leadership of the South Kazakhstan oblast, was attacked and badly beaten in the town of Shymkent. The governor of the Mangistau region, Lyazzat Kiinov, banned journalists from attending government meetings, contending that their presence "deter[s] many from voicing their critical remarks and proposals to each other."

Among the few media rights advocates is Edil Soz (True Word), a public foundation for the protection of free speech that receives support from the U.S. Agency for International Development (USAID). It has denounced restrictions on press freedoms and has obtained a seat on a governmental commission controlling pornography and violence in the media. The Kazakhstan Press Club was founded in 1994, with the support of the U.S. Information Agency, to support a free and democratic media. It has tended to offer support to independent journalists, while avoiding a direct confrontation with the state. The Association of Independent Electronic Mass Media in Central Asia, which is funded by various international agencies, seeks to protect independent journalists and advises independent media outlets on obtaining legal protection. Its president, Rozlana Taukina has stated that the number of electronic and print outlets in the country is currently 25 and 4,000 respectively—a marked decline from 200 and 8,000 respectively in 1993.

Since Rakhat Aliev assumed control of Almaty City's National Security Council in September 1999, independent media have virtually disappeared and the intimidation of the opposition and other independent civil rights activists has intensified. Aliev's appointment is critical because most political and civic activism is concentrated in the former capital.

Denied access to independent channels for voicing their views at home, opposition activists and independent journalists have resorted to the Internet to disseminate their views. The Web site www.eurasia.org.ru, which is based in Moscow and funded partly by Kazhegeldin and his associates, is a comprehensive Web site that purports to expose corruption within the Kazakh regime, especially in the presidential family. Access to the site has been blocked since September 2000, following the release of information detailing the payment of multi-million dollar bribes by Western oil companies into Swiss bank accounts believed to be held in the President's name. Reporters Sans Frontieres has included Kazakhstan among 20 countries that practice censorship of the Internet.

Governance And Public Administration

1997	1998	1999-2000	2001
5.50	5.50	5.00	5.00

The constitution grants a near-absolute mandate to the president, who appoints the prime minister, members of the cabinet, the chief justice of the supreme court, the heads of the central election commission and the constitutional court, and the regional akims. The legislature has been reduced to the role of a rubber stamp body because the president has the right to issue decrees that have the effect of law but require a formal endorsement by the parliament. Time and again, Nazarbaev has reminded the parliament of its obligation to pass legislation, rather than prolong debate. He accused the parliament elected in March 1994 of failing to pass necessary legislation and engineered its disbandment by the constitutional court. Despite its limited legal powers, the present parliament, which consists of some rich and powerful businessmen, may challenge executive authority.

Kazakhstan is a unitary and highly centralized state. The constitution grants no special powers to the regions. Over the past three years, the president has abolished five major oblasts, and merged them with the neighboring ones by declaring them financially unviable. All major decisions are made at the central level, and the regional and local heads are primarily entrusted with the task of implementing them. Under current practice, the president appoints all heads (akims) of oblasts, regions, and cities. There has been a high turnover in regional leadership, and the average tenure of an akim does not last more than a year and a half. A survey conducted by an independent sociological research institute headed by sociologist Sabit Zhusupov indicated that the office of the akim is one of the "least reformed" of all administrative positions.

The central government determines taxation rates and budget regulations. Regional heads do not have the formal authority to generate their own revenues from local taxation. In practice, though, they exercise de facto control over these matters. The relationship between a regional head and the president is largely an outcome of personal connections and patronage. Akims in the regions that have attracted

greater foreign investment exercise considerable control over budgetary matters. They have even extracted significant contributions for the various social and welfare projects under the regional budget.

Nazarbaev has resolutely opposed demands by the opposition and the OSCE to introduce direct elections of akims. He argues that the country is not ready for such a measure. Officials close to the president have reprimanded the akims for tampering with the results of parliamentary elections. Ermukhan Ertysbaev, a presidential advisor, has demanded that akims be prosecuted under the criminal code, but no action has been taken.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
5.00	5.25	5.50	5.75

Nazarbaev has emphasized the need to establish a state based on the rule of law, no fundamental changes to the legal structure have been initiated. The criminal code adopted in 1997 retains many of its Soviet-era features. It forbids the detention of individuals for more than 72 hours without charging them. With the approval of a prosecutor, a person may be held up to ten additional days. In practice, the approval of a prosecutor is a mere formality; police routinely hold detainees for months without bringing charges. Most detainees are people arrested for petty crimes, though in some cases the charges were politically motivated.

The criminal code is subject to interpretation by the executive and, notably, by officials in the Ministry of Internal Affairs. Local police execute orders received from above and are generally unaware of changes in legislation. There is no legislation punishing torture by police officials. Although, the Ministry of Interior Affairs conducts inquiries into allegations of torture, this agency has a widespread reputation for using torture itself. Human rights advocates have demanded that the prosecutor's office, rather than the ministry, examine investigations of torture.

Unofficial sources rank Kazakhstan among the top five countries in which the death penalty is widely used. Kazakhstan's International Bureau of Human Rights and Rule of Law has convinced the government to introduce a two-year moratorium on capital punishment. This bureau estimates that there are about 105,000 people in custody in Kazakhstan: 85,000 of these are convicted criminals and the remaining 20,000 are in isolation and await investigation. These figures suggest that seven out of every 1,000 citizens are prisoners.

Kazakhstan's constitution contains human rights provisions, but it does not spell out the mechanisms for safeguarding them. Defendants are formally protected from self-incrimination and have the right to appeal a decision to a higher court. However, corruption is endemic in the judiciary. Bribes, rather than appeals to higher courts, ordinarily settle a case. Poorly paid judges supplement their living by soliciting bribes and favors. Informal reports suggest that the legal profession has become one of the most coveted in the country. Law faculties at more prestigious universities routinely demand bribes ranging between $10,000 and $20,000 for entering students. The American Bar Association has estimated that 80 percent of all lawyers are employed by the state. However the number of lawyers who are either self-employed or work with foreign companies is growing rapidly. There are two main organizations of independent lawyers: the Association of Lawyers of Kazakhstan and the social movement Legal Development of Kazakhstan. Both are based in Almaty.

Although, the constitution guarantees equal rights for citizens regardless of race, ethnicity, or religion, ethnic Kazakhs are preferred over all other ethnic groups in government employment, education, housing, and other areas. Kazakh is the sole state language, but Russian is recognized as an "official" language that is on par with Kazakh. The state policy of promoting Kazakh has resulted in the conversion of several schools and universities that used Russian as the medium of instruction. The decision of the Ministry of Education to ban foreign textbooks was largely intended to prevent the use of textbooks from Russia. It has adversely affected Russian schools. Another law that requires 50 percent of all broadcasting to be in Kazakh has limited access to Russian radio and television channels.

By restricting public rallies, the Kazakh regime has depoliticized the public sphere and, thereby, achieved its much-acclaimed social and ethnic stability. Under the guise of reviving the Kazakh language and culture and rectifying the so-called ills of Russification under the Soviet regime, the present leadership has considerably undermined respect for multiethnic norms and cultural diversity. This poses a long-term threat to the prospects of building an ethnically integrated state and establishing a strong and inclusive national identity. In the past decade, about 3 million people—predominantly Slavics, Germans, and Jews—have emigrated. Given the regime's failure to establish a democratic and civic polity, ethnic mobilization and separatism cannot be ruled out in the long run. The government's tight surveillance of any issue with ethnic ramifications is a key source of social tension, especially in the Russian-dominated northern and eastern regions.

In November 1999, the arrest of 13 Russians in Ust-Kamenogorsk on charges of "separatism" raised doubts about the neutrality of legal authorities. These men were arrested for allegedly organizing an "armed insurrection" to overthrow the regional administration in the East Kazakhstan oblast and proclaiming an Autonomous Republic of Altai, presumably under Russian control. Independent observers and human rights advocates have argued that that the amount of explosives seized was too small constitute an

insurgency and that the confiscated materials may have been planted by the authorities themselves. Closed trials were held because the men were accused of treason. The Ust-Kamenogorsk city court gave the men prison sentences ranging from four to eighteen years, but the East Kazakhstan oblast court eventually reduced them by up to three years. According to human rights lawyers in Russia, the 13 men may soon be pardoned.

Corruption

1999-2000	2001
6.00	6.25

Despite efforts by Nazarbaev and other top officials to go after corruption, complaints of corruption are still widespread at all levels of the government, the bureaucracy, the legal system, and the educational system. In 2000, Kazakhstan ranked 65 out of 90 on Transparency International's Corruption Perceptions Index. Its overall score was 3 in a scale of 1-10 (10 being the least corrupt, 0 being the most corrupt). This put Kazakhstan just marginally above Uzbekistan.

The extent and precise manifestation of corruption is impossible to document because no neutral agency exists to inquire into such matters. The prosecutor-general's office is formally in charge of such inquiries and works together with the Ministries of Justice and Internal Affairs. The prosecutor-general is appointed by the president and is not accountable to the government. Inquiries into alleged corruption are almost invariably politically motivated and ordered by top government leaders. Kazakhstan's prosecutor-general, Yurii Khitrin, has concerned himself with the single task of levying corruption and criminal charges against Kazhegeldin and securing his arrest and trial. He even traveled to Moscow and other European countries in a failed bid to secure Kazhegeldin's arrest. A conflict between the prosecutor-general's office and the Ministry of Interior Affairs flared during the period covered by this report. Khitrin accused the Interior Ministry of benefiting from the sale of confiscated narcotics; Kairbek Suleymenov, the minister of interior affairs, in turn accused Khitrin of incompetence and failure to prove a single case of corruption.

Nazarbaev has used the charges of corruption and misappropriation of funds to oust several regional heads, including the akim of South Kazakhstan oblast. Similarly, in 2000 the government tried to revive charges of money laundering, tax evasion, and abuse of power against Akezhan Kazhegeldin, a former premier and Nazarbaev's principal political opponent. Kazhegeldin was arrested in Rome on a warrant from Interpol but was later released.

There is no clear evidence that corruption investigations are pursued once an official is removed from office. In fact, it is not uncommon for a politically disgraced person to resurface and soon hold another political office. Vitaly Khliupin's "Bol'shaia sem'ia Nursultana Nazarbaeva" (The Big Family of Nursultan Nazarbaev) and a volume called "Vneshnii dolg Kazakhstana" (Kazakhstan's Foreign Debt), both published in 1999 by the Institute of Contemporary Research in Moscow, present detailed accounts of corruption at top levels of the Kazakh government. Khliupin mentions that a ministerial position costs between $250,000 and $500,000 and that the position of a deputy premier costs $500,000 to $1 million. Although, the veracity of these details is impossible to establish, it is generally agreed that a high degree of corruption emanates from the top. References to the concentration of wealth with the Nazarbaev family and its close associates have proliferated internationally. On March 3, 1998, *The Guardian* listed Nazarbaev among the eight richest people in the world. The June 1996 issue of the *Financial Times* included Nazarbaev among the 25 richest people.

Reports in 2000 of a scandal involving multimillion dollar kickbacks paid by U.S. oil companies have implicated Nazarbaev and Nurlan Balgimbaev, a former premier and the current president of the state oil company Kazakhoil. These reports state that U.S. businessman James Griffen, posing as a broker, paid $35 million into the accounts of top Kazakh leaders. An FBI investigation into the case is currently under way.

Kazakhstan's single biggest corruption scandal—the high-level smuggling of some 40 MIG aircraft to North Korea through the Czech Republic in 1999—still remains unresolved. Many top officials who were implicated in the scandal, including the former chief of general staff Bakhtyzhan Ertaev and former national security council chief Nurtai Abyqaev, have regained jobs in the administration. Ertaev has been formally acquitted of all charges. The murder of Talgat Ibraev, the head of the state arms export company, is thought to be linked to the scandal.

High-level corruption, the presence of powerful and competing economic interests within the regime, and the lack of accountability and a legal framework impeded Kazakhstan's efforts to attract significant foreign investment in 1999 despite an ongoing economic recovery. Nazarbaev's call for foreign investors to contact him directly when they encountered bureaucratic obstacles has curious ramifications. First, it indicates a desperate effort to invite investment. Second, it aims to supersede the authority of officials and agencies that are officially in charge of investment. Finally, it confirms the widely held view that the presidential family is closely involved in all major foreign investment deals.

An analysis of the political elite in Kazakhstan in 1999 by the Institute of Contemporary Political Problems in Moscow identified seven major business groups that are headed by prominent political figures. The institute also detailed close business connections between these groups and the presidential family, as well as a keen political and economic competition among these groups. It has identified Rakhat Aliev and Timur Kulibaev—the two sons-in-law of the president—as two most powerful figures,

providing patronage and protection to other groups in support for loyalty. Aliev was the head of the taxation department for several years before becoming the National Security Chief of Almaty oblast. Kulibaev, the deputy head of the state oil company Kazakhtransoil, which has a monopoly over all pipelines and transport routes in the country and has vast investments in oil, transport, telecommunications, and banking. Ermukhan Ertysbaev, a pro-regime ideologue and the head of Kazakhstan's Strategic Studies Institute, asserted that "business and power constitute a single monolith in Kazakhstan, whose unconditional leader is Nursultan Nazarbaev—a de jure and de facto symbol and guarantor of the unity of people and state power and the inviolability of the constitution, rights, and freedoms of the citizens."

Business groups are frequently urged to contribute to "non-budgetary schemes" such as the construction projects in Astana, the charity fund Bobek run by Sara Nazarbaeva, or the elections campaigns. Such contributions provide informal exemptions from tax and custom duties and avail of subsidies and favorable conditions. Refusal to do so invariably results in the government using a tax audit option against the noncompliers.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.25	4.25	4.25	4.25

Macroeconomic Policy

1998	1999-2000	2001
4.50	4.50	4.50

Microeconomic Policy

1998	1999-2000	2001
4.75	4.75	4.75

Kazakhstan's economy has maintained macroeconomic stability, despite the Russian financial crisis and a fall in the value of the national currency, the *tenge*. Exports to Russia, which are more than a third of overall exports, were drastically reduced and contributed to a $1.3 billion decrease in Kazakhstan's foreign trade in 1999. The economic slowdown was compounded by a succession of bad harvests and low world prices for metal and oil. The oil and metallurgical sectors together constitute over two-thirds of Kazakhstan's exports.

However, GDP grew by more than 10 percent in the first nine months of 2000, registering one of the highest growth rates among the post-Soviet states. GDP rose by 1.7 percent in 1999, growing by over five percent in the second half of the year. The economic upturn is mainly a result of increased in oil exports and the recovery of global oil prices. Kazakhstan extracted 14,191 million tons of crude during the first six months of 2000—a 13 percent increase over the corresponding period in 1999. Tengizchevroil, the $20 billion joint venture between Chevron and Kazakhstan to develop the Tengiz oil field has enabled Kazakhstan to project a 10 percent increase in oil output in 2000.The Tengiz field has an estimate reserve of six to nine billion barrels of oil. Kazakhstan produced 30 million tons of oil in 1999. It has planned another 15 to 20 percent increase in 2001 by raising production by nearly 40 million tons.

Kazakhstan is the second largest oil producer among the former Soviet republics, after Russia. The increase in oil production and the recent discovery of an estimated 7 billion tons (40 billion barrels) of oil deposits in Kazakhstan's offshore East Kashagan field in the Caspian Sea have buoyed the regime' confidence. The entire offshore Kashagan block is being developed by the Offshore Kazakhstan International Operating Company (OKIOC), currently the biggest offshore drilling project in the world that involves some of the largest oil companies. Production is likely to commence around 2005 after the six-year exploration of the northwestern offshore Caspian region by OKIOC ends. OKIOC has already spent about $1 billion on drilling and exploration.

Kazakhstan has projected a four-fold increase in oil production by the year 2010 and aspires to become one of the top five oil-producing countries in the world. However, the projected increase is contingent upon enhancing the capacity of the Atyrau-Samara pipeline, which accounts for 75 percent of oil exports, and completing the Caspian Pipeline Consortium pipeline on schedule. Russia's decision to increase the Kazakh oil export quota through its pipelines by two and a half times has greatly helped its oil industry. The ongoing competition between Russia and the Western oil companies to control pipeline routes, and the involvement of Iran and China in constructing alternative routes, makes it difficult to make realistic projection of Kazakhstan's oil exports over the next decade. The quality of oil in the Kashagan oilfield remains uncertain. Furthermore, extremely high oil extraction and transportation costs and poor infrastructure mar Kazakhstan's prospects for competing with the OPEC countries in the near future.

The increase in oil revenues was matched by growth in other sectors of the economy during the past year. In the first nine months of 2000, industrial production increased by 15.4 percent, mining by 21.1 percent, iron and steel by 25 percent, non-ferrous metals by 15.3 percent, and oil and gas by 15.7 percent. The budget deficit for the year 2000 has been set at three percent of GDP, but it is estimated to fall to 1.5 per cent of GDP within the next two years because of cash revenues and achievements in macroeconomic and financial stability. The government has managed to keep inflation under control and is expected

to bring it below 2 percent by the end of 2000. However, the extent of dollarization of the economy and the absence of reliable methodologies make it difficult to account for hidden inflation.

Heeding the IMF's recommendations, the government has given a relative free hand to the National Bank of Kazakhstan (NBK) in implementing monetary reforms, which account for the dynamic economic climate of the past year. Kazakhstan's banking sector is one of the most advanced of the post-Soviet states. The two major banks, Halyk and Kazkommertsbank, have received positive ratings from international bank rating agencies but they do not yet have borrowing power in international markets. The banks' total assets as a percentage of GDP are just under 5 percent, and the state is their major lending customer. The NBK, under the leadership of Grigory Marchenko, has been consolidating the banking system and has reduced the number of banks to less than 40. (There were 204 banks in 1993 when restructuring began.) The flip side of consolidation is that the major banks are controlled by members of the Nazarbaev family and by major business interests.

The NBK's decision in 1999 to float the tenge enabled the government to shore up hard currency reserves, stabilize its banking system, and end protectionist policies that had supported an overvalued exchange rate. The collapse in the value of Kyrgyz and Uzbek currencies in 1999 flooded Kazakhstani markets with cheap imports and led the government to impose the much-criticized 200 percent tariffs on select imports from the region. The devaluation of the tenge has led to significant import substitution and has helped domestic manufacturers. Domestic investment in the economy in 2000 is projected at $1 billion and may exceed foreign direct investment (FDI). The European Union's decision to grant Kazakhstan the status of a country with a market economy should make it easier to get Kazakhstan's goods into European markets and should help in its negotiations for the entry into the World Trade Organization.

Under the government headed by Kazhegeldin (1993-1997), Kazakhstan embraced a plan to privatize large-scale "blue-chip" state enterprises, mainly in the oil, gas, and metallurgical sectors. The private sector share of GDP was 55 percent in 1999, and about two thirds of the population is employed in the private sector. Revenues from privatization during the first three months of 2000 were only 11 percent of the planned amount, marking a slowdown in the process. Privatization of the energy sector has been shelved since 1998.

Despite Prime Minister Kazymzhomart Tokaev's pledge to make 2000 a year of "intensive privatization," the sale of key enterprises has stalled, and Tokaev has called for an investigation into the activities of previous heads of the State Property and Privatization Committee. In May 2000, four companies were removed from the list of ten major enterprises earmarked for the government's long-awaited "blue chip" privatization.

Kazakhstan's decision to sell a 5-percent stake to Chevron in the Tengizchevroil joint venture, after repeated refusals, has incited controversy and intra-elite feuds. Tengizchevroil currently accounts for a third of the country's oil production. There have been numerous allegations of a "sellout" of the country's precious oil resources, but the official publications have refrained from discussing the sale's long-term implications. Kazakhstan will receive a total of $680 million for selling its stake: $450 million is to be paid in cash and the remaining $230 million in the form of funding for development programs. Under the scrutiny of the IMF, the government has proposed freezing petrodollars in a special fund, rather than depositing them into the state budget. The parliament is debating whether this amount should first go into the budget and be used to clear the deficit. It is unclear at this stage how the creation of a special fund could assure accountability and a significant level of investment in the national economy.

Sustaining foreign investment and winning investors' confidence has become one of the most important challenges for Kazakhstan. Between 1992 and 1997, Kazakhstan attracted 76 percent of all FDI into Central Asia and around one-eighth of all FDI into the former Communist bloc. FDI reached a record $2.1 billion in 1997, followed by $1.2 billion in 1998. FDI reached an all-time low when it fell to $960 million in 1999, and it is expected to be even lower in 2000. The lion's share of FDI is accrued from Tengizchevroil, OKIOC, and Ispat International.

In October 2000, after prolonged debates and protests, the parliament passed a much-amended version of the land law that allowed for land privatization. The law stipulates that land adjacent to rural dwellings may be privately owned. Under the previous law, one could only lease agricultural land, not buy it. Some 75 percent of agricultural land in Kazakhstan has been leased to individual farmers or private farms, and over 90 percent of agricultural enterprises have been privatized. The bill on land privatization had faced serious opposition, including hunger strikes by some Kazakh nationalist parties. They complained that land privatization would adversely affect the titular population.

Like other post-Soviet states, Kazakhstan has an inefficient and corrupt tax collection structure. The adoption of a new tax code has been delayed because of prolonged debates and the addition of multiple amendments. The draft tax code has already been amended 27 times over the past four years. Nazarbaev has promised its adoption by the end of 2000. He has also hinted at granting some form of amnesty for accounts held offshore to induce their owners to invest in the country. Independent estimates say that about $2 billion, mainly from oil revenues, annually escapes tax regulations and is deposited into offshore accounts. Furthermore, the shadow economy is estimated to account for 20 to 28 percent of GDP.

High tax rates, an excessively punitive tax code, and corruption among fiscal authorities have spurred the growth of the shadow economy. Nazarbaev has threatened to investigate the accounts of large foreign and domestic companies in order to stop this practice. Tengizchevroil is among

those accused of underpaying taxes. Deeply entrenched corruption within top governmental circles and allegations of the complicity and involvement of foreign oil companies make it doubly challenging to achieve transparency.

Nazarbaev continues to project the image of Kazakhstan as an "oasis of stability" in the region. He boasts of the country's success in preserving social and political stability despite its multiethnic composition and a torturous economic transition. The absence of overt conflict and public discontent is cited as a key indicator of stability. The tight regulation of ethnic relations and the steady marginalization of non-Kazakhs in the political sphere and in state employment have compelled the majority of Russian-speakers to leave.

According to the 1999 census, the population is 14.9 million. However, more recent estimates suggest that the actual number may be below 13 million and in decline. There has been a marked increase in the emigration of Kazakhs, especially youths to the West, but the 1999 census does not reflect this because the emigrants are still listed as inhabitants and citizens of Kazakhstan. The decline in population is compounded by a falling birthrate, which reached an all-time low of 1.6 percent in 1999. In order to boost the birthrate, the government created the Demographic Fund, headed by Sara Nazarbaeva, which offered 100,000 tenge ($700) to the first 2,000 babies born in the year 2000. Lacking finances and a strategy for demographic growth, the government has relied on meager material incentives or "donations" procured from businesses and wealthy individuals in lieu of tax relief. Kazakhstan's shrinking population weakens the country's self-image and dampens its ambition of becoming the dominant player in the region. Kazakhstan has a population 60 percent of the size of Uzbekistan's, but it possesses six times Uzbekistan's territorial mass. Population density in Kazakhstan is below six persons per square kilometer.

Kazakhstan has an extremely rich resource base and a small population, but it severely lacks gainful employment opportunities. Official statistics claim that unemployment is under 3 percent, but the real figure may be as high as 30 percent. Due to the decline in the birthrate and the high rate of emigration, the share of pensioners is likely to increase steadily. A World Bank loan of $100 million to finance pension reforms enabled Kazakhstan to pay 15.3 billion tenge ($110.7 million) in back pensions in 1999. Kazakhstan has still faltered in making timely pension payments, including arrears, and in offering incremental increases to pensioners. The liberalization of prices, following the decision to float the tenge, has hit groups with small or fixed incomes, the hardest. Pensioners, rather than workers or students, constitute the most active, politically disgruntled and mobilized social group in Kazakhstan. Pokoleniye, the movement of pensioners and the elderly that is led by a dynamic leader Irina Savostina, has offered the most powerful social opposition to the regime. Savostina has been arrested eight times for organizing "unsanctioned" protests and has had three criminal cases filed against her. Authorities consistently have denied pensioners permission to hold public meetings by using a combination of intimidation, arrests, and fines.

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KYRGYZ REPUBLIC

Polity: Presidential
Economy: Mixed statist (transitional)
Population: 4,900,000
GNP per capita at PPP $ (1999): 2,223
Capital: Bishkek
Ethnic Groups: Kyrgyz (52.4 percent), Russian (18 percent), Uzbek (12.9 percent), Ukrainian (3 percent), German (2 percent), other (12 percent)
Size of private sector as % of GDP (mid-2000): 60

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	4.65	↓ 4.70	↓ 4.88	↓↓ 5.13
Rule of Law	na	na	5.50	↓ 5.63
Economic Liberalization	3.75	3.75	↓ 3.83	↓ 4.00

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	249.1	330.7	398.4	382.1	350.2	263.8	275.2
Real GDP growth (% change)	-20.1	-5.4	7.1	9.9	2.1	3.7	5.1
Inflation rate	228.7	40.7	31.3	25.5	12.0	35.8	18.7
Exports ($ millions)	340.0	408.9	531.2	630.0	535.0	462.0	505.0
Imports ($ millions)	426.1	530.9	782.9	646.0	755.0	546.0	502.0
Foreign Direct Investment ($ millions)	38.2	96.1	46.8	83.0	108.6	44.4	40.7
Unemployment rate	3.1	4.4	6.0	4.3	4.3	5.4	3.1
Life Expectancy (years)	66.0	65.8	66.5	66.9	67.0	67.3	67.0

INTRODUCTION

Once considered an outpost of democracy in a region dominated by despots, the Kyrgyz Republic continued to slide into autocratic rule during 1999 and 2000. President Askar Akayev maintained tight control over political life in this mountainous Central Asian land. Parliamentary and presidential elections in 2000 were judged by international observers to be flawed. The elections resulted in a parliament with few opposition figures and a renewed five-year mandate for Akayev, 55, a physicist by training and a former head of the Kyrgyz Republic's Academy of Sciences. The administration also continued to influence the judiciary in sensitive cases and to harass the independent media through tax audits, while courts ruled against the private press in several crippling criminal libel cases. With the constitution already giving the president strong executive powers and the ability to appoint all key officials including the prime minister, Akayev faced few overt checks on his authority.

Akayev's willingness to resort to authoritarian measures to ensure his political survival first became apparent in 1995, when he won re-election as president after authorities disqualified three rival candidates immediately prior to the vote. Serious irregularities marred a 1996 referendum that approved amendments to strengthen the presidency.

The Kyrgyz Republic had gained a reputation in the early 1990s as the most liberal country in Central Asia. In 1992, then-United States Secretary of State James Baker praised the Kyrgyz Republic for being an "island of democracy" in the region. In retrospect, Baker's assessment and others like it were probably too generous even then, colored by the highly repressive nature of the governments in surrounding countries. Nevertheless, there were many encouraging signs. Unlike his counterparts in the region, Akayev had not headed the republic's Communist party during the Soviet era. Parliament criticized the president and blocked some of his initiatives. While generally lacking strong organizational bases, numerous political parties representing diverse views participated in the political process. Although the government closed some newspapers for pursuing stories about high-level corruption, authorities tolerated media criticism of the government. Activists created numerous NGOs, including independent human rights organizations.

To be sure, the Kyrgyz Republic is still the most liberal country in the region. A multiparty system, a fairly vibrant civil society, and an independent media remain in place. However, the government has weakened and undermined these and other institutions. Many outside assessments are now more sober. During a visit to the country in April 2000, United States Secretary of State Madeleine Albright pressed Akayev to follow through on the country's commitments to the Organization for Security and Cooperation in Europe and to free an opposition leader who had been jailed while he awaited trial.

Akayev faces no obvious, immediate threats to his survival. However, the Kyrgyz Republic has been drawn in to a regional nexus of conflict and illicit cross-border activities and faces repeated threats to its sovereignty from Islamic movements and drug traffickers. In 1999 and 2000, Islamic militants based in Tajikistan and seeking to overthrow the autocratic, secular Karimov regime in Uzbekistan made several incursions into Kyrgyz territory. Drug smugglers continued to penetrate the country's porous borders with shipments from Afghanistan destined for Russia and Western Europe.

Given the president's apparently entrenched position and the absence of a competitive political system, there is little obvious domestic incentive for Akayev to pursue deeper economic liberalization. Privatization of large-scale enterprises, reform of the energy sector, and other liberalization measures would weaken the state's control over important sectors of the economy. The only real pressure for economic liberalization has come from multilateral lending institutions. The International Monetary Fund, World Bank, and other international agencies have some leverage over the regime, given that the Kyrgyz Republic has few natural resources and will be dependent on external aid for the foreseeable future.

The IMF reported in October 2000 that the economy grew an estimated 7.4 percent in the first half of the year behind strong performance in agriculture and construction. Nevertheless, the country remains one of the poorest among the former Soviet republics. Per capita income was estimated at around $300 in 2000. Moreover, the country is still recovering from the deleterious effects of the 1998 Russian financial crisis, which caused widespread hardship for ordinary citizens and exposed the economy's vulnerability to external shocks and heavy trade and energy dependence on Russia and neighboring countries. The economy faces several structural constraints, including poor infrastructure, the country's landlocked position, and a relative lack of natural resources. In 1999 and 2000, the administration made few bold efforts to speed up the country's economic transition process, and parliament postponed introducing private land ownership for at least five years.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
5.00	5.00	5.00	5.75

The Kyrgyz Republic's 2000 parliamentary elections were characterized by restrictions on the participation of opposition parties, administrative and court decisions that deregistered several opposition candidates, and irregularities in the counting of ballots. The Organization for Security and Cooperation in Europe (OSCE) concluded that the elections "did not comply with OSCE commitments."

While 15 parties competed, authorities barred four parties, including the three most popular opposition parties, from fielding slates for the 15 party-list seats in the 60-seat lower house. Authorities also deregistered several candidates between the two rounds of voting. While noting that the opposition did win some seats, the OSCE contended that given the opposition's small size, the barring of three key opposition parties and actions against several major candidates effectively excluded the opposition from the formal political process.

Voting for the bicameral, 105-seat parliament was held in two rounds on February 20 and March 12. Under constitutional changes enacted in 1998, voters elected a 60-seat legislative assembly, or lower house, that for the first time included 15 seats awarded on a proportional basis from national party lists, as well as 45 members elected from single-seat districts under simple majority rule. Voters also elected a 45-seat People's Representative Assembly under single-member, simple majority rule. The simple majority rule for the single-seat districts in both chambers meant that in districts where no candidate secured more than 50 percent of the vote, the two leading candidates advanced to a second round runoff. The outgoing legislature had 35 seats in the lower house and 70 seats in the upper house. Both chambers are elected for five-year terms.

Final results for both houses gave independent candidates 73 seats; the pro-Akayev Union of Democratic Forces, 4 party list seats and 12 total; the opposition Party of Communists of Kyrgyzstan (PKK), 5 and 6; the pro-government My Country, 1 and 4; the pro-Akayev Democratic Party of Women, 2 and 2; the pro-Akayev Party of Afghan War Veterans, 2 and 2; the opposition People's Party, 0 and 2; the opposition Ata-Meken, 1 and 2; the pro-government Agrarian-Labor Party, 0 and 1; and the opposition Erkin Kyrgyzstan, 0 and 1.

The parliamentary elections were the second since independence. As was the case in the 2000 elections, no party held a majority after the first parliamentary elections in 1995. A mix of government officials, intellectuals, and clan leaders captured 82 of the 105 seats in that vote. Turnout for the first and second rounds of the 2000 parliamentary elections was officially 57.8 percent and 64.4 percent, respectively. This was similar to the turnout of 62 and 61 percent, respectively, for the first and second rounds in 1995.

Prior to the first round of the 2000 elections, authorities used the election law to bar three leading opposition parties from contesting the 15 party list seats in the legislative assembly. Authorities barred the opposition Ar-Namys (Honor) Party under a provision in Article 92 of the law requiring parties to be registered for at least one year prior to the election in order to field party lists. Former Vice President Felix Kulov had formed the party in April 1999. Authorities barred the opposition El Bei Bechara (Party of Poor People) on the grounds that it failed to comply with another provision in Article 92 requiring a party's charter to state explicitly that the party planned to contest elections. Both Kulov and the El Bei Bechara leader, Danyar Usenov, figured to be leading challengers against Akayev in the October presidential elections.

In February, a court deregistered the opposition Democratic Movement of Kyrgyzstan (DMK) for allegedly holding a congress without the necessary quorum. The OSCE later said that the case against the DMK "lacked credibility." This left the Party of Communists of Kyrgyzstan as the only major opposition party in the elections.

Following the first round of the election, authorities deregistered at least nine candidates who had qualified for the second round on the grounds that there had been irregularities in the candidates' initial registration or in the conduct of their election campaigns. Most notably, the Central Election Commission (CEC) disqualified El Bei Bechara leader Usenov on the grounds that in his candidate registration he had failed to disclose a property holding as required by the electoral law. The OSCE noted that while courts ultimately reinstated several deregistered candidates (though not Usenov), these candidates lost campaigning opportunities while their cases were on appeal.

Eighty-one of the 90 single-member constituency races from both houses were decided in the second round. However, in districts where one of the two candidates who advanced after the first round was deregistered or withdrew from the race prior to the second round, election officials declared the remaining candidate to be the victor. According to the OSCE, this allowed up to 17 candidates to win seats even though they had not secured a majority of first-round votes. In many parts of the country, officials appeared to administer the election in a relatively transparent and accountable manner. However, in District 44, located in the town of Kara-Buura in the northern Talas region, the OSCE reported "clear evidence of systematic fraud, committed by state and election authorities, aimed at securing the defeat of [Ar-Namys leader] Kulov," who lost his bid for a seat.

The OSCE found a "clear bias" in the state television's coverage of the election campaign. However, the organization also reported that state-owned Kyrgyzstan Television generally met its obligation to provide free airtime to all candidates and political parties.

President Askar Akayev easily won a third five-year term in elections marred by the exclusion of prominent opposition leaders, harassment of opposition candidates, restrictions on NGO monitoring efforts, and overt bias in the state-owned media in favor of the incumbent. The Vienna-based OSCE concluded that the October 28, 2000 presidential vote "failed to comply with OSCE commitments for democratic elections."

With an official turnout of 73 percent, final results gave Akayev 74.5 percent of the votes; Omurbek Tekebayev, the deputy speaker of parliament from the opposition Ata-Mekan Party, 13.9 percent; and industrialist Almazabek Atambayev, 6.0 percent. Three minor candidates split the remainder.

The most serious flaw in the electoral process was the inability of several leading opposition figures to compete. In the spring, a court convicted Usenov, the leader of El Bei Bechara, of failing properly to declare property when registering as a candidate for the 2000 parliamentary elections. While the OSCE later called the conviction "questionable," the decision barred Usenov from contesting the presidential elections. A criminal conviction also prevented a minor challenger from competing.

Opposition leader Kulov could not compete after refusing to take a mandatory Kyrgyz language test for candidates. The OSCE reported that another candidate also refused to take the language test, while eight others failed the test.

Also helping Akayev was what the OSCE called the "overwhelming tendency" for the state-owned media to give the president positive coverage. Some private papers carried more balanced coverage, although the private press' efforts to cover the elections must be seen in the context of the government's ongoing harassment of outspoken newspapers through the courts and tax audits.

Opposition candidates also had difficulties in waging vigorous campaigns. The OSCE reported that there were credible allegations that authorities barred several meetings organized by independent candidates and limited public participation at other meetings; restricted the posting of campaign materials in Bishkek; campaigned on behalf of the incumbent; and pressured state employees and students to vote for Akayev. The president's campaign also benefited from its use of state resources.

While the balloting and counting procedures on election day appeared to be transparent, OSCE observers noted "serious violations" in some precincts. Moreover, the CEC prevented the 170-member NGO Coalition for Democracy and Civil Society from monitoring the elections as a group. Local officials generally allowed the coalition's constituent groups to monitor the vote individually. However, many polling stations denied access to observers from one of the largest coalition members, the Public Association for Democracy and Civil Society.

During the election campaign, Akayev's opponents criticized him for mismanaging the economy and failing to crack down on corruption. Akayev and other government officials accused the opposition of undermining the Kyrgyz Republic's integrity at a time when its sovereignty was being violated by cross border incursions by Islamic militants.

Some challengers also questioned the constitutionality of Akayev's efforts to seek a third five-year term, given that the 1993 constitution places a two-term limit on incumbents. Officials argued that although Akayev had been elected twice, his term that began in 1995 was his first under the new constitution, and therefore he was eligible to run for a "second" term in 2000. Voters had first elected Akayev in 1991, and re-elected him in 1995 with 86 percent turnout in balloting that the UN, OSCE, and other international observers called "generally free and fair."

The 2000 presidential and parliamentary elections were held under an election law passed in April 1999 that contains positive features as well as clauses that authorities used to disqualify or deregister several parties and candidates.

The new code provided for greater transparency in the tabulation of ballots and guaranteed the right of domestic observers to monitor the election process. The inclusion of party list balloting for 15 of the lower house's 60 seats promoted a greater role for political parties in the election process and politics in general.

While acknowledging these points, an OSCE analysis of the election code released in May 2000 also raised several concerns. In addition to raising questions about Article 92 of the law (see above), the report said that procedures for making appointments to the 12-member CEC and lower election commissions did not provide for real pluralism on these bodies; that the direct appointment of the CEC chairman by the president raised concerns about the chairman's impartiality; and that the law allows election authorities to impose on candidates sanctions that are disproportionate to violations. The OSCE also expressed concern about stipulations in the code requiring aspiring presidential candidates to collect 50,000 signatures and to pay a registration fee of 1,000 times the minimum wage, both high barriers in this small, impoverished country.

The Kyrgyz Republic's electoral system is nominally multiparty based. However, opposition parties won only 11 out of 105 seats in the 2000 elections. While it is impossible to know how many seats the opposition parties would win in a fair vote, the government clearly limited their prospects. Election authorities used the election law to bar four parties because their charters did not explicitly state that they planned to contest elections, and eight parties because they were registered less than a year prior to the announcement of the elections. Moreover, most of the 27 registered parties are poorly funded and have limited membership bases.

Consequently, parties played a fairly minor role in the 2000 parliamentary elections. Some 407 out of 420 candidates for the 90 single-member constituencies ran as independents. As a result, most MPs are unaffiliated with political parties. With the exception of the Communist party, most of the 11 parties that contested the 15 party list seats in the lower house elections had fairly similar platforms.

In addition to the restrictions on parties, Kyrgyz authorities have also cracked down on individual opposition figures. The government has particularly targeted Kulov, who became the country's best known opposition campaigner after he left the government in April 1999 and formed the Ar-Namys (Honor) party. Authorities arrested Kulov after the second round of the 2000 parliamentary elections on charges of abuse of office when he was the head of national security and governor of Chui oblast. A closed military court acquitted Kulov in August, but a higher court overturned the ruling. As of late October, Kulov was awaiting a retrial.

In May, a Bishkek court convicted Usenov, the leader of El-Bei Bechara, of assault stemming from a four-year-old charge in which the plaintiff had withdrawn his original complaint. While the court sentenced Usenov to two years of probation, under Kyrgyz law the criminal conviction permanently barred him from running for office.

In another development, on September 1, 2000, authorities said that a court had convicted nine people who had been arrested in May 1999 in connection with an alleged assassination attempt against President Akayev. The court sentenced seven of the nine to 16 to 17 years in prison. Those imprisoned included Toichubek Turgunaliyev, a co-chairman of the opposition Democratic Movement of Kyrgyzstan and the head of the Guild of Prisoners of Conscience. The two others received suspended sentences.

It is difficult to assess the legitimacy of the individual cases against Kulov and other opposition figures. However, the prosecutions came in an election year and in the context of the Akayev regime's growing intolerance of dissent and a widespread belief the judicial system is not independent in sensitive cases.

Authorities have also restricted the right to assemble peacefully for political purposes. In one widely publicized case, in July 1999, police in Naryn oblast fined two members of parliament who were holding a public discussion on politics with a group of citizens. The police said the gathering was illegal. In June and July of that year, authorities in Issyk Kul and Naryn oblasts prevented the opposition El Bei Bechara from holding several meetings, on the grounds that the party did not provide the required 10 days' notice for public meetings. Following the 2000 parliamentary elections, police arrested more than 100 demonstrators in Bishkek and other cities who were protesting the conduct of the vote.

While there are few outward signs of political instability, it is impossible to determine whether the regime faced few domestic threats or whether it simply was successful in suppressing threats.

However, Islamic militants have undermined the country's sovereignty by penetrating its porous borders. After a lull of almost a year, Islamic insurgents attacked government troops along the border with Tajikistan several times in August and September 2000. The government acknowledged that retaliatory bombing raids by Kyrgyz warplanes killed 30 Kyrgyz civilians. Authorities relocated more than 1,000 civilians from the area in what it called a voluntary process. The rebels said they belonged to the Islamic Movement of Uzbekistan and called for the release of thousands of Islamists jailed by the Karimov regime in Uzbekistan.

The incursions began in early August 1999, when several hundred armed insurgents clashed with Kyrgyz troops and took four hostages in the Batken district of southern Osh oblast, a rugged area where the borders of the Kyrgyz Republic, Uzbekistan, and Tajikistan converge. The militants released the hostages after a few days, but the crisis escalated after the Kyrgyz army attacked suspected rebel strongholds in the Kyrgyz Republic and neighboring Tajikistan. On August 22, several hundred armed insurgents entered Batken district from Tajikistan, captured several villages, and took hostage some 20 people, including four Japanese geologists. The insurgents released the last hostages and returned to Tajikistan in late October. The fighting in 1999 killed some 27 Kyrgyz citizens, including 23 soldiers and policemen, and displaced several thousand villagers.

Civil Society

1997	1998	1999-2000	2001
4.50	4.50	4.50	4.50

With help from foreign donors, nongovernmental organizations (NGOs) are providing social services to vulnerable members of the population and are increasingly active in the political process. The Kyrgyz Republic has several thousand registered NGOs, though only about 500 are reasonably active. While the government generally tolerates NGO activity, authorities restricted NGO monitoring of the 2000 presidential elections and, to a lesser extent, the 2000 parliamentary elections. In July 2000, court decisions revoked the registration of one of the Kyrgyz Republic's premier human rights organizations, the Kyrgyz Committee on Human Rights (KCHR).

The USAID-funded Counterpart Consortium reported that in the late 1990s, the largest concentrations of NGOs were found in children and youth services, with 86 NGOs; education, 73; civil society, human rights, and support for other NGOs, 54; women's issues, 50; ecological issues, 49; and health issues, 46. NGOs working on women's issues include the Bishkek-based Women's Congress, which promotes health care service for women and provides financial assistance to poor families, disabled veterans, and single mothers; Diamond, a Bishkek-based association of women scientists; the Bishkek-based Association for Support of Women Entrepreneurs; Tendesh, which runs a shelter in Naryn along with a hotline for female victims of violence; and the Kork Women's Public Organization and the Peri Women's Organization, both in Karakol.

The Kyrgyz constitution provides for freedom of association, and in practice there are relatively few overt restrictions on the activities of most NGOs. The 1991 Law on Public Organizations outlines the registration process for religious organizations, political parties, and cultural associations. The 1999 Law on Noncommercial Organizations specified the criteria for establishing all other types of NGOs, except for trade unions, which are covered under separate legislation. The ministry can also restrict the activities of an organization that allegedly undermines the public good or promotes racial or ethnic intolerance.

In practice, NGOs participate in politics by holding policy conferences and seminars; sending appeals to the government and parliament; distributing information and

conducting public awareness campaigns on the environment, the status of women, human rights, and other issues; and analyzing legislation. Representatives of larger NGOs are generally able to meet with officials to advocate their views on policy measures and legislation. In addition, several female-based NGOs have worked to increase women's participation in the electoral process. President Akayev's Coordinating Council on Sustainable Development includes NGO leaders.

The 1992 Law on Labor allows workers to join independent trade unions, and the government respects the law in practice. The Federation of Independent Trade Unions of the Kyrgyz Republic is the direct successor to the Soviet-era Association of Trade Unions and is the country's major trade union. It purports to have more than one million members. Given that the privatization process and the near collapse of the country's industrial base have caused factories to lay off tens of thousands of workers, the actual membership is probably smaller. One of the largest unions to have emerged since independence is the Union of Entrepreneurs and Small Business Workers, which has a membership of roughly 80,000 workers.

Authorities have harassed some groups engaged in particularly sensitive political activities. As noted above, a court revoked the KCHR's registration in July 2000. Authorities subsequently issued an arrest warrant for the KCHR's director and also attempted to confiscate the group's property. Established in 1996, the KCHR acts as an umbrella organization for various groups concerned with human rights in the Kyrgyz Republic. The head of the KCHR, Ramazan Dyryldayev, and another KCHR activist fled the country and as of late October remained in self-imposed exile.

The New York-based Human Rights Watch reported that prosecutors in March formally warned the leaders of several human rights NGOs that they faced arrest for their activism under the criminal code's Article 233, which penalizes "destabilizing the social order."

In addition, authorities have, on occasion, used the registration process in a political manner. Human Rights Watch reported that in May, the Ministry of Justice refused to register the nongovernmental Guild of Prisoners of Conscience on the grounds that the Kyrgyz constitution prohibited arrests on political charges. In September 1998, the Ministry of Justice revoked the KCHR's registration on the grounds that its registration application had contained irregularities. At the time, the organization's chairman had been advocating that voters reject constitutional changes in an upcoming October referendum. The government reregistered the KCHR in August 1999. Authorities have denied registration to a group representing the Uighur minority, which says it aims to establish an independent state in Xinjiang province in northwest China.

Although the 1999 election law guarantees the right of domestic groups to observe elections, authorities have impeded some domestic monitoring efforts. Some groups reported having trouble gaining access to polling places during the 1999 local and 2000 parliamentary elections. In the 2000 presidential vote, the Central Election Commission (CEC) forced the 170 members of the NGO Coalition for Democracy and Civil Society to observe the vote individually rather than as a coalition. It also ordered local commissions to deny access to a coalition member called the Public Association for Democracy and Civil Society that had accredited 1,950 observers in all seven oblasts.

Owing in large part to the country's poor economic conditions, most NGOs in the Kyrgyz Republic face considerable financial constraints and few are self-sustaining. Many prominent NGOs are dependent on assistance from foreign governments and foundations.

Kyrgyz law provides some tax benefits for NGOs. The 1999 Law on Noncommercial Organizations provided specific criteria for NGOs to achieve tax-exempt status as "noncommercial organizations." However, some NGOs criticized the law for not providing tax deductions or other benefits to contributors to NGOs.

While the larger NGOs have reasonably well-established management structures, most of the smaller, locally-based organizations essentially revolve around the head of the organization, lack boards of directors, and rely on informal management procedures. Many NGOs lack personnel with adequate training in strategic planning, accounting, and evaluation. Moreover, many NGO leaders and staff members have full-time jobs elsewhere and contribute their spare time to NGO activities. While this is perhaps unavoidable due to financial constraints, it limits the capacity of NGOs to carry out programmatic activities.

Independent Media

1997	1998	1999-2000	2001
5.00	5.00	5.00	5.00

The Kyrgyz Republic's independent media face considerable political and financial constraints. Several local officials filed libel suits against private newspapers and journalists in response to critical articles. The Akayev administration used tax audits and criminal investigations against outspoken newspapers. While most private media operated with a minimum of direct harassment, the actions against outspoken publications sent a clear signal regarding the boundaries of press freedom. In its final report on the 2000 parliamentary elections, the OSCE observed, "While some press freedom exists in the Kyrgyz Republic, public and private media remain vulnerable to pressure from the authorities, creating a climate of self-censorship."

The vast majority of media outlets remain state-owned. The government owns several national, regional, and local newspapers. There are some 50 private newspapers and magazines, mainly based in Bishkek. They include *Delo No*, *Asaba*, and *Res Publica*, which has a circulation of roughly

10,000. The Uzbek-language *Mizon* and the Russian-language *Delovoi Osh* are both based in the Osh region.

There are 14 independent television stations and 11 independent radio stations, including Pyramida Television and Radio, Independent Bishkek Television, Asman Television, Vosst Television and Radio, and Almaz Radio. Most private broadcast media are located in Bishkek, although their programs can generally be heard in other major cities. However, because these stations generally have rudimentary technology, their broadcasts cannot be received in remote, mountainous parts of the country.

Private media are severely constrained by limited circulation bases and advertising revenues. Under a 1998 law, advertising is limited to 20 percent of the space in print media and 25 percent of the air time in broadcast media. In addition, there are few individuals with the financial means to support an independent publication. Since 1998, a government regulation has required the holders of media broadcast licenses to cover all expenses associated with supervisory functions carried out by the National Agency for Communications (NAC).

In addition to financial constraints, the media also face both formal restrictions on their activities and mounting political harassment. Articles 127 and 128 of the criminal code make libel a criminal offense. The 1992 Law on Mass Media broadly prohibits journalists from publishing government and commercial secrets; articles that advocate war, violence, or antagonism toward ethnic or religious groups; and articles that harm a person's honor or dignity. The law also holds journalists liable for allegedly false information in a story even if it is presented as a direct quote, and prohibits journalists from directly criticizing the president. In addition, Article 127 of the constitution criminalizes any article that questions the dignity and honor of the president.

To be sure, there are some legal guarantees for press freedom. Article 16 of the constitution guarantees freedom of the media and freedom of expression. As amended in October 1998, Article 65 of the constitution stipulates that no law may limit freedom of the press. Moreover, the 1992 law explicitly guarantees freedom of speech and the press, and states that media have the right to collect and distribute information.

However, since the 1995 presidential election, authorities have increasingly used the courts to harass the independent media. Most notably, authorities have subjected the independent and outspoken *Res Publica* weekly to repeated libel cases, and have detained and imprisoned several of the paper's journalists and copy editors, as well as the main editor, Zamira Sadykova, for their roles in various "anti-state" articles. In these cases, as well as in actions in recent years against *Kriminal*, *Asaba*, and several other independent publications, officials generally accused the newspapers of being too critical of President Akayev and his family. In January 2000, the Supreme Court upheld a lower court ruling that *Res Publica* had defamed a public official. The paper paid a damage award to avoid closure.

In August, the New York-based Committee to Protect Journalists (CPJ) reported that the National Security Ministry had opened a criminal investigation against the Bishkek independent weekly *Delo No* for divulging state secrets in an article about the closed trial of opposition politician Feliks Kulov. CPJ said agents from the ministry had subjected three of the paper's journalists to an arduous interrogation. Officials from the security ministry searched the homes of several *Delo No* journalists in September. Separately, authorities jailed a journalist for five weeks following a libel conviction over an article on corruption. Journalist Irina Stepkicheva of *Nasha Gazeta* has faced a series of civil suits as a result of articles she wrote in 1998 that were critical of the Procurator General.

Authorities have also used administrative measures to harass independent publications. In April 2000, CPJ and the KCHR reported that the government had fined the opposition newspaper *Asab* 2 million *soms* (US$4,200) for alleged tax code violations. In August 1999, tax police carried out a series of inspections in the offices of the largest independent daily newspaper, *Vercherniy Bishkek* (Bishkek Evening News). The paper's editor-in-chief, Alexander Kim, alleged that the inspections came less than a year after *Vercherniy Bishkek's* previous tax audit and therefore violated Kyrgyz law. The newspaper had recently published interviews with opposition politicians.

In 1998, President Akayev set up a Morals Commission directly responsible to the presidential office. Composed of newspaper editors, university rectors, religious leaders, and other public figures, the commission was charged with evaluating the content of Kyrgyz publications. In September 1998, it suspended three newspapers. All three revised their editorial practices and reopened in 1999. While some journalists do rely on local rumor and unsubstantiated reporting, the commission's activities clearly violated legal guarantees for press freedom.

The Ministry of Justice, the NAC, and the presidential office must approve all broadcast media licenses. In 1998, the administration gave the NAC greater authority to shut down media outlets and terminate the production of specific programs. This appears to be unconstitutional because only the courts can order a closure. Following domestic and international protests, a separate body called the State Commission for Radio Frequencies postponed until the end of 2000 a decision on whether to rescind the license of the private Osh TV, which broadcasts in Uzbek.

The government privatized almost all kiosks and newsstands in the early 1990s, but news agents still receive their publications for sale from government-owned distributors. In 1998, the government sold its shares in the main publishing house. However, the state still owns a publishing house and businessmen close to the Akayev administration own the main private publishing center. The government also controls the supply of newsprint. Independent newspapers have occasionally experienced shortages of newsprint that appear to be politically motivated.

Internet use is limited by financial and infrastructure constraints. According to the World Bank, in 1998, the Kyrgyz Republic had 0.4 Internet hosts per 1,000 people. It is possible to access the Internet in most major cities, but far more difficult in rural areas due to a lack of necessary infrastructure. Moreover, many citizens simply cannot afford Internet access. The government has not placed restrictions on Internet access nor has it restricted content.

Governance and Public Administration

1997	1998	1999-2000	2001
4.25	4.50	5.00	5.25

The Akayev administration dominates governance in the Kyrgyz Republic through its ability to appoint all key national and local officials and its control over what is a highly centralized budget process. While the legislature has vetoed presidential bills and initiated its own legislation, on the whole the body provides only a limited check on executive power. National and local administrative officials face severe budget constraints and a shortage of adequately trained personnel. The government did merge a number of ministries and streamlined the functions of remaining ministries in 1999 and 2000 in an effort to improve efficiency. However, executive agencies as well as legislative bodies continued to operate with relatively limited transparency.

A 1994 constitutional referendum transformed the unicameral Supreme Soviet into a bicameral *Jogorku Kenesh* (parliament). The upper house, the *Myizam Chygaruu Jyiyny* (Legislative Assembly) is tasked with adopting and interpreting laws and ratifying treaties. The body can also impeach the president. The lower house, the *El Okulder Jyiyny* (People's Representative Assembly) meets several times a year to address budget and tax issues and approve presidential appointments. The legislature has initiated legislation, held numerous policy debates, delayed passage of the budget, and overturned several presidential vetoes. In addition, in the mid-1990s it rejected Akayev's request for a referendum on extending his term indefinitely.

However, constitutional changes in 1996 strengthened the president's power at the expense of the legislature. Most importantly, the changes allowed the president to appoint the prime minister. If parliament rejects three of the president's nominees, he can dissolve the body. The president also gained the power to appoint the chairmen of the Central Election Commission and Central Bank. The president can also bypass legislative authority through edicts. In 1994, Akayev dismissed the first parliament in the independent Kyrgyz Republic after it moved to limit his powers.

The Kyrgyz Republic is divided into seven *oblasts* (regions), including the capital oblast of Bishek. The oblasts are further subdivided into 43 *rayons* (districts). The president appoints the oblast governors and other local executive officials, although the respective local councils are elected.

The country held local elections on October 17, 1999 and in 1994. In the 1999 vote, domestic monitors noted that local officials interfered in many election-related activities. For example, in some polling stations politicians directed activities that election officials should have handled. In its annual human rights country report for 1999, the United States Department of State called the local elections "flawed."

The constitution empowers local councils to initiate and monitor economic and social programs and to call for a vote of no-confidence in their respective chief executives. However, regional and local executives are authorized to overrule most council decisions. In practice, neither executive nor legislative leaders generally take much initiative on economic or social matters.

Local governments have limited fiscal autonomy. The constitution grants some power to municipal governments to raise their own revenues and makes them responsible for implementing local budgets and making benefit payments. However, governments at all levels in the Kyrgyz Republic have difficulty with tax collection, and local governments have an even lower rate of collection than does the national government. In practice, the budgetary system is highly centralized and local governments receive most of their revenue from the central budget.

In addition to fiscal constraints, local governments generally lack the requisite human capital to provide public services effectively. Anecdotal evidence suggests that local executives are ineffective managers with little incentive or ability to address the needs of their constituents. Rank-and-file civil servants are often undertrained and lack the necessary professional skills to carry out their duties adequately.

As part of its commitment to the International Monetary Fund (IMF) under a three-year Policy Reduction and Growth Facility agreed to in June 1998, the government pledged to undertake a comprehensive reform of the civil service. This would include reducing the number of civil servants by eliminating duplication both at the central and local levels and increasing the use of merit-based employment and compensation systems. It was not clear to what extent the government has followed through on these commitments. In October 2000, the IMF cited public administration as one of several areas where reforms had "lagged."

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.50	4.50	5.00	5.25

The Akayev administration has made some attempts to strengthen formal legal safeguards and processes, while continuing to violate basic rights. The administration continued its efforts to professionalize the judiciary by requiring

judges to pass tough legal exams in order to retain their positions. In an effort to curb the exodus of Russian-speaking minorities, President Akayev in May 2000 signed a law making Russian an official language. Yet authorities continued to restrict numerous fundamental rights, including freedom of expression, association, and assembly, while arbitrarily cracking down on Islamist movements and dissidents in the ethnic Uighur community.

The Kyrgyz Republic adopted its post-independence constitution in 1993. Voters amended the constitution three times in referenda that were not entirely fair. In a 1994 referendum, nearly 75 percent of participating voters chose to replace the unicameral Supreme Soviet with a bicameral parliament. In 1996, voters approved a referendum that changed more than half of the constitution to strengthen the president's power. Most importantly, the president gained the power to appoint the prime minister and all other top officials. In 1998, voters approved constitutional amendments that expanded the number of seats in the lower chamber from 35 to 60, and decreased the number in the upper chamber from 70 to 45. In each of the three referenda, the state media gave ample coverage to the administration's advocacy of the changes and marginalized opposing views.

The constitutional court has generally sided with Akayev on key constitutional issues. In a notable exception, the court sided with the legislature in 1995 when it rejected Akayev's plan to hold a referendum on continuing his term rather than face elections.

Articles 13 through 20 of the constitution address qualifications for citizenship, while Articles 21 through 41 stipulate the duties and rights of citizens. The rights include freedom of assembly, association, religion, and expression. As revised in 1996, the civil code includes provisions relating to "the free market economy of the Kyrgyz Republic," which ostensibly protect citizens' rights to private property, to inheritance, and to enter into contracts. In principle, the law protects both personal and business property.

In practice, authorities routinely infringe upon most of the rights enumerated in the constitution and other laws. Key human rights issues include harassment of journalists and independent media through libel suits, tax audits, and closures of newspapers; occasional denial of permits for demonstrations and crackdowns against peaceful protests; harassment of political opponents; restrictions on freedom of expression and association for the Uighur ethnic minority; and torture and other mistreatment of prisoners and detainees.

The constitution prohibits discrimination on gender, ethnic, and linguistic grounds, although the government's record in these areas is mixed. Women are well represented in the professions and in the workforce at large. However, amid the deterioration of the economy that began in 1998, women were more likely than men to lose their jobs. Only 36 of the more than 400 candidates in the 2000 parliamentary elections were women. Five won seats. Female candidates have made greater inroads at the village level, where they hold roughly one-third of all elected posts. None of the appointed oblast governors are women, and women hold few of the appointed rayon chief executive positions.

Studies suggest that rape and other forms of violence against women are serious problems, and that law enforcement officials generally do not enforce relevant laws. Trafficking in women and girls for the purpose of forced prostitution is reportedly a growing problem, and often is facilitated by the complicity of local officials.

The issue of minority rights is particularly salient given that there has been an exodus of educated non-Kyrgyz minorities since independence. Ethnic Kyrgyz comprise 61.2 percent of the population; Russians, 14.9 percent; Uzbeks, 14.4 percent; Tatars, 1.1 percent; Germans, 0.3 percent; and others, 8.1 percent. Both the 1993 constitution and the 1993 Law on Citizenship outline protections for minority rights. However, according to the U.S.Department of State's country report for 1999, members of minorities allege discrimination in hiring, promotion, education, and housing.

In May 2000, President Akayev signed a law that made Russian an official state language, on a par with the Turkic-based Kyrgyz language. Some MPs who backed the bill said they hoped the new law would encourage ethnic Slav minorities to remain in the country rather than emigrate.

The government's repression of the ethnic Uighur minority appears to be an effort to placate Beijing, which faces an active Uighur separatist movement in the northwestern Chinese province of Xinjiang. The Uighurs are a predominantly Muslim people of Turkish descent. In recent years, authorities have monitored the Uighur community, arrested several activists, and cracked down on some Uighur associations, political organizations, and newspapers.

Authorities have also cracked down on Islamist movements. In early August 2000, RFE/RL reported that since the beginning of the year, authorities had detained some 60 people in Djalalabad oblast for distributing literature prepared by the Islamic fundamentalist Hizb-ut-Tahrir (Party of Liberation). The literature reportedly called for the overthrow of the Kyrgyz government and the establishment of an Islamic state in the Ferghana Valley. Authorities have reportedly sentenced some of the Islamists to prison terms on charges of inciting religious and racial hatred. According to Amnesty International's report for 1999, Uzbek law enforcement officers reportedly abducted from the Kyrgyz Republic to Uzbekistan dozens of Kyrgyz citizens of Uzbek descent. The Uzbek authorities accused the detainees of having links with banned Islamic opposition parties in Uzbekistan. Following an incursion into Kyrgyz territory by armed Islamic insurgents claiming to seek the overthrow of the Uzbek government, in September 1999 police detained hundreds of ethnic Uzbeks, Tajiks, and Afghans in Jalal-Abad and Bishkek. Officials released most within two days.

The government generally respects freedom of religion, and members of the small Christian and Jewish minorities

can worship freely and openly in this secular Islamic country. However, under a 1997 presidential decree, all religious organizations and institutions must register with the government. Authorities have impeded the registration of religious communities that they consider to be outside the mainstream, such as the Unification Church, Baptists, Mormons, and Seventh-Day Adventists.

The constitution provides for an independent judiciary. In practice, the executive branch continues to control the judiciary. International observers of the 2000 parliamentary elections cited the executive branch's interference in the judicial system as a major obstacle to a fair vote. A report issued prior to the elections by the Washington-based National Democratic Institute noted a "strong public perception of the politicization of the judicial process." In a post-election report, the OSCE noted that key problems in the pre-electoral period included "a lack of independence of the courts, resulting in a selective use of legal sanctions against candidates." The report also cited "a high level of political interference affecting actions and decisions of candidates, election commissions and courts, up to and including the CEC and Supreme Court."

The president heavily influences the selection of justices and procurators, and the legislature has never challenged Akayev's nominees for the supreme court and constitutional court. The government has made some efforts to increase the professionalism of the judiciary. These include increasing the salaries of judges and requiring them to take exams on current legal practices. Authorities have removed numerous Soviet-era judges based on their performance on the exams. However, the country faces a dearth of qualified lawyers and judges. Some citizens who are not of Kyrgyz descent allege that the judicial system is more lenient toward and favors ethnic Kyrgyz. Such allegations are difficult to confirm, but seem plausible in some cases. Corruption in the judicial system is widely believed to be common.

The criminal code came into effect in January 1998. The 1994 Criminal Procedure Code is based on its Soviet-era predecessor. The law requires the procurator's office in the Ministry of Justice to authorize searches, detentions, and arrests. The procurator, rather than the judge, is also in charge of criminal proceedings. This gives the government direct control over the courts. The constitution requires all defendants to have counsel, and for the state to provide an attorney if the defendant cannot afford one. The law stipulates that defense counsel be allowed to see the defendant within three days of arrest. In practice, the defendant often does not see counsel until the day of trial.

The 1998 criminal code does not expressly prohibit torture and other forms of abuse against detainees and prisoners. Article 111 of the code only forbids the vaguely-defined practice of "torment." There continued to be some credible reports that police occasionally abused criminal suspects in order to extract confessions. Prison conditions are poor.

Corruption

1999-2000	2001
6.00	6.00

Despite widespread acknowledgment among the public, outside observers, and the administration itself that official corruption is pervasive in the Kyrgyz Republic, the government's efforts to curb graft, insider trading, and other abuses have been largely feckless. The *Country Commercial Guide* released by the U.S Embassy/Bishkek in July 2000 called corruption, "a serious problem for Kyrgyzstan." Yet authorities have prosecuted few senior officials, and many of those who were convicted of corruption managed to have their prison terms greatly reduced. Opportunities for abuse are widespread in a country with a statist economy, an inadequate legal regime against corruption, and a lack of political will to crack down on the problem.

Anecdotal evidence suggests that citizens must pay bribes for ordinary services including household repairs, medical care, university admission, passports and visas, and various business licenses and fees. Corruption occurs in the context of a society in which there is a Soviet-era tradition of paying bribes for routine services and civil servants are poorly paid. In 1999, while top officials received $400 per month, the average salary for civil servants was only around $50 per month. Moreover, in several oblasts civil servants face wage arrears of up to six months.

The law prohibits legislators and government officials from overtly using their offices for personal gain. In practice, a small elite dominates politics and business in the Kyrgyz Republic. Rumors have linked the Akayev family and past prime ministers to several international business deals.

The government itself has recognized corruption to be a problem. The procurator general has investigated several cases of official corruption. In October 1997, the procurator published a list of deputies allegedly involved in suspect deals that cost the state $70 million. The administration suspended privatization measures enacted that year until late 1998 in an effort to reform practices in the Privatization Ministry.

During the period covered by this report, a prominent corruption case reflected how the country has muddied its anticorruption commitments with political opportunism. Former Vice President Felix Kulovs was arrested and charged with a range of abuse-of-power offenses, including embezzling $22,000 from commercial contracts with security officials. While he was acquitted of all charges in a closed-door trial, the Military Court reversed the verdict. The question of Kulovs' guilt or innocence has been clouded by the government's evident intention to use the case to defeat a political opponent. Kulov had planned to contest the presidential election, and his arrest coincided with a wave of protests against the government's manipulation of parliamentary elections.

Ultimately, Kyrgyz authorities have prosecuted and convicted few individuals for corruption. RFE/RL reported in June 2000 that President Akayev had criticized law enforcement agencies for failing to reduce the incidence of white-collar crime. During a meeting with law enforcement officials, bank directors, and local officials, Akayev noted that while authorities had recently arrested 14 senior officials on suspicion of corruption, the cases were moving slowly through the courts.

Moreover, some of those convicted have managed to have their sentences reduced. This was the case in the most visible prosecution of a public official on corruption charges, which resulted in the 1996 sentencing of former Prime Minister Topchugek Turgulaliev to ten years in prison. Turgulaliev's term was later reduced and he was paroled in 1997. In 1997, courts convicted more than 140 officials of crimes ranging from embezzlement to racketeering. By 1998, many of those convicted were able to have their sentences reduced or were released on parole. In 1998, six judges accused of bribery were acquitted of corruption.

The government has made few efforts to tighten the legal regime against corruption. Parliament has debated several draft laws on financial disclosure and conflict of interest, but none have been passed. Another problem is that "controlling measures against bribery and other such economic crimes have been selectively enforced, typically against persons perceived as political enemies of the government," according to the U.S. Embassy/Bishkek's *Country Commercial Guide*.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.00	4.25	4.50	4.50

Macroeconomic Policy

1998	1999-2000	2001
3.50	3.50	3.75

Microeconomic Policy

1998	1999-2000	2001
3.50	3.50	3.75

The Kyrgyz economy made some headway in recovering from the severe shock it experienced in 1999, when fallout from the Russian financial crisis wreaked havoc with the country's currency, banking system, and terms of trade. The IMF estimated in October 2000 that gross domestic product (GDP) grew 7.4 percent in the first half of the year. In the first five months of 2000, the inflation rate was 6.3 percent, its lowest level for this period since independence. In addition, the currency, the som, stabilized, though it remained well off its pre-crisis levels. The IMF also reported that by the end of June, revenue collection had improved after falling short of expectations earlier in the year. Nevertheless, with Russia and other regional countries still experiencing an economic downturn and the Kyrgyz government's economic transition agenda only partially completed, the country faced serious economic problems. These included a large external debt that is equal to 110 percent of GDP and requires interest payments equal to 2.5 percent of GDP, the IMF said in October 2000. The Fund did note that the government had recently made progress in rescheduling some debt.

The collapse of the Russian *ruble* in 1998 and a crisis in the banking system contributed to a 67 percent depreciation of the Kyrgyz som's real exchange rate against the dollar between the end of 1997 and the end of 1999. In 1999, total trade declined by roughly 25 percent. The reduced level of economic activity led to lower fiscal revenues. Rather than cutting spending, the government turned increasingly to external sources of revenue. As a result, the fiscal deficit was 10.8 percent of GDP in 1998 and 12.8 percent of GDP in 1999. After several years of relative price restraint, inflation reached 10.5 percent in 1998 and 39.9 percent in 1999. The economy also suffered due to the low price of gold, the country's main export commodity.

The government responded by cutting spending and tightening monetary policy. According to the International Monetary Fund (IMF), the economy grew 3.6 percent in 1999, compared with 2.3 percent in 1998. In 1999, the current account deficit improved slightly to 16.3 percent of GDP due to falling imports. The IMF estimated in October 2000 that the year-on-year inflation rate would be 13.9 percent in December.

The 1999 financial crisis occurred at a time when the economy seemed to be turning a corner after several disastrous years. Immediately following independence, the new country had to adjust to the end of budgetary transfers from Moscow and of generous terms of trade with other republics. Both changes contributed to a fall in industrial and agricultural investment and output. GDP declined by 45 percent between 1991 and 1995. Yet the government also took considerable steps to transform the economy, including liberalizing most prices, introducing a new tax code, creating a national currency, discontinuing directed credits, privatizing most small- and medium-sized enterprises, and establishing liberalized foreign exchange and trade regimes. Annual inflation fell from its peak of 1,466 percent in 1993 to less than 15 percent in 1997. The economy grew at seven to ten percent per year in 1996 and 1997. In November 1998, the Kyrgyz Republic became the first member of the post-Soviet Commonwealth of Independent States to join the World Trade Organization.

Huge structural problems remain. The som's depreciation against the dollar and the deterioration of the external

balance in 1998 and 1999 exposed the economy's vulnerability to external shocks and highlighted its trade dependence on other former Soviet republics. The Kyrgyz Republic's infrastructure is poor and deteriorating, and the country has few natural resources other than hydroelectric power and has not attracted major foreign investment. The country imports nearly all its petroleum products and natural gas from Uzbekistan, while it has been slow to exploit its own, considerable hydroelectric potential. Approximately 40 percent of the territory in this mountainous, landlocked country is uninhabitable, and only about 10 percent is considered fully arable.

While the private sector accounted for about 65 percent of GDP by the end of 1997, according to the Manila-based Asian Development Bank (ADB), the government faces several challenges to furthering the country's economic transition. The *Country Commercial Guide* released by the U.S. Embassy/Bishkek in July 2000 reported that obstacles to further economic reform include "vested interests, pervasive corruption, and old ways of conducting business."

Agriculture accounts for about 45 percent of GDP and about half of total employment. According to the World Bank, since 1996 agricultural production has recovered following sharp declines in the immediate post-independence years. However, livestock and wool production, two pillars of the rural economy, remain depressed. The IMF suggested in a January 2000 report that the government needed to limit its intervention in agricultural input and output markets.

The country's economic development and transition have been hampered by serious problems in the banking sector, which were worsened by the 1998 Russian financial crisis. Following the depreciation of the Kyrgyz som in response to the Russian crisis, several borrowers faced serious difficulties in paying their loans. The central bank, the National Bank of Kyrgystan (NBK), suspended four banks in 1999 and one bank in 2000 for having poor capital adequacy ratios or for having violated operational guidelines. Earlier, in 1996 and 1997, authorities liquidated the two largest insolvent banks at the time and established new laws and prudential regulations covering the banking system.

Despite these efforts, lending to the private sector is still limited. The United Nations Development Program said in a 1999 microfinance project document that commercial banks make few loans to low income and poor people, in part because most banks require 120 to 200 percent collateral on loans and charge interest rates of 50 to 100 percent. Ordinary citizens also have difficulty in taking out loans because banks provide few services outside of Bishkek and other cities due in part to the high cost of serving small, isolated communities.

The Kyrgyz Republic has received support for its macroeconomic stabilization and structural adjustment program from the IMF, the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and several bilateral and other multilateral donors. In September 2000, the IMF released two tranches, totaling roughly $12 million, of a three-year Poverty Reduction and Growth Facility. Approved in 1998, the Facility to date has disbursed some $58 million of an anticipated total of roughly $94 million.

The Kyrgyz Republic's privatization process continued to move slowly following a brisk start in the early 1990s. In the first phase of privatization in 1992 and 1993, authorities sold 3,400 small- and medium-sized entities. This transferred into private hands 97.2 percent of all retail trade and food enterprises and 100 percent of services. During the second stage in 1994 and 1995, the government sold 1,400 more companies. The privatization process then slowed considerably as the focus turned to large-scale, export-based industries.

The government initiated a third stage in 1996 but suspended it in 1997 during an investigation that resulted in the firing of the head of the privatization program on corruption charges. This last stage involves the sale of 32 enterprises in the mining, energy, telecommunications, aviation, and printing sectors. The World Bank reported in mid-2000 that the government has at least partially privatized all medium and large enterprises through coupon auctions, and had subsequently privatized a majority of these entities through cash auctions. However, the Bank noted that despite this progress, managers had made little headway in actually restructuring these enterprises.

The government has also not followed through on commitments to permit private land ownership. In an October 1998 referendum, voters approved several constitutional amendments that included the right of individuals to own land. In May 2000, President Akayev said the government might permit private land transactions by autumn. However, parliament subsequently announced a five-year moratorium on the purchase and sale of land, despite having enacted a new law regulating private ownership of land. As a result, all land is currently considered property of the state. However, farmers can lease their property for 99 years.

There are numerous constraints to owning and operating a business. In a January 2000 report, the IMF recommended that authorities reduce the regulatory burden in order to promote private enterprise. Specific recommendations included reducing licensing, inspections, and other administrative requirements; curtailing bureaucrats' authority to issue licenses; and removing conflict of interest in government agencies and enterprises that issue licenses but also compete commercially with private enterprises. In its *Asian Development Outlook 2000*, the ADB noted that small- and medium-sized enterprises require 27 clearances to register a business.

The ADB also recommended that the government broaden the tax base to decrease its dependence on industry for revenue and to increase compliance. The ABD also noted that "frequent changes to the tax code and ambiguous interpretation of the tax law discourage business activity and encourage tax evasion," while the practice of "granting arbitrary exemptions creates more uncertainty."

Since independence, Kyrgyz citizens have experienced declining living standards, high unemployment, reduced social services, a rise in poverty levels, and higher unemployment in the context of the loss of subsidies from Moscow and the costs of economic restructuring. The 1998 Russian financial crisis had a deleterious effect on the Kyrgyz government's fiscal position, which in turn contributed to often-severe wage arrearages for pensioners and civil servants. At the same time, the social safety net has severely frayed.

According to the World Bank and ADB, in late 1998 roughly 63 percent of households were below the general poverty line, and 23 percent were classified as being severely impoverished, up from 14.8 percent in 1997. Poverty appears to affect more women than men. Life expectancy declined from 68.8 years in 1991 to 66.9 years in 1997. Nevertheless, there have been some gains. For example, infant mortality was 26.2 per 1,000 live births in 1998, down slightly from 28.1 per 1,000 in 1995.

While official unemployment rates are relatively low, independent studies suggest that the actual unemployment rate is around 11 to 13 percent. Women bear disproportionate costs in employment matters. They make up 55 percent of the unemployed, and, according to the World Bank and UNDP, receive 75 percent of what men receive for comparable work. Moreover, most women in the workforce are employed in the health, education, culture, and social welfare fields. These jobs are predominantly in the state sector, where wages are low, arrears are frequently a problem, and employment is limited due to state budget constraints.

The World Bank reported in mid-2000 that since 1990, educational enrollment rates have dropped from 37 percent to 33 percent for general secondary schooling. Gross primary school enrolment is higher, reaching 97 percent for both boys and girls. Government expenditure on education amounted to 5.2 percent of GDP in 1997.

In 1994, the government established the Social Fund, which superceded the pension, employment, and social insurance funds. Due to problems in collecting the taxes needed to support it, the Social Fund has been in arrears almost since its inception. The World Bank reported in mid-2000 that the government had completed a restructuring of the pay-as-you go pension system, including an increase in retirement age. The restructuring was part of an effort to create a sustainable pension system and reduce budget subsidies to the Social Fund to zero in 2001.

In 1997 government expenditures on health care amounted to 3.6 percent of GDP. According to the United Nations Fund for Population Assistance, while the decline in expenditures as a percentage of GDP has been modest, expenditures in real terms declined 54 percent since 1990. This has contributed to deterioration in the quality of public health services and an increase in ordinary citizens' expenditures for health care. The health care system is characterized by obsolete and inadequate equipment, shortages of medication and other supplies, and obsolete procedures. Where supplies of medicine are adequate, the drugs are often unaffordable for many citizens.

The government adopted a health care reform program in 1996 called MANAS, which aims to enroll the entire population in newly created primary care groups. In mid-2000, the World Bank reported that the government had improved financing and delivery methods for health care services.

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LATVIA

Polity: Parliamentary democracy
Economy: Mixed capitalist
Population: 2,400,000
GNP per capita at PPP $ (1999): 5,938
Capital: Riga
Ethnic Groups: Latvian (56.5 percent), Russian (30.4 percent), Byelorussian (4 percent), Ukrainian (3 percent), Polish (3 percent), other (3 percent)
Size of private sector as % of GDP (mid-2000): 65

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	2.15	2.15	↑ 2.06	↑ 1.94
Rule of Law	na	na	2.75	2.75
Economic Liberalization	2.50	2.50	2.50	2.50

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	1,442.0	1,779.0	2,070.0	2,293.0	2,494.0	2,799.0	3,019.0
Real GDP growth (% change)	0.6	-0.8	3.3	8.6	3.9	1.1	6.6
Inflation rate	35.9	25.0	17.6	8.4	4.7	2.4	2.8
Exports ($ millions)	1,022.0	1,368.0	1,488.0	1,838.0	2,011.0	1,889.0	2,058.0
Imports ($ millions)	1,322.0	1,947.0	2,286.0	2,686.0	3,141.0	2,916.0	3,117.0
Foreign Direct Investment ($ millions)	279.0	245.0	379.0	515.0	303.0	331.0	399.0
Unemployment rate	16.7	18.1	19.4	14.8	14.0	14.4	7.8
Life Expectancy (years)	66.6	66.8	69.3	69.9	69.6	69.8	70.0

INTRODUCTION

Latvia has a democratic political regime with a center-right governmental coalition. Although the government has been shaken by various political crises in recent years, changes in government have not significantly affected the development of society. The political climate in Latvia has been favorable for integration into the European Union (EU) and NATO.

Latvia can be regarded as having a functioning market economy, and in 1999 it became a full member of the World Trade Organization. Although little more than 10 perfect of Latvia's gross domestic product (GDP) depends on the transit trade of Russian goods, the Russian market remains very important for some sectors. Although Latvia has been successful in implementing liberal macroeconomic reforms, its social policy remains a principal area of concern.

The main indicators of Latvia's political stability are its uncontested democratic constitutional system, its lack of violence based on ethnic factors, and its unchanging orientation toward Western institutions. Latvia sees membership in the EU, in particular, as a guarantee of its economic development and political security. To be accepted, Latvia must align its laws with EU legislation and with the principles of a common market and democratic governance. The main obstacles to membership include the insufficient implementation of the rule of law and the weakness of public administration. Latvia's accession date will largely depend on its ability to overcome these obstacles and to continue economic reforms. A stabilizing factor in Latvian politics is the public's permanent trust in President Vaira Vike-Freiberga; however, she does not have any impact on economics and related policies.

Latvia is gradually tackling the so-called non-citizens issue, which remains one of the most controversial problems inherited from the Soviet regime. The principal mechanisms for solving this problem have been granting citizenship through naturalization and promoting social integration. However, a range of other political difficulties still exists. These include frequent changes of government, widespread corruption (as noted by the World Bank and other international organizations), public mistrust in political institutions, and sporadic conflicts between legislative and judicial powers.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
2.00	2.00	1.75	1.75

The most recent national legislative elections took place on October 3, 1998. Members of parliament are elected by proportional representation for four-year terms. In order to win representation, a party must receive at least 5 percent of the total votes cast in the election. Six of the 21 parties and factions competing for seats in the 100-member *Saeima* (parliament) won seats. The right-wing People's Party won 24 seats; Latvia's Way, the ruling liberal party, won 21 seats; and another ruling party, the Fatherland and Freedom/LNNK, gained 17 seats. International organizations, including the Organization for Security and Co-operation in Europe (OSCE), declared that the elections had been conducted freely and fairly. On May 5, 2000, parliament voted to support a new coalition government headed by Andris Berzins, the former mayor of Riga. The government is made up of the four coalition parties: the People's Party, Latvia's Way, For Fatherland and Freedom/LNNK, and the New Party.

Even though Latvia experiences frequent changes of governments, political parties are reasonably well established. Most major parties have rather well defined social bases and generally serve as the backbone of Latvian politics. As of May 2000, 35 political parties were registered in Latvia. The Law on Registering Public Organizations was amended in late 1993 to bar the registration of Communist, Nazi, or other organization that would act in contravention to the constitution. In fact, another indicator of political stability in Latvia is the insignificant amount of influence that extremist left and right wing forces hold, despite some of their activities. For example, the leaders of the ultra nationalist organization Perkonkrusts have been accused of bombing the Soviet victory monument in Riga, kidnapping, unlawfully possessing and using explosives, and inciting racial and ethnic hatred. By the end of the period covered by this report, these cases had been reviewed and the verdicts appealed. The activities of the Russia-based national Bolsheviks are currently under investigation.

According to the constitution, the president is elected to a four-year term by secret ballot by a majority vote in parliament. Any person who enjoys the full rights of citizenship and who has attained the age of 40 years may be elected president. On June 17, 1999, in the most recent presidential election, Vaira Vike-Freiberga received 53 out of 100 votes and became the first woman president of Latvia. Parliament elected her according to the requirements and procedures set forth by the constitution. And although there were no official election observers, European governments and the United States welcomed the results.

Vike-Freiberga spent most of her life as a scientist in Canada and returned to Latvia in 1998. She is a member of the Canadian Academy of Science. Her election received broad popular support, and her work has earned international appreciation. Vike-Freiberga vigorously supports Latvia's integration into the EU and NATO, and, according to public opinion surveys, she is the most popular politician in the country. Nevertheless her formal powers are limited.

At the national level, voter turnout increased from the late 1980s through the early 1990s. It then decreased in the mid-1990s. Voter participation reached its highest level—

90 percent—for the 1993 elections to the Fifth Saeima. It decreased to 72 percent in the elections to both the Sixth and Seventh Saeimas. Participation in local government elections declined from 78 percent in 1989 to 63 percent in 1994 and to 57 percent in 1997. This trend reportedly reflects the public's diminishing confidence in political leaders and its increasing political alienation in the face of the difficulties associated with economic reforms. In addition, non-citizens, who constitute approximately 25 percent of the registered residents of Latvia, have not been able to participate in national and local elections. According to Arnis Cimdars, the head of the Central Election Committee, approximately 60 percent of the eligible female voters participated in the last Saeima election in 1998.

Latvia's electoral system is multiparty-based at all levels. In the March 1997 local elections, 17 parties won seats on the Riga City Council. Twenty-one parties and factions participated in the October 1998 national elections, and 6 gained representation in the Saeima. The diversity of parties at different levels of government has often made it difficult to reach consensus on many issues. Members of the coalition government, for example, have differing views on privatization, social integration, and the alignment of Latvian laws with those of Western Europe. Disagreements of this kind have prevented important decisions from being made or have delayed the adoption of legislation, most notably in the area of privatization.

Approximately 3 percent of respondents to a Baltic Data House survey indicated that they belonged to a political party or movement in 2000. Most parties are active for only brief periods during electoral campaigns. Non-citizens are prohibited from forming political organizations but may join existing parties. According to the Latvian National Bureau of Human Rights, 5 percent of party leaders and 26.64 percent of the 1998 parliamentary election candidates were women. Since party membership is not always accurately registered and the data are not always publicly available, it is impossible to assess the level of female membership in parties.

Twenty-five percent of Latvia's population does not possess citizenship. Of these, 99 percent belong to ethnic minorities whose political involvement, as a result, is limited. (See table.) Nevertheless, Latvian citizens who belong to ethnic minorities enjoy the same political rights and generally engage in the same political activities as those who are part of the ethnic majority.

Inhabitants of Latvia, Ethnicity and Citizenship in 2000

Ethnic group	Size of Ethnic Population	% of Total Population	% With Citizenship
Latvians	1,374,437	57.58	99.6
Russians	706,841	29.61	42.1
Belarusians	97,971	4.10	23.0
Ukrainians	63,936	2.68	10.0
Poles	60,049	2.52	65.9
Lithuanians	33,586	1.41	46.1
Jews	10,572	0.44	54.6
Roma (Gypsies)	8,149	0.34	91.7
Germans	3,546	0.15	37.2
Tartars	3,188	0.13	7.2
Estonians	2,676	0.11	53.8
Armenians	2,615	0.11	15.6
Moldovans	1,896	0.08	10.9
Azerbaijanis	1,697	0.07	13.7
Georgians	1,038	0.04	23.2
Others	14,969	0.63	32.4
Total	2,387,166		74.3

Source: Population Register as of January 1, 2000

Civil Society

1997	1998	1999-2000	2001
2.25	2.25	2.25	2.00

Although small groups of dissidents were active in Latvia throughout the 1970s and early 1980s, mass political activity outside of the Communist party began in 1986 with a petition and letter-writing campaign against the environmentally dangerous Daugava hydroelectric station. During the next two years, political participation increased dramatically. By the autumn of 1988, the newly founded nongovernmental Latvian Popular Front, which also worked to promote a variety of minority and religious rights, claimed a membership of between 200,000 and 300,000 people. An increasing number of nongovernmental organizations (NGOs) have been registered in recent years. The total number of NGOs registered at the Ministry of Justice rose from 1,676 in 1995 to 5,000 in 2000. These include cultural, professional, business, social, charitable, and women's organizations. However, according to the NGO Center of Latvia, only about 750 organizations were active in 2000.

Although the total number of NGOs has increased, only a small segment of the population is involved in their activities. According to a 1998 Baltic Data House survey, 9 percent of Latvians and 2 percent of non-Latvians belonged to NGOs. According to the NGO Center, only 0.5 to 3.0 percent of the population is active in private voluntary efforts, and approximately 60 percent of NGO activists are women. Two of the largest and most active women's organizations are the Latvian Association of Business and Professionally Educated Women and the Women's Business Club. Membership in both organizations fluctuates but averages approximately 100. Approximately 30 minority cultural societies play active role in social and the political processes.

The primary laws that regulate the work of NGOs in Latvia are the Law on Nonprofit Organizations, which was passed in December 1991 and amended in May 1993; the

December 1992 Law on Social Organizations and their Associations; and the Law on the Income of Enterprises. The Law on Social Organizations and their Associations addresses general conditions for the establishment and operation of all social organizations. Under the law, ten or more people who have united to pursue nonprofit-related goals may establish a social organization. Social organizations can conduct entrepreneurial and other activities, establish entrepreneurial companies and enterprises, and obtain stocks or shares in those companies in pursuit of their goals. Profit gained from an organization's business activities must be used for the organization's statutory goals and cannot be distributed among its members. To register with the Register of Companies, an NGO must present a charter, a protocol of foundation, verification of its legal address, a registration application, and a fee. The state registration fee is 25 lats for social organizations and 100 lats for nonprofit organizations.

According to the Soros Foundation, one of the leading obstacles confronting NGOs in the Baltic states is the lack of management and organizational skills. NGOs are financially viable. The NGO Center has reported that NGOs' main sources of income in Latvia are membership fees, donations from enterprises and firms, private donations, foreign donations, local government funds, fees for services, income from their activities, and state budget funds. Businesses may deduct up to 85 percent of the value of their donations to certain foundations and associations, provided that the deduction does not exceed 20 percent of their total taxable income. In general, there is no difference in the tax policy applied to social organizations and for-profit enterprises. Social organizations pay income and social taxes, although there are some exceptions for charities. Foundations and associations comply each year with a complicated government filing and newspaper publication regimen. NGOs have a legal right to apply for state procurement.

The government has demonstrated a willingness to engage in dialogue with NGOs. According to the NGO Center, 82 percent of NGOs in Riga cooperate with national and local governments; 31 percent include representatives of national and local governments in their management structures. The media broadly cover the views of NGO activists and often present them as counterweights to official positions. NGO activities as such are also common media topics.

The Constitution of Latvia guarantees the right to strike. The Law on Trade Unions mandates that workers, other than the uniformed military, have the right to form and join labor unions of their own choosing. The law bans the dismissal of workers who strike, but the government has not effectively enforced the law. In late 1999, teachers tried to start a dialogue with the government through a telephone campaign and several strikes, and farmers sought to obtain greater support and protection from foreign competition. Labor unions have the right to bargain collectively and are largely free of government interference in their negotiations with employers.

Although the Law on Trade Unions prohibits discrimination against union members and organizers, some emerging private sector businesses have threatened to fire union members. In general, the trade union movement is undeveloped and still in transition from a socialist to a free-market model. The lack of a comprehensive register makes it difficult to estimate what proportion of the workforce belongs to unions.

The constitution guarantees the right of citizens to establish political parties. All people have the right to form associations, political parties, and other social organizations. The government may not legally prohibit public gatherings, and numerous public meetings and political demonstrations have taken place without interference. There are politically active interest groups that represent businessmen, students, teachers, doctors, non-ethnic Latvians, and pensioners. Students, pensioners, and teachers were the most active in promoting their interests in 2000. The European Movement in Latvia and Transparency International's Latvian chapter are also particularly active.

Independent Media

1997	1998	1999-2000	2001
1.75	1.75	1.75	1.75

Latvian mass media exercises freedom of expression effectively. Freedom House's annual *Survey of Press Freedom* rated Latvia "Free" in 1991, "Partly Free" in 1992 and 1993, and "Free" from 1994 through 2000. Latvia has two state-owned television networks (LTV-1 and LTV-2) and nine major privately owned stations. The private Latvian Independent Television has almost twice as many viewers as LTV-1, its closest competitor. Satellite television enjoys approximately 10 percent of the total Latvian viewership each week, and there are numerous independently owned cable channels.

A large number of independent radio outlets broadcast in both Russian and Latvian. Approximately ten privately owned radio stations operate in Riga. The major public radio stations are Latvijas Radio 1, which has the greatest number of listeners each week; Latvijas Radio 2; and Latvijas Radio 3.

Most newspapers and magazines are privately owned. The three most popular daily papers are *Diena* (circulation 70,000) and *Lauku Avize* (circulation 65,000), both of which are published in Latvian, and *Panorama Latvii* (circulation 15 000), which is published in Russian. The state publishes *Likuma Varda*, a weekly, and *Latvijas Vestnesis*, which appears four times a week. All major cities have their own private newspapers.

In 2000, 43 percent of media advertising was on television, followed by newspapers at 35 percent, radio at 6 percent, and magazines at 4 percent. Outdoor venues and other categories account for the remaining 10 percent. Compa-

nies such as the Latvijas Preses Apvieniba, Narvesen, and the Joint Stock Company Diena privately control the distribution system for newspapers. The Latvian postal system is the only state-owned media distribution network.

In general, the government respects freedom of speech and the press. Newspapers published in both Latvian and Russian feature a wide range of criticism and political viewpoints. However, when an influential economic group in the port city Ventspils purchased a media group that included the Preses Nams publishing house and several daily newspapers, the political and economic interests of the owners apparently affected the news coverage. In situations like these, self-censorship and interference by owners is common. The constitution provides each person with the right to acquire and disseminate information freely and to express his or her views. The constitution prohibits censorship. The legal penalties are the same for libelling public or private officials. There are no legal penalties for "irresponsible" journalism.

The only journalistic association is the Latvian Journalists Union. It has 500 registered members, 350 of which are considered active. Women make up approximately 50 percent of its membership. The union's activities and impact have been limited.

According to the RIPE Network Coordination Center, which serves as a regional Internet registry for Europe, there are 68 Internet-connected computers for every 10,000 people in Latvia. That is, there are approximately 17,000 Internet-connected computers for a total population of about 2.4 million. In 2000, approximately 70,000 persons, or about 2.9 percent of the total population, used the Internet on a regular basis. Major television stations, radio stations, and newspapers maintain their own Web sites. Except for financial limitations, there are no restrictions on Internet access to private citizens.

Governance and Public Administration

1997	1998	1999-2000	2001
2.50	2.50	2.50	2.25

The Latvian constitution establishes a parliamentary system that encompasses both a structural division and a system of checks and balances between legislative and executive authority. Both constitutionally and in practice, the Saeima is the country's effective rule-making institution. It adopts laws, although the president and the cabinet of ministers may submit bills. The president also promulgates laws or imposes suspensive vetos. In the latter case, the parliament may override the presidential veto by repeating its affirmative vote on the bill. Moreover, in periods between parliamentary sessions, the cabinet of ministers may adopt regulations that carry the force of the law. Parliament may cancel these regulations at the beginning of its next session.

In general, the executive and legislative bodies operate openly and transparently. All bills and draft regulations under consideration in parliament and the cabinet of ministers have been freely accessible on the Internet since early 2000. Parliament has adopted a classified information law that is consistent with international standards and practices. In October 1998, parliament adopted the Information Openness Law. The law states that all information, including draft legislation, in possession of state and local government administrative institutions must be made available to the public, unless the law provides for an exception. Cases have been reported, however, in which institutions have refused to implement the law and have denied access to requested information. All laws are published in a government newspaper that is available to the general public.

Power was quickly decentralized after Latvia's declaration of independence in 1990. Local governments essentially cater to local needs and conditions for which they can determine procedures and funding. In 2000, the system of local government in Latvia included 586 local government units, which were divided into two levels. At the highest level are the 26 *rajoni* (districts) and the seven largest cities (Riga, Daugavpils, Jelgava, Jurmala, Liepaja, Rezekne, and Ventspils). At the second level are 68 smaller towns, 481 *pagasts* (small rural districts), and two *novadi* (larger rural districts). In 1999, the government proposed an administrative reform that included the transformation of districts into nine larger units. The proposal has been subjected to broad public debate, but no final decision has been made so far.

Local authorities are responsible for territorial planning, regional and local roads, public transport, housing and community subsidies, primary and secondary education, social services, and primary and secondary health care. Latvia has enacted laws to give local governments, particularly municipalities, substantial authority and to allow them to function independently within the limits of the law. Local governments can pass so-called secondary legislation, provided that it does not contradict the laws passed by parliament.

Subnational officials are chosen in free and fair elections. Latvian citizens residing outside the country have the right to vote in local elections. Non-citizen residents of Latvia, however, are barred from voting in local elections. The country's 600,000 primarily Russian-speaking residents are therefore effectively prevented from having direct representation in local politics. Local assemblies elect mayors.

On March 9, 1997, in Latvia's most recent local elections, 12,000 candidates competed for 4,445 council seats in 77 city and 489 district councils. Voter turnout was as low as 57 percent. The Social Democratic Party (LSDP), which was not represented in parliament at the time, won an upset victory over the country's ruling coalition. It won overwhelming control over Daugavpils with 85 percent of the vote. In Riga, the LSDP secured 11 of 60 city council seats, and the Fatherland and Freedom Party finished second with ten seats. Most of the national coalition parties formed a coalition to control Riga's city council. Rightist

parties also won majorities in Liepaja and Ventspils. In May 2000, Andris Argalis became the mayor of Riga when Andris Berzins was selected as the new prime minister. Argalis belongs to the Fatherland and Freedom Party. The next local government elections are scheduled for March 2001.

In general, local governments do not have sufficient financial resources to undertake their duties adequately. In recent years, various administrative reforms have sharply reduced the finances of local authorities but, at the same time, have allotted more functions to local government.

On September 7, 2000, parliament adopted a new law on state civil service. According to the law, an increased number of state employees will be considered civil servants. Moreover, all civil servants will be required to have a higher education. This rule is aimed at improving the competence and professionalism of the civil service. Ministers will be authorized to dismiss civil servants when they violate laws and regulations or do not fulfill their duties satisfactorily. Although the possibility of such dismissals might strengthen the accountability of civil servants, it also might increase the potential for excessive political interference. Civil servants have a duty to refuse to obey illegal orders from their superiors.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
2.25	2.25	2.00	2.00

Latvia's *Satversme* (constitution) was adopted on February 15, 1922, and was fully reinstituted as of July 6, 1993 when the Fifth Saeima was elected. In early June 1996, parliament adopted the Law on the Constitutional Court. In the absence of such a court, parliament had adopted laws that run counter to both the constitution and the country's international obligations. For example, parliament violated the constitution by terminating the mandates of several deputies who allegedly collaborated with the former KGB. Later, the court ruled that the collaboration could not be proved, and the deputies' mandates were renewed. Since its establishment, the constitutional court has handed down a range of important decisions. In 1999, for example, it ruled that the public had a constitutional right to know the amount of remuneration received by public employees.

In May 1998, parliament adopted a new criminal law. This law replaced the criminal code of the Latvian Soviet Socialist Republic, which had been in effect since 1961 and had undergone basic reforms in 1993. In April 1999, parliament ratified the Sixth Protocol of the European Convention for the Protection of Human Rights and Fundamental Freedoms, thus abolishing the death penalty in Latvia and substituting it with life imprisonment.

In 1994, the responsibility for issuing arrest warrants was transferred from prosecutors to the courts. There have been no reports of imprisonment on political grounds, politically motivated disappearances, or forced exile. There have been credible reports, however, that the police and prison personnel have beaten prison inmates, asylum-seekers, and other detainees. For the sake of ensuring the human rights of prisoners, reform of the prison system is a government priority. Despite new construction and foreign assistance, prison conditions remain poor. Latvia's inefficient judiciary does not always ensure the fair and timely administration of justice. As a result, 41 percent of all prison inmates are still awaiting verdicts on their cases.

By law, the prosecutor's office must make a formal decision on whether to charge or release detainees within 72 hours after their arrest. Charges must be filed within ten days of an arrest. There were no known instances of arbitrary arrest during the period covered by this report. Defendants may not be held for more than 18 months without the prosecutor presenting the case to them and to the court. Defendants have the right to have an attorney present at any time. There are credible reports that the police, especially outside Riga, do not always respect these rights in practice.

In October 1998, parliament adopted chapter eight of the constitution on fundamental human rights. The constitutional amendments grant protection for freedom of speech, religion, association, the press, and other basic liberties, as well as protection from discrimination regardless of race, sex, religion, or language. According to Article 105, each person has the right to own property. Moreover, Article 106 protects the right of persons to choose their occupation freely and to work according to their abilities and qualifications.

After formally gaining independence in 1991, citizenship was accorded only to those persons who were citizens of the independent Latvian Republic in 1940 and their descendants. As a result, approximately 700,000 people who had been citizens of the Soviet Union became "non-citizen residents" of Latvia. Under the provisions of a 1994 citizenship law, various categories of non-citizens became eligible to apply for naturalization. The law included Latvian language and residency requirements, as well as restrictions on the naturalization of several groups such as former Soviet intelligence and military officers. It also requires that applicants possess knowledge of the Latvian constitution and history and take an oath of loyalty to the Latvian State. International observers, including those in the resident OSCE mission, credit the government with establishing a competent and professional Naturalization Board with offices throughout the country to implement the 1994 law.

Latvia held a referendum on the amendments to the citizenship law in October 1998. Fifty-three percent of voters supported the amendments, which abolished age and birthplace restrictions on citizenship candidates and granted citizenship to children born in Latvia after August 21, 1991.

As a result, practically all non-citizens are eligible to apply for naturalization. The U.S. Department of State, the EU, the OSCE, and the Council of Baltic Sea States expressed their support for the amendments.

The rate of naturalization accelerated considerably after the adoption of the amendments. As a result, the number of naturalization applications has also increased noticeably (see table below).

Latvian Citizenship Applications

Year	# Applications	# Naturalized
1995	4,543	984
1996	2,627	3,016
1997	3,075	2,993
1998	5,607	4,439
1999	15,179	12,427
2000*	4,259	5,375
Total	35,290	29,234

* As of April 30, 2000

The naturalization procedure was eased in 1998 and 1999, and the naturalization fee for several groups of applicants was reduced. Only a little more than 50 percent of all applicants pay the full fee. For the naturalization test, the number of questions on Latvian history has been reduced by two-thirds, from 310 questions in 1996 to only 93 in 2000. More than 95 percent of all applicants successfully pass the test on the first try. Max van der Stoel, the OSCE high commissioner on national minorities, confirmed in January 1999 that Latvia had fulfilled his recommendations in the field of naturalization and that he would not make any new recommendations in this area.

In late 1999, parliament adopted the Latvian State Language Law, which regulates the use of Latvian and other languages. The law required the government to adopt more detailed language regulations by September 1, 2000, and the government complied. The OSCE and the European Commission agreed that the regulations conform to Latvia's international obligations, including those under the Europe Agreement. However, since the wording of some of the provisions could give rise to different interpretations, it will be important for the competent authorities to apply the law and the regulations carefully.

A significant portion of the Russian-language media and Russian organizations has been highly critical of Latvia's official language policy. Although Russian is the prevailing language in industrial enterprises, there have been no reports of widespread dismissals because workers lack Latvian language skills. Nevertheless, many non-ethnic Latvians claimed that the new language law is discriminatory.

Since many people who belong to national and ethnic minorities are not citizens, they find it difficult to participate fully in the country's civic life. Likewise, constant delays and contradictions between ruling political parties have slowed the social integration process. In spring 2000, though, the government adopted the Framework Document of the Society Integration Program. Currently, experts are drafting an action plan for the implementation of the framework document.

International observers and human rights groups are growing increasingly concerned about problems facing women. Although no overall statistics are available, sources indicate that domestic violence against women, often connected with alcohol abuse, is a significant and underreported problem. Women who are victims of abuse often seem to be uninformed about their rights and reluctant to seek redress through the justice system. Human rights groups assert that the legal system, including the courts, tends to downplay the seriousness of domestic violence and that the police are sometimes reluctant to make arrests in such cases.

Inadequate judicial training, administrative inefficiencies, and corruption sometimes affect the fair administration of justice in Latvia. Latvia's judiciary also suffers from a low level of prestige throughout the country. According to a July 2000 survey, most Latvians do not trust the courts. In August 1996, there were 50 vacant posts for judges (13 in district courts and 37 in regional courts). By early 2000, the number of vacancies had been reduced to 21 (9 in district courts and 12 in regional courts).

The constitution provides for an independent judiciary, and the government generally respects this provision in practice. The courts rely on the Ministry of Justice for administrative support. Judges are appointed by parliament upon the recommendation of the qualification committee of judges. Due to various political pressures, Janis Skrastins, the public prosecutor general, resigned in 2000. Parliament then approved the appointment of Janis Maizitis, a former chief prosecutor in the Cesis district, to the post. The change of the prosecutor general provoked intense political debates about the independence of the judiciary.

In 2000, Latvia agreed with the other Baltic states on a far-reaching witness protection program. As Interior Minister Marek Seglins noted, "In declaring a war on organized crime, we must also provide a guarantee to the residents of our countries that their lives won't be threatened." At the same time, though, the country's court system came under criticism from the European Court of Human Rights. Egils Levits, Latvia's representative on the court, said that the legacy of the Soviet system still made a fair trial difficult to get in Latvia. He characterized Latvia's court system as "primitive" and specifically cited poor administration and multiple legal errors. He also warned that these problems could affect the country's bid for EU membership.

Corruption

1999-2000	2001
3.50	3.50

According to the World Bank, Latvia suffers from a relatively high level of "state capture." That is, private sector groups and individuals unlawfully influence public officials and, thereby, expressly benefit from the formation of laws, rules, and decrees by state institutions, including the executive, ministries and state agencies, the legislature, and the judiciary. This phenomenon affects the legislative process by reducing public involvement in day-to-day politics.

Latvia's Corruption Prevention Law provides a range of restrictions for public officials and a system of asset declarations. These restrictions, which are aimed at preventing conflicts of interests, prohibit public officials from making decisions that influence their private interests. They may not hold both public and private office and may only accept official remuneration. The system of asset declarations is intended to provide public insight into the financial dealings of public officials.

The government has acknowledged several flaws in the Corruption Prevention Law and its enforcement. For example, the system of asset declarations cannot adequately deal with undeclared income, and the State Revenue Service lacks the financial, human, and legal means to confirm that public officials are declaring their assets fully. In addition, although the law prohibits the president, ministers, parliamentarians, and parliamentary secretaries from engaging in other forms of employment, they may work in educational institutions or as artists.

Large, publicized corruption cases are not frequent in Latvia. In 2000, though, a criminal case against the former commander of the Latvian armed forces, Juris Eihmanis, attracted a great deal of attention. Mr. Eihmanis paid for repairs to his service apartment out of the state budget, and this was allegedly illegal. He was acquitted in the court of first instance, and the case is now under appeal.

Latvia's criminal law provides sanctions for blackmail, which includes the extortion of property with the threat of violence. The sanctions are more severe if an organized group does the blackmailing. Latvian state institutions do not conduct internal audits on a regular basis, but the State Audit office carries out financial analysis and audits of all state and local government institutions according to a long-term schedule. In 1999, a Department of Financial Analysis, Auditing, and Control was created within the State Police in order to reveal corrupt practices.

The criminal law also prohibits state officials from holding positions in which they are subject to illegal influences and from exercising authority in a situation in which there is a conflict of interest. The law defines 14 categories of state officials, beginning with the president, the prime minister, parliament, and local government deputies, and ending with officials employed in state and local government institutions and enterprises, policemen, and members of the armed forces. As of October 2000, this law covered 40,711 state officials.

In February 1998, the government approved the Corruption Prevention Program. It focuses on prevention, action, and education, and covers virtually all spheres of public administration. To date, the program has been partially implemented. Under the leadership of the minister of justice, the Corruption Prevention Council shapes Latvia's national policy on corruption. On August 8, 2000, the cabinet of ministers approved the Corruption Prevention Conception, which contains the principles and provisions for a new corruption prevention law. The Conception also foresees the establishment of a special anticorruption agency whose mandate will include both investigative and educational activities.

In January 1999, Latvia signed the European Criminal Law Convention on Corruption. In force since April 1999, the new criminal law made a number of actions illegal, including corruption in the private sector, abuse of power, and commercial bribery. In June 1998, the law on the prevention of the "legalization of proceeds from crime" entered into force. To implement the law, a control office working under the supervision of the prosecutor's office was established. In July 1998, the government adopted a regulation on "unusual financial transactions," and in October it ratified the European Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

In recent years, many Latvian regulations have been adjusted so that they are compatible with EU legislation. Although the number and complexity of bureaucratic regulations are still reportedly favorable to corruption, public opinion surveys indicate that regulations are not perceived as being among the most important factors that lead to corruption in Latvia.

Corruption, ranging from small bribes taken by low-level civil servants to the wrongful award of government contracts by high-level officials, is widespread in Latvia. Conflicts of interest among government officials are also common. Among respondents to a 1998 survey conducted by the Criminology Research Center at the Ministry of Justice, 17 percent answered that they had to make unofficial payments to state and municipal institutions. Likewise, a 1998 World Bank public opinion survey revealed that 13 percent of households and 37 percent of company employees in Latvia had paid bribes. The survey also indicated that various state institutions demand unofficial payments or bribes for their services. The customs service reportedly asks for bribes in 48 percent of its cases, prosecutors in 42 percent of its cases, the road police in 39 percent of its cases, and courts in 38 percent of its cases. The reported corruption level in other institutions is somewhat lower, but problems still exist. In addition, private companies that pay bribes grow faster and can afford to invest more than companies that do not get involved in bribery.

In October 2000, Prime Minister Berzins challenged the Latvian business community to help the government in its fight against corruption. In a meeting with the Foreign Investors Council, he called on businesspeople to "talk openly if we want to eliminate this evil." Some council members took umbrage with the statement, arguing that the problem was not as bad as the prime minister suggested. They also complained that the government had not paid sufficient attention to the council's own recommendations in the past.

Civil servants are subdivided in three levels. The average gross salary at the highest level is 350 *lats* per month (US$ 595). The average mid-level salary is 170 lats per month (US$ 289), and the lowest level is 140 lats per month (US$ 238). Civil servants at the middle and top levels may receive additional bonuses.

It is still difficult to assess whether tolerance for corruption is growing or diminishing. More than two-thirds of respondents to a survey conducted by the Criminology Research Center in summer 1999 justified active bribery under certain conditions (e.g., when an official demands a bribe). In 2000, Transparency International-Latvia reported that 62.5 percent of the population believes that individuals "cannot do anything without bribery" because the whole state system is corrupt.

Anticorruption public-education efforts remain somewhat limited. Nevertheless, the State Administration School (SAS) and other state institutions organized a number of conferences and seminars on corruption for civil servants and the broader public in 1999 and 2000. SAS also conducted several projects to educate civil servants about issues related to administrative processes.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
2.50	2.50	2.50	2.50

Most political parties have placed privatization high on their agenda. Therefore, Latvia has made great progress in the implementation of privatization, and the government plans to close the Privatization Agency in 2001. The downside has been that privatization-related decisions have been decisive in the establishment and dissolution of some government coalitions. The interests of major business groups in the privatization process reportedly have steered Latvian politics. The revenue of major political parties has mainly come from big business. The possibility of financing political parties from the state budget is being considered as a means of reversing this trend.

According to the European Bank for Reconstruction and Development (EBRD), the private sector accounted for more than 60 percent of GDP in mid-1997. By 2000, this figure had reached 70 percent. The size of the informal economy was estimated at about 42 percent in 2000.

Privatization has been particularly successful in the agricultural sector. More than 58,000 private farms have been established, and most remaining collective farms have been converted into private joint-stock companies. Many of Latvia's new farmers are operating at subsistence levels because they lack financial resources, credit, and sustainable acreage. Their dissatisfaction is a potential source of political instability.

The pace of housing privatization has been growing. According to the International Monetary Fund, 32 percent of apartments had been privatized by late 1998. More than 85 percent of agricultural lands are in private hands, of which 45 percent is registered in the Land Book.

Latvia's energy sector is being restructured. In March 1998, parliament voted to suspend the privatization of the state power company, Latvenergo, until a parliamentary committee had completed an investigation of the disappearance of $1.8 million from the company. Although the government promised to adopt the terms of privatization of Latvenergo by the end of 1999, this task remains unfulfilled. In summer 2000, approximately 300,000 voters signed a petition for a bill that would make it difficult to privatize Latvenergo. Parliament adopted this bill.

Enterprise privatization is close to completion in Latvia, and there was hardly any progress during the period covered by this report. Plans for privatizing the few remaining large-scale enterprises have been delayed for the last two years. As a result, some of the most lucrative assets of the largest enterprises are still in state hands. This includes the Latvian Shipping Company (Lasco), Ventspils Nafta, Latvenergo, and Lattelekom. In March 2000, the Latvian Privatization Agency (LPA) sold 26.85 percent of the gas utility Latvjas Gaze on the Riga Stock Exchange. Revenues amounted to about €40 million in what was Latvia´s largest privatization deal to date. The state now owns only 10 percent of the company. However, since the failed sale of Lasco in June 1999, attempts to find a suitable strategic investor have proved unsuccessful. This can be attributed to the poor preparation of the deal and the government's intention to keep a golden share in the company. The sale of the state's majority stake in Lattelekom, Latvia´s telecommunications supplier, has been complicated by renegotiations related to the end of Lattelekom´s fixed-line monopoly, which is set to be moved from 2013 to 2003.

In an effort to speed up the completion of enterprise privatization, the government decided to involve international investment banks and consultants in the divestiture of the remaining large enterprises. The support of independent professionals should help increase transparency and efficiency, and take enterprise-related economic decisions out of the political sphere.

Macroeconomic Policy

1998	1999-2000	2001
2.50	2.50	2.50

Poor administration during Latvia's period of fiscal reform led to increased tax evasion and non-payment of tax debts. During this time, personal income tax returns depended more on the honesty of the individual concerned than on any enforcement measures. In recent years, the tax system has been changed to meet EU requirements. In addition, Latvia is implementing a comprehensive program to improve tax administration. Since tax rates are already sufficiently high, the main task of the revenue service is to ensure proper and adequate tax collection.

In summer 2000, the government submitted a supplementary general government budget for the year. According to this draft budget, the fiscal deficit is expected to increase to 2.7% of GDP, an amount that is clearly higher than the 2-percent target agreed on with the International Monetary Fund (IMF). Moreover, the budget draft for 2001 envisages a general government budget deficit of 1.75 percent of GDP, whereas the agreement with the IMF foresees a further consolidation that would bring the deficit down to 1 percent in 2001.

Market forces determine the exchange rate of the lat with limited intervention by the Bank of Latvia. Although no formal policy has been announced, the lat has been effectively pegged to the Special Drawing Rights (SDR) currencies of the IMF since February 1994. The value of the lat is set at 79.97 santims, or 1/100 of a lat to one SDR.

At the end of 1999, the IMF approved a 16-month standby arrangement for Latvia. The Latvian government agreed on a tough reform agenda, which includes some difficult measures in the public sector. The program focuses on reducing the consolidated budget deficit from about 4 percent of GDP in 1999 to 2 percent in 2000 and 1 percent in 2001. Since the social insurance sector accounts for nearly one-third of the consolidated general government budget, the government committed itself to curbing deficits in this area. However, recent developments indicate that the government might not meet the deficit reduction targets.

Microeconomic Policy

1998	1999-2000	2001
2.50	2.50	2.50

Under the Latvian constitution, the state protects the right of a person to own property. The constitution also guarantees freedom for creative and scientific work and protects patent rights and copyrights. In 1993, parliament passed additional legislation to protect copyrights, trademarks, and patents. Latvia has been a member of the World Intellectual Property Organization since January 1993, a member of the Paris Convention since September 1993, and a member of the Bern Convention since August 1995. Although the legal basis for intellectual property rights has been established and some of its enforcement mechanisms are in place, Latvian law only recently defined penalties for violations of these rights.

The constitution requires that the forced expropriation of property for public needs can occur only in exceptional cases and in return for just compensation. There have been no cases of arbitrary expropriation of private property by the Latvian government.

The private sector sets most prices and wages. The government continues to establish prices for some goods and services, including electricity, rents for government-controlled housing, transportation, and telecommunications. A Central Statistical Bureau survey revealed that the main barriers to business development are lack of finance, limited credit, insufficient knowledge of the market, unfair competition, a low level of technology, and a lack of qualified personnel.

Lattelekom, the Latvian telecommunications company, has been guaranteed a monopoly until 2013. Pressure by the World Trade Organization to advance the opening of the telecom market to 2003 has already generated interest among potential competitors, including Telia Latvija, which has stated its intention to enter the market as soon as the monopoly is lifted.

Latvia became a full-fledged member of the World Trade Organization in February 1999. Latvia's trade regime is liberal for industrial goods. To protect the ailing farm sector, though, the government applies its highest rates to agricultural products.

Latvia continues to pursue trade policies consistent with market reforms and the need to extend its primary trade beyond the former Soviet Union. Trade with the EU has increased from nearly 45 percent of total trade in 1996 to 50 percent in 1997 and 60 percent during the first three months of 1999. The EU's shares of imports also rose during the same period from approximately 50 percent to 55.7 percent. Between 1997 and 1998, Russia's share in Latvia's foreign trade fell 21 percent to 12.1 percent for exports and from 15.6 percent to 11.8 percent for imports, thus mitigating additional risk for Latvia's external accounts. Latvia's large trade and current account deficits are receiving increased attention. In 1999, the trade and current account deficits amounted to 17.6 and 11 percent of GDP, respectively.

The Latvian government is actively trying to encourage foreign direct investment. According to the Central Statistical Bureau, the total amount of foreign investment stock from the beginning of the 1990s to the end of 1999 was more than $1,773 million, an average per capita rate of foreign investment for the region.

According to the European Commission, the legal framework for enterprises is broadly in place. In spring 2000, Latvia adopted a new commercial code designed to streamline administrative procedures, bring commercial regulations more in line with EC requirements, and simplify business

registration. These measures might eliminate some of the inconsistencies associated with the authorities' interpretation and application of commercial laws. The company register is functioning well. In 1999, more than 8,200 new enterprises were registered and nearly 2,400 were liquidated. Figures for the first half of 2000 show about 3,900 registered start-ups and around 1,100 enterprise liquidations.

For more than two decades, Russian gas supplies for consumers in the Baltics and northwestern Russia have been stored seasonally at the Inculkans underground gas storage facility in Latvia. Through this arrangement, Latvia secures a stable supply of gas and collects storage fees. Latvian energy officials have expressed interest in developing other natural gas storage facilities as Russia positions itself to supply greater amounts of gas to the European market. One of the main reasons for the expected rise in the consumption of gas is the EU's focus on environmental protection, including a gradual switch from environmentally dangerous fuels to natural gas.

The energy sector was liberalized through the adoption and implementation of the Law on the Energy Sector in September 1998. The law regulates the production, purchase, and distribution of various types of energy; the licensing and functioning of power companies; and the supply of energy to consumers. It also provides for Latvia's integration into the international energy market, the attraction of investment, and increased energy efficiency. Nevertheless, competition in the electric energy and gas sectors remains limited. In terms of electricity and gas supply, Latvia is dependent on its neighboring countries, particularly Russia and Lithuania.

Social Sector Indicators

According to Latvia's Ministry of Economy, the number of people employed in the national economy continues to diminish. In 1999, there were 1,028,000 people—one of the lowest numbers since 1992. Official unemployment reached a peak of 10.2 percent in May 1999. It then declined to 9.1 percent at the end of 1999 and to 8.6 percent in May 2000. Unofficial unemployment, however, is an estimated 14 to 15 percent. The country's relatively high level of unemployment and other economic hardships have greatly contributed to general pessimism and distrust in the political system among large segments of society. This pessimism is strengthened by the growing number of long-term unemployed, who accounted for 31.1 percent of unemployment at the end of 1999.

In late 1999, 48 percent of employed persons were women. This indicates that there are no major differences in the level of employment among men and women. Neither is there a significant disproportion in unemployment levels among other social groups. The absence of such a disproportion may contribute to political stability because there are no grounds for viewing the employment situation as discriminatory against any particular groups. The only exception is a major regional disproportion. Some regions of Eastern Latvia have experienced unemployment that exceeds 55 percent. This reflects huge disparities in economic growth around the country. The trend is worrisome because more developed regions have tended to grow quickly while more depressed areas have become even poorer.

The 1995 Law on State Pensions replaced Latvia's social pension with a state social security benefit. As a result, the amount of the old-age benefit is tied to the previous earnings of the beneficiary. All permanent residents, including non-citizens, qualify for the pension system and other social benefits.

The pension system and its reforms have been an issue of periodic and sharp political controversy. The controversy peaked in August 1999 when the Law on State pensions was radically changed to increase the retirement age and to suspend partially the benefits paid to persons who were still employed. Pensioners and their supporters protested against the amendments and gathered more than 130,000 signatures in support of a referendum. Although the referendum actually took place, its results were legally null and void because of low voter turnout. Meanwhile, parliament softened the amendments.

Due to the large number of pension beneficiaries, the pension system puts a heavy fiscal pressure on the country's budget. In early 2000, the fiscal deficit of the social security budget reached 55 million lats (approximately $92 million). Although the living standard of retirees is gradually improving, the level of old-age benefits and reforms of the pension system remain a point of contention for the least advantaged groups of society. In 1999, the average old-age pension equalled 58.18 lats ($98.9).

According to the United Nations Development Programme, Latvia ranked 63 in the world with respect to its living standard in 2000. The living standard is relatively low because of the low level of wages. In 1999, the net average monthly wage for those employed in the national economy was 102.73 lats ($175.61). The wage for persons employed in the public sector was 114.39 lats ($195.55). Although wage arrears have become rare, low private earnings contribute to social tensions. Moreover, Latvia's correspondingly low level of domestic consumption hinders the growth of local sales and services.

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LITHUANIA

Polity: Parliamentary democracy
Economy: Mixed capitalist
Population: 3,700,000
GNP per capita at PPP $ (1999): 6,093
Capital: Vilnius
Ethnic Groups: Lithuanian (80.6 percent), Russian (8.7 percent), Polish (7 percent), Byelorussian (2 percent), other (2 percent)
Size of private sector as % of GDP (mid-2000): 70

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	2.15	↑ 1.95	↓ 2.00	↑ 1.94
Rule of Law	na	na	2.88	↑ 2.75
Economic Liberalization	2.50	↓ 2.58	↓↓ 2.83	↑ 2.75

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	1,143.0	1,623.0	2,129.0	2,588.0	2,904.0	2,874.0	3,045.0
Real GDP growth (% change)	-9.8	3.3	4.7	7.3	5.1	-4.2	2.9
Inflation rate	72.1	39.6	24.6	8.9	5.1	0.8	1.0
Exports ($ millions)	2,029.0	2,706.0	3,413.0	4,192.0	3,962.0	3,147.0	3,933.0
Imports ($ millions)	2,234.0	3,404.0	4,309.0	5,340.0	5,480.0	4,551.0	5,006.0
Foreign Direct Investment ($ millions)	31.0	72.0	152.0	328.0	921.0	478.0	355.0
Unemployment rate	3.8	17.5	16.4	14.1	13.3	14.1	15.4
Life Expectancy (years)	68.7	69.2	70.4	71.2	71.5	72.1	72.0

INTRODUCTION

Lithuania is a parliamentary democracy with secure political rights and civil liberties. The country has a solid track record of press freedom and protection of minorities. There continues to be momentum for reform, but weaknesses in the judicial system and the rule of law remain. Corruption is a serious concern. There is widespread political consensus and support for strengthening the country's institutional and economic structures.

Lithuania has established a solid foundation for a market economy and has made significant progress in the areas of macroeconomic stabilization, privatization, and economic liberalization. The country's currency board arrangement guarantees currency stability and contributes to the credibility of the banking system. Although privatization is ongoing and encompasses the country's strategic infrastructure, openness and transparency are lacking. Substantial enterprise restructuring is still required. Government expenditures and borrowing have been reduced, but further reforms are necessary. Business growth is impeded mostly by high taxes and excessive regulations.

The social security system has been under tight budgetary constraints, and private pension insurance has not yet evolved. An economic slowdown and difficulties with the state's finances point to the need for a fundamental revision of government expenditures, extensive business deregulation, and thoroughgoing tax and pension reform. Integration into the European Union (EU) has provided significant impetus for reform through the removal of barriers to the free movement of goods, services, capital, and labor and through the adoption of general EU principles. Lithuania has concluded membership negotiations with the World Trade Organization (WTO) and must ratify the main membership documents and agreements by May 1, 2001.

In 2000, Lithuania held municipal and legislative elections that resulted in the entrance of a profusion of relatively new players onto the political scene. Transfers of power after the elections were smooth and effective. Lithuania's new government and parliament are led by the Liberal Union and the New Union (Social Liberals). The government is of center-right orientation. Before the parliamentary elections, the election law was amended by abolishing the second round of elections in single mandate constituencies. The Social Liberals, the Peasants Party, and the Liberal Union dominate municipal governments.

There were several legislative developments in 2000. These included the passage of a new law on charity and support that simplified the procedures for private giving and amendments to the law on labor contracts that legitimated non-paid voluntary activity. The adoption of a new law on public information that provided for the creation of an ombudsman's office to oversee the media was later amended, thus securing reliance on a self-regulating principle for mass media. One of the most significant changes in the legal system was the adoption of a new civil code that is in accord with EU laws and other international legal acts.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
2.00	1.75	1.75	1.75

The political system in Lithuania is stable, and transfers of power have been smooth and effective. On October 18, 2000, the country held national legislative elections, which the Supreme Electoral Commission of Lithuania acknowledged as free and fair. The Organization for Security and Cooperation in Europe (OSCE) decided at an early stage not to send election observers because public confidence was high and the conditions for democratic elections were well established. The OSCE and the EU officially ceased observing Lithuanian elections in 1997.

The leftist Social Democratic Coalition of former President Algirdas Brazauskas won 51 mandates in the 141-seat parliament. The right-of-center Liberal Union finished second with 34 seats. The center-left New Union (Social Liberals) won 29 seats, and the Conservative Party 9. Many parties failed to cross the threshold of 5 percent in proportional voting, but another seven parties won seats in single-mandate constituencies. Among these were the Peasants Party, 4 seats; the Center Union, 3; and the Modern Christian Democrats, 3.

After the elections, the Liberal Union, the New Union, the Center Union, and the Modern Christian Democrats signed a coalition agreement. With 67 members of parliament, this New Policy bloc secured support from several more candidates who were elected in single-mandate constituencies in order to have a 71-vote parliamentary majority. The Liberal Union and the New Union were entrusted with the formation of the new government and parliament's leadership. The New Union's leader, former Prosecutor General Arturas Paulauskas, was elected parliament's speaker. (Paulauskas narrowly lost the 1998 presidential election.) The Liberal Union's leader, Rolandas Paksas, who led the cabinet as a member of the Conservative Party after the Vagnorius Administration resigned in spring 1999, was appointed prime minister.

For the first time since Lithuania restored its independence, the country has a coalition government in which no single party enjoys a majority. The new government is of center-right orientation. The Conservatives and the leftist parties are the main opposition forces. Dominated by the left-leaning New Union and the right-of-center Liberal Union, the new government may prove to be rather un-

stable. The New Union, a party that was established around one leader rather than driven by ideology, leans to the right on matters pertaining to property ownership but favors leftist views on social issues. The Liberal Union is committed to classical right-wing principles.

The most recent presidential election took place on December 21, 1997. American émigré and environmentalist Valdas Adamkus was elected by a majority vote in the second round of balloting. Adamkus defeated his rival, attorney Arturas Paulauskas, by a margin of less than one percentage point. Voter turnout reached 73.78 percent. Since the election, Adamkus has been one of the most popular figures in Lithuania. The next presidential election is due in 2002.

Any person who is a citizen of Lithuania by birth, who has lived in Lithuania for at least the past three years, who has reached the age of 40 prior to election day, and who is eligible for election to the parliament may be elected president of the republic. Presidential candidates must collect the signatures of at least 20,000 voters to be registered as a presidential candidate.

Voter turnout for the national legislative elections rose from 53 percent in October 1996 to more than 56 percent in October 2000. As a rule, voter turnout is higher in presidential elections. In the 1997 presidential election, more than 70 percent of eligible voters cast their ballots. In municipal elections, voter turnout was 45 percent in 1995 and 40 percent in 1997.

Lithuania's electoral system is multiparty-based. Half of parliament is elected in multi-mandate proportional balloting; the other half is identified through polling in single-mandate constituencies. The threshold for legislative representation is 5 percent. Three months before the October 2000 parliamentary elections, the ruling Conservative majority amended the election law. President Adamkus issued a veto, but parliament overrode it. Previously, a candidate running in a single mandate constituency had to receive 50 percent of the vote to be declared the winner in the first round. Otherwise, a second round had to be held with the two front-runners. The amended law, however, establishes a first-past-the-post system. That is, a candidate only needs to receive a plurality in the first round to win. The new amendments were expected to benefit the most popular parties (especially the Conservative Party), which have rather disciplined electorates, but the election results showed the opposite.

Until the 2000 parliamentary elections, the largest and most influential parties were the Homeland Union–Lithuanian Conservatives, the Christian Democratic Party, the left-of-center Social Democratic and Labor Democratic Parties, and the Center Union. The relatively new players on the Lithuanian political scene—Paulauskas' New Union, the leftist Peasants Party, and the Liberal Union—came out on top in the municipal elections in March 2000. The Liberal Union and the New Union have reinforced their positions since the parliamentary elections. Led by young, charismatic leaders, they are considered to have brought a breath of fresh air to the stale political arena of the past decade.

Citizens are free to form political parties and associations, provided their goals and activities do not contradict the constitution and laws of Lithuania. To register, a party must have at least 400 members. There are 39 registered parties in the country. One extreme nationalist party, the Lithuanian Union of National Social Solidarity, was recently been refused registration for the tenth time on the grounds that articles in the party's bylaws on the superiority of the Lithuania nation contradict both the constitutional principles of democracy and equality and the law on political parties and organizations.

Out of a population of more than 3.7 million, roughly 1 to 2 percent are registered members of political parties. Many small political parties have membership problems. The former Women's Party, led by former Prime Minister Kazimiera Prunskienie, has been renamed the New Democracy Party. Five political parties have women's divisions. The proportion of female members of parliament has decreased from 17.4 percent (24 seats) in the previous parliament to 10.6 percent (15 seats) in the newly elected parliament. In 1996, due to low voter turnout, the parliamentary elections failed in three constituencies that traditionally have comprised the bulk of the Polish and Russian electorate. The Union of Russians joined the Brazauskas Social Democratic Coalition in the 2000 parliamentary elections. The Polish Electoral Action won two seats in single-mandate constituencies.

Civil Society

1997	1998	1999-2000	2001
2.25	2.00	2.00	1.75

In July 2000, parliament passed a new law that simplifies the procedures for granting charity and support. The law is seen as an important step forward in the promotion of the third sector and private giving. In late 1999, the Commission for NGO affairs was founded to advise the government on issues related to nongovernmental organizations (NGOs) and to initiate or evaluate relevant legislative amendments. The commission also seeks to identify major NGO concerns and to formulate a systematic package of proposals for resolving these concerns. Members of the commission are representatives of NGOs.

The NGO sector has been developing steadily in recent years, but public awareness about it remains rather low. According to the NGO Information and Support Center, there are more than 3,000 nongovernmental organizations in Lithuania. Every year approximately 200 new NGOs are established. Volunteerism remains a rare form of NGO support because Lithuanian laws did not provide for voluntary activity and unpaid labor relationships until recently. Unpaid voluntary activities were legitimated by amendments

to the law on labor contracts that were adopted in July 2000. The task of establishing provisions for regulating voluntary activities has been delegated to the government. The Center for Volunteerism is lobbying for necessary legislative changes on volunteerism. NGO Information and Support Centers in the largest cities (Vilnius, Kaunas, and Klaipeda) represent the main efforts to increase philanthropy.

According to the Women's Information Center, there are about 60 women's organizations in Lithuania. Among them are 20 regional organizations, 23 nationwide organizations (including five multi-interest groups, six interest groups, two organizations engaged in service provision, and ten professional interest groups), ten branches of international women's organizations, and four women's studies centers. The Lithuanian Women's Association unites twelve organizations. The Lithuanian Society of Women in Business unites 200 women entrepreneurs and managers from 13 towns and regions.

At the national level, NGOs are registered with the ministries of justice and economy. Regional NGOs are registered with municipalities. According to the new law on charity and support, nongovernmental organizations are not required to approve grant programs in order to carry out and receive financial assistance for their activities. This amendment is expected to significantly facilitate the giving and administration of assistance funds.

The new law removes ambiguities regarding the distinction between charity and support. Charity is now defined as help extended to people who are in a difficult financial situation. Support is defined as assistance to an organization that carries out cultural, scientific, health care, educational, or other activities. The legalization of anonymous support was another important change.

One of the most controversial amendments states that support or charity can be given only to organizations that are included in an official register of NGOs. The task of formulating criteria for support and charity recipients has been delegated to the government. Although this provision is expected to help prevent abuse of concessions applicable to private giving, critics charge that the register is unnecessary and unjustified. They also argue that it will create conditions for abuse of official power and increase bureaucratic paper work. The main weaknesses that remain in Lithuania's legal framework for NGOs pertain to detailed regulation of the structure and management of NGOs, burdensome statistical reporting requirements, and prohibitions for certain types of NGOs (associations and foundations) to carry out commercial activities. Likewise, accounting regulations applicable to NGOs are rather complicated and require professional handling.

According to the NGO Information and Support Center, the U.S.–Baltic Foundation, and the Open Society Fund–Lithuania, the operational and managerial capabilities of NGOs have increased considerably in recent years. The quality of operation and management of about 200 NGOs is comparable to that of leading businesses. However, their overall capacity is estimated to be low. A number of organizations provide a number of technical, consulting, and training services, as well as manuals, to enhance the effectiveness of Lithuanian NGOs. For example, the NGO Information and Support Center, with support from the Netherlands and Poland, has trained 20 professional NGO consultants to assist groups in improving their operations.

The tax regime for NGOs is similar to that of for-profit companies, but NGOs pay a 5-percent income tax instead of the regular 24 percent. Donations from companies are tax-exempt. NGOs do not pay the stamp duty for registration services. Most Lithuanian NGOs are not financially viable because they lack permanent sources of income. Most of their funding comes from international foundations. Although the trend is toward increased fundraising from local sources, donations from private firms and individuals still only constitute about one-fifth of NGO revenues. NGOs also receive public funding, which is mostly provided by the ministries of culture, education and social security, and labor. Government procurement opportunities are available only to nonprofit providers of social services. A government-adopted price directory for social services is expected to enhance these opportunities. The operational and organizational weaknesses of regional NGOs seriously hinder cooperation with local governments.

According to the Department of Statistics, the amount of charity and support increased by 61.6 percent in the first half of 2000 when compared to the same period in 1999. Eighty-four percent of charity and support came from abroad, and the remaining 16 percent came from Lithuanian citizens and firms. The amount granted by Lithuanian legal entities increased by more than 29 percent, and individual giving rose by 69 percent. The bulk of charity and support is granted in kind.

The Lithuanian Alliance of Trade Unions, the Center of Trade Unions, the Lithuanian Labor Federation, and the Employees' Union unite trade union and labor groups. Industrial restructuring, privatization, and bankruptcies of large state-owned enterprises have adversely affected the trade union movement. Nonetheless, the number of workers belonging to trade unions is steadily increasing. There are about 80 professional organizations with a total of 200,000 members. The activities of individual trade unions and the percentage of workers belonging to them differ significantly across areas of activity. The trade unions with the highest levels of membership are in the chemical industry, construction, the energy sector, and the food industry. Trade unions in the educational sector are also quite effective. The biggest problem unions face pertains to the degree of democratization in their management structures. Trade unions must sign collective agreements with employers on behalf of all employees.

There are about 800 associations in Lithuania and more than 300 business organizations. Small business associations unite an overwhelming majority of small enterprises. The Lithuanian Association of Agricultural Companies, for

example, unites 300 enterprises. The Journalists Union, the Public Relations Association, and the Journalists Center are the most prominent journalistic organizations.

In July 2000, parliament adopted a law that allows individuals and legal entities to engage in paid lobbying activities aimed at influencing the legislative process. To do so, a person or a company must be registered on an official list of lobbyists that the Central Commission of Service Ethics maintains. The law bans former politicians and state officials from engaging in lobbying activities for a year after leaving their posts. Although the law is aimed at regulating the influence exerted on the legislative process and curbing corruption, it is feared that the powers of well organized, narrowly focused interest groups may expand.

Interest groups may take part in the political process through policy advocacy, counseling, and other activities. Business associations and trade unions are the most active and influential participants in the political process. The Lithuanian Industrialists Confederation is the leading lobbying group in the country. Trade unions are becoming increasingly influential because they have large membership and organizational structures. In most cases, the government is attentive, but not always responsive, to the opinions of interest groups. The policy-making process increasingly relies on joint task forces and policy initiatives that draw together officials, businesspeople, specialists, and independent policy analysts. This approach has been used to develop pension fund legislation, new tax laws, and budget reforms. For example, the Sunrise Commission that was set up in 1999 to formulate proposals for improving business conditions in many vital areas comprised 12 mixed task forces. Public hearings on draft laws are another new initiative that is expected to invigorate the policy-making process.

Independent Media

1997	1998	1999-2000	2001
1.75	1.50	1.75	1.75

Mass media in Lithuania continue to enjoy the highest degree of public confidence (over 70 percent of the population) of all institutions. However, the year 2000 has been marked by several legislative attempts to introduce statutory provisions that threaten to curb the self-regulating principle in mass media and to undermine their financial stability. In mid-July, parliament adopted a new law on public information that provided, among other things, for the establishment of a new ombudsman's office to control the media. This was seen as a move away from the Western-style principle of self-regulation that has been in place until now. A month later, following a presidential veto, the provision on the office of the ombudsman was removed from the law. Instead, the functions of the existing commission on the ethics of journalists and publishers and of the inspector of journalists' ethics will be expanded. Notably, most influential media representatives act professionally in accordance with the ethical code of journalists and publishers. Another amendment to the law that the president vetoed would have tightened significantly the norms of broadcasting commercials, but the newly elected parliament upheld the veto and removed the restraints.

The vast majority of Lithuania's mass media is privately owned. The state owns part of the ELTA news agency and the National Radio and Television public broadcasting company. The major national dailies are *Lietuvos Rytas*, with a circulation of 76,000; *Kauno diena*, 56,000; and *Respublika*, 55,000.

The most popular television stations are the LNK television, which captures 28.6 percent of viewership; TV3, 29.9 percent; and Baltijos TV, 17.1 percent. The national television broadcaster, with 9.1 percent, ranks fourth. The national radio broadcaster still enjoys the largest audience and captures about 44 percent of listening time. The other most popular radio stations are M-1 (17 percent) and Radiocentras (12 percent).

The leading private media are financially viable. National Radio and Television, however, has been sinking into arrears for the past several years and owes approximately 15 million *litas* to its creditors. When its bank accounts were frozen in 2000 because of excessive debt to the Radio and Television Center, its broadcasting company, National Radio and Television announced plans to sue the state and to appeal to international media organizations. A subscriber's fee that is designed to shift funding away from the state budget will be introduced in January 2001.

Lithuania's newspaper distribution system is privately owned. The Lithuanian Post, which holds a negligible share of the market, is the only exception. It distributes small periodicals and targets a mostly rural audience. The largest periodicals have their own subscription services. Lietuvos Spauda (Lithuanian Press), the largest press distribution company, was formed from a former Soviet monopolistic company. It operates 600 kiosks all across the country. The Lietuvos Rytas operates its own subscription service. Several private companies conduct press trade through a chain of gas stations, groceries, and hotels.

The media in Lithuania are editorially independent. Publications may be closed and journalists may be penalized only by court decisions. On occasion, state institutions have attempted to restrict access to information. The Defense Ministry and the Internal Affairs Ministry refuse to allow their officials to communicate with journalists or to publicize information. State-owned radio and television remains under considerable pressure from the government, which controls budget allocations.

The Lithuanian constitution guarantees the freedom to "pursue, receive and disseminate information and ideas." Yet, the same article states that this freedom may be limited by law if it is necessary to "protect a man's health, honor, dignity, private life and morals or to protect the constitutional order." Article 131 of the criminal code provides for

two years of imprisonment, two years of penitentiary labor, or a fine for libeling or disseminating false information that defames a person. Drawing on the civil code, the court can mandate indemnities of 500 litas ($125) to 10,000 litas ($2,500) for doing moral harm to persons by publicizing false information that dishonors them or for publishing information about their personal lives without prior consent. The law provides no particular penalties for libeling officials.

In April 1998 the editor-in-chief and an editor of the newspaper *Europe* were sentenced to one year in prison for libel. In July 1997, Valery Ivanov, a Russian citizen and the former leader of the pro-Soviet Yedinstvo organization in Lithuania, was sentenced to one year of penitentiary labor on charges of defaming the victims of the Soviet coup on January 13, 1991.

It is estimated that 2 percent of the population is connected to the Internet. Internet users, however, comprise 5 percent of the population. There are approximately 25 Internet service providers. The companies that release information on the number of clients have from 50 to 6,000 customers. The provision of Internet services is a rapidly developing market. There are no restrictions or regulations on the use of the Internet. However, the telecommunications law that grants Lithuanian Telecom a monopoly on terrestrial communications until 2003 has affected the Internet market.

Freedom House's annual *Survey of Press Freedom* rated Lithuania "Free" from 1994 through 2000.

Governance and Public Administration

1997	1998	1999-2000	2001
2.50	2.50	2.50	2.50

Lithuania's system of checks and balances between legislative and executive authority provides for a proper separation of functions, independent enforcement, and legislative oversight. There are also provisions for the disclosure of government documents, sanctions such as no-confidence votes and impeachment, and self-policing mechanisms such as ethics committees. The state ombudsman's office strengthens external monitoring of the state's behavior.

The legislature is the effective rule-making institution, but it is frequently criticized for over-regulation and interventionism. Rather than defining rules, laws frequently express sentiments and, in many cases, are quite ambiguous and inconsistent. Although both the legislative and executive authorities are becoming increasingly open, in many cases draft legislation submitted for governmental consideration is not easily accessible to the public. Cabinet sessions take place behind closed doors. Ministries and other executive authorities often adopt new regulations without prior notice or public scrutiny. According to 1998 regulations, all draft laws prepared by the government must be announced on the Web site of the responsible ministry. Parliament's work is more transparent than the government's. However, draft legislation is not always available on the Internet, and parliament has no obligation to inform the public and the media.

Lithuania has one level of local government that includes 60 municipalities. Most municipalities have 30,000 to 50,000 inhabitants. There are ten regional administrations, or territorial units of the central government, which are headed by centrally appointed governors. Local governments are largely dependent on the national government. The responsibilities of local governments are divided into independent functions and functions delegated by the government. The main independent functions include municipal development, management of municipal enterprises, the establishment and supervision of protected areas and objects, and responsibility for setting sanitary requirements.

The main responsibilities delegated by the central government comprise primary and secondary education, primary health care and disease prevention, culture and sports, development of the leisure and tourist industry, environmental protection, social assistance, garbage collection, fire protection, heating, water supply, and sewerage. In areas such as health care and education, both central and local authorities are involved. Ambiguities in the division of power are impeding the process of decentralization and the establishment of a stable fiscal structure for municipalities. They have also led to intergovernmental tension, inefficient provision of services, and unclear accountability.

At the municipal level, subnational officials are chosen in free and fair elections for three-year terms. Elected councils appoint mayors. It is widely believed that mayors, heads of territorial administrations, and governors of regional administrations should be elected rather than appointed.

Lithuania's municipal system was established on the basis of the 1992 constitution and the Law on Local Government. A new Law on Civil Service was adopted in July 1999. Civil servants are now divided into politicians (ministers and elected officials), political appointees, career civil servants, and civil servants engaged in the provision of governmental services. Previously, the latter group was not included in the category of civil servants.

The adoption of the Law on Civil Service has had a twofold effect. On the one hand, it has conferred a greater degree of independence on civil servants. On the other hand, it appears to pose a hindrance to reforms and administrative changes. Some groups, including the police and custom officers, are statutory civil servants who are subject to regulation by particular laws or statutes. Labor laws are applicable only to civil servants who work in governmental services. Local civil servants are employees of local governments.

Municipal governments generally lack the funds needed to meet their expenditure obligations. This may be attributed to mismanagement and the expansion of local governmental authority. Municipalities are free to allocate funds

between expenditure categories, with the exception of functions delegated by the central government. The central government raises and transfers municipal revenues. The composition of local revenues is defined by law. Municipalities and the central government negotiate changes, and parliament approves them, every three years.

Local authorities are not authorized to introduce or collect taxes, but they may levy some local charges and user fees. They can also lower tax rates at the expense of their own revenues. More than 70 percent of municipal revenue comes from personal income taxes and subsidies from the central budget (roughly 20 percent). The fiscal capacities of local governments are balanced through revenue equalization, which based on expenditure-need assumptions. For example, only 51 percent of personal income taxes collected in the city of Vilnius go to the municipality's budget, but most rural municipalities retain 100 percent of their receipts from the tax.

The professional skills and managerial abilities of local officials vary significantly across municipalities. In most municipalities, local leaders and civil servants lack skills and experience and are inclined toward excessive interventionism. Political connections and cronyism play no small part in hiring civil servants, but their influence on professional activities is less.

RULE OF LAW

Constitutional, Legislative, and Judicial framework

1997	1998	1999-2000	2001
2.25	2.00	2.00	1.75

During the period covered by this report, the most t event was the adoption of a new civil code. Approved on July 8, 2000, the new code is in accord with EU law and international legal acts. It comprises six volumes: general provisions, regulation of the legal status of natural and legal entities, legal relations for families, execution and defense of material rights, legal rights of inheritance, and legal regulation of different kinds of contracts and agreements.

The Lithuanian constitution was adopted by referendum in October 1992. It divides the powers of the government along the French model. The constitution may be applied directly as law, but this rarely occurs in practice. The constitutional court, which resolves conflicts between the constitution and legal acts, has proved to be an independent, powerful, and reliable guardian of constitutional rights. It has found many laws to be in conflict with the constitution.

In late 1998, the constitutional court ruled that the death penalty, which was stipulated in the criminal code, contravened the constitution. In October 2000, it ruled that some provisions of the legislation related to the privatization of the Mazeikiai oil refinery contradicted the constitution. According to the court's decision, parliament did not have the right to pass laws that enabled the government to accept significant property liabilities and commit itself to covering losses incurred by Mazeikiai's investor, Williams International.

Under current law, OECD and NATO members may buy agricultural land, but they must obtain the government's approval. In 2000, the cabinet proposed an amendment to Article 47 of the constitution that would eliminate all restrictions on the purchase of agricultural land by foreign citizens and legal entities. To date, the amendment has not been adopted. Another proposed amendment would grant supremacy to international treaties ratified by Lithuania over Lithuanian legislative acts and laws. The constitution stipulates that there must be an interval of at least five months between the presentation of draft amendments to the constitution and a vote on them. Debates on these issues are underway.

Although Latvia adopted a new criminal code in September 2000, it will not come into effect for a two years. The existing criminal code and criminal procedural law have been reformed through more than 300 amendments. A number of activities, including homosexuality, have been decriminalized. Capital punishment has been abolished. The court system has been modernized, and criminal prosecution has been subjected to stricter procedures. And, yet, criminal penalties in Lithuania remain rather strict.

The number of prisoners in Lithuania is among the highest in Europe. Public prosecutors authorize searches. Judges issue warrants. Prisoners and other detainees are sometimes beaten while imprisoned or under interrogation. Abuse and violence among prisoners and the living conditions of prisoners and other detainees are growing causes of concern. Investigations of criminal cases are often very slow.

The constitution provides for human rights and their protection, including the rights to own property and to own and work in business. Lithuania has ratified major international conventions on human rights, including the European Convention of Human Rights. The Framework Convention on Protection of National Minorities has also been signed and ratified. All citizens are treated equally by law and in practice. There is, however, some evidence of discrimination against women and sexual minorities. The War Academy applies certain restrictions to female applicants. In March 1999, a law on equal gender opportunities came into effect. The law defines and prohibits gender discrimination as well as regulates relationships in the areas of employment and education. A controller's office for equal gender opportunities has been established.

Minorities are free to establish their own educational, cultural, and religious institutions. As of the writing of this report, the daily *Lietuvos Aidas* faced criminal prosecution for inciting ethnic discord by publishing anti-Semitic articles that question the necessity to prosecute war criminals. The president and the prime minister, as well as the Lithuanian Jewish community and some pro-

fessional organizations of journalists, strongly criticized the daily's anti-Semitic attacks.

Even though most judges rule fairly and impartially, opinion polls indicate that the public has little confidence in the court system. Bribes to solicitors and judges reportedly account for a significant part of legal costs. Large companies are more likely to initiate lawsuits than small businesses and ordinary citizens, both of which find the expense in time and money too great. Judicial decisions are enforced effectively in the criminal sphere, but there are some concerns about the enforcement of decisions in civil cases. In March 2000, Lithuania agreed with other Baltic countries to establish a witness protection and relocation program.

The Ministry of Justice has no formal control over court decisions, except in matters of technical support, but it wields considerable influence. Most lawyers and businesspeople claim that the state exerts pressure on judges, particularly in cases against state institutions. This influence is more evident in economic, rather than in political, matters.

Judges on the supreme court and the court of appeals are nominated by the president and approved by the legislature. The president appoints district court judges. All judges are appointed for life. The constitutional court has proved to be immune to political pressure. The chairman of the legislature, the chairman of the supreme court, and the president each nominate one judge to the constitutional court.

By law, the state must provide public defenders. Since there has been a dramatic decline in the number of available lawyers, the government now requires private lawyers to provide a certain amount of service to the state. Remuneration remains very low.

Corruption

1999-2000	2001
3.75	3.75

According to the Law on Civil Service, civil servants may not sit on enterprise boards, represent enterprises, or make contracts with related entities. And, yet, the press has featured numerous stories about political ties to businesses. The worst situation is in state-owned sectors in which old nomenklatura-type appointees have close connections with the central government and municipal authorities. There are ethical standards concerning relationships between businesses and politicians, but they are frequently ignored. Public opinion does not exert much pressure on politicians to obey these standards. However, the public is often suspicious about businesspeople in politics, even if there is no evidence of the abuse of official power.

The law on coordination of public and private interests at state service requires that a person employed at state service cannot for one year represent any interest in institutions he was related to in his former employment at state service. The law prohibits conflicts of interest and requires financial disclosures by politicians, managers of companies, and their spouses. Presidential, parliamentary, and local council candidates must declare their property and income publicly before elections. Elected politicians, political appointees in the civil service, and directors of companies must make annual declarations of their income and property.

The criminal code includes provisions against, and prescribes severe penalties for, racketeering. Executive and legislative bodies operate under audit and investigate rules, but in many cases these rules are applied in a rather formal or fragmented manner.

Official anticorruption initiatives were launched in 1997 together with the establishment of a specialized division of the Interior Ministry called the Special Investigation Bureau. In 1999, the Bureau exposed 83 state officials, including five investigators and prosecutors and four attorneys. In May 2000, parliament passed a law on increasing the self-dependence of the Special Investigation Bureau in fighting corruption. The new law stipulates that the Bureau reports to the president and parliament. The director of the Bureau will be appointed and dismissed by the president on parliament's proposal.

The government is pursuing a "clean hands" policy, and an insider commission has been set up to investigate corruption cases and abuses of official power. However, the commission's activities have been fairly ineffective and have not brought any tangible results.

Most of the anticorruption cases pursued by prosecutors have involved the police and customs and tax officers. Several judges, lawyers, and investigators have been sentenced to prison for accepting bribes. In 1999, Audrius Butkevicius, a member of parliament, was sentenced to prison for accepting bribes. There was concern, though, that this case may have been more political than anti-corruption in nature. In March 2000, when Butkevicius was released on parole, he promptly returned to parliament. Even though parliament rejected a request by President Adamkus to revoke Butkevicius' mandate, Butkevicius was unable to run in the fall parliamentary elections since he was still on parole.

Corruption and bribery are entrenched in many areas. According to the Special Investigation Bureau and opinion polls, businesspeople think that corruption is the most widespread in customs, public procurement, the road police, courts, health care, and tax inspections. The mass media, schools, and the army are considered the least corrupt institutions. Bribes are usually paid to receive more favorable treatment or to hasten the provision of government services. An investigation of public procurements suggests that corrupt practices occur in at least 75 percent of public procurements. Still, the 251 complaints that were filed in 1999 accounted for a mere 3.5 percent of all public procurements. The customs department is a well-known center for corruption. Bribes are used widely to lower the cost of cus-

toms duties. Bribery is also widespread in tax inspections and hospitals.

Pervasive corruption has been one of the leading complaints against regulatory authorities. Lithuania's regulatory system is extensive and comprises more than 70 controlling institutions. The biggest cause for concern is the inconsistency and indiscretion that regulatory authorities exercise in interpreting, applying, and enforcing regulations. The leading complaint is related to the issuance of permits such as licenses, registrations, certificates, approvals, consents, warrants, etc., which is predicated on vague rules and involves excessively complex procedures. In many cases, permits must be obtained not only for entities to operate in the marketplace but also for particular products, professional activities, or processes. Most regulatory obligations change frequently and are vague, repetitive, and even retroactive. Companies are subject to extensive employment, sanitary, and statistical reporting requirements. The decision making process and the performance of routine administrative procedures are frequently and unnecessarily protracted. Regulatory authorities have the right to perform on-site inspections (labor safety, fire prevention, hygiene, etc.) and to impose large penalties in cases of noncompliance without court proceedings. All of this creates ample opportunity for corruption.

In late 1999, the Kubilius administration launched a Sunset Commission to get rid of unnecessary bureaucracies and to reduce the number of controlling institutions. Ten market regulation agencies responsible for food and non-food products, for example, were reorganized into two agencies to eliminate overlapping regulations and to reduce the bureaucratic apparatus. Amendments to the Law on Public Administration that would restrict the discretionary powers of controlling institutions and simplify procedures for obtaining governmental services have been submitted to parliament. One of the proposals is to establish automatic procedures for issuing permissions and approvals. This initiative is seen as a major step toward curbing corruption.

Abuse of official power has been incited by a lack of procedural transparency and fragmented regulation of the privatization process. Privatization authorities are free to select the method of privatization depending on the size of an enterprise, the field of its activity, the quantity of shares, etc. State property may be privatized according to special laws and procedures. Government authorities have the right to create preferential conditions or grant concessions for large investors through public tenders and direct negotiations. The new government has pledged to increase its reliance on the stock exchange for privatizing state property. This is expected to increase transparency.

The salaries of civil servants, both at the national and the subnational levels, are higher than those paid to individuals with comparable qualifications and responsibilities in the private sector. The average net salary is 800 litas for civil servants and 752 litas in the private sector. Remuneration for physicians and social servants is particularly low when compared to the national average.

There is considerable public resentment about the scope of corruption in Lithuania. Public opinion surveys conducted since 1994 show that people regard corruption and bribery as a very acute and entrenched problem. Seventy-four percent of the population condemns corrupt behavior, and 49 percent thinks that the scope of corruption has increased since the restoration of independence. Reportedly, some one-fifth of Lithuanian citizens have come across corrupt practices.

Corruption is seen as one of the major obstacles to business development. Half of all businesspeople report they have given bribes to officials. Still, as a survey conducted by the State Security Department showed, about 60 percent of Lithuanians are prepared to give small bribes to avoid unnecessarily complicated and protracted decision making processes or to hasten routine administrative procedures. Some 68 percent of entrepreneurs admitted that they know whom to bribe and for how much. Thus, despite the widespread resentment of corruption, people are unable to resist it. The press and the president are considered to play the most important role in curbing corruption. State institutions are seen as particularly ineffective. Inconsistent and frequently changing laws, the discretionary powers of controlling institutions, the incompetence of public servants, and low culture and morals are regarded as the main causes of corruption.

Transparency International gave Lithuania a ranking of 43 out of 90 countries surveyed for its 2000 Corruption Perceptions Index. Lithuania received a score of 4.1 on a scale of 0 to 10 in which 10 indicates the lowest level of corruption and 0 the highest. Lithuania's ranking in 1999 was 50 and its score 3.8.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
2.25	2.25	2.50	2.50

Gross domestic product (GDP) in Lithuania fell 4.1 percent in 1999. This followed two remarkable years in which growth was 7.3 (1997) and 5.1 percent (1998). Seventy percent of the country's GDP is produced in the private sector, and almost all small businesses and services are privately owned. According to the Lithuanian Department of Statistics, 68.9 percent of employed individuals worked in the private sector as of mid-2000. The number of self-employed individuals has increased steadily from 13 percent of all employed persons at the end of 1998 to 15.8 per-

cent as of May 2000. Seventy-five percent of ownership rights to land have been restored through restitution.

By expert estimates, the informal sector is believed to account for 23 percent of the country's economy. The main factors at work are a heavy tax burden, excessive regulations, price differences with neighboring countries, and market restrictions. An increase in excise duties has led to the expansion of illegal trade in fuel and tobacco products. Informal economic activities are especially widespread in foreign trade, small businesses, and households.

Lithuania is in the second phase of privatization, which is based on cash sales. Foreign and domestic investors have equal rights in the privatization of state and municipal property. The 1997 Law on Privatization of State and Municipal Property defines several methods of privatization: public auction, public tender, direct negotiations, public sale of shares, rent-to-own, and transfer of control of state-owned enterprises.

When large enterprises are privatized, investors are subject to special requirements regarding future investments and the preservation of jobs. In many cases, these requirements have reduced the transparency and pace of privatization, led to artificial ownership concentration, and resulted in lower proceeds from privatization. When more than half of public shares are sold in transportation, energy, oil, communication, or public utility enterprises, the state has the right to retain a "golden" share that grants extra non-property rights. Foreign investors, rather than the nomenklatura, have enjoyed preferences in the privatization of strategic enterprises. The new government has pledged to expand the use of the stock exchange in the privatization of state property and thus make privatization more efficient and transparent.

There have been no cases of nationalization or reversal of privatization. The public generally supports privatization, as do major political parties. However, certain non-transparent cases of privatization have prompted public discontent and a barrage of criticism from political parties. During the privatization of Lithuanian Telecom, for example, the telecommunication law was amended to grant the enterprise monopoly rights in terrestrial communications until 2003. For the privatization of the Mazeikiu Nafta oil complex, the state pledged to extend and guarantee loans for the investor, to grant concessions on the use of the Klaipeda oil terminal and Lithuania railways, and to raise import duties on fuel. In fall 2000, the Social Democrats registered a citizens' initiative in parliament to preserve state ownership of strategic enterprises. This proposal is likely to fail because the new government is committed to continued large-scale privatization of state property, including strategic infrastructure.

Macroeconomic Policy

1998	1999-2000	2001
2.75	3.25	3.00

The tax burden has increased steadily over the past few years. In 1999, tax revenues accounted for almost 37 percent of GDP, up from 30.6 percent in 1994. Non-compliance is quite widespread. The Lithuanian tax system contains 20 different types of taxes, levies, and contributions. Over 90 percent of tax revenues are collected from value added taxes (VAT), personal and corporate income taxes, and excise and customs duties. The 18-percent VAT is the most effective tax in Lithuania. Personal income tax is charged at a regular rate of 33 percent, but the new government has pledged to reduce it to 24 percent. The corporate income tax rate has been cut from 29 to 24 percent. In July 2000, long-awaited amendments to the corporate income tax law were adopted. In addition to the zero tax rate on invested profits and the exemption for fixed asset acquisitions, bad debts and computer software were made tax deductible. The corporate income tax is set to be abolished in 2002.

Complicated and ambiguous tax rules are a major problem. Continual inquiries from taxpayers add to the workload of tax inspectors. In an effort to reduced contradictions in tax policy, the tax authorities have been prohibited from issuing interpretations of tax rules without the Finance Ministry's consent. However, the existing inaccuracies in tax laws still leave ample room for broadening the tax base at the administrative level.

Since 1994, Lithuania's currency board system has backed cash in circulation with a 100 percent hard currency and gold reserve. It has maintained a fixed exchange rate with the anchor currency, the U.S. dollar, at 4 litas to 1 US dollar. The currency board arrangement has secured full internal convertibility of the national currency and shielded the monetary system from political pressure. It also brought about a considerable decline in interest rates and curbed inflation, which fell from 35.7 percent in 1995 to 0.3 percent in 1999. The Bank of Lithuania plans to change the peg to the euro in mid-2001.

The Bank of Lithuania is an independent institution the primary goal of which is to secure currency stability. With a currency board regime in effect, the Bank of Lithuania has limited powers to regulate interests rates in order to curb inflation. As of 2002, the central bank's main objective will be to secure price stability. In this way, the Bank of Lithuania will resume classical central bank functions. In September 2000, this plan received rough treatment in parliament.

The banking sector in Lithuania remains stable. In spring 2000, two large private banks, Vilnius Bank and Hermis Bank, merged. In September, the Swedish banking group SEB received the Bank of Lithuania's permission to acquire full control of Vilnius Bank. Privatization of two large state-owned banks, Agricultural Bank and Savings

Bank, is underway. Foreign banks may open branches in Lithuania. The banking sector relies on traditional governmental safety mechanisms. International accounting and risk management standards are being implemented. A mandatory deposit insurance system has been installed.

The Lithuanian securities market has been on the decline since the Russian financial crisis. During the first three quarters of 2000, turnover at the National Stock Exchange slumped by almost 40 percent when compared with the same period in 1999. Trade in shares accounted for 36 percent of the turnover; trade in T-bills accounted for the rest. The general index LITIN G has dropped by 7.4 percent since the beginning of 2000. The LITIN-10 index, which comprises the most liquid ten companies according to turnover and transactions in the central market during a 52-week period, fell by 12 percent. The general capitalization of the NSEL was 13.652 billion litas, or one-third of GDP.

The main reasons for the inertness of the securities market are the absence of investment and pension funds, passive participation of insurance companies on the securities market, and a lack of foreign investors. Overly stringent authorized capital and investment requirements have prevented the establishment of open investment funds. Insurance companies are discouraged by strict investment requirements.

Capital concentration is another major trend. At present, 68 percent of listed companies are controlled on average by three large shareholders. Lithuania's lack of corporate governance traditions has been a major barrier to raising capital through the issue of shares. Large enterprises (e.g., Vilnius Bank, Lithuanian Telecom, Lithuanian Energy, etc.) are increasingly relying on bond issues.

Intense competition has led to a reduction in the number of financial intermediaries. At present, there are 30 financial brokerage firms trading in securities. Three of them account for more than 77 percent of the total NSEL turnover.

Microeconomic Policy

1998	1999-2000	2001
2.75	2.75	2.75

The Lithuanian constitution and laws guarantee property rights and define property protection mechanisms. However, efficiency problems exist, court delays are frequent, and the process of property restitution is protracted. Significant progress has been made in securing intellectual property. Violations of authorship rights and the volume of pirate productions have declined. Computer software, however, remains vulnerable to abuse. These problems are largely due to a lack of experience and technical capacities, inadequate sanctions for offenses, and the insufficient authority of supervisory institutions. Real estate registers are reliable but not entirely operational. Excessively complex procedures are applied to mortgaging property of partial ownership.

Price regulations are applied to energy resources, agricultural commodities, pharmaceuticals, medicines, and medical and transport services. In May 2000, the government removed price controls on milk that food processors purchase from farmers. Pensioners, agricultural workers, the disabled, and low-income individuals are entitled to heating and transport concessions.

A new competition law, which came into effect in March 1999, prohibits monopolistic practices as perceived under EU law. It defines responsibility for competition violations on the part of the state. The Competition Council has become an independent institution. Government procurements that exceed 30 thousand litas ($7,500) must be concluded through public tender. However, a range of exceptions makes it possible to evade this requirement. As investigations show, the terms of public tenders are usually adjusted to favor the desired winner.

Lithuania has concluded membership negotiations with the WTO. It must ratify the membership documents and WTO agreements by May 1, 2001. Lithuania's foreign trade is regulated by both tax and non-tax barriers. The average most-favored-nation tariff rate is 2.5 percent for industrial goods and more than 12 percent for agricultural commodities. These tariffs are lower than in most countries in the region, except Estonia. More than 70 percent of total foreign trade is with countries that have free trade agreements with Lithuania. The highest import duty ($420 to $440 per ton) is charged on sugar. A 70-percent preferential tariff, but no less than $200 a ton, is imposed on sugar imported from the EU. Export duties are imposed on certain wood products and leather. In 2000, minimum customs valuation prices were abolished. The country's trade balance remains negative. The authorities are trying to handle the deficit by promoting exports, tightening import requirements, and applying other protective measures.

As of July 2000, foreign direct investment per capita totaled $597. In the first half of 1997, Lithuania tired to level the playing field for domestic and foreign investors by eliminating corporate income tax relief for foreign companies. Tax breaks that were granted prior to this change remain in effect. Profits can be freely taken out of the country. As of January 1999, a tax was imposed on interest payable to foreign entities. Lithuania has concluded a number of investment protection agreements.

In July 2000, parliament passed a law on electrical energy that is aimed at opening the country's electrical power market to competition and creating a favorable investment environment. In August, the government announced plans to restructure the state-run energy utility, Lithuanian Energy, and to privatize two electricity distribution spin-offs and two power-generating facilities. It is anticipated that the sale of the network and the generating facilities could be completed in the first half of 2001. Under the plan, one electric energy transmission company, two distribution net-

work operators, and several electricity generating companies will operate in Lithuania. Privatization of Lithuania's gas company should be complete by March 2001.

The state controls around 80 percent of Lithuania's power plants. It also regulates the price of electricity. The Ignalina nuclear power plant is state-owned. Lithuania has pledged to decommission the first reactor at Ignalina by January 1, 2005. The country is dependent on gas and oil pipelines from the countries of the Commonwealth of Independent States. The new Butinge oil terminal has provided facilities to import oil. Other facilities include the Klaipeda oil terminal and railways.

Social Sector Indicators

As of May 2000, 85 percent of the workforce was employed. The labor force participation rate (i.e., the ratio of employed to the workforce) was 84 percent for men and 87 percent for women. As the Lithuanian Labor Exchange reported, the rate of official unemployment stood at 11.1 percent in the second quarter of 2000, as compared with 8.1 percent in the corresponding period in 1999. According to a labor force survey conducted by the Lithuanian Department of Statistics, unofficial unemployment was estimated to be 14.7 percent, up from 12.6 percent in 1999. The rate was 16.4 percent for men and 12.9 percent for women. The survey also noted that the unemployment rate was 16.7 percent in urban areas and 11 percent in rural areas. Financial difficulties, declining sales, and bankruptcies at Lithuanian companies have caused large-scale employee dismissals. The rise in unemployment reflects the consequences of delayed structural reforms and excessive employment regulations (the mandatory minimum wage, lay-off benefits, regulation of working hours, etc.), which, in turn, have increased labor costs and impeded labor mobility and job creation.

The state provides unemployment compensation, which cannot be lower than the amount of state supported income (135 litas or $34) and not higher than the sum of two minimum living standards (MLS). (The MLS is equal to 125 litas or $31.5). Unemployment compensation, which depends on a person's state social insurance record, ranges from 13 to 23 percent of the country's official average gross wage. Unemployment benefits are paid for no more than six months a year. Seventeen percent of jobless individuals had registered to receive unemployment compensation through the Labor Exchange as of the end of August 2000.

Lithuania's national pension system, which operates on the pay-as-you-go principle, is based on mandatory social insurance contributions. Pensions are paid from a separate social insurance fund. Social security contributions are charged at 34 percent on companies' wage bills, with 30 percent paid by the employer and 4 percent by the employee. Self-employed individuals are insured for the basic pension. The social insurance fund provides old age, disability, and survivors' pensions. Old-age pensions are paid to individuals who have reached the official retirement age and have a social insurance record of no less than 15 years. The retirement age will be increased gradually until it reaches 60 years for women and 62.5 years for men in 2006. The social insurance pension consists of two components: the basic pension and a supplemental component that depends on a person's wage and insurance record.

In 2000, the average old-age pension was 312 litas or $78, of which 44.5 percent was the basic pension. The average old-age pension equals 28.4 percent of the country's average wage. Social insurance pensions are paid to 23.6 percent of the population, with 17.5 percent being old-age pension recipients. In addition to social insurance pensions, there are special state pensions. These include pensions for distinguished persons, military and internal affairs officials, victims of Chernobyl or the Soviet occupation, and scholars. Such pensions are paid to 3.8 percent of the population. A widening gap between the liabilities and the financial capacity of the social insurance fund has created a growing deficit. The ratio of the insured to pensioners has worsened and now stands at 1.00 to 1.47. Worsening demographic trends have also affected this ratio. Attempts to balance the budget by raising social security contributions and cutting benefits have failed to produce results.

Pension insurance offered by private companies is not popular. A pension fund law came into effect in January 2000, but strict financial requirements and guarantee schemes have prevented the establishment of pension funds thus far. The law is scheduled for revision in the near future. The government has developed a plan for the introduction of a three-pillar pension system that comprises state pension insurance, mandatory fully funded insurance in pension funds, and voluntary insurance. The launch of the reform is slated for 2002.

The average monthly net wage rose from 361 litas ($90.25) in 1995 to 778 litas ($194.5) as of August 2000. The average monthly net wage was 800 litas ($200) in the public sector and 753 litas ($188.25) in the private sector in August 2000. In April 1999, the average gross wage was 968 litas ($242) for women and 1,182 litas ($295.5) for men. The minimum mandatory wage is 430 litas ($107.5), or 39 percent of the country's average gross wage. According to a survey conducted by the Lithuanian Department of Statistics, 35.7 percent of employees receive no more than 600 litas ($125) in gross monthly wages. A total of 16.3 percent of workers receive the minimum wage. A decrease in monthly earnings has been recorded since 1999. This has been due mainly to intense competition, high unemployment, vague prospects of economic recovery, and inadequate government policies that bolster labor costs. In January 2000, the rate of social se-

curity contributions was raised by three percentage points. In the fall of 2000, a guarantee fund was established to meet the wage obligations of insolvent enterprises. The fund will be financed by mandatory contributions in the amount of 0.2 percent of the wage bills of enterprises.

Education in Lithuania is considered a priority area, but the system is bloated, ineffective, and costly. The number of secondary schools is too high relative to the school population. About one-third of all seats are vacant. The size of the primary school population has declined slightly, while secondary and post-secondary school enrollment has increased. The same trends have been observed in the proportion of enrollment by age groups. The proportion of 7 to 10 year olds enrolled in the educational system is 97.7 percent; of 11 to 15 year olds, 94.4 percent; and of 16 to 18 year olds, 87.4 percent. The national student-to-teacher ratio is 11.5 in comprehensive schools, 10.3 in vocational schools, 9.1 percent in vocational colleges, and 8.3 in universities. The aggregate ratio is 10.9. The share of the national budget expended on education increased from 21.8 percent in 1995 to 30.6 percent in 1999. The proportion of GDP spent on education rose from 5.6 percent in 1995 to 6.4 percent in 1999.

The changes in demographic indicators have been significant. Infant mortality decreased from 15.4 per 1,000 live births in 1993 to 8.6 in 1999, but the birth rate fell from 12.7 per 1,000 in 1993 to 9.8 in 1999. One of the most worrying indicators is the large number of abortions (56.9 abortions per 100 births in 1998). Life expectancy for women rose from 75 years in 1993 to 77.8 years in 1999; for men, it fell from 69.1 to 67.4 years. The divorce rate, which is on the rise, was 6.4 divorces per 10 marriages in 1999. The suicide rate, which rose dramatically until 1996 and peaked at 46.4 per 100,000 inhabitants, dropped to 41.9 per 100,000 in 1999.

Lithuania's health care system is costly and inefficient. The requirements for the availability and quality of services are vaguely defined. Patients' choice of doctors or medical establishments is limited. Despite decentralization, many health care establishments remain centrally managed. The scope of, and payment for, medical services is centrally defined. The financing of health care establishments through sickness funds is based on quantitative, rather than qualitative, indicators. This has led to an inefficient use of budget allocations and has discouraged health care providers from increasing the efficiency and quality of their services. The number of doctors and hospital beds is estimated to be too high. The ratio of doctors to the population has remained relatively steady at 39.5 per 10,000 inhabitants. The ratio of paramedical personnel to the population has remained steady as well at 104.4 per 10,000 inhabitants. The number of hospital beds decreased slightly from 108.5 per 10,000 inhabitants in 1995 to 93.9 in 1999. Average monthly gross monthly wages in the health care sector rose from 385 litas ($96) in 1995 to 793 litas ($198.25) in 1998. The proportion of GDP expended on health care was 4.8 percent in 1998.

Sixteen percent of the Lithuanian population, half of which only has an elementary education, lives below the subsistence level (50 percent of average consumption expenditures). The main causes of poverty are unemployment and care for dependent family members. The poverty rate among the unemployed and other jobless individuals of working age is as high as 40 percent. Twenty-two percent of pensioners are considered poor. A total of 28.2 percent of people in rural areas live under the poverty line. The same indicator for Lithuania's five largest cities is 7.2 percent.

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MACEDONIA

Polity: Parliamentary democracy
Economy: Mixed statist (transitional)
Population: 2,000,000
GNP per capita at PPP $ (1999): 4,339
Capital: Skopje
Ethnic Groups: Macedonian (66.6 percent), Albanian (22.7 percent), Turkish (4 percent), Roma (3 percent), Serb (2 percent), other (4 percent)
Size of private sector as % of GDP (mid-2000): 55

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	3.90	↓ 3.95	↑↑ 3.44	↓↓ 3.75
Rule of Law	na	na	4.63	4.63
Economic Liberalization	4.50	↓ 4.67	↑ 4.58	4.58

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	1,742.0	2,267.0	2,225.0	1,856.0	1,752.0	1,701.0	1,685.0
Real GDP growth (% change)	-1.8	-1.2	1.2	1.4	2.9	2.7	5.1
Inflation rate	126.5	16.4	2.5	1.5	0.6	-1.3	9.2
Exports ($ millions)	1,086.0	1,204.0	1,147.0	1,237.0	1,292.0	1,192.0	1,367.0
Imports ($ millions)	1,272.0	1,425.0	1,464.0	1,623.0	1,711.0	1,600.0	1,968.0
Foreign Direct Investment ($ millions)	24.0	12.0	12.0	18.0	175.0	27.0	169.0
Unemployment rate	31.4	37.7	31.9	36.0	34.5	32.4	32.1
Life Expectancy (years)	71.4	71.9	72.2	72.3	72.6	72.8	73.0

INTRODUCTION

The Republic of Macedonia (known at the United Nations as the former Yugoslav Republic of Macedonia) is a successor state of the former Socialist Federated Republic of Yugoslavia. The only republic to secede from Yugoslavia without war, Macedonia has been considered a model country in transition. But this reputation is only partially warranted. Since voting for independence in 1991, Macedonia has been a parliamentary democracy in which Macedonians and Albanians (the major ethno-linguistic communities) have shared power. Internal and regional conflicts, however, have punctuated Macedonia's statehood. Domestically, Macedonians and Albanians fundamentally disagree whether Macedonia should be a unitary or a binational state. Ethnic Macedonians insist on the former; ethnic Albanians demand the latter. Regionally, Greece and Bulgaria have opposed Macedonia's political and national existence. Athens refutes Macedonia's statehood and claims an exclusive right to the name *Macedonia*. Although Bulgaria quickly recognized Macedonia's independence, it claims that Macedonia's inhabitants are ethnic Bulgarians.

Macedonia has weathered its crises with little violence or threat of collapse, but some events have tested its stability: President Gligorov's attempted assassination in 1995, the operation of a semilegal Albanian-language university in Tetovo, and police violence in Gostivar and Tetovo in July 1997. Most recently, the Kosovo war from March to June 1999 and the influx of 360,000 refugees into Macedonian homes and camps seriously threatened the country. The war compelled Macedonia's citizens to consider essential questions about their identities. Are they primarily members of their ethnic community, regardless of its political borders? Or are they members of their country, with all its ethnic, religious, and linguistic diversity? The war's short duration and the refugees' quick repatriation obviated Macedonians' need to probe these matters thoroughly.

Macedonia, unlike Croatia and Serbia, retains the Titoist social ideology that recognizes national minorities and their rights. Even though some communities are dissatisfied with the implementation of rights, Macedonia is the most tolerant Balkan society. This has been particularly evident in the growth of the media since 1991. Whereas only state-controlled media existed previously, private print and broadcast media now abound. Newspapers and magazines are published in Macedonian, Albanian, Turkish, and Serbian. There are also 120 television and radio stations, including some that broadcast fulltime in languages other than Macedonian. The state-run Macedonian Radio and Television produces programming in all languages. The Nova Makedonija group produces Albanian and Turkish papers, in addition to Macedonian publications.

Despite favorable assessments from the World Bank and the International Monetary Fund (IMF), Macedonians believe that their economic situation has worsened. An unfavorable tax environment, unreliable banking institutions, widespread corruption, and a questionable privatization regime have discouraged foreign investments. Indeed, the opposition coalition proved victorious in the 1998 parliamentary election because it had promised economic recovery and massive foreign aid—neither of which has materialized. Consequently, Macedonia's economic and sociopolitical survival now hinges on two factors: a thriving informal economy and remittances of hard currency by *pechalbari*, people living and working abroad.

Since the Kosovo war, social and political acrimony have been increasing, more within communities than between them. The presidential election in 1999 and the municipal elections in 2000 provoked intra-ethnic accusations that the governing parties were selling out the "national" interests of their constituencies. As the Albanians engage more actively in formal politics, Macedonians worry about their influence as the "swing vote" on key issues facing the country. Macedonians are also increasingly resentful of perceived Albanian benefits derived from the Kosovo war, whether refugee relief subsidies or political concessions in higher education.

Until 1999, despite various setbacks, Macedonia had the political and social momentum to stay the course. However, although the final effects of the war are still unclear, the Kosovo war has challenged domestic economic and political assumptions. As Macedonia grapples with its domestic problems, regional instability continues to influence the country's future. Kosovo is still the greatest immediate variable, but events unfolding in Belgrade, former Yugoslavia, could soon affect the Balkans, and thus Skopje, in unpredictable ways.

Macedonia is a country in transition, but its destination is not entirely clear. Macedonians have their own state, but one poorer than the former Yugoslavia. Macedonia issues passports, but its citizens encounter visa restrictions, especially when traveling to the West. Despite having the institutions of a participatory and representative democracy, the country is still locked in domestic disputes over political legitimacy and in regional disputes over national identity. While declaratively supporting a free-market economy, Macedonia has yet to eliminate nepotism and corruption in order to facilitate its entry into the world market. And although it subscribes to international conventions on minority rights, Macedonia cannot reconcile its society as both pluralistic and integrated. For now, neither Macedonians nor Albanians can foresee concrete improvements in the short- to mid-term future. Each community continues to hold the other responsible.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.50	3.50	3.50	3.75

Defining and implementing democracy underpinned Macedonia's difficulties in making substantive political changes between 1991 and 1998. The Macedonian-Albanian coalition of the Social Democratic Union of Macedonia (SDS) and the Party for Democratic Prosperity (PDP) was regarded universally as continuing the former Yugoslav regime. Its inability to bridge interethnic political or social divides left Macedonians and Albanians feeling that their interests had been ignored. Widespread dissatisfaction with the coalition's handling of domestic and regional matters led to an overwhelming opposition victory in 1998. The "ultranationalist" Internal Mace-donian Revolutionary Organization (VMRO) surprisingly invited the "ultranationalist" Democratic Party of Albanians (DPA) to join the government along with its other Macedonian partner, the Democratic Alternative (DA). Once struck, this "unholy alliance" promised the greatest political stability in Macedonia since independence. There was a broad consensus that if the two ethno-political extremes could find a modus vivendi, so could their constituencies.

Post-election optimism ended only months later, however, when NATO's Kosovo war strained the political establishment almost to the breaking point. Ethnic Macedonians, daunted by the influx of 360,000 mostly Albanian refugees from Kosovo, feared a tilt of Macedonia's ethnic ratio in favor of Albanians. Some Macedonians considered recon-federation with the former Yugoslavia—something otherwise anathema, since Serbia still considers Macedonia its southernmost province. Unprepared for this crisis, the VMRO government went into near paralysis for several weeks. Political stability, recently so promising, quickly became a vacuum filled by Western military authorities and multinational humanitarian agencies. While ethnic Albanians are grateful for the presence of foreigners, ethnic Macedonians increasingly resent their agenda, which does not necessarily match their own. Average Macedonians are convinced that there is a hidden power behind the elected government. Stability is therefore the byproduct of regional foreign intervention, rather than of genuine domestic participatory politics.

Article 20 of the constitution gives citizens the right to form political parties. Between 1994 and 1995, the number of parties peaked at 70. Today there are only 27, and of these only three are serious: the VMRO-Democratic Party of Macedonian Unity (DPMNE), the SDS, and the Liberal Democratic Party (LDP). Minor parties include the Socialist Party and the Movement for All Macedonian Action (MAAK). Macedonia's Albanians belong predominately to the DPA and PDP. Minor parties include the National Democratic Party (NDP) and the Party for Democratic Action-True Path. Other ethnic communities have formed parties such as the Democratic Union of Serbs, the Party Democratic Progressive Party of Romas, and the Democratic Party of Turks.

The Democratic Alliance (DS) was formed in 1999 when former Minister of the Interior Pavle Trajanov abandoned the SDS. This party has yet to have a political impact. Another intra-Macedonian fissure occurred when six members of parliament from the VRMO-DPMNE unilaterally formed an alternate party called the VMRO-*Vistinska Makedonska Revolucionarna Opcija* (VMRO-VMRO). Although members of parliament may switch parties legally, this action provoked vehement, and at times violent, reactions. Beyond questioning their ethics—especially since VMRO-VMRO is not registered—some VMRO-DPMNE loyalists branded the parliamentarians as traitors and attacked their homes and families.

Various parties participate at all levels of government. The mayor of metropolitan Skopje, for example, is from the LDP, but the mayors of the capital's five municipalities are split between the VMRO and the LDP. Throughout the country, at least two Macedonian and Albanian parties have held power as mayors and city councilors. Nonetheless, actual political party membership is unknown. Polling data are generally unreliable because Macedonians mistrust such information-gathering exercises. Party rosters are not indicative of membership since parties deliberately inflate the figures. Many ethnic Macedonians do not identify strictly with any party, and most ethnic Albanians identify with one of their two major parties.

Despite growing political cynicism, voter participation has ranged between 70 and 80 percent. In the 1998 parliamentary elections and the 1999 presidential election, voter turnout was approximately 78 percent. That number fell to less than 60 percent of the total electorate in the September 2000 municipal elections; turnout for Albanians was less than 40 percent.

Women generally participate in politics at a disproportionately low level, even though they constitute more than half of the population. Nongovernmental organizations (NGOs) such as the Organization for the Emancipation, Solidarity and Equality of Women (ESE), the Center for Multicultural Understanding and Cooperation, and the American Bar Association's Central and East European Law Initiative (ABA-CEELI) have tried to raise women's political awareness and bolster their participation. Nonetheless, the role of women in politics remains marginal, and few women occupy positions of power, especially at the national level. After the 1998 elections, Dosta Dimovska of the VMRO and Radmila Kiprianova of the Democratic Alternative (DA) were appointed vice presidents. Since then, Dimovska has become the minister of interior and Kiprianova has been nominated Macedonia's ambassador to Washington, DC. Only 3.8 percent of all members of parliament were women between 1994 and 1998. Although this number doubled in 1998, the ESE maintains that Macedonia's level of female political participation is among the lowest in Europe.

Unlike voting, advocacy and lobbying are relatively uncommon in Macedonia. Several international NGOs such as the STAR Project have conducted training in developing interest groups and implementing interest-group strategies. In addition to forming political parties, citizens may strike at the workplace and hold public demonstrations. Since the collapse of pyramid schemes such as Bitola (TAT) and the closure of factories such as the Makedonka textile plant (Štip), the number of public demonstrations has increased. Defrauded TAT investors not only demonstrated but also formed an anticorruption political party. Pensioners have their own party, too.

Constitutionally, parliament is Macedonia's only effective rule-making body. It is authorized to pass laws, amend the constitution, and elect the government (prime minister), as well as to appoint the head of Macedonia's national TV and radio network. Legislative powers rest with the parliament and the prime minister, who heads the government. The president, who is chosen through direct elections, is the head of state and thus uninvolved in rule-making procedures.

As noted, the 1998 elections demonstrated Mace-donia's dissatisfaction with the coalition that had governed the country since 1991. Once the VMRO, led by Ljubco Georgievski, joined forces with the Democratic Alternative (DA), led by Vasil Tupurkovski, the electorate overwhelming supported the opposition. Of the 120 seats in parliament, 49 went to the VMRO, 13 to the DA, and 11 to the DPA, led by Arben Xhaferi. The SDS, led by former Prime Minister Branko Crvenkovski, won 27 seats. The Party for Democratic Prosperity, the SDS's Albanian coalition partner until 1998, won 14 seats; the Liberal Democratic Party (LDP) gained 4 seats; the Socialist Party 1 seat; and the Party for the Complete Emancipation of the Roma 1 seat. Parliament elected Georgievski as prime minister; neither Tupurkovski nor Xhaferi holds a ministerial post. Most ministries are in the hands of the VMRO, but compared with the previous government, the number of Albanians at higher levels of government has increased. Members of the DPA, for example, hold important positions in the interior and education ministries.

Macedonia's parliamentary and presidential elections are staggered. Members of parliament are elected to four-year terms and the president to a five-year term in office. Eligible candidates need either signatures from 10,000 registered voters or support from 30 members of parliament. In 1999, six candidates qualified: Tupurkovski (DA), Trajkovski (VMRO), Andov (Liberal Party), Petkovski (SDS), Nexhipi (DPA), and Halili (PDP). For a first-round victory, a candidate must receive a majority of the votes cast. Otherwise, the two candidates with the most votes enter a runoff, and the one who receives a majority of votes is elected. If voter turnout falls below the legal threshold of 50 percent, though, the election must be repeated.

Presidential elections took place in October 1999. Incumbent president Kiro Gligorov, who had survived an assassination attempt in 1995, chose not to seek reelection. Vasil Tupurkovski, a former member of the post-Tito rotating federal presidency of Yugoslavia, had been considered Gligorov's natural successor. Absent from party politics since 1991, Tupurkovski formed the DA in 1998 and was responsible for developing cooperation in the VMRO-DA coalition government. When he failed to deliver on promises of Taiwanese aid, though, he quickly receded as a serious presidential contender. Tupurkovski lost in the first round of the election, and Trajkovski of the VMRO defeated Petkovski of the SDS in the second round. As expected, Albanians cast first-round ballots for the Albanian candidates but realized neither could win. Since the DPA and the VMRO are coalition partners, Albanians supported Trajkovski in the second round. His victory is directly attributable to Albanian voters.

Lacking issues on which to focus their campaigns, Macedonian opposition parties latched onto the DPA's support for an independent Kosovo. As a result, the election became a referendum on the future status of Kosovo, a matter over which Macedonian politicians have no influence. Trajkovski, whom the DPA supported, was portrayed as a dupe of the Albanians. And the VMRO, once considered the party that would foment civil war between Macedonians and Albanians, was accused of caving in to Albanian pressure. The second round of balloting only confirmed the opposition parties' suspicions that the Albanians had stolen the election. Polling-station monitors, including the Organization for Security and Cooperation in Europe (OSCE), reported numerous irregularities in western Macedonia, primarily with Albanian voters. Even though the National Election Commission and the Supreme Court required new voting in 230 districts, many ethnic Macedonians felt that President-elect Trajkovski had been co-opted by the Albanians.

Branko Crvenkovski, a former prime minister and the leader of the SDS, accused Trajkovski of stealing the election and stated that Petkovski had achieved a "moral," if not a legal, victory. The SDS's implicit message was that "Albanian" votes are irrelevant when electing a "Macedonian" candidate. If only "Macedonian" votes been counted, Petkovski would have been the victor. Mace-donian opposition parties contend that since the Albanian swing vote can affect the outcome of close contests, Albanians have effectively "taken over" Macedonian politics. Rather than abating, this sentiment escalated during the September 2000 municipal election campaigns.

Civil Society

1997	1998	1999-2000	2001
3.75	3.75	3.50	3.75

Civil society is a contentious concept in former Communist states. Unfortunately, in the case of Macedonia and other newly emerging countries, development agencies and their governments frequently fail to recognize the discrepancies between Western ideals of civil society and the socioeco-

nomic realities on the ground. The fundamental schism is over civil society's role as mediator between government and society and society's ability to afford the time and resources that Western-style civil society requires. The various debates on this topic (see Janine R. Wedel, *Collision and Collusion*, 1998) often focus on the connection between civil society and NGOs. Namely, do NGOs create civil society, or does civil society create NGOs? Briefly, civil society creates the conditions that allow NGOs to emerge and function. Reciprocally, NGOs reinforce the vitality of civil society. In Macedonia, neither condition prevails.

Philanthropy and volunteerism, prerequisites for a vital nongovernmental sector, are alien concepts in Macedonia. Self-help is traditionally the domain of families or villages. Low levels of concern across traditional lines of personal responsibility constrain the development of civil society in Macedonia and, consequently, the development of nongovernmental, voluntary, and charitable organizations. Many NGOs are vestiges of Yugoslav-era organizations, which were "of" but not necessarily "for" citizens. Economic conditions and tax legislation also impede the growth and sustainability of voluntary organizations. Average Macedonians are too preoccupied with survival to work voluntarily. Furthermore, a 23-percent tax on philanthropic contributions, intended to thwart money laundering through nonprofit organizations, discourages businesses from contributing to them. A few truly voluntary organizations do exist: SOS Telephone in Skopje and Kumanovo; Daja and Majka, two Roma women's NGOs in Kumanovo; the Association of Single Mothers in Štip; and the Organization of Macedonian Women in Gostivar. Overall, Macedonians view NGOs as potential employers, particularly since foreign sources fund most of them.

In their rush to jump-start democratization, international donors insist on aid monies to seed NGOs and stimulate civil society. Macedonia's NGO sector, however, presents employment opportunities for individuals who have or are able to acquire the skills sought by international donors. Rather than promoting social cohesion around common causes, NGOs simply compete for the means to keep their members employed. The Kosovo war aggravated this tendency when international organizations shifted their operations from Kosovo to Macedonia and replaced staff that were unable to relocate. NATO and United Nations (UN) bodies such as the UN Commission on Human Rights (UNHCR) recruited heavily in Macedonia—especially among Albanians—and become one of the country's largest employers. People with previous NGO experience left domestic NGOs for the more lucrative international sector. Thus, the West's prolonged presence in Kosovo will determine, in part, when and if Macedonia's NGOs will become an engine that drives civil society.

The precise number of active NGOs in Macedonia is unknown. According to the Macedonian Center for International Cooperation's 1998 *Guide to Non-governmental Organizations in Macedonia*, approximately 300 international and domestic organizations are registered. The Basic Court, which is responsible for recording such registrations, reports closer to 2,600 NGOs. Some of the organizations that relocated from Kosovo to Macedonia have remained registered only in Kosovo, while others have registered in Macedonia as well. Some have retained their local presence in Kosovo so that they can continue to work there. Many NGOs came directly from third countries but left Macedonia once the refugee crisis had abated.

Like political parties, NGOs inflate their membership. For example, umbrella organizations such as the Organization of Women of Macedonia claim to have thousands of members, including subgroups that represent specific ethnic communities. In reality, many groups only have only a handful of active members.

The scarcity of local donors seriously limits the organizational development of NGOs, which typically bid on projects once funding is available. Without sustained funding, NGOs are often dormant. International NGOs, including the STAR Project that worked on developing women's NGOs from 1995 to 1998, have found it difficult to convince people that cultivating capacity-building skills will prepare them to create and lead future NGOs. Still, donors like the U.S. Agency for International Development (USAID) conduct training programs and support organizations like the Institute for Sustainable Communities, which has created a group of local mentor-trainers to consult with NGOs on core organizational development problems. STAR, the Institute for Sustainable Communities (ISC), the National Democratic Institute (NDI), and other groups have issued brochures, handbooks, training primers, and other materials.

There is no tradition of civic activism in Macedonia outside governmental control. As a result, from the perspective of both the government and organizations, the role of NGOs in society remains ambiguous. Under pressure from international donors and many European organizations in which Macedonia seeks membership, the government tolerates NGOs. Accordingly, although NGOs face few procedural obstacles like registration requirements, they are neither encouraged nor considered beneficial. Having retained a centralist style of administration, Macedonia's successive governments have regarded information as the provenance of they state and have reluctantly and even unwillingly released information to NGOs and the public. NGOs have few expectations of government and rarely try to make their presence known. Whether it is a cause or an effect of these attitudes, NGOs rarely get involved in politics or lobby for legislation. However, the Movement of Ecologists of Macedonia has advocated greater environmental protection and has contributed to Macedonia's National Environmental Action Plan. Likewise, the ESE has lobbied for maternity-leave rights and other legislation in family law. Government, in both instances, has taken their advocacy seriously.

The Soros Foundation and the Macedonian Center for International Cooperation have established NGO resource centers that focus on legal and regulatory matters. Nonetheless, NGOs remain fairly passive in this area. Organizations like the Soros Foundation, the UNHCR, and the Red Cross

have received attention, especially during and after Kosovo war. Otherwise, few NGOs make a public impact. The media are apathetic toward NGOs, which are equally uninterested in educating the media. When NGOs stage public events such as protests against industrial pollution, the media cover them. But the two rarely cooperate on matters of general public concern.

The inability of Macedonian society to afford voluntary participation in NGOs remains a crucial and unsolvable problem. Without international support, many domestic NGOs would fold. Although they may levy membership fees, they collect symbolic amounts at most. Otherwise, NGOs are restricted in their ability to generate income. By law NGOs are required to report income and expenses. However, to avoid paying taxes, they typically reveal the former but not the latter. NGOs receive limited tax concessions; otherwise their income is taxed. Creating and using false receipts to write financial reports is commonplace. The myriad examples of questionable financial management have contributed to a general sense of public skepticism about the integrity of NGOs and, thus, about their importance in developing civil society.

Other interest groups and trade unions, which fall under the jurisdiction of the Ministry of Labor, are faring similarly. Unemployment and the recent growth of small businesses have diminished the role of trade syndicates. Privatization and a declining industrial sector (namely, an 80 percent fall in textiles and a 60 percent reduction in heavy machinery exports since the Kosovo war) also have created worker redundancy and smaller union membership, which unofficially is estimated at 240,000. Although Western countries are spending almost DM 400 million annually in local procurements, largely for foods and textiles, Macedonia's agricultural sector has not recovered from the war. Farming has been private since collectivization was rescinded in the 1950s. Since agribusinesses are rare, most Macedonian farmers are still private producers. International NGOs such as VOCA, a USAID contractor that specializes in agriculture, have attempted to establish commodity-based farmers' associations but with little success. Likewise, Macedonia does have professional and business associations, but they are not yet active in developing the private business sector.

Independent Media

1997	1998	1999-2000	2001
4.00	4.00	3.75	3.75

Macedonia has among the highest per capita rates of electronic media in Southeast Europe. For a population of 2.2 million people, there are 120 radio and television stations. Only 20 percent have licenses and operate legally. In contrast, readership of print publications is relatively low. There are fewer newspapers in circulation in Macedonia than in neighboring countries.

The government controls the state-run television and radio network MRTV, which until the late 1990s was the only network with national coverage serviced by stations throughout the country. No plans exist to reform MRTV, despite demands from independent media for "public service broadcasting" that resembles the British Broadcasting Corporation. NIP Nova Makedonija publishes the daily Macedonian-language papers *Nova Makedonija* and *Vecer*, the Albanian daily *Flaka e Vëllazërimit*, the thrice-weekly Turkish paper *Birlik*, and the Macedonian weekly *Puls.* The government controls it, and approximately one-third of its shares are state owned. Since positions of responsibility in these media outlets are assigned politically rather than professionally, they are by definition "pro-government," irrespective of the party in power.

Even though all other media are privately held, some display political bias or are, in fact, the property of political parties. The pro-LDP Makpetrol Company, for example, owns TV Telma in Skopje. And until 2000, Lj. Ivanov, the president of the Socialist Party, owned Sitel TV in Skopje. The Broadcast Council has attempted to regulate broadcasting since 1998 by enforcing the licensing law. Regulations notwithstanding, unlicensed television and radio stations continue to operate without consequence. Most significantly, the licensing process has allowed two private stations, A1 TV and Radio Kanal 77, to gain national coverage.

Two Macedonian dailies (*Makedonija Denes*, which was preceded by its weekly *Denes,* and *Utrinski Vesnik*) and one Albanian paper (*Fakti*) began publishing between late 1999 and early 2000. In mid-2000, *Vest*, another independent Macedonian daily, also appeared. *Kapital*, a relatively new weekly, focuses on economic issues.

The circulation of political publications such as *Makedonsko Sonce* and *Delo* is tiny, making them insignificant players. Due to low readership, daily papers with a circulation of more than 50,000 are considered successful. Among NIP Nova Makedonija's papers, only *Vecer* reaches this level. *Nova Makedonija* claims a daily circulation of 20,000, which is doubtful, and *Flaka* only prints about 3,000 copies. Among private papers, *Dnevnik* and *Utrinski Vesnik* have a daily circulation of around 50,000 copies each. Since *Vest* is so new, accurate circulation figures are not yet available.

Macedonia has two types of television stations: several local stations that are both successful and professional, and even more stations that rebroadcast downloaded satellite signals. The first category includes A1 TV (Macedonian, Skopje), TV ART (Albanian, Tetovo), TV KISS (Serbian/Macedonian, Tetovo), TV TERA (Macedonian, Bitola), TV Festa (Albanian, Kumanovo), TV IRIS (Macedonian, Štip), and TV VIS (Macedonian, Strumica). In Skopje alone there are two fulltime Albanian stations (TV ERA and TV TOSKA), eight Macedonian stations (A1, Sitel, Telma, TV Skopje, KRT, TV 5, Amazon, Skynet), two Roma stations (BTR and Šutel), and one Serbian station (TV 96).

The airwaves are also overcrowded with radio stations that specialize in entertainment. Many local television stations have affiliated radio stations. Only Kanal 77 has na-

tional reach. In Skopje, Radio Uno, 103.7 FM, Radio Noma, and Radio Ravel are popular among Macedonians. Albanians tend to listen to Radio Vati, which played an important part during the Kosovo war by disseminating refugee-related information, especially with regard to family reunification.

Macedonians increasingly are using the Internet, but precise figures are unavailable. The high cost of computers still limits their use in the home. Internet cafes, once only found in Skopje, have become commonplace. Access to the Internet is unrestricted, with several providers in commercial competition: Ultra Communication's Unet, Informa, Macedonia On Line, and the postal service. University personnel have noncommercial access through Marnet, while the Soros Foundation offers NGOs free access through its own server.

Macedonia's moribund Union of Journalists is a continuation of the Yugoslav-era journalists' organization. In 1995, the International Research and Exchanges Board supported the Journalists' Club for Interethnic Dialogue as an alternative for young progressive journalists, but the group folded after several months. Since younger journalists tend to avoid membership in professional organizations, the number of journalists in Macedonia is unknown. Women account for more than half of working print and broadcast journalists, though they rarely hold positions of authority. However, both TV TERA in Bitola and A1 in Skopje have had women editors in chief, and the head of the Union of Journalists, Maria Dimovska, is a woman.

In its 1999 *Annual Survey of Press Freedom*, Freedom House rates Macedonia as "partly free." Defined as free of government intervention, Macedonian media are largely editorially independent. Private media, however, generally reflect their owners' politics. Journalists rarely differentiate between reporting and editorializing. Thus, a medium's slant is evident both in its commentaries and in its coverage of events. Media under direct or indirect government control make no pretense of editorial independence. Parliament appoints MRTV's general director, and changes in government are reflected in national television and radio. It is also common for government to articulate its wishes to state-affiliated papers—protestations of editorial independence notwithstanding. Interventions like these usually do not affect newsgathering per se but, rather, its tone.

Chapter II, Article VI of the constitution guarantees freedom of the press and freedom of speech. It also provides protection from censorship. Despite the availability of penalties for libel, slander, and the spread of misinformation, the media have not been harassed or censored. During the Kosovo war, for example, the government publicly accused two Skopje television stations, A1 and Sitel, of "irresponsible journalism" (i.e., anti-state activities), but it took no legal action. Opposition print and broadcast media also vociferously attacked VMRO during the presidential and local elections in 1999 and 2000, accusing the party of colluding with Albanians and harboring plans to dismember Macedonia. While the government refrained from legal recourse, it did resort to para-legal action. Conveniently, it discovered *Makedonija Denes*'s failure to pay taxes, which necessitated the daily's closure. After a few days, public outcry forced the government to let the paper reopen.

Left to survive on circulation and advertisements, most private media would go bankrupt. The broadcast media market is oversaturated and cannot support hundreds of players. The government offers limited support to independent media by annually redistributing approximately DM 3 million that it collects in television and radio taxes. Independent media complain, however, of unfair disbursement practices. How much of this fund is disbursed, and to whom, remains a question. Generally, financially viable broadcast media are owned by individuals who can subsidize them. MRTV offers artificially low advertising rates and, thus, impedes fair competition for revenues with independent broadcast media. MRTV's financial dominance was challenged in 2000 when Hellenic Telecom purchased Sitel TV (Skopje), which the Socialist Party owned at the time. Even though major political actors own many Greek media conglomerates, Greek media differ from Macedonian media in their focus on profit. Insufficient time has passed since this sale to judge its impact.

Dnevnik is the only profitable newspaper in Macedonia. Its closest competitor, *Vecer*, is published by NIP Nova Makedonija and therefore need not show a profit. *Utrinski Vesnik* is growing in popularity and is becoming the second financially viable Macedonian-language paper. *Vest* is too new for meaningful financial analysis.

There are two national distribution networks in Macedonia. NIP Nova Makedonija owns the larger network, which caters to progovernment publications. The second, Tutun, is privately owned but also tends to be progov-ernment. *Dnevnik*, due to obstacles it encountered distributing an "opposition" paper, launched a virtual army of street hawkers and lowered its price from 30 to 5 *denari.* The current price is 10 denari. At 30 denari, the monthly cost of buying daily papers represented nearly 10 percent of an average salary. NIP Nova Makedonija and competing private papers also lowered their prices. Now all papers are sold on the street. The combination of street sales and lower prices has led to substantially higher circulation rates for all daily papers.

Governance and Public Administration

1997	1998	1999-2000	2001
4.00	4.00	3.00	3.75

Transparency has not been a pressing topic in Macedonia, because citizens commonly do not voice opinions on government processes—only on results. Transparency International rates Macedonia in the top 40 percent of corrupt societies. This organization measures perceptions rather than empirical indicators, and in Macedonia perceptions usually

outweigh statistics. For example, local and national elections are generally equally free and fair. Nonetheless, parties that receive less-than-expected support quickly make accusations of fraud, even when international observers have declared the voting free and fair. Macedonians generally assume that the local party in power cheats because it has access to voter rosters or registration cards. The fact that multiple parties are represented on city councils, however, is one indication that fraud, which undoubtedly does occur, is not as pervasive as the accusations might indicate.

Although parliament operates transparently, it is not particularly accessible. Parliamentary sessions are open to the public, but the public is not encouraged to attend or observe. By law, draft legislation must be announced in the *Sluzben Vesnik* (Parliamentary Gazetteer) so that the public may read and comment on it. Once legislation is in its second draft, public comment is precluded. Since average citizens seldom read the *Sluzben Vesnik*, public input on legislation is rare. The media, however, do report regularly on both the legislative and executive branches of government.

Macedonia has received criticism for increased centralization, despite legislation that devolves power to the country's 123 *opštini* (municipalities), each with its own mayor. Constitutionally, municipalities are self-administered units that are authorized to act on issues such as utilities, urban planning, and "other fields determined by law." For various reasons, though, conflicts have arisen over the exercise of this authority.

First, city councilors from opposing parties might fail to reach consensus. In Skopje, for example, one party runs the Municipal Sanitation Department but another party administers the sanitary landfill. Consequently, Skopje's solid waste goes not into the sanitary landfill but to a plain-earth landfill run by the same party heading the sanitation department. The absence of effective municipal government is often cited as the source of rural underdevelopment. The Resen municipal government is a case in point. Its failure to collect garbage from villages in its district has led to problems with water pollution and to delays in developing tourism.

Second, municipalities also have only limited access to funds. They levy and collect taxes locally and are constitutionally authorized to engage in "issues of local relevance." But they are required to remit all tax revenues and to submit budgets for financing municipal initiatives to Skopje. Local governments, consequently, complain that Skopje exercises too much control.

Lastly, observers of the Macedonian government agree that the development of a professional civil service is indispensable to the work of local governments. This, in turn, would contribute substantially to citizens' overall confidence in government. With the exception of persons who work for branches of national ministries, local civil servants are exclusively employees of local government. As with higher levels of government, people complain that local civil servants refuse to provide services without compensation. Over the past two years, several internationally sponsored workshops have been conducted to improve the quality of local government, as well as to elevate the level of understanding and cooperation between local government and domestic NGOs.

Mayoral and city council elections took place on September 10 and 24, 2000. As noted, these elections were framed as a referendum on the performance of the VMRO-DA-DPA coalition. Specifically, the Macedonian opposition challenged the governing parties to demonstrate their patriotism by calling for early parliamentary elections if they lost support at the local level. Prime Minister Georgievski agreed to dissolve parliament if the coalition's support declined by more than 10 percent. This challenge set the stage for a month-long campaign that provoked ethnic sentiments absent since the 1998 general elections.

Framing the local elections in terms of national politics was partially due to the fact that the structures for local self-government remain underdeveloped. The 1995 Law on Self-government was followed by the 1996 Law on Territorial Division, which increased the number of municipalities from 34 to 123. Redistricting ostensibly was intended to facilitate proportional voting by creating more representative districts. Albanians, however, consider this gerrymandering because they inhabit more municipalities but in many have proportionately fewer votes. The Law on Self-Government limits the authority of municipal officials. These restrictions are not ethnically defined but, rather, affect all city governments similarly. Still, many ethnic Macedonians regard increased municipal autonomy as a step that inevitably will lead to Albanian separatism or possibly to Macedonia's outright federalization.

Consequently, the September 2000 elections reflected national, rather than local, politics. The opposition framed the debate around several issues. Foremost was the ephemeral notion that Macedonia's Albanians have enjoyed a disproportionate share of resources and opportunities since the end of the Kosovo war. One example is the compromise regarding Albanian-language university education. In December 1997, an Albanian-language university (commonly called Tetovo University) was opened in Mala Rechitsa. Although the SDS government forcibly closed this university, it has functioned para-legally ever since. At the heart of the dispute was the Albanian demand that Tetovo University should belong to the publicly funded state system of higher education—something the government rejected categorically. Because of constitutional disputes over private tertiary education, this solution also remained unavailable. Mediation efforts concluded in 2000 when Max van der Stoel, the OSCE High Commissioner for National Minorities, convinced the government to accept a private tri-lingual (Albanian, Macedonian, and English) university focusing largely on business and public administration. Rejecting this compromise, the Mace-donian opposition pointed to the university as another example of the VMRO collapsing under Albanian pressure. In turn, the Albanian opposition PDP condemned the DPA for abandoning the idea of a publicly funded university in Tetovo. In other words, both the Al-

banian and the Macedonian challengers found common cause in denouncing the governing parties for betraying the interests of their ethnic constituencies.

During the campaign, the VMRO based its appeal to voters on the party's ability to attract international support, including for local government. The SDS asked citizens to reject the coalition due to Macedonia's "deteriorating national security." The Media supporting the SDS resorted to ethnically inflammatory rhetoric, accusing the VMRO and the DPA of planning Macedonia's dissection into "Albanian" and "Bulgarian" zones. Results of the first round on September 10 did not turn down the heat. The VMRO and the opposition both claimed victory, using different statistical methods to justify their conclusions. The SDS demanded that Prime Minister Georgievski call early parliamentary elections, but the VMRO insisted that it had exceeded the percentage needed to stay in government. After the second round on September 24, both parties again claimed victory. Unfortunately, the voting was marred by numerous irregularities and well-documented voter intimidation. Much of the intimidation was attributed to the VMRO's supporters, with or without its sanction. The SDS again claimed a moral, if not a legal, victory. As in the presidential elections, the SDS justified its demand for early elections by rejecting "Albanian" ballots in calculating the percentage of votes. If one counted only "Macedonian" ballots, the VMRO would lose approximately 6 percent of its support.

To summarize, Macedonia's local elections were characterized by heightened intra-ethnic conflicts with clear interethnic consequences. The SDS failed to mobilize ethnic Macedonians around issues that the VMRO did not address—unemployment, unfulfilled promises of aid following the Kosovo war, rising fuel and electricity prices, and unabated concern over corruption. Instead, it called on its supporters to reject the essential political reality that has characterized Macedonia since 1998; namely, the slow emergence of compromise and cooperation between the country's governing Macedonian and Albanian parties.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.25	4.50	4.25	4.25

The Republic of Macedonia adopted its post-independence constitution in September 1991. Section V establishes a nine-member constitutional court to interpret the constitution. Parliament appoints judges to the constitutional court for nonrenewable nine-year terms. Cases may be brought directly to this court, or they may be heard upon appeal of lower court rulings.

Although the practice of law is not an elite profession, enrollment in the Law Faculty is one of the highest at Skopje's University of Sts. Cyril and Methodius. About 300 lawyers graduate annually, and the number going into private practice is on the rise. Membership in the Macedonian Bar Association, which grants licenses to practice, is approximately 1000. According to the ABA CEELI office in Skopje, 70 percent of basic court judges, 25 to 30 percent of appellate court judges, 6 of 25 supreme court judges, and 1 of 7 constitutional court judges are women.

The state is supposed to provide public defenders, but it rarely does. Over the past five years, there have been attempts to make up for this deficiency. In 1995, for example, the OSCE and ABA CEELI invited lawyers to form a local NGO to perform this function pro bono, but their efforts failed due to skepticism and the lack of a volunteer tradition.

Macedonia replaced the Yugoslav-era criminal code in 1996 and passed the new Code of Criminal Procedure in 1997. Among its significant provisions are limitations on "informative talks" (a Yugoslav euphemism for interrogation), which the police still use with impunity. In addition to the constitutional right to the "inviolability of the home," a 1995 law prohibits police from searching homes without court-ordered warrants. Nonetheless, people still complain of unauthorized police searches. This was among the severest accusations against police following the July 1997 unrest in Gostivar, which led to calls for police training in human rights and community policing. The police have also been accused of unwarranted arrests and prolonged detention. In April 1998, for example, police arrested and held an Israeli businessman for 188 days before charging him with a crime. The man was a longtime resident of Macedonia.

International organizations such as Human Rights Watch have noted unchecked police abuse, on the street and in custody, in Macedonia. Non-Macedonians, particularly Roma, are disproportionately mistreated by police, who are usually Macedonians. There are anecdotal reports that police have beaten to death persons who were in custody. Albanian fatalities from police violence in Gostivar in 1997 were well documented. Albanians have also reported deaths from police violence in Skopje. Ethnic Macedonians are not immune from such violence, as in Bitola when police forcefully quelled a demonstration by angry TAT investors.

Macedonian citizens avoid going to court for several reasons, including lengthy delays in the justice system. For example, trials do not continue daily until cases are settled. Rather, if a case is not closed on the day it is heard, the trial is scheduled to resume within 30 days and can continue over months or even years. Macedonian citizens also avoid the courts because they do not expect fair or impartial hearings from judges, most of whom are holdovers from the former Yugoslav period. This is particularly true for Albanians, who regard the courts as fundamentally biased against them.

The popular perception in Macedonia is that courts are subject to direct political influence. And, indeed, judicial selections reflect party politics since parliamentary-appointed councils nominate judges. This is manifest in several ways.

First, courts are an extension of the police and tend to serve the prosecution. The relationship between the court and the police determines the admission of evidence, the selection and questioning of witnesses, and, ultimately, the verdict. Secondly, the courts have conducted trials with an obvious political purpose and outcome. Among them are several trials in which Albanians have been sentenced for activities with political implications rather than for specifically criminal acts. In 1996, for example, a group of Albanians was convicted of smuggling arms even though the prosecution failed to produce the weapons as evidence. In September 1997, the Albanian mayors of Tetovo and Gostivar received seven- and fourteen-year prison sentences respectively for their role in the events preceding the violent police intervention of July 7. Domestic and international objections led to the reduction and eventual dismissal of these sentences.

The inconsistent enforcement of judicial decisions has encouraged a disregard for the law in virtually every domain of public and private life. For example, stations that broadcast illegally have not been sanctioned according to the 1998 law that regulates the use of public airwaves. In 1997, the constitutional court ruled that flying a foreign flag over governmental buildings was illegal, but it did not implement the law until it was necessary to deploy special police forces to do so. Although the Albanian-language university in Tetovo repeatedly has been declared illegal, it still functions with the knowledge of and tacit acceptance by national authorities.

The constitution specifies various human rights. These include freedom of religion or conscience, the right to privacy and assembly, and freedom of speech. The constitutional also explicitly guarantees "freedom of the market and entrepreneurship," as well as the right to own and inherit property "under conditions determined by law."

Reflecting its Yugoslav legacy, Macedonia constitutionally protects the right of minorities to preserve and express their cultural, linguistic, and religious identities. The European Council's Convention on Minority Rights, which Macedonia has signed, also protects minority rights. Although gender discrimination is prohibited under the constitution and through legislation, activists assert that Macedonian women face serious, if subtle, discrimination in employment, political participation, and education.

At times, the effectiveness of minority-rights provisions has been the subject of acrimonious debate. The government, and the ethnic Macedonian majority generally, maintain that Macedonia's minorities (i.e., Albanians) are the most privileged minority population in the Balkans. They thus interpret demands by minorities for greater rights as a pretext for ulterior political ambitions. Minorities, particularly Albanians, claim that their rights exist on paper but are curtailed in practice by a Macedonian majority that wants to create a unitary state. In this dialectic, questions of minority rights escalate into interethnic conflicts. For instance, the matter of an Albanian-language university in Tetovo mutated from the consideration of quality primary and secondary Albanian education into accusations of latent Albanian irredentism. Education vanished from the discourse entirely. Despite these political disputes, Macedonia remains a country in which each community enjoys wide-ranging freedoms of cultural, religious, and linguistic self-expression.

Corruption

1999-2000	2001
5.00	5.00

"Ambient corruption" is so pervasive in Macedonia that it has become synonymous with normality. Citizens encounter corruption at every turn in private and public life. Official corruption is ubiquitous and permeates the government at most levels. Macedonia previously prided itself on being relatively free of corruption when compared to countries like Bulgaria and Russia that are plagued by organized crime or to a country like Albania that is characterized by anarchy. In Transparency International's 1999 *Corruption Perception Index*, Macedonia rank 3.3 on a scale of 0 to 10 in which 0 means highly corrupt and 10 means very clean.

Although corruption and crime are related phenomena, they are not synonymous. Thus, the level of crime in Macedonia—especially violent crime—does not parallel the extent of corruption. In the past several years, a number of turbulent corruption scandals have rocked the country. The collapse of the TAT pyramid, in particular, was connected to illicit financial dealings by officials in the Ministry of Finance, some of whom resigned. Another scandal involved the diversion of arms and arms-procurement funds in the Department of Defense and in the Macedonian Army, which until then had been considered one of the few institutions immune from corruption. Throughout the period of the United Nations' sanctions against Yugoslavia and Greece's embargo against Macedonia, officials from the Ministry of the Interior were involved in taking contraband and collecting bribes for materials smuggled across the Serbian, Bulgarian, Albanian, and Greek borders.

Corruption can be said to occur at three levels: in obtaining civil services, in dealing with service providers, and in dealing with the government. The first two forms of corruption mostly affect individuals, while the third form has an impact on the health of Macedonian society as a whole.

Average citizens frequently pay bribes for civil services such as the installation of a phone line, the issuance of business licenses, or the approval of travel and residency documents. Such payments are often scaled according to a person's ability to pay, rather than being set at a fixed amount. The bribe frequently constitutes no more than a pack of cigarettes or a bottle of alcohol offered as a "token of appreciation" for a service rendered in an expeditious manner. In other words, the payoff serves to accelerate, rather than accomplish, the service requested. Because the

average salary in Macedonia is only DM 330, bribes are considered a form of supplementary income, which people think would disappear if the economy were to improve. More serious examples of corruption can be found at higher levels of the civil service, especially in the courts. Using bribes to influence the judicial system is commonplace and often determines court decisions. The more important the case, the higher the price. Corruption in the judicial system is a serious obstacle to Macedonia's economic development, since foreigners are reluctant to invest in the country if their assets do not enjoy legal protection.

Virtually no service is immune from some form of bribe. Students pay bribes if not for university admission, then for professors to administer graduation exams. In 1999, the standard price was DM 500. Healthcare is another prime example. Patients must pay bribes for better rooms, for personal belongings or extra food from their families, or for drugs allegedly covered by their insurance but which somehow have become "scarce." Physicians, despite their above-average income, earn an average monthly salary of DM 800. For doctors, payoffs justify staying in Macedonia rather than joining the extensive "brain drain" and finding lucrative employment in the West.

Government officials and business are intimately connected. As demonstrated by scandals over the past several years, government officials at the ministerial level have had their hands in numerous enterprises, including those that have been proven highly corrupt. When striking deals with a government representative, for example, it is at least necessary to wine and dine the person being approached and to express one's gratitude when the "favor" has been extended. More often, however, access to the higher echelons of government comes at a price that excludes all but the major players. Although no specific information is available, much of the privatization process has been characterized either by insider management buyouts or by sales to outsiders at inordinately low prices. In both instances, government officials have benefited substantially. Much of the informal economy, particularly in the area of customs and duties, could not exist without overt official participation. Rare occurrences of violent street crime over the past several years have been identified as revenge killings among rival organized crime groups.

The previous SDS/PDP coalition faced so many accusations of corruption that the VMRO was able to win the 1998 general elections, in part, on a campaign of anti-corruption. Despite the surge of public outcries following the TAT affair and other scandals, parliament has not adopted anticorruption legislation that was proposed in 1998, even as a draft law. Macedonia operates under a Law on National Audit that applies to both the executive and the legislative bodies of government. According to the Macedonian Criminal Code, extortion is a crime; racketeering, however, is not explicitly addressed. Laws regulating financial disclosure and forbidding conflict of interest are seldom enforced. In fact, information regarding legal or ethical boundaries between public and private sector activity is not available. Publicly prosecuted cases suggest that such laws are often enforced to achieve political, rather than legal, objectives.

Macedonia's geographical position has made it vulnerable to cross-border crime and corruption. In March 2000, the finance ministers of Macedonia, Albania, and Bulgaria agreed to work together on infrastructure projects, and this may open up Macedonia to further penetration by criminal groups that operate in its neighbors' territory. Macedonian President Trajkovski admitted in April that smugglers and drug traffickers from Bulgaria were infiltrating Macedonia. Perhaps in response, the interior ministers of Macedonia, Albania, and Bulgaria agreed in July to work together to combat organized crime. A month later, Macedonian police intercepted 100 kilograms of marijuana at a routine control stop outside Skopje. The marijuana was from Albania and bound for Kosovo. Its street value was $46,000. The Balkan war also has given a boost to the illegal gun trade and migrant smuggling.

Besides Transparency International's corruption index, there are no polls that measure the public's intolerance for official fraud. Likewise, corruption is not a subject of public-education efforts in the media or in schools. Corruption is certainly a topic of everyday discussion, and public cynicism increases with each revelation of corruption at high levels.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.00	4.00	4.00	4.00

Macroeconomic Policy

1998	1999-2000	2001
5.00	4.75	4.75

Microeconomic Policy

1998	1999-2000	2001
5.00	5.00	5.00

When comparing life in independent Macedonia to life in the former Yugoslavia, Macedonians see a "golden cage." That is, they have their own state, but they are poorer than before. Despite favorable World Bank and IMF assessments—especially of currency stabilization and control over inflation—Macedonians regard themselves as worse off. And the level of poverty continues to grow. According to some estimates, 20 percent of the population lives below the daily minimum of 170 denars (approximately $3).

An unfavorable tax environment, unreliable banking institutions, widespread corruption, and a questionable privatization regime all have discouraged serious foreign investment. Indeed, in the 1998 general election campaign the opposition coalition proved victorious by promising economic recovery and massive foreign (Taiwanese) credits or investments. These have not materialized, and there is little indication they will. Consequently, Macedonia's economic survival hinges on two primary factors: the "informal" economy and large remittances of hard currency by *pechalbari*, people living and working abroad.

Macedonia traditionally exported raw agricultural products to the domestic Yugoslav market and imported raw materials through Thessaloniki, Greece. United Nations sanctions against Serbia during the Bosnian war and the Greek embargo from 1994 to 1996 suffocated Macedonia's economy. More recently, though, Skopje has concluded free trade agreements with all contiguous countries except Albania, and the economy has improved. The newest free trade agreement with Bulgaria went into effect on January 1, 2000. Skopje is also negotiating an agreement with Ukraine that is due to be signed in 2001. Having entered into an associative relationship with the European Union (EU), only 25 percent of Macedonia's foreign trade goes to the former Yugoslavia (compared to nearly 100 percent before the Kovoso war), and 55 percent to the EU.

Since the end of the war in Kosovo, Macedonia's economy has displayed two contradictory tendencies. The formal economy generally has declined due to a fall in major exports, a 16 percent annual trade deficit, and an unemployment rate of 50 percent of the available labor force (down from 70 percent during the war). In contrast, the country enjoys a much higher level of liquidity, which is manifest in the average annual sale of 12,000 new cars and 10,000 homes, and a 25-percent growth in overall retail sales. This same contradiction is evident when comparing the rates of inflation with the growth in gross domestic product (GDP). Following the Kosovo war, experts predicted an overall decline in GDP together with growing inflation. But by taking advantage of business opportunities in Kosovo's reconstruction, Macedonia experienced a growth of 2.7 percent in its GDP for 1999; the country is expecting a growth of 5.5 to 6.0 percent for 2000. Similarly, inflation measured by the consumer price index (CPI) was ten percent in 1999. If measured by the cost of living, it rose only by 5 percent. The rise in the CPI was due to increased energy costs (i.e., electricity and oil) and to the introduction of the value added tax (VAT).

The new VAT has brought unprecedented revenues into state coffers. Although there is no quantifiable means to assess its impact, the VAT has reduced the overall scope of the gray economy. But the informal economy still closely rivals the formal sector, and Macedonian citizens engage in nontaxable cash transactions whenever possible. Macedonia's denar is still pegged to the Deutsche mark at a fixed rate, which overvalues the denar by 30 percent and overprices Macedonian exports and labor. If Macedonia were to devalue its currency, as its neighbors have done, the economy could recover more effectively from the shock of the Kosovo war and the quadrupling of oil prices during the period covered by this report. However, the Macedonian government has taken steps to reconcile the formal and informal economies. Significantly, personal income taxes were reduced from three brackets (with a maximum 33 percent), to two brackets (15 and 18 percent). This step and the VAT reimbursement system have stimulated greater participation in the formal economy and have contributed to the government's growing budgetary surplus.

The VMRO/DPA government has been fairly bold in promulgating new legislation to support a free market economy, including laws for the denationalization of property, anti-trust measures, the establishment of a securities commission, and the regulation of wholesale markets. Money-losing state enterprises such as Fenimak (with annual losses of DM 100,000) have been sold, and 5,000 to 8,000 people have been taken off the government payroll. In 2000, loss-producing enterprises still represented 3 percent of GDP. Fenimak, which was sold in 2000, is only one of twelve major loss-making enterprises slated for privatization over the next two to three years. Limited opportunities for reeducating a redundant labor force make unemployment the primary obstacle. Various experts recommended that Fenimak be closed, rather than sold, but the loss of 950 jobs swayed the government to privatize it.

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MOLDOVA

Polity: Parliamentary democracy
Economy: Mixed capitalist (transitional)
Population: 4,300,000
GNP per capita at PPP $ (1999): 2,358
Capital: Chisinau
Ethnic Groups: Moldovan/Romanian (64.5 percent), Ukrainian (13.8 percent), Russian (13 percent), Gagauz (3.5 percent), Bulgarian (2 percent), Jewish (1.5 percent), other (1.5 percent)
Size of private sector as % of GDP (mid-2000): 50

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	3.90	↓ 4.00	↑ 3.88	↓ 3.94
Rule of Law	na	na	5.00	5.00
Economic Liberalization	4.00	↓ 4.17	↑ 4.00	4.00

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	268.0	387.0	443.0	507.0	449.0	304.0	326.0
Real GDP growth (% change)	-31.2	-1.4	-7.8	1.3	-6.5	-4.4	0.0
Inflation rate	329.7	30.2	23.5	11.8	7.7	39.3	31.3
Exports ($ millions)	619.0	739.0	823.0	890.0	644.0	469.0	495.0
Imports ($ millions)	672.0	809.0	1,083.0	1,237.0	1,032.0	597.0	763.0
Foreign Direct Investment ($ millions)	18.0	73.0	23.0	75.0	88.0	34.0	100.0
Unemployment rate	1.1	1.4	1.8	1.5	1.9	2.0	2.0
Life Expectancy (years)	66.0	65.7	66.6	66.5	66.5	66.6	67.0

INTRODUCTION

Since its declaration of independence on August 27, 1991, Moldova has developed into an electoral democracy based on a multiparty political system with free and fair elections. In mid-2000, it became the only parliamentary democracy in the Commonwealth of Independent States (CIS), when parliament opted to name the head of state rather than continue to organize a direct, national vote. The country is divided between the region under the control of the generally reform-minded and European-oriented central government and the eastern Transnistrian districts under the rule of an authoritarian regime. Local authorities in Transnistria interfered with the ability of citizens to participate in the 1996 presidential and 1998 parliamentary elections. They maintain their own parliamentary, executive, and judicial structures, none of which have been subject to international monitoring. In Transnistria, police harassment, elections that are not free, and infringements on basic political and civil liberties are the norm. This is especially true for the region's Romanian-speaking residents, who make up a plurality of the population.

Moldova made some progress in economic reform in the 1990s, including the introduction of a convertible currency, the lifting price controls, and the completion of land privatization. The Russian economic crisis, though, hit Moldova hard, causing the value of the currency, the Moldovan *leu*, to slide precipitously. Today, a large share of the population lives in poverty, and the average household spends nearly half its income on food alone. The country ranks near the bottom of the United Nations Development Program's Human Development Index; it is tied with Tajikistan and just ahead of Mongolia. Accurate statistics from Transnistria are unavailable, but the living conditions are probably at least as dire there as in other parts of Moldova. The situation in Transnistria has been ameliorated only by an active border trade with Ukraine, export contracts between the region's heavy industries and enterprises in other parts of the former Soviet Union, and money coming into the economy in the form of salaries for Russian troops still stationed there. Moldova's largely agricultural economy suffered from a major drought in summer 2000 and a severe ice storm later in the year. The country's energy dependence on the Russian Federation, including its massive debt to the Russian gas monopoly, Gazprom, has meant that power cuts are frequent. Even the president, Petru Lucinschi, has begun to question publicly whether Moldova can survive as an independent state.

In July 2000, the parliament voted to amend the constitution and introduce a fully parliamentary system, with the president elected by the unicameral assembly rather than by direct popular vote. The new system is at odds with the results of a May 1999 referendum, called by President Lucinschi, in which more than half the voters backed an increase in the president's powers. The constitutional court, however, ruled that the referendum was invalid. The change in political system in Chisinau has had no positive impact on Moldova's key domestic security problem, the unresolved status of Transnistria. If anything, the introduction of parliamentary rule may have placed yet another obstacle in the path of resolving Transnistria's final status, since the system of the self-declared "Dnestr Moldovan Republic" (DMR) is strongly presidential. Repeated rounds of negotiations over Transnistria's status continued throughout 1999 and 2000 but with little progress. The Moldovan economy has spiraled downward, and output for 2000 is expected to decline by as much as nine percent.

Corruption, long acknowledged as a major impediment to foreign investment, has become a political issue as well. Its link with the Transnistrian problem finally has begun to receive treatment in the Moldovan press, with local observers charging that central government officials benefit from the untaxed trade and production carried out via the DMR. While blatantly fraudulent elections and government harassment of opposition parties is common in other parts of the former Soviet Union, it is still alien to Moldova. However, the intersection of political power and business interests remains a brake on further political and economic reform.

The change to a parliamentary system holds both promise and peril for Moldova. On the one hand, the new system marks the victory of a popular assembly over a president who had argued that a more powerful executive authority was essential to curing Moldova's ills—a line of argument that has ushered in increasingly authoritarian political systems from Russia to Central Asia. But the triumph of parliament was not necessarily the triumph of parliamentary democracy. The highly fractious assembly faced problems deciding on a candidate for the presidency, and, at the end of the period covered by this report, it seemed more likely that the parliament would effect its own dissolution by failing repeatedly to elect a president under the new system. (The sitting president can dissolve parliament and call new elections if the assembly fails to agree on a new head of state.) The Party of Communists, whose representation in local and central institutions had grown steadily since the mid-1990s, was poised to take advantage of increasing public discontent with the dysfunctional economy and petulant disputes among political leaders, and to emerge as the clear winner in any new election.

On balance, the change of system was a positive development for Moldovan democracy, since it effectively blocked the acquisition of power by a chief executive who had come to look enviously at his counterparts in Russia and Kazakhstan. Yet there was little hope that the parliamentarians themselves, divided by ideology and intense personal disputes, could agree among themselves long enough to make the new system work. Indeed, if in 1999 and 2000 Moldova had the distinction of becoming the CIS's first parliamentary democracy, it seems probable that in late 2000 or 2001—with early parliamentary elections

likely—it could become the first country to be governed by an assembly with an absolute Communist majority.

Moldova has been one of the democratic stand-outs in an otherwise dismal post-Soviet array. Its elections have been free and fair, its parliament strong, and its political culture tolerant of minorities. Still, a decade after independence, Moldova is something close to a failed state. Its economy is in tatters, with little foreign investment and its most productive industries located in Transnistria, outside the central government's control. Its main political parties repeatedly have shown themselves willing to block needed reforms, often simply because a reform bill was proposed by a rival political faction. And the situation in Transnistria is no closer to being resolved. If anything, the Transnistrians have strengthened their position as a de facto independent state, by concluding economic agreements with international investors and by receiving the vocal support of politicians in Russia and other de facto states such as Abkhazia and Nagorno-Karabakh. The region's limbo status has fueled corruption by providing a route into and out of the country free of any real control. The continued presence of Russian troops there has provided a useful foil for leaders in Chisinau, who can blame the country's dire conditions on "Russian imperialism" rather than their own policy failings. The deluxe villas that began to spring up around Chisinau's old Komsomol lake in the late 1990s were further evidence to average Moldovans that their leaders, often in league with the very Transnistrian separatists whom they denounce are interested more in their own enrichment than in the country's genuine progress.

The future of Moldova as a viable state is thus in doubt. And the irony is that, even if state-building fails, there is no real place for Moldova to go. Romania, itself burdened with economic problems but nevertheless a candidate for membership in the European Union, continues to tout its "special relationship" with its eastern neighbor, but that relationship means little in practical terms. Moldovan's candidacy for the European Union is decades away, and relations with Russia are hampered by a sense among many Moldovans that the Russian troops in Transnistria are little more than an army of occupation. But even if the country as a whole has nowhere to turn, average Moldovans have found that they do—by leaving in droves to seek work abroad and, in the process, taking Romanian, Russian, and Ukrainian citizenship to hedge against a possible future without a Moldovan state to which they can return. Ten years after declaring itself independent, Moldova now faces the same dilemma that many of the former Soviet Union's poorest states have confronted: What if you built a country but no one stayed around to see it?

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.25	3.50	3.25	3.25

The most important development in Moldova during the period covered by this report was the change of constitution from a semipresidential to a parliamentary system. Under the 1994 constitution, both president and parliament were elected by popular vote. In the 1996 presidential elections, Petru Lucinschi—the penultimate first secretary of the Community Party during the Soviet period—emerged as the victor with 54 percent of the vote over his second-round opponent, Vladimir Voronin of the Party of Communists. The next regular presidential elections were scheduled for fall 2000, but political machinations throughout much of 1999 and early 2000 set the stage for a confrontation between president and parliament. In July 2000, the parliament voted to amend the constitution and have the assembly elect the head of state. The changes increased the government's powers at the expense of the president's and clarified the locus of power in the Moldovan political system, which had long been characterized by tension between the legislature and the executive.

Fifteen parties competed in the March 1998 parliamentary elections. Only four passed the four percent threshold for representation, based on the country's system of proportional representation according to closed party lists. With 40 seats, the Communists emerged as the largest bloc, even though this was the first parliamentary election in which the party had offered candidates. A rightist grouping known as the Democratic Convention, centered around the pro-Romanian Christian Democratic Popular Party, garnered 26 seats. The remainder was accounted for by the Democratic Party, largely created as a support base for President Lucinschi during the 1996 presidential race, with 24 seats, and the moderately pro-Romanian Party of Democratic Forces with 11 seats. The three non-Communist factions banded together to form a coalition government, known collectively as the Alliance for Democracy and Reforms. But frequent infighting among the coalition partners made the distribution of ministerial portfolios and government offices a subject of political contention.

Three developments have sharpened the conflicts both among parliamentary factions and between the assembly and the president. First, in the May and June 1999 local elections, the Communists increased their already significant representation in mayoral seats and on local councils. With the evident strengthening of the Communists, both parliamentary factions and President Lucinschi sought to coopt the Communist leadership. What the major parties once saw as a major threat—the return of the Communists—became a potential source of leverage in the increasingly acrimonious disputes within the governing coalition.

Second, Lucinschi himself became frustrated with the bickering among his erstwhile parliamentary partners. With

other states in the former Soviet Union had strengthening the powers of the executive, Lucinschi began to agitate for similar constitutional reforms in Moldova. During the May 1999 local elections, he organized a national referendum on the political system. Voters were asked to choose between the existing system, under which individual ministers were named by the prime minister and approved by parliament, or a new presidential system, under which the president would serve as the effective head of government and hold the power to name and dismiss individual ministers. At only 55 percent, though, voter turnout was below the required 60 percent for the results to be considered valid. Of those who voted, most opted for the presidential system. Lucinschi's supporters cast the result as evidence of popular discontent with the parliament. On November 3, however, the constitutional court ruled that the referendum had been illegal. It determined that while the president has the power to "initiate" a referendum, the court ruled, only parliament has the prerogative to administer it.

Third, the energetic leadership style and reform orientation of Prime Minister Ion Sturza threatened to undermine the powers that Lucinschi already enjoyed. After taking office in March 1999, Sturza accelerated Moldova's reform effort. In August 1999, the government launched a major new privatization program, including the planned sale of the state telecommunications company Moldtelecom, the country's entire electrical energy distribution network, five major alcohol firms, and a minority stake in the gas distribution company Moldovagaz. Also on Sturza's watch, Moldova moved to shore up ties with Ukraine by concluding an interstate agreement on the delineation of frontiers, providing for small territorial swaps to facilitate rail and road traffic, and formally recognizing Moldova's frontage on the Danube river.

Nevertheless, throughout the tenure of the Sturza government, Lucinschi had repeatedly criticized the prime minister and, by autumn 1999, had begun quietly to urge his supporters in parliament to pass a vote of no-confidence in the government. The president argued that Sturza had been unable to initiate a thorough reform program, but many suspected that it was precisely the opposite: As one of the country's most successful young businessmen and generally supported by the most pro reform groups within the parliamentary coalition, the 39-year-old Sturza presented a political threat to Lucinschi. Indeed, given the government's generally strong approval rating by Western governments and international financial institutions, the Sturza government's dismissal on November 9, 1999, was seen by many as a step backward. Communist deputies proposed the no-confidence motion, and independent parliamentarians allied with Lucinschi who supported it. Interestingly, the Christian Democratic Popular Party—which previously had been the most anti-Communist of all the factions—joined the leftists in supporting Sturza's ouster.

This strange alliance confirmed not only Lucinschi's political debt to the Communists, but also revealed the deep divisions within the Alliance for Democracy and Reforms. As in earlier parliamentary confrontations, Sturza's demise had less to do with disputes over policy than with internal rivalries within the governing coalition—especially between Iurie Rosca and Valeriu Matei, the leaders of the two rightist factions. Rosca, of the Popular Party, and Matei, of the Party of Democratic Forces, are both solidly pro-Romanian in their ideologies but have long been bitter political enemies. Rosca's cooperation with the Communists marked the second time in the 1990s that he joined with politicians who were, in ideological terms, in his own camp. The first time, in the 1998 parliamentary elections, he had joined in an electoral bloc with former president Mircea Snegur, even though only months earlier he had denounced Snegur as a traitor to the cause of Moldovan-Romanian integration.

The Sturza government's fall sparked a serious crisis. International lending agencies had generally praised Sturza, but the cabinet's infighting illustrated the degree to which even the most committed prime minister could not paper over political divides within the coalition. On November 5, when Sturza's future was already in clear peril, the International Monetary Fund suspended its program in Moldova after the parliament had failed to approve the privatization of the wine and tobacco industries. The World Bank followed suit three days later by postponing its structural adjustment credit agreement. Further, cooperation among the Communists, Rosca's Popular Party, and Lucinschi's parliamentary allies deepened the rift between the president and the parliamentary speaker, Dumitru Diacov. Diacov had himself once been a Lucinschi supporter, winning his parliamentary seat with the party that had been formed to support Lucinschi's presidential bid. But the president's clear effort to manipulate the parliament came up against Diacov's own ambitions—including what many suspected was a desire to run for president himself in the 2000 elections.

Much of the autumn and spring was taken up by sorting out the results of Sturza's fall and increasing acrimony between the executive and the legislature. A new technocratic government under Dumitru Braghis was finally approved in December, after two failed attempts by other prime ministerial hopefuls. The Braghis government, though, was universally seen as a caretaker who would remain in office until the results of the presidential-parliamentary contest could be decided. Parliamentary deputies pushed forward with plans to change the constitution by eliminating direct presidential elections — an initiative that had begun to gain momentum after Lucinschi's pro presidential referendum in the spring. By mid-November 1999, the constitutional court had already approved a formal draft amendment creating a parliamentary republic.

Events came to a head in the spring of 2000, when the required six-month waiting period between the court's approval of the draft law and parliament's consideration of it had come to an end. Lucinschi attempted to introduce his own draft law in May. Under his proposal, the powers of the president would be increased to allow for the direct presi-

dential appointment of ministers. The draft law also called for refashioning the basis of representation in parliament, with 70 deputies to be elected in single-member constituencies and 30 on party lists. It was parliament, however, that won the day. In June 2000 it restricted the issues on which referendums could be called only to those that affected the sovereignty, independence, and territorial integrity of the state. This action effectively cut off Lucinschi's chances of holding yet another referendum on the political system. The following month, the new constitutional amendments were formally approved, transforming Moldova into a parliamentary republic (see table 1). President Lucinschi at first refused to promulgate the law, but he capitulated after his initial veto was overturned.

Constitutional Changes, July 2000

1994 Constitution: President elected by popular vote in two-round majority system.
2000 Amendments: President elected by three-fifths vote of parliament.

1994: Presidential candidates must be at least 35 years old.
2000: Presidential candidates must be at least 40 years old.

1994: Referendum necessary for presidential dismissal.
2000: President dismissed by parliament with approval of constitutional court.

1994: President names prime minister. Prime minister and government approved by parliament.
2000: President names prime minister after consulting with parliamentary factions. Prime minister and government approved by parliament. President has power to change individual ministers only on proposal of prime minister.

1994: President can attend government meetings and chairs the sessions when in attendance.
2000: President does not participate in government sittings. Prime minister chairs sessions.

1994: n/a
2000: Government has power to issue decrees.

1994: President names two of the six justices on the constitutional court.
2000: Government names the two justices. The other four named by parliament and magistrates.

1994: President has power to initiate constitutional amendments.
2000: President has no such power.

In September, parliament passed new legislation on the precise mechanism for electing the president. The date for the next presidential election was set for December 1, 2000, with Lucinschi remaining in office until the expiration of his mandate in January 2001. Candidates must be Moldovan citizens, over forty years of age, and residents of Moldova for at least ten years. They also must have a command of the Romanian language. Nominations must be made by at least 15 deputies, and candidates must receive three-fifths of the parliamentary vote to win in the first round. Two successive rounds may be held between the two top vote-getters, but if neither is successful, the president may dissolve parliament and call new elections. In separate legislation, parliament worked to weaken Lucinschi's position further. In the spring, changes to the electoral law raised the vote threshold for parliamentary representation from four percent to six percent, reduced the threshold for independent candidates from four to three percent, banned newly formed political parties from participating in elections for two years after their registration, and placed responsibility for naming the central electoral commission in the hands of the parliament. All of these changes were designed to strengthen parliament's hand against Lucinschi's.

Lucinschi fought these changes in the constitutional court through the fall, but the court finally settled matters in October. The justices struck down the change to the electoral code that prevented newly registered parties from standing in elections for two years but left in tact the other reforms. One of the newly empowered parliament's first acts, on October 19, was to pass legislation on privatizing the wine and tobacco industries, thus paving the way for the resumption of IMF lending.

The choice between a fully parliamentary system and a fully presidential system occupied Moldovan politicians throughout 1999 and 2000. Yet the choice was in large measure a false one, driven more by political intrigues among Moldova's political interests than by a dispassionate consideration of the country's institutional problems. Indeed, the two most troublesome components of Moldova's electoral system remained completely unchanged: the closed–party list electoral rule and the disjointed election schedule.

The unicameral parliament is elected via proportional representation with the entire country considered a single electoral district. The party leadership alone decides who sits where on the candidate list, and instances in which candidates have bought their way onto the list—with the reward of parliamentary immunity if elected—are not unknown. The system encourages patronage politics within the parties and discourages a sense of connection between deputies and constituents. Moreover, since deputies retain their parliamentary seats even if they decide to leave their party, the system also magnifies the fractiousness and party defections that have plagued the assembly over the last decade.

The disjointed schedule for elections is another problem. Since 1991, the country has been in the midst of a perpetual political campaign. That is, Moldova's institutions

of governance are on separate electoral calendars because they were all reformed at different times. There were direct parliamentary elections in 1994, local elections in 1995, presidential elections in 1996, parliamentary elections in 1998, local elections in 1999, and—until the revision of the constitution—presidential elections slated for 2000. As a result, no politician except Sturza was ever really willing to take the political risks that real reform might entail for fear of losing in a swiftly approaching election. The change of constitution has gone some way toward alleviating this problem, if for no other reason that it simply eliminated one election from the schedule. There were, however, less politically disruptive ways of effecting such a change.

Through 1999 and early 2000, the country's most serious political problem remained the unresolved status of Transnistria. Since 1990, when it declared independence from Moldova, this breakaway strip of land on Moldova's eastern border has transformed itself into a functionally independent state, called the "Dnestr Moldovan Republic." Although no state formally recognizes the DMR's existence, its ability to maintain public order, keep industry going, and conclude production contracts with foreign firms is perhaps as well-developed as that of the legitimate Moldovan central government, albeit within a solidly authoritarian political system.

Numerous rounds of negotiations on Transnistria's final status have been held since the cessation of fighting in summer 1992, but little real progress has been made. If anything, the DMR's de facto independence strengthened in late 2000. There was a significant international presence at the DMR's tenth anniversary celebrations in September 2000, especially from the Russian Federation and other unrecognized republics such as Abkhazia, South Ossetia, and Nagorno-Karabakh. Western governments, though, continue to stress the territorial integrity of Moldova and shy away from direct contact with the DMR authorities. In June 2000, a new initiative by Russian president Vladimir Putin led to the formation of a commission on Transnistria headed by former Russian prime minister Evgenii Primakov. The commission has conducted several visits to Chisinau and Tiraspol, but little progress has been made on reaching a draft accord acceptable to all sides in the conflict. Indeed, the so-called "Primakov plan," the proposals put forward by the Primakov commission, may further weaken the central government by creating a loose federation that consists of a generally democratic government in Chisinau bound to an authoritarian one in Tiraspol.

The position of Russian troops still stationed in Trasnsnistria also received renewed attention in 1999 and 2000. The Moldovan government has long maintained that the Russian presence provides legitimacy to the DMR authorities; Russian troops are also known to have aided the Transnistrian separatists in the early 1990s. At the Istanbul summit of the Organization for Security and Cooperation in Europe (OSCE) in 1999, the Russian Federation agreed to withdraw its forces by the end of 2002. The departure of equipment began even before the formal agreement, and there are now approximately 2,600 Russian soldiers in the DMR, not counting those deployed as part of the 1992 Moldovan-Transnistrian ceasefire agreement. Even if the Russians leave by the agreed deadline, the problem of Transnistria will remain. With an army larger than that of the Moldovan central government, the DMR has little reason to rejoin a unified Moldovan state.

The events of the period covered by this report, as turbulent as they were, at least showed that the Moldovan political system works. Unlike in other former Soviet republics, the president did not attempt to circumvent legal institutions when he felt his position threatened. Lucinschi worked hard to prevent parliament's gaining the upper hand, but he did so through constitutional mechanisms. And in the end, when all legal channels had been exhausted, he accepted the change of system. Problems of corruption, territorial separatism, poverty, and inefficient administration continue to plague the country, but in 1999 and 2000 Moldova's first serious constitutional crisis illustrated that the basic structures of government are relatively robust and that the country's leadership remains committed to democratic governance.

Civil Society

1997	1998	1999-2000	2001
3.75	3.75	3.75	3.75

Moldova has a vibrant array of nongovernmental organizations (NGOs). More than 1,400 have been registered with the ministry of justice in the last decade, and their activities range from civic education programs to sponsoring beauty contests. Many of those that have registered officially, however, consist of no more than a few individuals. Even the most visible NGOs, such as the Soros Foundation of Moldova, the International Foundation for Electoral Systems-Moldova, and the Euro-Atlantic Center, are either branches of well-established European and American organizations or exist solely on the basis of grants from foreign sources. The Institute of Public Policy is quickly becoming one of the central nongovernmental research and advocacy bodies in the country, attracting leading academic and policy specialists. It, too, is supported exclusively by foreign grants. The Viitorul Foundation focuses on local government reform. The Helsinki Committee for Human Rights works in the areas of human rights education and monitoring.

There are no serious legal obstacles to volunteerism or philanthropic giving, although some NGOs have criticized the registration process as inefficient. There is little evidence, however, of a desire by the government to restrict the size or number of NGOs. In some cases government officials have attempted to intimidate associations that are linked with their political rivals. The main obstacle to the further growth of citizens' associations seems to be an economic one. The parlous

state of the Moldovan economy has meant that most citizens are engaged mainly in survival rather than civic activism.

A continuing problem has been the government's refusal to register the Bessarabian Metropolitan Church, a position that has been condemned by the European Court of Human Rights. The church, which is loyal to the Romanian patriarch rather than to the Russian one, is a rallying point for pro-Romanian forces in Moldova, and the government fears that official recognition might weaken Moldova's independence. Another branch of the church, loyal to the Moscow patriarchate, has operated legally since 1991. (The constitution, however, does not label Orthodox Christianity—of whatever hue—the "official" religion of the country.) The government has made no effort to close down Bessarabian Metropolitan churches forcibly, but its refusal to grant official recognition has prevented the church from acquiring property legally.

There was increasing civil unrest throughout 2000, and organized, sometimes violent, demonstrations led the police and the prosecutor's office to launch investigations into a number of civil society organizations. Student groups protested in the spring against an increase in fares for public transportation in Chisinau, leading to several arrests and legal action against university professors accused of inciting violence. Pensioners mobilized in the summer against unpaid entitlements. Farmers and Afghan war veterans took to the streets in the fall, complaining of government intransigence in paying pension arrears.

Independent Media

1997	1998	1999-2000	2001
4.00	4.25	4.00	4.25

Moldova has a generally vibrant and free media. The constitution and the Law on the Press provide legal protections for press freedom, and there are no special provisions against libeling public officials. Libel cases, whether involving officials or private citizens, are handled through the courts. In November 1999, the leader of the Party of Democratic Forces, Valeriu Matei, won a court case against the *Flux* newspaper, Matei had accused the paper of libel after it ran an article insinuating that he was involved in corrupt business practices. In June 2000, the constitutional court upheld the legality of two articles on libel in the civil code. Journalists accused of libel must prove the veracity of their statements. If they are found guilty of the libel—without having previously printed a retraction—they are subject to fines ranging from 100 to 200 times the average monthly salary.

In March 2000, the parliament voted to amend the electoral law to prevent foreign-owned media from participating in electoral campaigns. The vote, taken without discussion with major media players, was strongly condemned by media-related NGOs. The same month, *Jurnalul National* became the first major Romanian-owned newspaper to publish a separate edition in Moldova. Further legislation in May required periodicals to indicate their registration numbers on each edition. The new law was an attempt to regulate the large number of unregistered publications that appear on the Moldovan market, especially "supplements" to legally registered periodicals that are able to piggy-back on existing registrations and avoid taxation.

Moldova has a wide variety of newspapers and television outlets. Teleradio-Moldova remains the main state-owned company, but private radio and television stations broadcast locally produced programming, mainly in Romanian and Russian. Major Russian television companies also broadcast to Moldova. There is an official government news service, Moldpress, but several independent companies eclipse. These are Flux, BASA-Press, Interlic, and Deca-Press. Major newspapers include the government publications *Moldova Suverana* (in Romanian) and *Nezavisimaia Moldova* (in Russian), as well as several daily and weekly independent publications, such as the *Flux, Glasul Moldovei, Dialog*, and *Tara* (all in Romanian), and *Novoe Vremia* (in Russian). None of them, however, can be called truly editorially independent, because they are affiliated with a clear party or political grouping. In Transnistria, the DMR government severely restricts press freedom. It owns two major newspapers in Tiraspol and frequently harasses or closes down smaller independent publications. There is no circulation of Moldovan press in the DMR, nor are Transnistrian publications available in Chisinau.

In 2000, the issue of language became politically salient once again. Language laws adopted in 1989 mandated that Romanian (or "Moldovan," as it is still officially known) should come to play the predominant role in the media. While Romanian is certainly more present in public life than in the Soviet period, Russian still functions as an unofficial second language. In summer 2000, an association of students with degrees from Romanian and Western universities launched a court case against the state broadcasting board regarding the lack of television and radio programs in Romanian. According to existing legislation, 65 percent of programming on licensed stations must be in the Romanian language; many stations, however, have far more programs in Russian and do not come close to that figure. The court case was designed to put pressure on the government, but to ethnic minorities it represented a further reminder that some people considered them unwelcome guests.

In response to the students' case, the broadcasting board temporarily revoked the licenses of several radio and television stations for failing to have a minimum of 65 percent of their broadcasts in Romanian. In September the court of appeals upheld the move when it ruled in favor of the students. There was a sharp outcry from international organizations, including from the OSCE's High Commissioner on National Minorities. Parliament quickly stepped in to defuse the crisis. By the end of the month, it passed a special addendum to the language law under which the 65 percent requirement will apply only to locally produced

programs, not to programs produced or rebroadcast from abroad. The new provisions passed by only the slimmest of margins and were strongly opposed by pro-Romanian groups in parliament.

Computer usage in Moldova has continued to grow. There are some 15 Internet service providers operating in Moldova, although many more have been registered. Schools have 10,500 computer stations, or roughly one station per 60 students. Internet cafes have begun to spring up in Chisinau, but easy computer access is still limited mainly to persons affiliated with foreign companies or foreign-supported NGOs. Even most Moldovan government offices lack adequate computer equipment.

The issue of Transnistria also affects the media. In summer 2000, Oazu Nantoi, a prominent activist in the Social Democratic Party and a former presidential advisor on the Transnistrian problem, hosted a series of programs on national television. However, the programs had earned the ire of many in Chisinau, when Nantoi suggested that members of the central government and Transnistrian separatists, were colluding in illegal commerce. In October, citing financial pressure, Moldovan National Television decided to drop the broadcasts. But Nantoi and others argued that the real reason was the discomfort that the programs caused both the Transnistrians and their sympathizers in Chisinau, including the head of Teleradio-Moldova, a former Communist deputy in parliament.

Governance and Public Administration

1997	1998	1999-2000	2001
4.25	4.50	4.50	4.50

Moldova is a weak state with weak governmental institutions. Corrupt officials, inadequate financial resources, and inherited habits of evading officialdom rather than working with it are persistent problems. The general trend, however, has been in the direction of streamlining government and increasing the efficiency of existing institutions. Laws on administrative and territorial reform, public administration, and public finance were adopted in 1998 and 1999. Local government has the power to create local budgets, but social services at both the local and national level remain severely underfunded. Elections for local governmental institutions, most recently in 1999, have been free and fair.

In November 1999, the parliament voted to reduce the number of government ministries and to transform the ministry of national security into an information and security service controlled by the president and overseen by a parliamentary commission. The original reform was a potentially dangerous move, since it came at the same time as other attempts by Lucinschi to strengthen the office of the president at the expense of parliamentary control. But further reforms in December 1999 and October 2000 transferred control of the border guards from the former security ministry to a newly created department of the government and subordinated the new security service directly to parliament rather than to the president. The reforms were an important step in making the security services more transparent and bringing them solidly under democratic control.

The reform, functioning, and empowerment of local government continue to be major issues. The territorial administration of the country was restructured in 1998 to create eleven counties, or *judete*, to replace the smaller Soviet-era districts, or *raions*. The relationship between the new system of prefects (representatives of the central government in each of the counties) and local councils is still not clear. Moreover, there are three general exceptions to the local government scheme, none of which has been fully worked out. First, there is Transnistria. Although promised autonomy in the 1994 constitution, the region's status is still uncertain, because the Transnistrians maintain that they form an independent "Dnestr Moldovan Republic."

Second, in 1995 Moldova created a separate administrative unit for the Gagauz, a Turkic-speaking minority in the south. The Gagauz Autonomous Territorial Unit, also known as *Gagauz Yeri*, is a disjointed entity consisting of four discrete regions in which Gagauz settlement is concentrated. How these units should function in practice, though, is still problematic. Throughout 1999 and 2000, the locally elected governor of Gagauz Yeri, Dumitru Croitor were increasingly called for a separate local budget, direct representation for the Gagauz administration in the central government, and a separate customs service.

Third, the Transnistrian and Gagauz examples have sometimes encouraged local, often Soviet-era elites to resist cooperation with the central government. Such a situation arose in Taraclia, a southern district that, under the new law on local government, was to be absorbed into a larger county. Local politicians rejected the move, and went so far as to claim ethnic self-determination for the district, since most of its inhabitants are ethnic Bulgarians. The Moldovan government finally capitulated, and in October 1999 parliament voted to retain the old district boundaries. Although hailed as a form of autonomy for Bulgarians, the Taraclia incident was in fact a move by district-level elites to retain control over the local economy and, in effect, to resist reforms from the center.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.25	4.00	4.00	4.00

The 1994 constitution provides for basic human rights, including the right to private property. Respect for these rights, however, is not always guaranteed. There is no law ensur-

ing access to secret police files. The penal code has been largely revised and brought in line with European standards. There have been some reports of police corruption, brutality, torture, and arbitrary arrest. The highway police, in particular, are known for stopping cars and extorting "fines" for imaginary traffic offenses.

In Transnistria, the human rights situation is particularly dire, with extra-judicial killing, torture, and political detention commonplace. Four Moldovans, including one member of parliament, have been in prison in Tiraspol since 1993. They were convicted of murdering two DMR officials but their trials did not meet international standards. International organizations such as the OSCE Parliamentary Assembly have demanded repeatedly that the prisoners—Ilie Ilascu, Alexandru Lesco, Andrei Ivantoc, and Tudor Petrov-Popa—receive a new trial outside Transnistria.

During the period covered by this survey, there have been important achievements in the areas of citizen participation, the military, citizenship, and property rights. The previous method for citizens to propose an amendment to the constitution was unclear, but in May 2000 parliament adopted new legislation spelling out this right. Citizen petitions with at least 200,000 signatures which are gathered within eight months from at least half of Moldova's counties, may be deposited with the central electoral commission and the ministry of justice for verification and eventual public discussion. In June 2000, the government approved a plan to improve the conditions of military service and to end conscription by 2012. A new citizenship law, adopted in August 2000, provides for dual citizenship and brings Moldova in line with European norms. Dual citizenship may only be granted, however, in instances in which Moldova maintains special agreement in this regard with another state. So far, Moldova has no such agreement with any state. Unofficial data suggest, though, that perhaps as many as 300,000 Moldovans also hold Romanian citizenship; tens of thousands of Transnistrians—including DMR president Igor Smirnov—hold Russian citizenship. In October 2000, the land privatization program came to an end; more than a million farmers now hold title to 1.5 hectares of land each.

Corruption

1999-2000	2001
6.00	6.00

The country's penal code contains provisions for prosecuting bribery and influence peddling, but in practice Moldova is one of the world's most corrupt states. On Transparency International's 2000 Corruption Perceptions Index, it ranks as the eleventh most corrupt country in the survey with a score of 2.6 (where 0 represents the most corrupt and 10 the least). Moldova's score and ranking were the same in 1999.

Corruption reaches virtually every aspect of society. Political campaigns are financed through money often obtained in less than legal ways. Even the most reform-oriented parties, such as the Party of Democratic Forces, have come under criticism for links with questionable business interests. Basic services such as health care often require supplementary payment. In August 2000, examinations for scholarships to Romanian universities were annulled because someone from the testing body had sold copies of the exam to prospective applicants. There is also serious public discontent with corruption, and newspapers frequently report on scandalous cases. However, since journalistic standards are still low, it is difficult to know whether all of the allegations are true. Most Moldovans seem to think they are. Some 71 percent of respondents in the August 2000 opinion survey felt that Moldova's wealthy gained their riches through illegal means.

There have been repeated government initiatives to deal with these problems. A special unit for combating organized crime was formed in 1997, President Lucinschi named 1998 the year of fighting corruption, and the government approved an official anticorruption program in 1999. Little has been achieved. In September 2000, however, Transparency International established a branch in Moldova. This will at least mean greater public access to accurate information on corruption.

During the period coved by this survey, the connection between corruption and Transnistria became increasingly clear. Officials throughout the Moldovan government have continually insisted that the main obstacle to resolution of the conflict is the Russian's Federation's support for separatists in Tiraspol. To some extent, that is no doubt true. Russia maintains troops in Transnistria against the Moldovan government's wishes, although Russia has agreed to remove the troops by 2002. Vocal support for the Transnistrians coming from the Russian Duma has undoubtedly assisted the Tiraspol government in the creation of what is today an effectively independent state with its own army, currency, foreign ministry, and educational system.

Yet as much as they complain, there are plenty on the Moldovan side who benefit from Transnistria's limbo status. Television reports by Oazu Nantoi, Lucinschi's former special advisor for Transnistria, have highlighted the connection between separatism and enrichment. According to an agreement signed between Chisinau and Tiraspol authorities in May 1997, the Transnistrians were given Moldovan customs stamps and export licenses—a move portrayed as an effort at building confidence and cooperation among the two belligerent sides. In fact, the agreement augmented the ability of the Transnistrians—and their partners in the rest of Moldova—to carry out international commerce without paying taxes to the central government. Cigarettes, petroleum products, armaments, and even humans are part of this illicit trade.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.00	4.00	3.50	3.50

Macroeconomic Policy

1998	1999-2000	2001
4.25	4.25	4.25

Microeconomic Policy

1998	1999-2000	2001
4.25	4.25	4.25

By late 2000, Moldova had achieved the dubious distinction of displacing Albania as "the poorest country in Europe," a label often applied by foreign journalists. Some Moldovans quipped that even this was a positive development—at least foreigners finally saw Moldova as part of Europe. The label, though, was in sharp contrast to the assessments of only a few years ago when Moldova was almost universally praised by journalists and international financial institutions as a model of reform.

To a certain extent, Moldova was a victim of its circumstances. Successive governments had generally worked to meet the requirements of international donors, and in some fields, such as the privatization and titling of agricultural land, the results were impressive. The shock of the Russian financial crisis, continued energy dependence on Moscow, and the stand-off over Transnistria all began to take their toll in the late 1990s. The reforms of the early 1990s were relatively easy and painless, if for no other reason than that business interests had not yet become so entrenched that committed reformers in the government and the central bank could not overcome them. By the end of the decade, however, the same array of political intrigues and vested interests that were blocking reform in other post-Soviet countries had conspired to stall Moldova's reform effort as well.

In mid-1999, under the Sturza government, Moldova announced an ambitious privatization plan. A controlling interest in the state telephone agency, Moldtelecom, was to be sold off, along with majority shares in the Vismos, Aroma, Struguras, Calaras, and Balti wineries and distilleries. Five regional energy distribution networks were also set to be fully privatized. Earlier in the year, the state gas company, Moldovagaz, had already been partially privatized with the Russian gas company Gazprom taking a 51 percent stake. Later in the year, the Moldovans announced that they would sell their 35 percent share in an international tender.

Few of these plans yielded the benefits that the government had hoped. The fall of the Sturza government in November 1999 frightened international investors and robbed the privatization effort of momentum. Bickering within the parliament delayed the privatization of potentially lucrative wine and tobacco firms and this prompted the IMF to suspend its program in November 1999. The World Bank followed suit by halting the disbursement of a $20 million structural adjustment credit. Lending resumed in late 2000 on the promise that the wine and tobacco industries, as well as Moldtelecom, would finally come up for privatization in 2001.

The economy has continued its slide downward. Inflation in 1999 was nearly 40 percent, and output in every major sector fell: a 62 percent production drop in fruit production, 31 percent in sugar beets, 14 percent in tobacco. Since international credits finance much of Moldova's budget is financed by international credits, the winter of 1999–2000 saw increases in work stoppages, pension arrears, and energy black-outs. For average Moldovans, the winter was the worst since the collapse of the Soviet Union. Average monthly salaries were only around 400 lei (about $50 at the time), which represented only half the minimum subsistence budget calculated by the state. Moldovans responded either by leaving the country for good or by taking jobs in Romania, Ukraine, and the Russian Federation. Officials estimate that 500,000 Moldovan citizens are working abroad. The figure is probably outrageously high, but there is little doubt that remittances constitute a large share of average household income. Non-salary sources of income—the shadow economy—may account for as much as 65 percent of GDP.

The dire economy has hit average Moldovans hard. Household income and expenditures in Moldova are closer to those of developing countries than middle-income states. In 1998, 90 percent of the population survived on less than $2 per day; that percentage has probably increased since then. About half the population lives below the locally defined poverty line, and the gap between the wealthiest and the most indigent sections of society has widened. By the late 1990s, the richest quintile of the population accounted for 47 percent of consumption; the poorest quintile for only 6 percent. There was also an increasing recognition among international organizations and local policymakers that this situation was not the result of a temporary "crisis" but rather of a long-term predicament. Even if Moldova were to achieve 10 percent economic growth every year over the next decade, at the end of that period it would still only be at the level it was before the Soviet Union collapsed.

The problems of a dysfunctional economy and the political theater of 1999 and 2000 were not lost on the country's citizens, who became increasingly dissatisfied with their government. A poll organized by the Institute for Public Policy in August 2000 revealed the depth of public discontent. Some 82 percent of the population felt that the country was headed in a "mistaken" direction. Sixty percent named poverty as their greatest fear, and over a third named hunger. Over half said that they expected conditions either to remain the same or to worsen over the next year.

The structure of poverty and discontent, though, was different from what one might expect. In Moldova, the

poorest section of the population comprises households in which the head is under 40 years old, not pensioners over 60. It is little wonder, then, that the most disgruntled persons, according to the August poll, were young. More than a quarter of all respondents said that they would leave Moldova forever if given a chance; among respondents under 30, the figure was 40 percent. By and large Moldovans are in favor of a market economy, but the young in particular see privatization as little more than a route to riches for those with political clout. Sixty-nine percent of persons under 45 said that the state's privatization plans were merely a way for state officials to get rich and these sentiments have played into the hands of the Communists. Respondents named Vladimir Voronin, leader of the Communist party, as the person in whom they have the greatest faith; just over 35 percent said they planned to vote for the Communists in the next election.

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POLAND

Polity: Presidential-parliamentary democracy
Economy: Mixed capitalist
Population: 38,600,000
GNP per capita at PPP $ (1999): 7,894
Capital: Warsaw
Ethnic Groups: Polish (97.6 percent), German (1.3 percent), Ukrainian and Byelorussian (1 percent)
Size of private sector as % of GDP (mid-2000): 70

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	1.50	↑ 1.45	↑ 1.44	1.44
Rule of Law	na	na	1.88	1.88
Economic Liberalization	2.00	↑ 1.92	↑↑ 1.67	1.67

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	2,399.0	3,085.0	3,483.0	3,511.0	4,066.0	3,987.0	4,108.0
Real GDP growth (% change)	5.2	7.0	6.1	6.9	4.8	4.1	4.1
Inflation rate	32.2	27.8	19.9	14.9	11.8	7.3	10.1
Exports ($ millions)	17,024.0	22,878.0	24,453.0	27,229.0	30,122.0	26,347.0	28,277.0
Imports ($ millions)	17,919.0	24,790.0	32,632.0	38,549.0	43,842.0	40,727.0	41,422.0
Foreign Direct Investment ($ millions)	542.0	1,134.0	2,741.0	3,041.0	4,966.0	6,348.0	9,299.0
Unemployment rate	16.0	14.9	13.2	8.6	10.4	13.0	15.0
Life Expectancy (years)	71.7	71.9	72.2	72.6	72.9	73.2	73.0

INTRODUCTION

Poland is a stable democracy characterized by a multiparty political system and free and fair elections. Since 1999 it has met the accession requirements for European Union (EU) membership of "guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities." During the period covered by this report, Poland worked arduously to fulfill its remaining obligations for accession and to ensure that the country joins the EU as soon as possible. The government, the president, and the opposition also considered EU membership the most important factor driving Polish foreign policy.

Poland has made one of the most successful transitions in Eastern Europe to a free market economy. It has achieved single-digit inflation and completed rapid and extensive privatization programs. However, despite a positive economic performance during the period covered by this report, consumer optimism dropped to its level in 1993. The public's aspirations seemed to grow faster than its ability to satisfy them. Society also responded negatively to four major reforms that the government of Prime Minister Jerzy Buzek introduced. Reform of the public health sector, in particular, received the worst response.

Prime Minister Buzek's government paid an important price for unpopular reforms. It saw its popularity decline and witnessed an increase in support for the opposition Democratic Left Alliance (SLD). This ultimately affected the October 2000 presidential election in which incumbent President Aleksander Kwasniewski, a former Communist who represents the SLD, proved victorious in the first round.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
1.50	1.25	1.25	1.25

Poland is a parliamentary-presidential democracy characterized by a multiparty political system and free and fair elections. Parliament consists of a 100-seat senate and a 460-member *Sejm*. Under the 1993 electoral law, 391 members of the Sejm are elected by proportional representation in multi-seat constituencies. Parties that obtain more than 7 percent of the popular vote fill another 69 seats based on proportional representation. Members of the senate are elected in 47 two-seat constituencies and in 2 three-seat constituencies.

The last elections for the senate and the Sejm were held in September 1997. The Solidarity Electoral Action (AWS), a coalition of moderate and center-right forces, captured 201 seats in the Sejm and 51 in the senate; the ruling former Communist SLD, 164 and 28; the pro-market Freedom Union (UW), 60 and 8; the Peasant Party (PSL), 27 and 3; the Movement for the Reconstruction of Poland (ROP), 6 and 5; and the German Social and Cultural Society Opole Silesia (MN), 2. Five independents were also elected to the senate. Foreign and domestic observers determined that the elections were free and fair. Jerzy Buzek (AWS), a 57-year-old chemical engineer who played an important role in the Solidarity underground in the 1980s, was named prime minister. Members of both the AWS and the UW took key cabinet posts.

Jerzy Buzek's tenure as prime minister has been the longest one in the Third Republic (since 1989). In June 2000, though, the UW abandoned the ruling coalition and left Prime Minister Buzek as the head of a minority government. UW ministers and secretaries of state have been replaced by politicians that the AWS supports. Although the next parliamentary elections are scheduled for fall 2001, the SLD is advocating early elections in the spring.

The most recent presidential election took place on October 8, 2000, in accordance with the constitution. The State Election Commission (PKW) accepted 13 candidates but only 12 took part in the election. Former Prime Minister Jan Olszewski left the race and gave his support to AWS candidate Marian Krzaklewski.

The election campaign was not a very interesting one. The main reason was that pre-election polls showed that incumbent President Kwasniewski had 60 to 70 percent of the public's support. Thus, the aim of his strongest competitors, M. Krzaklewski and A. Olechowski, was to get enough votes to advance to a potential second round in which there would be only two candidates. A second round would have been mandatory if Kwasniewski received less than 50 percent of the vote.

The two most dramatic moments in the campaign came at the beginning and at the end. In July and August, a special court had to determine the veracity of Kwasniewski's and Lech Walesa's declarations that they had not cooperated with the former Communist secret service. The *Rzecznik Interesu Publicznego*, or Public Interest Commissioner, questioned their declarations. At the end of the trials, the court announced that both declarations were indeed true. Towards the end of the election campaign, the campaign headquarters of M. Krzaklewski released to the public a film in which the current president and one of his ministers, not realizing they were on camera, mimicked the gestures of the Pope. Many people found the president's behavior offensive.

On October 10, the PKW announced that President Kwasniewski had won the election in the first round with 53.9 percent of the vote. Since he received a majority of the vote, there was no need to hold a second round. Andrzej Olechowski, the citizens' candidate, as he called himself, came in second place with 17.3 percent of the vote. AWS candidate Marian Krzaklewski received 15.37 percent, and PSL leader Jaroslaw Kalinowski received 5.95 percent. Voter turnout reached 61.12 percent. The greatest defeat can be attributed to former president and Solidarity cofounder Lech

Walesa, who received only 1.01 percent of the vote. This will be Kwasniewski's second and therefore last term in office.

Poland is now a multiparty democracy. The Communist Party's monopoly ended in 1989 when roundtable negotiations between the non-Communist opposition and the military regime resulted in the legalization of Solidarity and other political reforms. A new constitution, ratified by referendum in May 1997, enshrines political pluralism. The previous "Little Constitution" of 1992 did the same. Most major parties function at all levels of government.

After the 1991 parliamentary vote, there were 29 political groupings represented in parliament. No group had received more than 13 percent of the vote. Now, under a 1993 electoral law aimed at reducing the number of parties in parliament, parties that fail to receive 5 percent of the national vote and coalitions that fail to gain 8 percent cannot be represented in parliament. In the 1997 elections, only five parties and coalitions cleared this threshold: the AWS, the SLD, the UW, the PSL, and the ROP. Article 13 of the constitution bans parties that are "sympathetic to the totalitarian methods of nazism, fascism, and communism." According to the Civil and Register Department of the District Court, as of October 2000 there were about 105 registered political parties. (This approximate figure reflects the fact that some parties are in the process of completing their registration.)

Party identification and membership is low in Poland. In terms of declared membership, the largest party is the Peasant Party (PSL), which claims about 150,000 members. Of these, fewer than 10 percent are women. The Freedom Union (UW) claims 23,500 members, over 30 percent of which are women. The SLD claims to have 100,000 members. About 0.3 percent of persons interviewed in a March 1998 poll acknowledged membership in a political party or association.

Voter turnout for local and regional elections in October 1998 was more than 45 percent in *gminas* and *voivodship*s, and more than 47 percent in *poviat*s. This was much higher than the 34-percent turnout for local elections in 1994. Nearly 16 percent of elected representatives are women.

Civil Society

1997	1998	1999-2000	2001
1.25	1.25	1.25	1.25

The growth of Polish civil society has included the development of NGOs. There are approximately 30,000 nongovernmental organizations in Poland, though many are small, under-funded, or inactive. NGOs include professional, cultural, youth, sports, political, ecological, religious, women's, and democracy-building groups, as well as public policy think tanks, educational and academic associations, and charity organizations. Labor unions, political parties, and local economic organizations are excluded from this list.

While corporate philanthropy is in its infancy, there are NGOs working with the newly emerging private sector to address pressing social and environmental issues. Voluntary charities, many of which are associated with the Catholic Church, are active in helping the poor and the elderly. In several large cities there are active Voluntary Centers that organize training for NGOs and people who want to participate in voluntary activities. The main objective of the Warsaw-based Academy for the Development of Philanthropy is the encouragement of philanthropy at the local level in order to support community foundations throughout Poland.

A 1999 survey conducted by the Warsaw-based Public Opinion Research Center (CBOS) revealed that 0.1 to 5.5 percent of the adult population has participated in one of Poland's NGOs. The most popular types of organizations are groups active in the education sector, especially parents' committees (5.5 percent) and church organizations or parpolandish communities (3.9 percent). The index of public activity indicates that the majority of Poles (76 percent) do not belong to any organization. In comparison with polls from 1997, however, there has been a noticeable increase in public participation in organizations other than labor unions and political parties. Surveys of public involvement in charity reveal that many Poles would contribute financially to support ill or handicapped children, handicapped adults, and children from orphanages.

One-fifth of the respondents to the CBOS survey indicated their involvement in local community activities. However, more than half of the respondents did not believe in the effectiveness of activities organized by social organisations. The general feeling is that an average citizen has no influence in public affairs. This feeling and other factors like low professional status, lack of education, unemployment, poverty, and poor health create a barrier to building civil society.

Fifty-seven percent of respondents to a 2000 survey indicated that they had made financial contributions to charities. Half did so during a national fundraising event organized annually by the Great Holiday Aid Orchestra. According to available data, the largest women's organization of a social and vocational character, with about 1 million members, is the Rural Housekeepers Association and Polish Women's League. The number of women's NGOs is estimated to be 250; their membership figures vary. The Information Center for Women's Organizations (OSKA), which is located in Warsaw, integrates various initiatives regarding women's issues. The Center for Women's Rights is also active.

The legal and regulatory environment for NGOs is relatively positive. Most NGOs are associations or foundations registered with the court, with the exception of those associated with the church or whose activities are determined by international agreements (for example, the Red Cross).

However, since foundations can only register through one court in Warsaw, there are often long waiting periods. Beginning in January 2001, this process will come under the jurisdiction of *voivodship* courts.

Tax regulations concerning NGOs are liberal, and there are numerous tax exemptions for charitable activities. Donors can deduct 10 to 15 percent of their gifts to charities from their tax base. Since the regulatory environment for foundations and associations is rather loose, there is considerable room for interpretation with regard to registration and tax matters. In this context, it is worth mentioning the case of the Foundation for Polish Science—one of only a few foundations that have their own capital. The foundation has invested its capital and used the returns for statutory activities. The Tax Office, however, has interpreted the group's investments (buying shares for example) as non-statutory and has taxed all of them. Following this interpretation, it follows that all organizations should only place their funds in long-term deposits that are less profitable and, therefore, generate less income for statutory activities. As such, organizations would be unable to manage their resources properly and most effectively. This case is currently being considered in court.

The financial viability of NGOs suffers further from the lack of stability in the government's fiscal policies. This instability has manifested itself in frequent changes in the tax system and, in 1999, in revisions to the regulations governing NGO financing by local governments. As a result of these changes, some local NGOs involved in social care have suffered temporary, though serious, problems in their operations. It is still uncommon for businesses to make donations to NGOs.

NGOs that have received funding or technical assistance from Western foundations, governments, or international organizations tend to have a strong organizational capacity. A good example is the U.S. Agency for International Development's (USAID) DemNet project, which has awarded grants and worked with some 67 NGOs. In the last few years, several organizations have been active in providing services to the third sector. These include the SPLOT-network, which combines ten regional centers and the KLON-JAWOR database; the Civil Society Development Foundation; and Partners Polska. These organizations provide small, local NGOs with training and access to information sources. Small NGOs are typically weak because they rely on volunteers who seldom have time to participate in training sessions. During the period covered by this report, however, small groups have grown much stronger.

Most Polish NGOs depend on Western and American organizations and institutions for a substantial part of their operating budgets, although they are increasingly discovering other sources of revenue and are becoming more self-sustaining. The financial situation of the third sector may deteriorate, though, as a result of limitations of Western aid programs such as United Nations Development Programme and the European Union's PHARE program. In 2000, USAID and the Peace Corps completed their activities.

However, the Polish-American Freedom Foundation was launched in 2000 and, in a few years time, its capital, which came in great part from the Polish-American Entrepreneurship Fund, will reach 180 million dollars. Likewise, a consortium of private grant-making institutions has set up the Trust for Civil Society in Central and Eastern Europe to promote the development of civil society in the region. The new organization, whose members include the Charles Stewart Mott Foundation, the Ford Foundation, the German Marshall Fund of the United States, the Open Society Institute and the Rockefeller Brothers Fund, has as its goal the creation of a fund of $75 million to be spent over a ten-year period. This will create the basis for the existence of think tanks and large networks and will make training, publishing, and other educational activities possible.

The 1997 constitution (Articles 12 and 57) and other legislation allow for the formation of independent trade unions. By law, 10 people are necessary to form a local union and 30 to establish a national union. Unions must register with the courts. According to information provided by the VII Civil Registry Department of the Circuit Court, about 1,980 institutional committees, 331 national trade unions, and 12 federations were registered in Poland as of the year 2000. The principal union federations are the National Alliance of Trade Unions (OPZZ) (the successor to its Communist-era namesake) and the Independent Self-Governing Trade Union Solidarity (NSZZ). Offshoots of mainstream Solidarity include the Christian Trade Union Solidarity and Solidarity '80. There is no reliable data on labor union membership or on the number of full-time union activists.

As a rule, the membership figures provided by the unions are inflated. It is estimated that the number of NSZZ members who pay membership fees is between 1.1 and 1.2 million. OPZZ claims about 2.5 million members. According to CBOS' research, the total number of union members does not exceed 3 million. Most union members are skilled workers (28 percent), mid-level managers, or intellectuals (25 percent). Only 5 percent are peasants and just 1 percent is self-employed. Two-fifths of the employees in publicly owned industries and almost one-third of the employees paid from the central budget are union members. The union that is growing most rapidly in power is A. Lepper's *Samoobrona* (Self Defense), which represents the interests of peasants. Fifty-eight percent of the respondents to a recent survey believe that employees are left to themselves, and 63 percent hold that unions are inefficient in representing their interests.

Article 61 of the constitution gives citizens the right to petition administrative agencies and public institutions. Article 75.1 guarantees citizens the right to lodge complaints with the constitutional court. Lobbying activities are permitted and political endorsements are legal. Freedoms of association and assembly include the right to hold public demonstrations. State sector managers, business groups,

trade unions, farmers' associations, and some NGOs are active in the political and policy making process through direct meetings with government officials, thus providing government agencies with information and media access.

In general, though, contacts between NGOs and the government are weak because NGOs still do not have legal representation. Thus, they are unable to present the government in advance with any recommendations relating to their needs and concerns. They can only react to disadvantageous administrative and legal decisions after the government has adopted them.

Independent Media

1997	1998	1999-2000	2001
1.50	1.50	1.50	1.50

Article 14 of the 1997 constitution safeguards "freedom of the press and other mass media." The 1990 Bill of Abrogation of the Law on Control of Publications and Performances, the abolition of its control organs, and the change of the press law abolished censorship and loosened government control of the media. A media law adopted in December 1992 transformed state radio and television into joint-stock companies and led to the growth of private commercial television and radio stations. It designated that foreign ownership in broadcasting should not exceed 33 percent. The nine-member National Radio and Television Broadcasting Council (KRRiTV) oversees broadcasting.

Several provisions in the penal code deal with libel and defamation. Article 270 states that anyone who "publicly insults, ridicules, and derides the Polish Nation, the Polish People's Republic, its political system, or its principal organs is punishable by between six months and eight years imprisonment." Article 273 imposes a prison term of up to ten years for anyone who violates Article 270 in print or through the mass media. The penal code also prohibits the use of the media to "advocate discord" on national, ethnic, racial, or religious grounds, and prohibits offending religious sentiment.

Poland has 50 daily newspapers. Ten are national, and 40 are regional. Although a general decline in circulation has led to mergers and closures in recent years, the biggest national dailies have all strengthened their positions. These papers are *Gazeta Wyborcza*, which has 18 regional supplements and posted an average daily circulation from January to August 2000 of 456,000; *Super Express* (377,000); and *Rzeczpospolita* (205,000). Each has invested heavily in printing facilities in recent years.

The main media players in Poland are: (1) Agora, a Polish media empire controlled by the founders of *Gazeta Wyborcza* that includes 14 local radio stations, printing presses, and extensive internet investments; (2) Polskapresse, a part of the German Verlagsgruppe Passau group and a majority share holder in 10 regional newspapers; (3) Orkla Media, a Norwegian concern that owns a controlling share in *Rzeczpospolita*.

The market for newspaper advertising has been growing fast but remains less than a quarter of the size of television advertising. *Gazeta Wyborcza* receives more than 50 percent of all spending on advertising in daily newspapers. It dominates both display and classified advertising. *Rzeczpospolita* and *Super Express* receive 19 percent and 10 percent, respectively. Regional titles consume the remaining portion of daily spending on advertisements. Polskapresse and Orkla Media own most of the main regional titles, and both companies have worked hard to make their products appeal to new readers, especially the younger generation, by improving formats and designs and by adding supplements.

The demand for specialized and professional publications is growing. Local press outlets are finding it more and more difficult to sustain their activities. That is, as large international companies (especially German and Norwegian) and national giants like Agora consolidate the industry, the local advertising market is shrinking. And without this market it is difficult to sustain an authentic voice for the local community.

KRRiTV has granted 190 licenses for commercial radio stations and 28 licenses for television stations, including satellite television. The three most popular radio stations are RMF FM, Krakow (private); I Programme National Station (public); and Radio Zet, Warsaw (private). Other radio stations include III Programme National Station (public) and Catholic Radio Maryja. The two largest private television stations, Polsat and TVN, are growing rapidly in popularity. Polsat is now almost as popular as the state-run TVP-1. TVN's popularity in the regions in which it broadcasts almost equals that of the state-run TVP-2. In urban areas, cable stations are widely available. The growth of cable has sparked competition between three paid digital stations: Canal+, Wizja TV, and Polsat.

The principle of editorial independence remains a key issue in the Polish media. Although newspapers and magazines reflect the country's political diversity, the independent media are pushing for editorial autonomy from their private owners, many of which are foreign-based. KRRiTV is ostensibly independent of the government, but politics plays a key role in its composition. Parliament, the senate, and the president's office nominate politicians for KRRiTV's nine membership slots. The council, in turn, determines top public media appointments.

A recent libel case involving President Kwasniewski and the daily *Zycie* has affected the relationship between political power and the media. In August 1997, the newspaper published an article claiming that in 1994 President Kwasniewski had spent his seaside vacation at the same boarding house in which Russian secret agent Vladimir Alganow was staying. The president denied the accusation and demanded an apology. He also demanded compensation of PLN 2.5 million (about $580,000) that would be

paid for flood victims. The same text was published in the Gdansk-based *Dziennik Baltycki*, but, upon the intervention of its German publisher, the newspaper apologized to the president. In May 2000, the Warsaw court ruled in favor of President Kwasniewski and ordered *Zycie* to publish an apology. The court did not, however, call for any compensation from *Zycie* or the authors of the article. The president stated that he would not appeal the ruling.

It is important to note that the court did not question the professional diligence of the reporters. Rather, it resolved that *Zycie* had acted irresponsibly with regard to the form the article took. That is, the title "Holidays with a Spy," the caption "Friends from the Beach" beneath the photographs of Alganow and Kwasniewski, and the accompanying text were all intended to create the impression that Kwasniewski had some relationship with a foreign secret agent. The court further resolved that an apology would be a sufficient compensation for the defamation and stated that Kwasniewski, as a public official, should be prepared for critical opinions. It also stated that the president had exacerbated the situation by not replying to *Zycie*'s request for an interview. The court based its ruling on evidence that seemed to indicate that Kwasniewski was in a completely different country at the time of his alleged seaside vacation. Opponents of the ruling charged that the court mistakenly assumed that the president's innocence, rather than the professional diligence of the journalists, was at the heart of the case.

The system of press distribution in Poland has not yet been fully privatized. The state-owned RUCH S.A. controls about 60 percent of the market and remains the country's main distributor. The second largest distributor is the private firm Kolporter, which controls about 25 percent of the market. The remaining share of the market is divided between the private firms of Jardpress, Garmond, In Medio, and Rolkon.

There are an estimated 4 million Internet users in Poland, and this number is growing rapidly. Although there are no formal restrictions on Internet access, the high cost of Internet connections—one of the highest in Europe—presents some limitations. The majority of people use the Internet at work.

The Journalists Association of the Polish Republic is the largest organization of its kind in Poland. It has almost 7,550 members, one-third of whom women. The second largest group is the Polish Association of Journalists. None of the journalistic associations is very active, and very few young journalists join them. They simply lack ideas to attract their members.

The Chamber of Press Editors was established in March 1996 as a result of an initiative by the two largest organizations of editors: the Press Editors' Union and the Polish Association of Editors. The Chamber's membership comprises more than 130 newspaper and magazine publishers, including Polskapresse, Orkla, Agora S.A., H. Bauer, Axel Springer Polska, and Twój Styl. The Chamber represents the interests of publishers before the Polish government.

Founded by the Polish Association of Journalists, the Press Freedom Monitoring Center (PFMC) aims to protect and promote freedom of expression as envisaged in the European Convention on Human Rights and in the International Covenant on Civil and Political Rights. It protects journalists' freedom of access to information and their right to disseminate information. The PFMC is currently tackling a legal strategy called "provision against complaint" that is used to obtain court orders against the publication of materials that are critical of a person or group. For example, when large corporations (as in the case Banpol versus *Dziennik Baltycki)* learn of a publication's plans to print a critical article about them, they lodge a complaint in court. The courts, frequently without even reading the material, rule that no article can be printed about the particular firm or person. The PFMC is also opposed to a two-week moratorium on the publication of the latest opinion polls just prior to an election.

Freedom House's annual *Survey of Press Freedom* has rated Poland "Free" since 1990.

Governance and Public Administration

1997	1998	1999-2000	2001
1.75	1.75	1.75	1.75

Parliament, which consists of the senate and the *Sejm* (lower house), is the effective rule-making institution in Poland. The 1997 constitution limited presidential vetoes and clearly delineated the separation of powers. In 1990, the first Solidarity-led government introduced a law that laid the foundation for a new and decentralized system of local government. When the *gmina*, or township, became the basic administrative unit, it acquired ownership of local assets and responsibility for its own budget. The gmina elects a council that, in turn, appoints executive officials to run it in accordance with a councillor's resolutions. Under the 1997 constitution, the gmina retained its status as "the basic unit of local government."

On January 1, 1999, reform of the administrative system—one of Prime Minister Buzek's four major reform initiatives—went into effect. The reform introduced three levels of local administration: (1) 16 voivodships, (2) 208 poviats and 64 townships, and (3) 2,489 gminas. The main objective was to continue the self-government reforms started in 1990 by further devolving powers of the central government to self-governed local administrations. Gminas remain the lowest unit of local government. A major health sector reform in January 1999 was designed to devolution responsibility for regional hospitals from central authorities to the local level.

Poland began a second stage of transformation in 1999. The first stage seriously reformed the regulations and institutions of economic life. The second stage is aimed at administrative and social reforms. These include territorial

administration, health care, pensions, and education. An analysis of specific reforms reveals that the quality of their preparation and implementation has varied considerably. Reform of the health care system, in particular, has received the worst evaluation and evoked the strongest criticism and resentment from the public.

According to the State Commission for National Elections, 63,765 councilors were elected during local elections in October 1998. That number included 52,377 councilors in gminas, 10,290 in poviats, 855 in voivodships, and 175 district councilors in the Warsaw gmina Centrum**.** The AWS and the SLD took 24 percent of the seats in gminas, 58 percent of the seats in poviats, and 78.5 percents of the seats in voivodships. In voivodship, poviat, and gmina councils, the AWS has 40 percent, 30.5 percent, and 13.5 percent of the seats, respectively. The SLD has 38.5 percent, 27.5 percent, and almost 11 percent, respectively.

Executive and legislative bodies at the national level operate openly and transparently. Although Article 109 of the 1997 constitution states that "sessions of the Sejm are public," a majority vote can approve closed-session deliberations. The text of laws and bills is published and available to the media.

The 1998 law on voivodship authorities does not specify the extent to which voivodships are obliged to contribute to the national budget. Thus, despite the implementation of reforms, the extent of decentralization of revenue management to local authorities is still insufficient and the financial means left at the disposal of local governments are far too limited. The new poviat and voivodship authorities have not been equipped with adequate decision-making and revenue management powers.

In general, the lower the level of regional government, the better the management of resources. In Warsaw, five different levels of management coexist: 7 districts in the gmina Centrum, 11 gminas, the city, the poviat, and the voivodship. This structure of overlapping authorities often creates confusion in the decision-making process and is the source of various disputes. In summer 2000, the prime minister nominated a commissioner to run the gmina Centrum following a long political crisis and problems associated with the selection of the gmina's executive board. On September 24, 2000, SLD candidates proved victorious in summary elections. Since November, the richest Warsaw gmina has been run by the SLD-UW coalition.

The implementation of administrative reforms ended a seven-year national debate. The key element of reform involved the different amounts allocated to central and regional governments from the national budget. Currently, the proportion ranges from 15 to 85 percent. The goal in coming years is to increase local budgets and, thereby, achieve more effective use of public funds.

On December 18, 1998, the Sejm passed a new civil service law that went into effect in July 1999. The new law reduced in the number of categories of civil servants from several to only two: staff employed on the day when the new law went into effect and civil service officials. Civil service officials receive higher salaries, more favorable employment contracts, and better career prospects. The estimated number of civil servants is 105,000 at the central level and 180,000 at the local level. State institutions such as the President's Chancellery, the Supreme Chamber of Control, the Parliament Chancellery, the Ombudsman's Office, and the State Labor Inspectorate employ about 20,000 civil servants combined.

There were an estimated 561 civil service officials at the end of the October 2000. One can become a civil service official after successfully completing a qualification procedure organized by the Chief of Civil Service, graduating from the National School of Public Administration (KSAP), or being nominated according to the old law. Although the national budget determines the number of new civil service officials, it is estimated that several hundred new officials will join the civil service each year.

The new civil service law stresses competition and freedom of access to posts. All levels of public administration are obliged to inform the Office of Civil Service about vacancies, which are then announced in the "Civil Service Bulletin." Central government administration is separate from regional authorities, and the law on civil service only concerns the former.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
1.50	1.50	1.50	1.50

Parliament adopted a new constitution in April 1997. It was ratified by public referendum the following month. The new constitution delineated competencies more precisely and diminished areas of potential conflict by reducing and more clearly defining the role of the president. The president can still influence legislation through certain legislative initiatives, but his veto power has been limited. The constitution also introduced the constructive vote of no confidence, which makes it impossible to dismiss a government without appointing a new one at the same time. The new constitution widened the prerogatives of the Constitution Tribunal, which decides whether particular pieces of legislation are in accordance with the constitution. In 1999, the Constitutional Tribunal issued 52 verdicts, 29 of which stated that certain pieces of legislation did not conform to international agreements or regulations and, therefore, were unconstitutional

In June 2000, parliament elected Leon Kieres, a member of parliament representing the AWS and an administrative law professor, as the president of the National Commemoration Institute. The Institute will provide indi-

viduals access to their Communist-era secret services files, collect documents related to Nazi and Communist crimes and political repression, and investigate related cases. Although parliament passed the law on establishing the Institute in December 1998, several previous candidates did not meet the requirements or failed to receive support from a majority of the Sejm. And as long as there was no president, the Institute could not commence its activities. One cause of the delay was the SLD's fierce opposition to a provision in the law that prohibits general public access to the files. Rather, only individuals who were victims of the Communist regime may gain access to their personal files.

The 1997 constitution enshrines basic human rights and civil liberties, including freedoms of speech, assembly, association, press, and conscience. Chapter II on Rights, Liberties, and Obligations also establishes the principles of equality under the law, the presumption of innocence, and the inviolability of the home. An ombudsman for human rights has the right to investigate alleged violations of human rights and civil liberties. Several articles of the constitution safeguard the right to property ownership, inheritance, and freedom of economic activity.

In June 1997, the Sejm passed a new criminal code and a code of criminal procedure, thus concluding an eight-year effort to restructure the criminal justice system. The codes, which went into effect in September 1998, replaced codes from the late 1960s that had been modified piecemeal since 1989. The new law paralleled provisions of the new constitution that extended the 48-hour "initial arrest" phase to 72 hours and provided detainees with a limited right to counsel. In 2000, the most important change in legislation was the introduction of a much more serious punishment for drunk drivers (Dz.U. No 48, poz. 548).

Search warrants issued by a court or prosecutors are required to enter a private residence. In emergency cases, when a prosecutor is not immediately available, police may enter a residence with the approval of the local police commander. Conservative political circles consider the new criminal code too liberal toward criminals. A special commission at the Ministry of Justice has nearly completed an amended version of the code. The new minister of justice (in office since June 2000) favors stricter punishments for criminals and, in a short period of time, has gained great popularity. However, the liberal circle of lawyers that created the currently binding legal regulations has criticized the minister's position.

Poland's judicial system is still quite inefficient. The considerable delays in deciding cases brought before the courts are the principal problem. In January 2000, for example, the statutory time limit ran out on a case involving the burning of approximately 13,000 former secret police documents in 1989 and 1990. (The documents included the files of secret informers and microfilm from the Interior Ministry's third and fourth departments, which used to carry out surveillance of the opposition and churches.). After press inquiries, the Ministry of Justice determined in April 2000 that the statutory time limit for dealing with 713 other cases (most of which are lodged with Warsaw courts) would soon expire. However, the ministry dismissed the situation as "an incidental problem" because the 713 cases amount to a mere 0.005 percent of all the cases pending a court decision.

In April 2000, Poland lost a case before the European Court of Human Rights in Strasbourg (Dewicka vs. Poland) for the same reason. In 1991, the state-owned telecom company TPSA refused to install a telephone line at the home of 89-year-old Janina Dewicka. Civil courts of the first instance and the second instance examined the case for three years and five months, respectively, and ordered the company to install the line. It took the court an additional eleven months to issue the enforcement clause, even though it should have done so within three days after the relevant application was submitted. Thus, Ms. Dewicka waited for a total of four and a half years for the courts to decide her case. The European Court ruled that Ms. Dewicka right to a fair trial had been infringed upon and awarded her PLN 15,000 (approximately $3,500) in compensation.

Poland's court system consists of regional and provincial courts and a supreme court. The 1997 constitution expanded the competency of the constitutional tribunal. Judges are nominated by the National Judicial Council, created in 1989, and appointed by the president. The National Judicial Council consists of the chief justice of the supreme court, the minister of justice, the chief justice of the superior administrative court (a presidential appointee), 15 justices chosen from among the supreme court and lower courts, and four members chosen by parliament. Judges are appointed for life and can be reassigned, but not dismissed, except by a decision of the National Judicial Council. The administration of the judicial system is vested in the hands of the minister of justice and the courts themselves. Poland's judiciary is independent, although the role of the justice minister, the president, and parliament in the selection of judges could potentially result in political influence over the court system.

The 1997 constitution enshrines the right to counsel at all stages of a criminal proceeding. Once formal charges are filed, a defendant may study the charges and consult with an attorney provided at public expense, if necessary. The Helsinki Foundation for Human Rights has questioned the proper implementation of the legal right to counsel, in particular when it concerns the poor. In many cases, the quality of the counsel is questionable.

The constitution provides for equal rights regardless of sex or ethnic origin. Poland's population is 98 percent ethnically homogenous, with small Ukrainian, Belarusian, Slovak, Lithuanian, and German minorities. The electoral law exempts ethnic minority parties from the requirement to win 5 percent of the vote nationwide to gain parliamentary representation. Minority groups enjoy cultural autonomy, and many have established institutions and native-language publications.

In March 1999, the Sejm rejected a bill on the equal status of women and men. A new retirement law states that

women will receive lower retirement pensions because they are entitled to retire earlier than men (at age 60 versus 65). Thus, the period of paying into the retirement fund is shorter for women. The unemployment rate among women is higher than among men. Wages for women are, on average, 20 percent less than for men for the same work. A significant problem in 2000 was combating violence against women in the family and on the streets. Women's organizations criticize authorities for inappropriate and insensitive treatment of women who are rape victims.

In criminal cases, judicial decisions are effectively enforced. In civil cases, though, the length of judicial proceedings often influences their effectiveness. The courts simply cannot deal effectively and promptly with the number of civil cases submitted to them. In addition, bailiffs find it particularly difficult to enforce the payment of debts.

Corruption

1999-2000	2001
2.25	2.25

Although corruption in Poland is still widespread, it gained considerable public attention during the period covered by this report. World Bank reports on corruption stimulated considerable debate in 2000. One report, for example, suggested that corruption reached the "highest levels" in Poland noted the prevalence of legal loopholes that allow bureaucrats to manipulate privatisation deals and profit from state contracts. Although political parties have made corruption a serious issue, they have largely used is as a political weapon for attacking each other.

To combat corruption, the Polish government took a number of steps in 2000. The Economic Committee of the Council of Ministers established an interagency taskforce to prepare a report on actions needed to eliminate the sources of corruption. And, at the initiative of the World Bank, 30 politicians, scientists, journalists, and representatives of NGOs established an Anticorruption Working Group, whose task is to develop an anticorruption strategy for all sectors of public life.

Likewise, parliament sponsored a number of relevant legislative initiatives. It adopted an amendment to the law on presidential elections, for example, which designates that no more than 10 percent of a candidate's campaign budget may now come from individual anonymous donations. The amended law also introduces sanctions for failure to settle campaign accounts and budgets correctly. It also introduced a law on money laundering and bribery that has consequences for both individuals and firms and makes the act of giving bribes as serious as the act of receiving them. In particular, this law subjects all transaction over 10,000 Euros to examination. Several other bills and amendments related to political party financing, access to information, lobbying, and public procurement are now in their final stages of the legislative process. On November 1, 2000, in an effort to limit corruption among police, the government also prohibited road patrols from accepting cash payments for fines.

Steps taken by NGOs deserve special attention. Since January 2000, the Stefan Batory Foundation and Helsinki Foundation of Human Rights have been running a program called "Against Corruption" that is financed mainly by the Ford Foundation. The purpose of this program is to change societal attitudes towards corruption and to create networks of local groups that will monitor the activities of local authorities. It aims to do so by (1) sponsoring public awareness campaigns; (2) recommending changes in the law that will promote transparency, encourage greater social participation in decision making processes, and ultimately reduce corrupt practices; (3) supporting the independent media in their attempts to report on corruption; and (4) activating social movements that not only teach citizens how to monitor the actions of the authorities but also build public confidence in the authorities.

Polish law enforcement made some notable achievements in fighting organized crime in 2000. Among other things, it broke up an international drug smuggling gang, arrested members of a leading counterfeiting ring, and seized more than $1 million worth of illegal drugs. In September, 300 new officers were added to the police's organized crime unit.

In its 2000 Corruption Perceptions Index, Transparency International ranked Poland 43 out of 90 countries surveyed and gave it a score of 4.1 on a scale of 0 (highly corrupt) to 10 (highly clean). Poland's ranking in 1999 was 44 and its score 4.1.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
2.25	2.25	2.00	2.00

According to data published by the Ministry of Economy, the private sector accounted for 40 percent of GDP and employed 49 percent of the labor force in 1990. This figure included the historically privately run agricultural sector. In 1998, the private sector accounted for 69.4 percent of GDP and employed 70.7 percent of the labor force. The launch of new private ventures, more than privatization, has driven the expansion of the private sector in Poland. According to the Central Statistical Office, more than 5 percent of the labor force is employed in the informal sector. Different domestic and foreign estimates put the size of the informal at 16 to 19 percent of GDP in 1997.

The privatization process in Poland started with two separate laws passed in July 1990: the Office of the Ministry of Ownership Act and the Privatization of State-Owned Enterprises (SOEs) Act. In August 1996, a new Law on Commercialization and Privatization of SOEs replaced the latter act. As a first step, state enterprises were commercialized and converted into joint stock companies. In the second phase, various privatization methods were adopted, including sales of enterprises to domestic and foreign investors, initial public offerings, and leases. A number of enterprises were liquidated.

Out of 8,441 state-owned enterprises registered in July 1990, 1,488 had been transformed into join stock companies owned by the treasury, 1,942 had been directly privatized, and 1,671 had been liquidated as of July 2000. As of the close of 1999, 256 joint stock companies had been sold to strategic investors and 512 had been approved for the mass privatization process and transferred to National Investment Funds (NIF).

In 1998, an ambitious program was launched to privatize remaining state assets in telecommunication, banking, insurance, energy, the oil sector, mining, armaments, airlines, and utilities by 2001. Opponents in both the ruling coalition and the opposition have delayed implementation of the program, however. Nevertheless, the program has succeeded in privatising PEKAO SA (a bank), Bank Zachodni, PZU (the largest insurance company), LOT airlines, PKN (oil sector), and TPSA (the telecommunications company). On July 25, 2000, a consortium of France Telecom and Kulczyk Holding agreed to purchase a second tranche of TPSA from the Treasury. France Telecom purchased a 25-percent stake, and Kulczyk Holding purchased a 10-percent stake. The privatisation agreement gives the consortium the right to buy an additional 10 percent of TPSA shares by July 31, 2001, and another 6 percent in a secondary public offering that will take place in September 2001. To date, the Treasury still owns 35 percent of TPSA.

As of 1999, 92.3 percent of Poland's agricultural lands were privately owned, compared with 80 percent in 1990. The Agricultural Ownership Agency, which was set up to restructure and privatize state farms, took over 4.6 million hectares of land. It had privatized 846,000 hectares by the close of 1999. As of June 2000, the private sector accounted for 69.3 percent of industry's gross output.

The Privatization of State-Owned Enterprises Act envisioned that 20 percent of the shares of privatized enterprises would be distributed among employees for free. At the beginning of Poland's transition, this concession won majority support from workers and trade unions. Management (very often nomenklatura) and employees in small trade and consumer services sectors dominated the "small" privatization of their own firms, because they were often the only bidders at auctions. The government tried to withdraw the 20-percent rule during the privatization of TPSA but gave up in the face of strong resistance from trade unions and employees.

Since the start of the reforms, public support for privatization has declined. In 1992 and in 2000, the public reacted strongly to the high social cost of accelerating the reform process, and support for privatization dipped considerably. In 1990, 43 percent of Poles believed that privatization was a positive thing for the economy. In June 2000, only 25 percent shared this opinion. The main criteria that distinguish supporters and opponents of privatization are education, social position, profit from the development of a market economy, and, to some extent, political orientation. At one extreme, supporters of privatization have completed higher education and are managers or businesspeople. At the other extreme, opponents of privatization are unemployed workers, farmers, poorly paid workers, and trade unions members who have a leftist orientation.

The concepts of "reprivatization" and "enfranchisement" have been on the political agenda since Poland began its economic transition. Reprivatization refers to returning property that had been illegally nationalized by the Communist state. Enfranchisement is an ill-defined notion that refers generally to a socially responsible way of rewarding persons who will not profit directly from the privatization process. Supporters and opponents of these concepts are divided clearly along ideological lines. The AWS supported both reprivatization and enfranchisement in its platform during the recent parliamentary election campaign. Since its victory, the party has been pushing both ideas through the legislative process. Specifically, it has proposed a form of enfranchisement that will transfer ownership of communal and cooperative apartments to their occupants and distribute state-owned land to former state farms workers at not charge. In mid-2000, both houses of parliament approved an enfranchisement bill, but the president rejected it. As of October 31, 2000, a reprivatization bill had not been approved.

Macroeconomic Policy

1998	1999-2000	2001
1.75	1.50	1.50

Poland has experienced remarkable economic growth in comparison with its neighbors. This is the result of the sound and consistent macroeconomic policy that the National Bank of Poland (NBP) and successive governments have implemented.

Since the reform process began in 1990, Poland has introduced a corporate income tax (CIT), a personal income tax (PIT), a Value Added Tax (VAT) on goods and services, and an excise tax. There are also minor local taxes. Almost all areas have been overhauled by the tax system. Businesses, economists, and liberal politicians (Unia Wolnosci) have criticized the high level of the CIT and the sharply progressive PIT. The high level of taxes, they argue, has contributed to lower tax compliance and has hampered

economic development. The opponents of a rapid decrease in the overall tax burden argue, however, fear that such a reduction would increase the state budget deficit.

The CIT is currently 30 percent, down from 38 percent in 1998. Dividends are subject to a 20-percent flat withholding tax rate. The PIT is levied at progressive rates of 19, 30, and 40 percent—down from 20, 32, and 44 percent in 1998. The VAT Law provides for a standard tax rate of 22 percent and a reduced tax rate for a specific list goods and services. Poland will have to adjust its VAT rates even further to bring them in line with the EU's VAT directives. An excise tax is levied, along with the VAT, on certain luxury goods, alcohol, and gasoline.

Reform of the domestic banking system begun in the late 1980s and initially concentrated on the break-up of the state banking monopoly. Since the passage of the Banking Law and the Law on the National Bank of Poland (NBP) in January 1989, the NBP's role has been modified to correspond with that of independent central banks in the West. That is, the NBP is now largely responsible for monetary policy and banking supervision.

Upon the nomination of the president, parliament appoints the president of the NBP to a six-year term and has strictly limited rights of recall. The Monetary Policy Council, headed by the president of the NBP, is responsible for drawing up annual monetary policy guidelines. Members of MPC are drawn from outside the NBP. The operations of Polish banks are under the supervision of the Commission for Banking Supervision, a separate organizational unit within the NBP structure.

Poland's success in curbing inflation is partly due to the NBP's strong independence and its consistency in implementing monetary policy. Over the last decade, inflation has fallen gradually from 249 percent in 1990, to 60.4 percent in 1992, to 18.5 percent in 1996, to 8.5 in 2000. Between January and July 2000, the country experienced a moderate jump in inflation from 10.1 percent to 11.6 percent that resulted from increased oil and food prices. However, since its peak in July, inflation has been falling. This decrease can be attributed to a decline in oil and other nonfood prices that was accompanied by a restrictive monetary policy.

In 1989, there were only six commercial banks and 1,663 cooperative banks in Poland. Today, there are more than 80 commercial banks with domestic and/or foreign capital participation, plus 1,100 cooperative banks. The largest retail bank is the PKOBP, which recently was transformed into a joint stock company and is scheduled for privatization in the next two years. BGZ, another state-owned bank, specializes in serving the agricultural and farming industry. The Law on the Banking Deposit Guarantee Fund provides deposit insurance for all banks. The fund, which is financed by mandatory bank contributions, provides full coverage of deposits up to 1,000 Euros and 90 percent of deposits within the range of 1,000 to 11,000 Euros.

Exchange rate stabilization, which was the core of the Balcerowicz reform program, made the Polish *zloty* internally convertible on January 1, 1990. Currently, the zloty is fully convertible on current accounts and partially convertible on capital accounts. In force since January 1999, the new foreign exchange law allows for all capital account transactions with maturities beyond one year to be carried out with partners in the Organization for Economic Cooperation and Development (OECD). It also provides for the invoicing of current account transactions in zloty. In April 2000, the zloty was fully floated. In real terms, the zloty has appreciated 5 to 7 percent annually since 1995. The NBP has intervened only rarely, usually to weaken the zloty. Poland's foreign reserves rose from $6 billion in 1994 to more than $25 billion by the end of 1999.

The Council of Ministers, upon consultation with the Monetary Policy Council General, sets exchange rate rules. The implementation of exchange rate and monetary policy falls under the sole authority of the NBP. Since 1991, the principal monetary goals have been to lower inflation gradually and assure free convertibility of the zloty by slowing growth of the money supply and resisting sharp exchange rate adjustments.

The Polish capital market has been maturing based more on the establishment of laws than on spontaneous developments. The Warsaw Stock Exchange (WSE) was set up in April 1991. The independent Securities Commission is considered one of the best in Central and Eastern Europe and the former Soviet Union. A law on publicly trading securities and an act on investment funds regulate the capital market. Publicly traded securities are dematerialized and deposited in the National Depository of Securities.

In 1991, there were five publicly traded companies on the WSE. By the end of October 2000, 281 firms were traded on the primary floor, 58 on the secondary floor, and 30 on the free floor. In December 1996, a regular over-the-counter market (OTC) was also launched. As of mid-2000, shares, bonds, futures, and warrants are all traded on the WSE and/or the OTC. The first commodity futures exchange, the Warsaw Grain and Feed Commodity Exchange, was opened in late 1995. In 2000, the Electric Energy Exchange was created.

In 1991, bank loans were the only source of capital for expanding companies. Today, funds are also available through issues of shares, bonds (including municipal bonds), and global depository receipts.

Microeconomic Policy

1998	1999-2000	2001
1.75	1.50	1.50

The constitution states that "every person has the right to ownership, other property rights, and the right of inheritance [which are] subject to legal protection that is equal for all" and that "expropriation is admissible only for public purposes and upon equitable compensation." The Law on Land

Management and Expropriation of Real Estate limits public takeovers to specific public purposes such as national security. It also provides for full compensation at market value. No cases of expropriation have occurred since 1990.

Registries for land, companies, and property liens have not been fully developed. A Patent Law Act was passed in 1993, followed by a Copyright Law in 1994. In 1998, Poland adopted a law protecting intellectual property rights. And although the government has improved its ability to enforce legislation, change has come slowly. Software piracy, for example, is still a serious problem. The Business Software Alliance, an American antipiracy trade organization, estimates that approximately 90 percent of software in Poland is pirated.

Poland liberalized most prices as part of its 1989 reform program. Prices for housing rents and energy are still partially controlled by the state. Since 1998, changing these prices has not required the government's permission if the changes do not exceed the limits established by government-controlled bodies. In February 1997, the government permitted liquid fuel and gasoline prices to change without prior approval. A May 1997 law established the Energy Regulation Office, which awards licenses to private energy producers and regulates electricity prices. By law, electricity prices will now be set on a National Electricity Exchange established in mid-2000. Housing rents will be released in 2002.

Polish laws on the creation of new businesses are generally liberal and transparent. An explosion of businesses created during the early transition period, especially small service firms, resulted in the dynamic growth of the private sector's share of GDP. According to the European Bank for Reconstruction and Development, the private sector share in GDP was 65 percent in 1999. Nevertheless, starting and running a business in Poland is complicated by the speed with which laws on business activity are amended. There are more than 220 such laws, and they have been amended over 500 times. Consequently, small firms often must employ professional assistance to help ensure that they comply with the laws.

Arbitrary judgments in the administration of taxes and arbitrary enforcement of labor, health, and safety regulations are additional problems. Although in January 1998 a commission of businesspeople and experts was established to identify particularly onerous regulations, the results of the commission's work are negligible. At the end of 2000, a new commercial code will take effect. Licensing requirements are limited to a narrow group of industries, including the financial sector and armament production. Although this practice does create barriers to entry, it does not seriously hamper competition.

The limited capacity of Polish courts greatly delays adjudication procedures. Commercial cases are generally heard in court one to two years after they are filed. Then an additional year or two usually passes before judgments are actually rendered. Bankruptcy courts are just as slow. To remedy these problems, steps are being taken to increase the number of out-of-court settlements, set up municipal courts for minor cases, and shift arbitration on taxes and financial issues from tax administration offices to the courts. Private arbitration tribunals already exist in Poland. Judgments rendered in these tribunals carry the same binding force as those reached in public courts.

Poland's 1990 Law on Countering Monopolistic Practices prohibits various forms of anti-competitive behavior. The Office of Competition and Consumer Protection enforces the law. Between 1990 and 1999, the office found monopolistic practices in approximately 100 cases. Government policy itself often decreases competition by sanctioning monopolistic practices in sectors of the economy that have not been restructured or privatized. Polish Telecom, for example, has a sanctioned monopoly over international connections until 2003. (The government introduced competition in the local and domestic long-distance telephone markets in 1999.) Monopolies in sectors in which the government has created industry-wide holding companies (such as Nafta Polska in fuels) will decrease as the privatization process continues.

Poland acceded to the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in July 1995. Poland is also a member of the European Free Trade Association and the Central European Free Trade Agreement, both of which require a substantial reduction in import duties. Average tariff levels have decreased gradually since 1994. The average-weighted tariff was 15 percent in 1995 and declined to approximately 7 percent in 1998. The import surcharge was eliminated on January 1, 1997.

Tariffs are scheduled to decrease further over the next several years as a result of multilateral agreements with the EU, the European Free Trade Association (EFTA), and the Central European Free Trade Agreement (CEFTA), which account for approximately 75 percent of Poland's trade. However, in February 1997, Poland re-imposed a previously suspended 10-percent tariff on grain and grain products. In 1999 it introduced quotas on grain that reflect the broader issue of subsidized foodstuffs imported from the EU. Political considerations dictate which sectors enjoy protection. Economic reasoning favors further liberalization of trade, first within the CEFTA countries and then with the EU. Already, imports from countries outside the EU face much higher tariffs. Certification requirements, product standards, and officials who are overworked because of the explosion of trade and transit activities in Poland also hinder trade liberalization.

The Foreign Investment Act secures the opening of Poland to foreign investment. With the exception of "strategic" sectors, Poland does not require any local participation, ownership, or management in companies. In general, foreigners can enjoy complete ownership of new or existing Polish firms and can repatriate profits and dividends fully without a permit requirement. Domestic and foreign firms are treated equally under Polish investment law, with the exception of bids for public procurement contracts. Polish firms

enjoy a mandated 20-percent price advantage, and 50 percent of the materials and labor in all contracts must be Polish. The cumulative value of foreign direct investment (FDI) has grown from over $1 million in 1990 to $43 billion in mid-2000. FDI reached record levels in 1999 and 2000.

Poland's energy sector is among its least reformed sectors. The energy market is protected from imports. The EU agreed in late 1996 to extend protection of the Polish fuel market until the year 2000. Under the agreement, custom duties will be reduced gradually. In return, Poland must to continue to deregulate fuel prices, accelerate the privatization of refineries, remove non-tariff barriers, and give equal treatment to all firms dealing with Polish refineries.

In May 1996, the main state-owned oil refineries and the main gasoline distribution network were merged into Nafta Polska, an industry wide holding company that is owned by the Treasury. The biggest oil refinery, Plock, was then merged with the gasoline distribution network company, CPN, and privatized under the name of PKN Orlen. Another oil refinery, Rafineria Gdanska, is still on the privatization agenda. The Polish Oil and Gas Company has a monopoly on the importation, transmission, storage, and distribution of natural gas. Privatization of the oil and gas sector is should be completed by 2001.

Historically, all gas imports have come from the Russian Federation. Although oil imports are more diversified, some 80 percent of crude oil still comes from Russia. Total electricity generation in Poland exceeds increasing domestic consumption. The 1996 Energy Law created an Electricity Regulation Board responsible for licensing, supervising, and approving rates, levying fines, and arbitrating disputes between users and producers. All relevant companies in the electricity industry are in the process of being transformed into financially independent joint-stock companies. The core institution in this sector is the state-owned Polish Power Grid Company, which purchases electricity from the 36 public power generation companies and industrial self-producers and sells electricity to 32 local public distribution companies

Social Sector Indicators

The national work force in Poland totaled 15.4 million people at the end of October 2000, reflecting a decline from 17.5 million in 1992. Before 1989, unemployment was not officially recognized in Poland for political reasons, and overemployment was evident in many enterprises. The unemployment rate fell from 16.4 percent in 1993 to just over 10 percent at the end of 1998. The unemployment rate was 14.1 percent in October 2000.

State unemployment compensation is less than 30 percent of the median wage. The greater the number of years a person has worked, the higher the level of compensation. The duration of benefits depends on the unemployment rate in a particular region. If the rate is higher than the country average, benefits can last for 12 months; six months if the rate is lower. If there is structural unemployment in the region, benefits can be granted for 18 months. At present, the unemployment compensation rate is 446.7 PLN (about $98) per month for persons who have been in the workforce 5 to 20 years, 357.4 PLN for persons who have worked less than 5 years, and 536.1 PLN for persons who have worked more than 20 years.

In January 1999, Poland replaced its pay-as-you-go pension system with a three-pillar system. The first pillar is an improved version of the mandatory pay-as-you-go system; the second, a compulsory private pension fund managed by private institutions and pension institutions; and the third, a voluntary capitalized fund such as an employee pension scheme and individual pension insurance policies. As of January 1, 1999, anyone below the age of 30 must participate in the first two pillars. Persons between the ages of 30 and 51 may choose whether to pay into a private pension scheme or remain in the pay-as-you-go scheme. The reformed pension scheme is intended to reduce state budgetary liabilities to the social security system and to provide more liquidity in domestic markets as a result of the significant flow of funds into privately managed funds.

The state administers four social security funds and a state pension fund that are partially or wholly financed by employer contributions. The social insurance fund and the labor fund are the largest extra-budgetary funds and rely on state budget transfers to supplement their own off-budget revenues. In the 1999 state budget, more than 20 percent of the revenues of the social insurance fund and almost 25 percent of the revenues of the labor fund came from state budget transfers.

The retirement age is 65 for men and 60 for women. As of October 30, 2000, the minimum pension, family, or disability benefit was 470,51 PLN (about $105) per month. An average pension in the first six months of 2000 was 939,54 (about $209) per month.

There are retirement privileges for certain groups like miners, teachers, service men and women, and for work that poses a health hazard. Although the pension system reform plan phases out most privileged groups, a system of specialized benefits for the disabled and for families will remain. In 2000, total benefit payments (excluding farmers) plus maintenance costs amounted to 12.4 percent of GDP. Farmers are entitled to benefits after reaching the retirement age and transferring their ownership rights.

At present, the minimum wage is 700 PLN (about $155) per month. An average monthly salary in the third quarter of 2000 was 1.905,76 PLN (about $423).

In 1999, there were 3.9 million students in primary schools, 601,000 in gymnasia, 863,000 in secondary comprehensive schools, 942,000 in technical schools and vocational lyceums, and 590,000 in vocational schools. Since

the implementation of reforms in 1999, school attendance has been obligatory for children between 7 and 16 years of age; total education, though, is still obligatory until 18 years of age. Thus, attendance at a three-year gymnasium after the completion of six years in primary school is obligatory. According to the OECD, the student/teacher ratio in 1999 was 12.8 percent in primary schools and 16.1 percent in secondary schools.

Poland's infant mortality rate has fallen considerably—from 19.3 per 1,000 in 1990, to 13.3 per 1,000 in 1993, to 8.9 per 1,000 in 1999. There are no differences between the infant mortality rates in rural and urban areas. Life expectancy increased steadily for both men and women from 67.4 and 76 in 1993 to 68.9 and 77.3 in 1998, respectively. Divorces, after an increase from 39,800 in 1980 to 42,200 in 1990, declined to 27,900 in 1993 and 42,000 in 1999. There were 5,182 suicides in 1999.

The ratio of doctors and nurses to the population increased slightly from 2.2 per 1,000 and 5.3 per 1,000, respectively, in 1993 to 2.6 per 1,000 and 5.7 per 1,000, respectively, in 1999. The number of hospital beds decreased from 214,864 in 1993 to 198,688 in 1999. The percentage of GDP devoted to health care declined slightly from 6.7 percent in 1993 to 4.04 percent in 1999.

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ROMANIA

Polity: Presidential-parliamentary democracy
Economy: Mixed capitalist (transitional)
Population: 22,400,000
GNP per capita at PPP $ (1999): 5,647
Capital: Bucharest
Ethnic Groups: Romanian (89.5 percent), Hungarian (7.1 percent), German, Ukrainian, Serb, Croat, Russian, Turkish, Roma, and other (2 percent)
Size of private sector as % of GDP (mid-2000): 60

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	3.95	↑ 3.85	↑↑ 3.19	↓ 3.31
Rule of Law	na	na	4.25	↓ 4.38
Economic Liberalization	4.63	↑ 4.50	↑↑ 4.17	↑ 4.00

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	1,323.0	1,564.0	1,563.0	1,551.0	1,688.0	1,512.0	1,596.0
Real GDP growth (% change)	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.6
Inflation rate	136.7	32.3	38.8	154.8	59.1	45.8	45.7
Exports ($ millions)	6,151.0	7,910.0	8,061.0	8,431.0	8,302.0	8,503.0	10,366.0
Imports ($ millions)	6,562.0	9,487.0	10,555.0	10,411.0	10,927.0	9,595.0	12,050.0
Foreign Direct Investment ($ millions)	341.0	417.0	415.0	1,267.0	2,079.0	1,070.0	1,000.0
Unemployment rate	10.1	8.2	6.6	8.9	10.3	11.8	10.5
Life Expectancy (years)	69.5	69.5	69.1	69.0	69.3	69.5	69.0

INTRODUCTION

Romania has a political system fraught with the difficulties of transition. Despite the implementation of rudimentary changes necessary for the transformation to democracy, Romania has stagnated after ten years of change. Romania's constitution describes the country as a sovereign, independent, unitary, and indivisible nation state. The republic is governed by the rule of law and guarantees human rights, freedom of expression, justice, and pluralism. National sovereignty resides with the Romanian people, who are represented in parliament by democratically elected politicians.

The administration of President Emil Constantinescu, who was elected in 1996, was expected to herald a period of democratization and change. But in July 2000, Constantinescu announced that he would retire from politics after the November presidential and parliamentary elections. His decision came only months after the local elections revealed the extent of corruption in society. Constantinescu has consistently been a spokesman of liberalism, and his decision to retire marks his frustration with a system and a mentality that not only have failed him but have failed the development of the entire nation.

Even though Constantinescu's administration has tried to crack down on corruption, the problem is damaging political attempts to stabilize the economy. Strict policies to bring the economy in line with the criteria for accession to the European Union (EU) are putting tremendous pressure on an already ailing economy. This is having a detrimental effect on a society that is growing increasingly impatient with its lot in life. Privatization, banking, and taxation reforms were started to varying degrees during the period covered by this report, but the process has been cumbersome and slow. Romania has ambitious economic aspirations and, given time, could very well achieve success. But the transition is taking its toll, and the economic structure is buckling under the pressure.

The ruling coalition has proved to be weak and unable to agree on political and economic reforms necessary for continued development. Consequently, public confidence in the government has declined, and Romanians have begun to think they were better off under communism. While economic stagnation has affected the government, Romania's citizens have suffered most. They have born the brunt of economic hardships and have blamed the Constantinescu administration for the deterioration of their situation over the past four years.

Thus, while the general election scheduled for November 26, 2000, is seen as a symbol of change, it is increasingly likely that Romania will revert to the post-Communist system of former President Ion Iliescu and his Party for Social Democracy—the very party that Romanians voted out in 1996. Romanians have tested liberalism and feel it has failed them. Any immediate relief seems unlikely. The Constantinescu administration has tried to strengthen political, economic, and social structures, but corruption, bureaucracy, organized crime, and the administration's own inability to compromise have thwarted real progress. And while democratization is likely to continue under a new government, the country's problems will remain until both the government and society challenge them confidently. Society is disgruntled with the prolonged economic recession and, unfortunately, regards a step backward as a step forward.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.25	3.25	2.75	3.00

Romania's political system is fragile but not unstable. A democratic structure is in place, but political players are unable to function consistently. The existence of numerous political parties makes it difficult for one party to hold an absolute majority, and governments are usually a coalition of parties. Emil Constantinescu presides over the current ruling coalition, which is made up of five parties: the Christian Democratic Peasant Party (PNTCD), the National Liberal Party (PNL), the Democratic Party (PD), the Party of Social Democracy (PSDR), and the Democratic Alliance of Hungarians in Romania (UDMR).

The year 2000 began with a new prime minister at the helm. Mugur Isarescu, previously the governor of the National Bank of Romania (BNR), was elected by parliamentary consensus on December 22, 1999, to prevent governmental collapse. Isarescu replaced Radu Vasile, who was forced to resign when the PNTCD (the largest coalition party) withdrew its support with backing from the National Liberal Party (PNL), the Democrat Party (PD), and the UDMR. The political crisis exemplified the instability that Romania faces and put into question society's faith in its government. The coalition is unlikely to continue in its present form after the November general elections.

The most recent presidential and legislative elections occurred in 1996. The Organization for Security and Cooperation in Europe (OSCE) concluded that the elections to the 143-seat senate and the 328-seat chamber of deputies were "held in an atmosphere of calm, peace and normality with electors being free to express their views." The OSCE reported that in comparison to the 1992 elections, Romania had overcome a series of bureaucratic problems. In 1992, the OSCE feared that television coverage had encouraged prejudice, but by 1996 this problem largely had been curbed. In 1996, however, it did express concern about the absence of a permanent and professional central electoral bureau. This was considered a major weakness. The pro-Democracy Association, a national nongovernmental organization (NGO), was allowed to monitor the 1996 elections freely, and it concluded that the elections were free and fair.

Romanian law requires candidates to collect 100,000 signatures each before they can enter a presidential race. For the 2000 presidential election, the number of signatories has been raised to 300,000. Out of a population of 22.6 million, the number of signatories required cannot be considered onerous. However, candidates must collect signatures from a number of different counties and be at least 35 years old. There is also a two-term limit. In 1996, the presidential election took place in two rounds. Emil Constantinescu defeated Ion Iliescu of the Party for Social Democracy in Romania (PDSR) in the second round with 54.4 percent of the vote. Iliescu received 45.6 percent.

National elections were first held in 1990, and voter participation peaked at 86.2 percent. Since then, the euphoria surrounding national elections has diminished. In 1992 and 1996, voter participation steadied at 76.1 percent and 76 percent respectively.

The most recent local elections occurred on June 18, 2000. The elections were both free and fair, although certain organizational problems occurred. The opposition PDSR gained 714 mayoralties out of the 2,249 that were contested. Other parties performed as follows: the Alliance for Romania (ApR), 253 mayoralties; the National Liberal Party, 212; independent candidates, 126; the Democratic Convention of Romania (CDR), 125; the Greater Romania Party (PRM), 61; the Social Democratic Party, 54; the Romania National Party, 52; the Socialist Labor Party, 47; the Party of Romanian National Unity, 42; and the UDMR, 38. Voter turnout was only 46.9 percent. This was largely due to a local election boycott by many people who had invested in the fraudulent National Investment Fund. However, the vote was consistent with a downturn in local election voter trends, indicating deterioration in voter confidence. In the 1992 local elections, turnout was 72 percent. In 1996, it was only 56 percent. Details on female voter participation are unavailable.

The constitution and the 1992 electoral laws guide a democratic electoral system based on universal and equal suffrage. There have been few significant changes to the electoral laws, but since 1996 several ordinances have been passed or altered to make the general elections on November 26, 2000, flow more easily.

Romania's electoral system is multiparty based with viable parties, including minority groups, representing all sides of the political spectrum. The parties and coalitions represented in parliament function at the national and the local level. However, the growing number of corruption scandals at all levels of government has affected the parliament's legitimacy. The Adrian Costea money-laundering scandal is a case in point.

Due to the tentative relationship between the parties of the ruling coalition, it has been impossible to muster a majority vote to enact new legislation. The government, therefore, has relied on emergency ordinances to ensure the implementation of its proposals. These ordinances have added to the electoral bureaucracy and infringed on the separation of executive and legislative powers. In February 2000, for example, the government issued an emergency ordinance to raise the threshold for representation in parliament to 5 percent. Instead of holding wide-ranging discussions within the two parliamentary chambers, a "political agreement" was made.

Law 27, adopted in 1996, lays out the requirements for official recognition of a political party. Political groups need the support of 10,000 persons and must be domiciled in at least 15 counties. Previously, a party needed the support of only 251 people. As a result, the number of political parties has dropped from more than 250 to just 57. Fifty-nine registered parties will participate in the November 2000 general elections.

Figures on party membership are unavailable. Women make up seven percent of the outgoing parliament. Hungarians, the largest ethnic minority, are represented in parliament by the UDMR. In elections the UDMR usually takes about 7 percent of the vote. This number is compatible with the size of Romania's Hungarian population as a whole. The UDMR is a member of the current ruling coalition.

Civil Society

1997	1998	1999-2000	2001
3.75	3.75	3.00	3.00

Civil Society in Romania is relatively vibrant but still lacks resources and funding. According to the U.S. Agency for International Development's (USAID) NGO Sustainability Index for 1999, there are an estimated 40,000 registered NGOs in Romania, 50 percent of which are assumed to be active. However, these data are unofficial. There are also no exact figures on membership in NGOs.

Romanian NGOs are nonprofit organizations and must be registered as such according to Law 21 (1924). In major towns and cities, Romanian NGOs are becoming more organized and are developing internal management structures. However, the overall lack of funding and resources has discouraged locally led philanthropy and volunteerism.

During the period covered by this report, there has been a marked increase in the number of NGOs, largely in the social sector. This could be related to the growing economic and political problems the country is facing. Romanian NGOs address an enormous range of issues. The Partnership for Change (PC), for example, concentrates on women's issues and works with the Trade Union Energetica Women's Organization to encourage greater awareness of gender issues. Another NGO, the Roman Women's Association in Romania (RWAR), was established in 1996 to address the status of women with regard to the labor market, education, spiritual life, social health assistance, health, family, and the protection of Roma women and children. The RWAR has more than 100 members and is the first NGO to address Roma rights.

Romania is the only country in Central and Eastern Europe that has not passed a modern law on associations and foundations. Law 21, passed in 1924, makes registration relatively easy and places few restraints on freedom of operation. Unfortunately, the law does not have adequate safeguards and is inconsistent with more recent legislation. For several years, Romanian NGOs have been pushing for legislative changes to bring the law in line with internationally accepted regulations. The 1998 Sponsorship Law allows tax deductions for individual and corporate contributions to NGOs. Another law passed in 1998 lets NGOs contract out for the delivery of social services.

Few Romanian NGOs have a board of directors or a clearly defined management structure. In major towns and cities, though, larger well-established organizations are beginning to develop. These NGOs tend to develop on a Western model, even though they might not receive funding from Western institutions. In 1996, a report by the Charles Stewart Mott Foundation recommended the establishment of resource, support, and training centers to help strengthen and develop the NGO sector. In response, the Soros Foundation, USAID, the Charles Stewart Mott Foundation and the United Nations Development Programme have implemented program, and the number of trained, experienced managers is growing across Romania. Since NGOs lack resources, though, it is difficult for them to keep trained, often unpaid, staff who are attracted by paid employment in business.

Funding for Romanian NGOs is low. Around 36 percent comes from abroad, but foreign donors have started to reduce the level of direct support. Instead, they are funding complete projects such as child welfare and community development programs. Some NGOs have begun to use new fund-raising techniques such as membership fees, direct mail campaigns, and public events. According to USAID, around nine percent of NGO's revenues come from individual donations, 11 percent from membership fees, and 13 percent from corporate sources.

The Sponsorship Law lets firms offer five percent of their profits in money or in kind to an NGO in exchange for certain benefits. However, a contractual agreement must exist between the firm and the NGO it wishes to fund. The government and parliament do not fund projects related to public participation, although there have been instances in which state-owned firms have supported NGOs. The majority of urban NGOs disclose their funding sources. They can generate an income if they use it for statutory purposes.

The government's relationship with NGOs is weak and ad hoc, but it can call upon NGO experts for advice. Both the government and parliament have special departments to deal with NGOs. On the local level, NGOs have direct access to elected officials and therefore can encourage the disclosure of information to the public. Councils can adopt legislation requiring them to meet with the public on a regular basis, and citizens have the right to demand meetings with elected officials. In reality, though, NGOs are rarely invited to join decision-making bodies at a national or local level.

NGOs have free access to the media, and they use this privilege to disseminate information to the general public. Local newspapers can concentrate on issues relating to the work of a particular NGO but they may not focus on the NGO itself. Consequently, the media helps limit the public's awareness. However, the sponsorship law did help encourage favorable treatment of NGOs by the print and broadcast media. NGOs rarely play an investigative role, and they have limited access to Western media. Training on how to take advantage of the media is a key element in NGO development.

The 1991 constitution stipulates that trade unions are free to function without political interference. All private sector employees have the right to join, form, or associate with trade unions. Out of 11 million workers, around 50 percent belong to 20 nationwide trade union confederations or smaller independent trade unions. There are three main trade union confederations: the Fratia National Trade Union Confederation (CNSLR-Fratia), the Alfa Workers' Confederation of Labor (Cartel ALFA), and the National Union Bloc (BNS). In 1995, they formed the National Inter-Confederate Committee.

Economic reform and restructuring have resulted in downsizing and redundancies. Consequently, membership in trade unions has declined. The National Association of Farmers of Romania and the Agrostar Trade Union represent farm workers in the workplace, while the National Peasant Party represents farmers in parliament. Small business associations, trade groups, and private enterprises may represent themselves in the chambers of commerce found in major cities.

The Romanian constitution guarantees the public's right to participate in politics. This includes freedom of association, freedom of expression, and freedom of information, and the right to make petitions. Citizens have no right to take action in the constitutional court, but they do have access to ordinary justice. NGOs are becoming more active in the political and policy process, but the most popular way to voice opinions is through public protest. NGOs are particularly involved in the policy-making process and are called on for expert advice. The constitution requires lawmakers to work with social organizations but does not specify the extent of public participation in the legislative process. The Statute of the Parliamentary Chambers neither calls for public participation nor requires public notification of proposed legislation.

Independent Media

1997	1998	1999-2000	2001
4.25	4.00	3.50	3.50

A large portion of the Romanian media has been privatized and is relatively independent. Nonetheless, there are barriers to collecting information. There are more than 100 private television stations and around 200 private radio stations. There are 15 national dailies and around 100 local and regional dailies, most of which are privately owned. State television and media control a large portion of the electronic

media, but this is changing rapidly. All of the major Romanian newspapers such as *Monitorul*, *Ziua*, and *Nine O'clock* now have their own Web sites.

There are several private newspapers, including *Evenimentul Zilei* (owned by the German group Grunne und Jahr/Bertelsmann), *Romana Libera*, *Adevarul*, *Libertatea* (owned by the Swiss group Ringier), and *Cotideanul*. The government paper, *Vocea Romaniei*, and the paper of the presidency, *Dimineata*, receive government subsidies. Minority groups also have their own newspapers such as the Hungarian *Romaniay Magyar Szo* and Germany's *Deutshe Algemeine Zeitung*. The major private television companies with national distribution through cable television are Pro TV, Antenna 1, Tele 7 abc, and Prime TV. The main private radio stations include Radio Contact, Radio Pro-FM, Radio 21, Radio Uniplus, Radio Total, Radio Delta, Radio 2M+. In the year 2000, a major French media group, Hachette (Groupe Lagardere), launched Europa FM, the first FM radio station network with national coverage.

The state also has its own broadcasting stations. Television Romania (STVR) has three channels: Romania 1, TVR2, and Romania International. SRR, the public radio network, reaches audiences across Romania. While the major private television channels cover most of the urban areas through cable television distribution, the only channel that covers rural areas is Romania 1.

The National Audiovisual Council is the regulatory body for both state and private media. In 1992, the Romanian dual broadcasting system was established. In 1994, the Romanian Broadcasting Corporation and the Romanian Television Corporation were created. Over the past six years, they have transformed the state media into "editorially independent public services acting in the national interest."

Private media are not exempt from Romania's economic hardships and often are over-staffed, inefficient, and poorly managed. Consequently, they usually receive funding from private donors, the government, and their owners. Media groups, however, are beginning to take up the gauntlet. The Expres media group controls a magazine, a television station, and a radio station. Major television stations such as Antenna 1, Tele 7 abc, Dacia Europa Nova, and Ameron have corporate sponsors. Large media groups, including the Media Pro Group and Contact Belgium, fund major radio stations.

The major printing plants are generally privately owned. The largest press distribution company, Rodipet, is still state owned, but its share of the market is no more than 30 percent. The media law states that all radio and television stations must have a contract for the programs they broadcast. The law was an attempt to cut down on piracy and allow private distribution, but it is bureaucratic and could lead to unnecessary restrictions on programming.

Romanian media are largely independent. A wide range of newspapers, magazines, radio stations, and television stations represent a cross-section of views. However, since subsidies from owners are common, there is the potential for media organizations to represent the owners' views. State-owned media tend to reflect the government line, and since they often lack funding, editors can be susceptible to political pressure. Journalists are also poorly paid and can be bribed to provide a favorable or unfavorable report.

Romania's constitution guarantees access to information. Previously, journalists and the public had little access to governmental information, but it is becoming more common for government ministries to post press releases and contact information on their Internet sites. Still, departmental secretaries can hamper direct contact with ministerial officials, and journalists frequently rely on unofficial sources. Since media regulatory bodies are appointed and controlled by parliament, the government, and the executive, they are open to political pressures.

Article 30 of the constitution establishes the right to freedom of expression and states that freedom of the press must not "be prejudicial to the dignity, honor, and privacy of the person, and the right to one's own image." It prohibits defamation of the nation and country, attempts to instigate wars of aggression, incitement to discrimination or public violence and "any obscene conduct contrary to morality."

The 1996 penal code determines the penalties for libel and slander. A journalist can receive up to two years in prison for libel and up to five years for reporting false information that endangers national security and international relations. Law No. 40 of the penal code states that libel and slander laws apply to "irresponsible" journalism. In 1999, six journalists were convicted of libel or slander. According to Freedom House's 2000 Press Freedom Survey, "one reporter was arrested for exposing corruption, two were attacked while investigating a construction site, and another was robbed of his manuscript and thrown from a moving train."

There are several journalistic and press associations in Romania, including the Romanian Press Club, the Committee to Protect Journalists, and the Independent Journalists Federation (IJF). The IJF was established in 1994 to promote free and independent media in Central and Eastern Europe and is a nonprofit organization. The IJF offers specific programs catering to female journalists. The Committee to Protect Journalists has documented at least 19 cases of harassment, legal action, and threats of violence against journalists in the past three years; however, this estimate is considered low.

Many women work in the media, but exact figures are unavailable. One only needs to look at newspapers, magazines, and television broadcasts, though, to determine the extent of female involvement. There is little evidence that Romanian women reach the highest echelons in private media organizations.

Internet penetration in Romania is between 1.6 and three percent, but access is generally good only in Bucharest and other major urban areas. There are no restrictions on Internet access to private citizens. In the past, Internet access has been confined to those who can afford it. This situ-

ation is changing rapidly, though, as Internet cafes spring up in major towns and more cities provide general-use terminals. Businesses, universities, libraries, and other public facilities that can afford the equipment and fees also provide Internet access. Nonetheless, Internet access is more expensive than in Western Europe and the United States, mainly because of telephone charges.

In its Survey of Press Freedom, Freedom House rated Romania "Partly Free" in 1991 and 1992, "Free" in 1993, and "Partly Free" from 1994 to 2000.

Governance and Public Administration

1997	1998	1999-2000	2001
4.25	4.00	3.50	3.75

Legislative authority is the sole domain of Romania's two houses of parliament, the senate and the chamber of deputies, and the executive is the government. The constitution sets out a general system of checks and balances between parliament and the government. The legislature is organized into parliamentary groups that can make proposals on the composition of permanent offices and committees. The legislature also has the power to express confidence in the government; provoke the government's resignation; take to the supreme court resolutions on the impeachment of the president; and exercise political control over the authorities, the executive, and members of the government by raising questions and establishing committees of enquiry. It also elects members of independent bodies like the Higher Council of the Judiciary and the Court of Audit. While the executive is responsible for the implementation of domestic and foreign policy and for the general management of public administration, the legislative branch may express its dissatisfaction.

The legislature is responsible for passing constitutional, organic, and ordinary laws. Organic laws establish the system of governance and protect the population. For example, they define the structure and functions of political parties and general statutory rules. The government, through ordinances and emergency rulings, can amend laws, but parliament must approve the changes.

In 1999, parliament only adopted 59 out of 453 draft laws and ordinances. This low level of activity reflected the government's fragility ever since the ruling coalition lost its majority in the Senate. Parliament's inability to approve draft legislation has delayed important reforms, despite the government's attempts to solve problems by passing emergency ordinances.

Generally, Romania's legislative and executive bodies operate transparently. The constitution requires parliament to make its sessions public, unless it finds that a secret session is necessary. There is no constitutional provision requiring the presidency to operate transparently, but it does hold press conferences and release information. *Monitorul Oficial* publishes new laws on the day they are enacted, but there is no provision for public discussion of them in advance.

Under the constitution, the government must ensure that its activities are publicized. Article 31 establishes the public's right to accurate information. Law 69/1991 also requires regional authorities to make their agendas public. Unfortunately, media frequently have difficulty obtaining information and must rely on anonymous sources for unsubstantiated information. Romania does not have a freedom of information act, but the constitution does guarantee freedom of access to information.

Romania is divided into territorial administrative units, or districts, such as Banat, Modavia, and Transylvania. Local and regional administrations manage decentralized public services and enjoy local autonomy. However, local authorities have little power and are severely restricted by a lack of government funds.

The legal framework for decentralizing power was largely complete at the end of 1999. However, there have been problems in implementing the changes. The financial relationship between the central government and local governments is unclear, and there have been delays in the transfer of funds. Local governments rely on the central government for funds and grants from international institutions such as the European Bank for Reconstruction and Development (EBRD), the EU, USAID, and the UNDP. Funds from these institutions have helped municipal authorities establish the necessary infrastructure for generating revenues, but tangible improvements are few.

Romania's civil service is overstaffed and open to corruption, particularly at the local level. According to the 1999 Civil Service Statute, civil servants can be appointed to positions in the government, prefect offices, local governments, or county councils for an unlimited period of time. The Ministry of the Civil Service coordinates their work. The successful implementation of the Civil Service Statute would be a major step toward creating a professional and stable civil service.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.25	4.25	4.25	4.25

Introduced in 1991, the Romanian constitution provides the basis for the legal structure of the country. The constitution is regulated, interpreted, and enforced by the constitutional court, which consists of nine justices who are appointed for nine years. The president, the senate and the chamber of deputies elect three judges each.

During the period covered by this report, elections dominated public life, and questions were raised about the

constitutionality of Ion Iliescu's presidential candidacy. The problem concerns Romania's two-term limit. While Iliescu has presided over Romania twice, his first term began before the constitution was implemented. However, complaints about Iliescu's candidacy have amounted to nothing, and he is still leading in the polls.

Romania's penal code came into force in 1996. At that time, debates were raging over a controversial provision that made homosexuality illegal. In 2000, the chamber of deputies overturned this provision. In practice, though, the new law, which awaits senate ratification, changes very little. Further reforms of the criminal code have been proposed, but the broad package has not been implemented.

The constitution states that the "individual freedom and security of a person are inviolable" and lays down strict guidelines for searching, detaining, or arresting a person. A person cannot be detained for more than 24 hours, and a magistrate must issue an arrest warrant. Warrants are valid for 30 days and can only be extended by a court ruling. The constitution also states that the residence or domicile of a person is inviolable. Only magistrates, prosecutors, and courts may issue search warrants. Security guards can enter a property without a warrant in the defence of national security and public order, or situations that affect public health and safety.

In criminal cases, there is evidence that suspects and prisoners are beaten and abused—especially crimes relating to homosexuality. Amnesty International has carried out detailed investigations into human rights abuses for several years. Throughout the 1990s, Amnesty International received information that implicated law enforcement officers in the use of excessive force in the restraint, arrest, and detention of prisoners. The organization's annual report for 2000 found that "reports of torture and ill-treatment by police officers continued. Detainees were frequently denied access to a doctor or a lawyer, which facilitated ill-treatment." The report raised concerns about domestic legislation that permits police officers to shoot criminal suspects, even if they pose no immediate threat. In 1999, police officers who sought to arrest three individuals suspected of cigarette smuggling shot and killed a 40-year old Roma man and injured his companions as they fled.

Due to the inefficiencies of the criminal justice system, excessive delays are common. An area that continues to be a problem is the alignment of Romanian law with EU laws and directives—a requirement for EU membership. While a reform program aimed at integrating the two systems is in place, progress has been slow. Nevertheless, there are signs that Romania's courts are becoming more efficient.

The constitutional framework guarantees equality before the law and secures freedom of the press, expression, movement, and conscience. Article 20 declares allegiance to the Universal Declaration on Human Rights. In September 2000, a Romania introduced by government ordinance legislation that prohibits discrimination on the basis of nationality, race, ethnicity, age, gender, or sexual orientation. The right to private property is guaranteed to all; Romanians and foreigners alike are allowed to own property and establish businesses.

The constitution protects the rights of national minorities and calls on the state to create an environment in which minority groups can preserve, develop, and express their identity without discrimination. Hungarians are the largest national minority, equalling roughly eight percent of the population. The largest political representative of the Hungarians is the UDMR, which is currently a member of the ruling coalition. Although the government has an exclusive Department for the Protection of National Minorities, discrimination is still evident, particularly toward the Roma population. Many Roma have sought asylum in countries like Germany and Britain.

A revised law on remuneration for judges has increased personal financial independence and made the legal profession more attractive. Other recent initiatives have improved training, recruitment, and efficiency in the judiciary. In November 1999, the law on the organization of the judiciary was amended so that disciplinary measures can be taken if courts do not process cases in a timely manner. An emergency ordinance implemented in October 2000 also attempts to speed up court procedures. However, the courts are strongly linked to the Ministry of Justice and are not free from political influence. Judges are appointed by the president on the recommendation of the 15 members of the Higher Council of the Judiciary. Two important nongovernmental arbitration courts exist to stamp out bias and prejudice: the Commercial Arbitration Court, administered by the Chamber of Commerce, and the International Arbitration Court. Romania is a signatory to the 1958 New York Convention on international arbitration, the 1961 European Convention on International Commercial Arbitration, and the 1965 Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (the ICSID Convention). Arbitration decisions are enforceable in Romanian courts.

There is a longstanding debate in Romania over the restitution of property seized by the Communists and the Nazis. Despite the lack of consensus about restitution legislation, properties have been returned to claimants at a faster rate since 1996. Under Romanian law, property is divided into three categories: dwellings and businesses, agricultural and forest lands, and community and religious assets. Each kind of property is subject to different restitution regulations and procedures. Claimants must be Romanian citizens or in the process of becoming citizens.

The courts are split into four different tiers. The ordinary court hears cases concerning no more than 10 million lei. County courts and the Bucharest City Court hear cases of more than 10 million lei. The third tier is the court of appeals, and the highest court is the supreme court. On average, the wait for trial is seven months to two years. Judgements take seven months to one year.

Romania adopted a law on business competition in April 1996. While business competition is openly encouraged,

the law is regulatory in nature and designed to prevent monopolies. It replaced a 1991 law and established both a Competition Council and the Competition Office. The law forbids anticompetitive practices such as fixing prices, market sharing agreements, rigging auctions, and other monopolistic behavior. The Competition Council also has the right to approve mergers. The informal market can effect competition at a basic level. Romania's economic difficulties have encouraged the shadow economy and diminished the effects of competition in the market.

A 1990 law on the formation, dissolution, and transfer of businesses is generally respected. However, there are some bureaucratic barriers to registering new businesses. Generally, routine business activities such as obtaining zoning permits, property titles, licenses, and utility hook-ups are time-consuming and cumbersome. In January 1999, this problem was partly resolved with the adoption of a new law designed to simplify registration for new enterprises. Other programs have also been launched to support start-ups and to assist with marketing and exports.

Individuals have the constitutional right to legal representation. When ethnic minorities require state defence, translations will be provided. When defendants cannot afford legal representation, the penal code allows the local bar association to appoint an attorney.

Corruption

1999-2000	2001
4.25	4.50

Corruption in Romania is so widespread that it adversely affects the political and economic stability of the nation. President Constantinescu cited corruption and incompetence in the political system as his reasons for retiring from politics. In a television address to the nation in July 2000 he said, "I can see the degradation of the political scene. . . .There is a blind fight for personal interests. People buy and sell places in parliament, using lies and blackmail." He referred specifically to a "mafia type system with links to official institutions." At a meeting of the Romanian Supreme Defence Council a month later, Constantinescu complained that the judicial system was dragging its feet on criminal investigations and corruption cases.

The Constantinescu administration has attempted to crack down on corruption. In May 2000, a new law was enacted to prevent and punish corrupt practices. There is also a new anticorruption and organized crime unit within the General Prosecutor's Office. In 1999, the National Office for the Prevention and Fight Against Money Laundering was set up to report cases for investigation to the prosecutor's office.

The constitution states that government ministers cannot hold private sector posts that are incompatible with their ministerial role. The provision is vague and open to interpretation, but it does prevent certain conflicts of interest. There is no law requiring financial disclosure, but a new anticorruption law penalises private-sector behaviour that infringes on competition and the award of contracts; allows the identification, investigation, and seizure of profits from corrupt practices; and permits charges to be brought against members of political parties, trade unions, employers' organizations, nonprofit organizations, and international employees.

During the period covered by this report, two important anticorruption cases were being pursued. The first involves the French-Romanian businessman Adrian Costea and top government officials in the former government. In return for special favors, Costea allegedly bankrolled the Party for Social Democracy in the 1996 election campaign. Former President Iliescu and his colleagues strongly condemned the case as an example of political partisanship. Nevertheless, prosecutors have indicted at least two former officials and have received permission from parliament to pursue others. The Party for Social Democracy has struck back by accusing its political opponents of corruption related to privatization deals and the State Property Fund.

The second case involves the National Investment Fund (FNI), a high interest-earning trust company that collapsed in May 2000 after its executives embezzled funds. The collapse of the fund revealed the diversity of problems in banking and finance. When investors, acting on rumors of the FNI's collapse, attempted to withdraw huge sums from the fund, the capital markets regulator advised the fund to suspend trading and close its branches. Many Romanians lost their life savings, and the FNI's fund directors were accused of embezzlement. The Banca Commerciala Romana (BCR) and BANCOREX, the largest banks in Romania, were also rumored to have cash shortages, and the NBR stepped in to prevent their complete collapse. The incident was believed to have threatened national security and to have left many Romanians facing graver economic hardships. Romania relies on funds from the International Monetary Fund to help secure economic, political, and social stability.

Article 139 of the constitution establishes a Court of Audit that controls "the formation, administration and use of the financial resources of the state and the public sector." Parliament can request an investigation into the management of public resources. Members of the Court of Audit, who are appointed by the two houses of parliament, are independent and irremovable. The court has jurisdictional powers and reports to parliament annually about the administration and management of the National Public Budget.

Other anticorruption initiatives include the 1997–2000 governance program that aims to advance Romania towards EU integration. When President Constantinescu introduced the program when he became the chairman of

the newly established National Council Against Corruption and Organized Crime. Romania is also keen to establish a strong relationship with the South East European Cooperation Initiative (SECI), a regional center based in Bucharest to fight organized crime and corruption.

In 1999, 381 public officials were sentenced for corruption. In 1998, 534 officials were sentenced. During the period covered by this report, several leading politicians were under investigation in connection with the Costea scandal. In fact, Ion Iliescu, the head of the PDSR and the current leader in the presidential election campaign, was asked to give evidence to the French Commission investigating allegations of money laundering. Iliescu refused to testify until after the November 26 elections. As a French-controlled investigation, and not a Romanian investigation, the likelihood of prejudice is diminished.

Romania's complex bureaucracy increases opportunities for corruption, which is extensive in the civil service. Although it is possible to receive services without bribes, the process can be long and difficult. Almost all sections and levels of the civil service have been affected by bribery. The average salary of civil servants is unavailable.

Customs officials can be bribed easily. However, as a member of the Balkan Stability Pact and as a condition of accession into the European Union, Romania is attempting to tighten its border and customs controls. If successful, this could aid Romania in stabilizing markets and, thereby, attracting foreign investment.

Transparency International ranked Romania 68 out of 90 countries in its 2000 Corruption Index. Romania was ranked 63 in 1999 and 61 in 1998. This downward trend emphasizes the growing level of corruption in Romanian life. Despite attempts by the government to create an effective anticorruption information program, little progress has been made.

The absence of an effective governmental decision-making body has had a detrimental effect on the economy and society. Romania's political infrastructure is blighted by corruption and a continuous power struggle among influential groups, including the extreme right wing, the former Communists, the liberals, and the social democrats. The Constantinescu administration tried to remedy these problems but was prevented from making real progress by bureaucracy, corruption, and political infighting. The inability of various governments to implement the radical changes necessary to stabilize Romania's economy does not bode well for the future. Constantinescu seemingly had the will and the power to challenge the remnants of the Communist legacy, but it failed to succeed.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.50	4.50	4.00	3.75

Political and social development is severely affected by the unstable nature of the Romanian economy. The Constantinescu administration has considered various programs aimed at improving the effectiveness and the pace of privatization, regulating the taxation system, controlling inflation, and lowering unemployment, but their implementation has been sporadic and fraught with delays. Nonetheless, a glimmer of hope remains. For the first time in several years, Romania is expected to have positive growth in 2000. Exports are likely to reach an all-time high of more than $10 billion. Likewise, the EU has already announced its expectations for the new government that will be elected in November 2000.

During the first 100 days in office, the new government must speed up the process of privatizing and restructuring key state enterprises, improve the legislative framework and the investment climate, improve the child protection system, and adopt economic measures to do away with corruption. This is a tall order for a country that has been unable to remedy these problems for eight years. Pressure from international bodies is adding to the atmosphere of frustration within Romanian society.

During the past year Romania has made a concerted effort to improve the state of the economy, but it has had little success. According to the U.S. government's 1999 Commercial Guide, private ownership in Romania accounts for 58 percent of gross domestic product (GDP), compared with 13 percent in 1989. Roughly half of the Romanian population is also employed in the private sector. However, the effects of a regional recession and the 1998 Russian economic crisis are still being felt. Unemployment is rising, and high inflation and high prices are taking their toll. The result has been an increase in corruption and the growth of the informal economy.

The informal economy is vast in Romania. Due to low levels of pay, high inflation, and rising unemployment, many Romanians can earn a higher income in the informal economy than at their regular jobs—if they have one. Observers estimate that the informal economy accounts for 30 to 40 percent of GDP.

There has been an increased effort in 2000 to limit the shadow economy. However, this has been targeted in a localized fashion and is dependent on the political leaning of the local government. For example, Traian Basescu, the mayor of Bucharest, has taken an aggressive stance on the black market. In August 2000, when he sanctioned the removal of illegal kiosks from the streets of Bucharest, the kiosk owners protested and the situation turned violent.

Although the move was in line with the government's democratization program and its efforts to stamp out corruption and organized crime, Basescu handled the situation with little sensitivity. In effect, he sanctioned the destruction of the livelihoods of many Romanians and sent them to join the masses of the poverty stricken. The move is unlikely to have improved the governments' standing in the forthcoming general election.

The impact of privatization on economic stability and social security has lowered the government's popularity. Privatization is a fundamental step toward developing a market economy in which democratic processes function freely. Unfortunately, privatization has been sporadic over the last decade and has been hindered by alterations to the official program. The uncertainties created by such activities have disrupted economic growth and deterred investors. And, once again, society has suffered the consequences of low incomes, high inflation, and high unemployment without any light at the end of the tunnel.

Bureaucracy dogs the privatization process in Romania. In December 1991, the National Agency for Privatization was formed, and a new privatization law was adopted. The law called for the establishment of a State Ownership Fund (SOF) and five Private Ownership Funds (POF) to oversee the process. In 1999, another privatization law was adopted to accelerate and liberalize the privatization process and to create a legal framework in which privatization can occur.

To some extent the law has been successful. Various privatization deals, including the sale of Dacia Auto to Renault, have been processed. Renault saw Dacia as the potential "car of the Balkans," but it has been disappointed somewhat with Dacia's progress. The same has been true of other privatization deals. The sale of the Petromidia oil refinery to Turkey in 1999 was considered a big breakthrough, but it fell through a few months later. A similar scenario is unfolding between the Romanian national telecommunications company, ROMTELCOM, and its new Greek majority shareholder, OTE. The experience of these companies is not encouraging for other potential investors.

Although the privatization process has not been reversed in the last year, PDSR presidential candidate Ion Iliescu wants to put privatization on hold until December 31, 2000, in order to prevent any action before the election that might go against the national interest. In the short term, this may draw some immediate benefits. In the long term, though, it will merely prolong discontent.

According to the U.S. government's 1999 Commercial Country Guide, 80 percent of Romania's farmland is now in private hands and accounts for 20 percent of GDP. Privatization in the agricultural sector has proceeded rapidly, but developments have been hampered by a shortage of investment, modern equipment, seeds, and fertilizers. Romanian harvests have been hit hard in 2000 by extreme cold, flooding, and drought. It is rumored that the wheat harvest, one of country's largest crops, will be exhausted by late December. The poor harvests have led to shortages of crucial crops, higher prices, and more high-priced imports. This is hurting society and an already troubled economy.

Unlike the agricultural sector, privatization in the industrial sector has been tediously slow. Sixty-seven percent of industrial output is still generated by state-owned factories, which are generally oversized, inefficient, and overstaffed. The European Bank for Reconstruction and Development's (EBRD) 1999 Country Profile for Romania reported that industry accounted for 46 percent of GDP in 1989 and only 35 percent in 1999. The Romanian market is one of the largest in Central and Eastern Europe and has great potential, but industry continues to be a drain on the economy. In 1996, total losses by state-owned industries exceeded 6 percent of GDP. Seventy-five large firms, which are due to be restructured during the privatization process, generated the bulk of this.

Privatization in the banking sector is fundamental to the development of a stable market economy, but so far it has proved to be a time-consuming and expensive process. The collapse of the FNI and the virtual collapse of BANCOREX, which merged with BCR, resulted in a decline in public confidence. Numerous Romanian investors lost their savings in the FNI debacle and, as a result, lost the means to cushion the blow of economic hardships. In many cases, they lost everything they ever had. These Romanians are increasingly bitter and have staged protests calling for the government to compensate their losses. Likewise, the perceived fragility of BCR has added to society's woes. The prospect of placing their savings in a bank now has little attraction. And the government's failure to foresee the problems, and then to compensate for the financial loss, has threatened its stability and pushed up the cost of stabilizing banks that are earmarked for privatization.

Romania is reliant on IMF loans to help stabilize the economy and to attract further investments. But the government fell into trouble when it failed to begin the process of privatizing Banca Agricole, which was insolvent because of poor loans and was slated for privatization in September 2000. In response, the IMF suspended the third tranche of a loan while it assessed the situation. Luckily, when the IMF, the European Commission, and the World Bank met in June 2000 they agreed that the banking chaos had not damaged their relationship with Romania. IMF managing director Horst Koehler stated in May 2000 that "the situation is stabilized. The country has a clear economic policy direction, and this is macroeconomic stability, reform, structural change, cutting subsidies, making the economy competitive and strengthening the private sector."

The World Bank Group has proposed three possible steps for banking reform. First, to prevent future failures, there should be immediate long-term corrections to the health of banks that are going through the privatization process. Second, a coherent privatization and liquidation plan must be put into practice. Finally, there should be improved monitoring of the National Bank of Romania (NBR)

to keep pressures from building up in the banking sector again. To date, little has been done.

In 1990, a two-tier banking system was created, and some of the commercial banking functions of the NBR were spun off to the BCR. The NBR's statutes and the 1998 Law on Banking Activity govern the system. The NBR primarily makes monetary and foreign exchange policy, supervises the banking system, manages international reserves (gold, foreign currency, and special drawing rights), and issues currency. While the 1998 Law on Banking made the activities of the NBR relatively independent, the current prime minister, Mugur Isarescu, is the former head of the NBR. This fact has put into question the NBR's actual level of independence.

In comparison with other transition countries that have adopted a two-tier banking system, Romania has progressed quite smoothly. However, there have been some serious problems. In 1996, Banca Dacia Felix and Credit Bank were liquidated, and Banca Comerciala "Fortuna" had its license revoked. Euro Express Bank had its license revoked in 1997. In 1999, BANCOREX, Romania's third largest bank, came close to collapse when its board resigned. The NBR had to work quickly to prevent depositors from withdrawing their money. It placed BANCOREX under special administration and promised to work with the government on privatization plans for 1999 and 2000, but implementation of this program has been delayed.

Public awareness and support for the privatization process has declined over the past four years. A recent survey by Metro Media Transylvania Institute reveals that 51 percent of Romanians felt they were better off before 1990. In 1996, when Emil Constantinescu and the CDR took power, the public was optimistic that there would be a complete turn-around from communism. While the CDR supports privatization, Ion Iliescu's PDSR is ambivalent. As a result, the privatization process was extremely slow during Iliescu's administrations between 1990 and 1992 and between 1992 and 1996.

Macroeconomic Policy

1998	1999-2000	2001
4.50	4.00	3.75

The Romanian taxation system is in dire need of reform. On January 1, 2000, the corporate income tax rate was reduced from 35 to 25 percent, but little else changed during the period covered by this report. This move was in line with Romania's commitment to reduce and simplify the tax burden on individuals and companies.

In 1993, Romania introduced a value added tax (VAT) on most goods and services. In 1998, the basic VAT rate increased from 18 to 22 percent. Bread, fuel, and electricity for domestic use are just a few of the essential goods and services that were exempt from the VAT. These exemptions were of some assistance to Romanians living below the official World Bank poverty line of $1 per day. The VAT, which is now 19 percent and does not include the exemption, is generally in line with EU targets.

Although there are some VAT exemptions on essential goods, Romania's taxation system hits employers and employees hard. For example, social security contributions are intended to ease the pressures on a society in times of economic and political instability. At present, though, the system accounts for roughly 40 percent of the annual budget but fails to provide adequate insurance for those covered. The system is extremely expensive and has a disheartening effect on those Romanians who pay insurance taxes but receive little protection in return. Social security contributions are paid by employers at a rate of 23 to 33 percent of an employee's salary. Employers also pay a five-percent unemployment fund contribution and a two percent health fund contribution. In addition, employees pay an income tax ranging from 5 to 60 percent (averaging 28 percent), a three-percent pension fund contribution, and a one percent unemployment fund contribution. With a struggling economy, high prices, and high levels of taxation, the shadow economy is an alternative source of income that does not carry the heavy tax burden.

The Romanian national currency is the *leu*. Since the collapse of communism, inflation has been variable, and Romanians have had to bear the brunt of currency fluctuations. In 1997, the leu was freed from heavy regulation. That same year, the IMF forced Romania to unify the leu and make it convertible. However, the currency is still not convertible on individual current accounts and capital exports.

In 1993, inflation peaked at 292 percent. A tight monetary policy brought that level down to 27.8 percent in 1995, but it rose to 56.9 percent in 1996 and 155 percent in 1997. In 1998, inflation fell back to 59 percent. It fell to 35 percent in the first half of 2000. The decline in inflation indicated that the government eventually would get it under control. It was also beginning to have a positive effect on the export industry. Between January and August 2000, the World Bank reported that exports had increased by 25 percent compared to a year earlier, while imports had gone up 23 percent. In the second half of 2000, however, inflation rose again to 40 percent. Romania's struggle with inflation has had a demoralizing effect on the population. Tight monetary policy over a period of seven years has been trying and people are suffering under the pressure of unstable, rising prices and little change in their income. This is likely to be reflected in the November 2000 election when many votes will be cast for Iliescu. His election could lead to a reversal of economic reforms and a return to the old political regime.

The Bucharest Stock Exchange (BSE), which opened in June 1995, is a crucial part of the infrastructure needed for a functioning capital market. In 1996, Romania opened the RASDAQ, an over-the counter market modeled on the U.S. NASDAQ and intended to help the country cope with

the outcomes of mass privatization. In practice, the instability and lack of consistency of the privatization program, coupled with weak foreign and domestic investor confidence, meant that the volume of trading on the RASDAQ was low. Since BSE trade levels are also low, there is little optimism about the future. This general malaise is contributing to a negative sentiment in society.

In 1994, Romania adopted a securities law that established a National Securities Commission (CNVM) responsible for regulating primary and secondary securities markets. This commission established the BSE as a public entity, but the members of the private sector that form the Stock Exchange Association effectively run its. The Exchange Arbitration Court exists to settle disputes, but its structure manages to limit its benefits to only a few—a classic case of the rich minority getting richer and the poor majority getting poorer.

Microeconomic Policy

1998	1999-2000	2001
4.50	4.50	4.50

Like Romania's macroeconomic policy, microeconomic policy is subject to bureaucratic delays, corruption, and a lack of funding. The implementation of essential property, business, and legal reforms has been a frustrating process complicated by Romania's steps toward EU integration. More recently, though, Romania's microeconomic infrastructure has begun to fall into place. But the changes have come too late to appease society and save the present government from defeat in the November 2000 elections.

Private property rights are guaranteed under Article 41 of the Romanian constitution, which states that "private property shall be equally protected by law, irrespective of its owner." Law18/1995 established a land registry, but the system remains inefficient. In 1997, the World Bank approved a $25.5 million loan in support of Romania's ongoing privatization efforts, particularly in real estate. The General Cadastre and Land Registration Project aims to establish an efficient, clearly defined system for securing land titles for real estate owners and a simple and cost-effective procedure for land transactions. The societal benefits of this project remain to be seen.

The majority of price controls were liberalized in 1997. Until then, the government had been cautious about removing price controls because it feared social unrest and political instability. Nevertheless, the prices of utilities and services still remain under the auspices of local administration and regulatory agencies.

Although the government is attempting to make it easier to operate a business, its lack of sophisticated equipment to process records frustrates the process. Consequently, even those Romanians who try to resolve their economic situation via legal channels often fail due to bureaucratic weaknesses. During the period covered by this report, however, there has been a marked change in the use of the Internet for business and publicity purposes. Nearly all government ministries now have official Web sites with email addresses for contacting ministers.

International trade in Romania is fairly liberal. In 1990, the state's monopoly on foreign trade was abolished, and tariffs with low average rates became the main instrument of trade policy. Customs duties range from 0 to 60 percent, but preferential tariff treatment is given to EU and European Free Trade Agreement (EFTA) members. The authorities have avoided the use of quantitative restrictions (licenses and quotas) on imports, despite difficulties in the balance of payments. While this might be attractive to foreign traders, it is having a detrimental effect on the government's efforts to stabilize the economy and is increasingly resented by society.

Romania is a member of the World Trade Organization (WTO). It also has signed agreements with the EU and EFTA and joined the Central European Free Trade Agreement. There are five free trade zones within Romania: Sulina, Constanta-Sud, Galati, Braila, and Giurgiu. Promoting international relationships and joining the various Euro-Atlantic institutions is regarded as a means of securing the market economy and generating support from an otherwise disgruntled society. Still, many Romanians feel that Romania has suffered from its concerted effort to join them.

Foreign investment has been positively encouraged in Romania but with little reward. Romanian law treats foreign investors and domestic investors the same way. According to figures released by the Commerce Registry of Romania, foreign direct investment up to the start of 1999 amounted to $5.17 billion. The Foreign Investment Law stipulates that foreign investments are not subject to expropriation. Capital flow for investment is not restricted, but foreign investors must pay a 1.5 percent tax for transferable securities. Investments over $50 million are granted customs exemptions and tax holidays.

In February 1999, the government suspended a number of tax breaks for foreign investors for one year. Although this was an initial turnoff for foreign investors, the government used the $469 million it saved to help meet external debt obligations and to assist in gaining the release of the delayed third tranche of IMF aid.

Current government policy is to develop an energy sector that promotes a market-oriented economy. During the past four years, there has only been moderate change in the energy sector. Until recently, the government controlled energy prices so that per capita consumption was amongst the highest in the region. The doubling of energy prices in 1999 resulted in a much more efficient use of energy. However, high energy prices during the winter of 2000–2001 could have serious implications for an already struggling society.

Investors have eagerly anticipated the privatization of large state-owned energy monopolies. Romgaz, the gas provider, will be restructured into five separate units covering

extraction, distribution, and production. Renel, the electricity supplier, will be divided and sold in 2000 or 2001. Thirty percent of the national petrol company, Petrom, is being prepared for privatization. Conpet, the state pipeline company, will also be sold. Until these privatization programs are complete, private competition in the energy sector will be minimal.

Romania relies on Russia and the Middle East for its crude oil and natural gas supplies. These raw materials are processed in huge refineries at a high cost because of antiquated technology, but a World Bank/EBRD project to increase oil and gas production using new technology is underway. Investments by Western Atlas and M. Drilling have already raised Romanian production, and other foreign companies like Lukoil, Shell, Texaco, and British Petroleum are showing an interest.

The nuclear power plant in Cernovada, which produces 20 to 30 percent of Romania's electricity, was modernized with assistance from Canada. And since then, the plant's output has risen. When all four reactors are in use, the plant will be able to provide the majority of Romania's electricity supply and to reduce the inefficiencies of the current energy system.

Social Sector Indicators

Romania's political and economic transition has had a damaging effect on the population's standard of living. Society has born the brunt of the changes and blames the government. There is a growing belief that the country was better off under communism, and this sentiment could lead to a victory for PDSR leader Ion Iliescu in the November 2000 presidential election.

The net average dollar wage stood at $92 at the end of August 2000. This is a decline from $94 in 1999. However, prices have risen and the basic essential goods necessary for survival are in short supply. The unemployment rate reached 12.2 percent in February 2000 and is likely to continue rising. Of those unemployed, 26 percent benefited from unemployment subsidies, 9 percent from professional integration aid, 37 percent from support allowances, and 5 percent from compensatory payments. Twenty-three percent of those unemployed were bereft of any source of income. Restructuring plans for 64 major companies are likely to lead to further redundancies throughout 2000. Roma account for a large portion of the unemployed. The continued rise in unemployment will lower consumption levels, and a decline in the demand for goods will strain an already weak economy even further. This can only heighten animosities toward the Romanian government and threaten a return to the days of Ion Iliescu.

Romania's social security system has failed the aged. Since the pension system is funded on a pay-as-you-go basis out of payroll taxes and budgetary transfers, it is vulnerable to demographic trends. Even though the retirement age for men and women has risen from 60 to 65 and from 55 to 60, respectively, the ratio of pensioners to the working population is expected to rise 20 percent by 2010. This, in turn, will threaten the financial integrity of the pension system. In 1997, pension system reforms were proposed, but little has been achieved.

When education reform began in 1998, the European Commission acknowledged that Romania's Ministry of National Education had taken major steps towards institutional and legislative reforms. Since then, though, the low rate of enrolment in higher education, coupled with increased poverty, growing income inequality, and weak social, educational and health care structures, has been an obstacle to the development of human capital.

In 1998, the infant mortality ratio was 23 per 1000, and life expectancy was 66 years for men and 74 years for women. The birth rate was estimated at 10 percent per 1000 in 1999. The poverty rate, which is rising along with unemployment, is currently 65 percent of the population. One-third is below the age of fifteen. This doesn't necessarily show a regression in Romania's political development but, rather, the costs of transition. Most Romanians who fall below the official World Bank Poverty Rate of $1 per day will be in that position temporarily. Although there are signs of an economic turn around, Romania still has a long way to go.

As with education, Romania's health care system needs an enormous injection of funds. In 1994, there were 1.76 doctors, 4.3 nurses and midwives, and 7.7 hospital beds per 1,000 people. Health care workers are fully trained but lack the facilities to work. In 2000, the health care system experienced problems in the distribution and supply of medicines, and doctors across the country took to the streets when they had not received wages for two months. In response, the government passed an emergency decree allowing doctors to be paid from the National Health Insurance Fund. The budget also favors promoting education and health care above other sectors. The skill of Romanian doctors was shown in October 2000 when a groundbreaking liver operation was performed under the supervision of German physicians. Romania is the third country to ever attempt a liver transplant operation.

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RUSSIA

Polity: Presidential-parliamentary democracy
Economy: Mixed statist (transitional)
Population: 145,200,000
GNP per capita at PPP $ (1999): 6,339
Capital: Moscow
Ethnic Groups: Russian (81.5 percent), Tatar (3.8 percent), Ukrainian (3 percent), other (11 percent)
Size of private sector as % of GDP (mid-2000): 70

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	3.80	↓↓ 4.10	↓ 4.25	↓↓ 4.63
Rule of Law	na	na	5.25	↓ 5.38
Economic Liberalization	3.50	↓↓ 3.92	↓↓ 4.33	↑ 4.17

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	1,867.0	2,343.0	2,829.0	2,953.0	1,848.0	1,268.0	1,697.0
Real GDP growth (% change)	-12.7	-4.1	-3.5	0.8	-4.6	3.5	7.7
Inflation rate	311.4	197.7	47.8	14.7	27.6	86.1	20.8
Exports ($ millions)	67,542.0	82,913.0	90,564.0	89,008.0	74,883.0	75,306.0	105,000.0
Imports ($ millions)	50,518.0	62,188.0	67,630.0	71,645.0	57,783.0	39,460.0	44,000.0
Foreign Direct Investment ($ millions)	500.0	1,663.0	1,665.0	4,036.0	1,734.0	746.0	2,000.0
Unemployment rate	7.8	9.0	9.9	11.2	13.3	11.7	9.7
Life Expectancy (years)	64.0	64.8	66.0	66.9	66.9	65.8	67.0

INTRODUCTION

The political system of the Russian Federation may be described as an electoral democracy in which the for mal political rights of the citizenry, notably the right to vote in competitive elections, have been secured but in which civil rights have been less well protected. Elections take place at regular intervals and generally are regarded as free and fair, but elite manipulation and irregularities abound. The rule of law remains weak. Democratic institutions are underdeveloped. The accountability of state officials to the citizens is minimal. And the legislature and the judiciary have little control over the executive. Although the federal government's ability to influence the actions of regional governments is also weak, President Vladimir Putin is addressing this weakness rigorously.

Politics in Russia is highly personalized, and political parties are poorly developed, leader-centric affairs. The role of legislative powers and parties is declining, and Russia's opposition is close to its demise. Society is more passive in the political sphere, and survival—more than any other factor—promotes public activism. Corruption is rife, and the concept of conflict of interest is not widely assimilated. That is, politicians often combine executive power with a direct or indirect interest in businesses that are affected by that power.

In contrast to the declining legitimacy and political instability associated with the Yeltsin regime, the period under review witnessed a sharp turn in the direction of presidential power and authoritarian rule. One of the most disturbing developments was the manipulation of the presidential election process by Yeltsin's inner circle and associated cronies (such as the oligarchs) in order to guarantee their control of Russia's political and economic life. Equally disturbing was the ease with which Putin thus came to power. This has caused irreparable damage to the process of democratization in Russia.

Since coming to power, President Putin has pushed through significant administrative reforms such as changing the composition of the federation council, creating a new state council, and reorganizing the country into seven "super" federal districts. Of particular interest and concern is the new state council's seven-member presidium, which represents the new federal districts. Not only do the new districts ominously parallel existing military districts, but Putin's appointed representatives also overwhelmingly come from military or security backgrounds. Observers believe that this reorganization process was a means for Putin to reassert control over the regions and to take over local power structures without a constitutional battle.

Respect for human rights and civil rights declined in 2000, and the media's independence came under severe attack. Meanwhile, a second war in Chechnya grinds on, and Russian forces have settled in as an army of occupation. This time, however, the Russian public, the media, and even most of the liberal elite have been strongly supportive of the war. Perhaps this is a function of the September 1999 terrorist bombings that took more than 300 Russian lives. Or perhaps it is a reaction to the NATO bombing campaign against Yugoslavia.

But popular support does not guarantee success. In October 1999, the Russian army invaded Chechnya for the second time in five years. Over the next year, Russian forces established tenuous control over much of Chechnya, at least during the daytime hours. They killed thousands of civilians and forced over 120,000 to flee to neighboring Ingushetia. However, the Russian military has yet to break the will of the Chechen fighters, and efforts to install a pro-Moscow Chechen leadership that could restore order in the area have also proven difficult. Since summer 2000, the number of large-scale clashes has abated. In the ensuing stalemate, Russian forces have been picked off on an average of about 7 to 10 per week through ambushes and guerrilla warfare. Despite high levels of support from the Russian public, Moscow's endgame remains unclear.

Russia continues to encounter problems in its transition to a market economy. Successive economic polices have been characterized by varying degrees of political commitment to reform, including often contradictory measures. Ongoing problems include an inadequately developed legal and financial system, a decline in foreign investment, the prevalence of wage arrears, a large informal economy, a corrupt banking system, and widespread corruption throughout virtually all sectors of the economy.

However, due to progress in tax collection, extremely high world oil prices, and relatively effective exchange rate policies, the country's macroeconomic picture for the year 2000 looks positive. Unfortunately, though, Russia's strong macroeconomic recovery coincides with the continued pauperization of a large segment of the population. Consequently, positive macro indicators such as increased foreign reserves and impressive growth in gross domestic product (GDP) are undermined by a skewed distribution of potential economic benefits. The purchasing power of families with many children, single mothers, public-sector workers, and employees continues to shrink significantly. In addition, the income gap between the "new Russians" and the "new poor" is fairly wide. In some areas such as Magadan Oblast, Kamchatka Oblast, Amur Oblast, Khabarovsk Krai, Yakutia, and Moscow the income gap between citizens is almost forty-fold.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.50	3.50	4.00	4.25

The year 2000 has been characterized by continuity and consolidation, as Russia's increasingly popular president, Vladimir Putin, has sought to strengthen the Russian state and his own power base. Putin's rise and his battles with the country's regional elites and oligarchs—two crucial groups

that are obstacles to further democratization in Russia—dominated the political landscape throughout 2000. The other critical element in Russian politics, though one that remains deceptively background, is the continued war in Chechnya. Indeed, the decisive political event in Putin's rise to power was the second war in Chechnya. It was the inability of Sergei Stepashin to prevent recurrent Chechen assaults that led to his replacement as prime minister by Vladimir Putin.

As the head of both the Federal Security Service (FSB) and the security council, Putin was a logical choice for Yeltsin. It was Putin's determination to deal with the Chechen threat that led to his dramatic rise in prominence. His harsh words and no-nonsense approach resonated well with a Russian population that has grown weary of the country's weakness on both the domestic and the international stage. In comments that appealed to populist and nationalist sentiments, Putin used criminal slang to express his contempt for the Chechen fighters and his determination to defeat them, promising that "we will wipe out these terrorists wherever we find them."

Putin's popularity reflects a deeper sentiment in Russia: a sense of disenchantment caused by Russia's decline as a great power and the deterioration of its economic and social condition. The fact that Putin was not a politician became an asset in the view of a population betrayed by crooked or out-of-touch politicians and a usurious economic elite. Of course, Putin's rise was the product of shady dealings and manipulation by these forces, but in the eyes of the public there is the (perhaps naïve) belief that he is the only one who can transcend the current system. Whether Putin will restore the Russian state via authoritarian measures or liberal reforms remains to be seen, though the restoration of a strong Russian state is clearly what he, and seemingly the majority of the population, believes is the way out of the post-Soviet malaise.

Born in 1952, Putin grew up in St. Petersburg. He joined the KGB and was sent to East Germany, where he reached the rank of lieutenant colonel. Not long after the fall of the Union of Soviet Socialist Republics (USSR), he was recruited to be an aide to liberal St. Petersburg Mayor Anatoly Sobchak, for whom he handled foreign companies and joint ventures. After Sobchak lost a reelection bid, Putin moved to Moscow to be the deputy head of the Kremlin property agency that was run by political heavyweight Pavel Borodin. In July 1998, he became the head of the Federal Security Service (FSB), the successor organization to the KGB. By March 1999, Putin was also the head of the Security Council.

When Sergei Stepashin was unable to deal adequately with the two main threats to Yeltsin's regime—a resurgent Chechen threat and the emergence of a political alliance between powerful Yeltsin rivals Evgeny Primakov and Moscow mayor Yury Luzhkov—Putin replaced him as prime minister. Stepashin was the third prime minister to be sacked within a year. Boris Yeltsin's stunning resignation on December 31, 1999, made Putin acting president. Putin then demonstrated his loyalty by granting Yeltsin and his immediate family immunity from prosecution. Under Russian law, an election had to be held within three months of Yeltsin's resignation. The election, thus, took place in March 2000 and cut in half the preparation time of Putin's rivals.

Although the fledgling Unity Party's spectacular showing in the December 1999 *Duma* (parliamentary) elections signified the beginning of a political shift, Yeltsin's New Year's abdication and Vladimir Putin's elevation to acting president legitimized an undemocratic transfer of power. On March 26, 2000, almost 53 percent of those voting chose to legitimize the hand-over of power to Putin, thus precluding the need for a run-off election between the two highest vote-getters.

Putin's closest competitor was Gennadi Zyuganov, who received 29.17 percent of the vote. Seven other candidates also ran. Despite subsequent suspicions about dubious vote counts, Putin easily outdistanced his rivals. Interestingly, Putin seems to have drawn votes from somewhat different constituencies than his predecessor. Putin did much better than Yeltsin in rural regions that were once Communist strongholds, but he did far worse in Moscow. Putin gained 46 percent of the vote in the capital, as opposed to the 61 percent and 73 percent that Yeltsin garnered in two rounds in 1996.

Russia's Central Election Commission reported a turnout of 68.6 percent for the presidential election. Nearly 1,000 election monitors from 56 countries and 82 international organizations were present. Among the organizations represented were the Council of Europe, the Organization for Security and Co-operation in Europe (OSCE), the European Parliament, the Western European Union, the Association for Fair Elections and Civil Rights, and the U.S. Agency for International Development. Bjorn van der Esch, head of the mission sent by the Council of Europe's Parliamentary Assembly, said the election took place very openly and quietly and was conducted according to internationally recognized standards.

The results of the last parliamentary elections, which were held on December 19, 1999, were less predictable, though certainly no less important. Article 3 of the constitution provides for free elections, and Article 13 guarantees a multiparty system. In the Russian system, voters cast two votes in their Federal Duma election: one for a candidate in the local electoral district and one for a political party or alliance. Out of 450 seats, 225 are filled in direct voting and 225 by parties and alliances that meet a 5-percent threshold in proportional voting. Of the 26 parties listed on the ballot in 1999, six passed the electoral threshold and garnered 81.37 percent of the party list vote. The corresponding figures for 1995 were 4 parties and 50.49 percent. One new development regarding party lists was the constitutional court's decision to strike down the central election commission's power to nullify the registration of an electoral bloc if one of that bloc's top three candidates drops out of the race. The ruling came too late for the Conserva-

tive Party of Entrepreneurs and the Cedar movement, which were unable to participate in the 1999 Duma elections for this very reason.

According to the OSCE's International Election Observation Mission, a lack of discipline and ethics among the participants, which was exacerbated by the Russian civil code's failure to provide sufficient and timely penalties, allowed electoral offenses to continue unfettered throughout the campaign season. Parties deemed to be in opposition to the Kremlin saw their candidates prevented from arranging public meetings. Campaign expenditures appeared to exceed legal limits, and OSCE observers noted interference by executive authorities in the election process. In some regions, electronic media and regional editions of national newspapers had great difficulty expressing views critical of local power structures. Other measures included extraordinary tax inspections, administrative fines, and criminal investigations. In addition, military personnel were encouraged to vote for the pro-Kremlin Unity Party in clear violation of electoral laws.

According to Georgy Satarov, president of the Fair Elections Coordination Center, a great many violations took place in the Irkutsk, Tver, and Orlov Oblasts, the Komi Republic, and Moscow. Moreover, the Taymyr autonomous district's electoral committee included some of the actual election candidates, an unprecedented violation of the electoral law.

Election officials have sought help in curbing the influence (or interference) of regional leaders in the electoral process. Under current law, governors have the right to select one half of the members of local election commissions; regional legislatures select the other half. When governors have significant influence over their local legislatures, they are often able to dictate how elections are run in their region. Consequently, central election commission head Aleksandr Veshnyakov and members of his team have written a report on election laws, at President Putin's request, that suggests ways of altering how regional election commissions are formed. The report calls for the creation of a vertical chain of command between regional election commissions and the federal, or central, election commission in order to end the funding of local election commissions from regional budgets.

While participation in both the 2000 presidential and the 1999 parliamentary elections topped 60 percent, actual membership in political parties is very low. Party identification among citizens is also relatively low, though it is increasing. Studies have shown that about a third of those polled consider themselves to be political partisans. Larger parties such as the Communist Party (CPRF), Yabloko, and the Liberal Democratic Party (LDPR) are national parties that also function at subnational levels. The CPRF is the largest, claiming hundreds of thousands of members. Other parties range from several thousand members to a few hundred. Personalities play a major role, and many parties are formed around a single individual or group of individuals. Along with other public organizations, political parties that have more than 100 members must register their bylaws and the names of their leaders with the Ministry of Justice. As of September 1, 2000, the list of registered political organizations and movements was 179. Article 13 of the constitution prohibits activity by parties that advocate the violent overthrow of the state or the dismantling of the Russian Federation, that carry arms, or that incite social, racial, national, or religious strife. On these grounds, the Ministry of Justice has refused to register several parties and movements.

The strong showing of the new Unity Party was clearly the main story of the December 1999 elections. But the rise of the Union of Right Forces (SPS) from below the 5-percent threshold and the decline of both Yabloko and the LDPR were also significant. (See Table 1.) The elections also saw the collapse of the Women of Russia party, which garnered just over 2 percent of the party list vote. In 1993, the party polled a surprising 8 percent; in 1995 it just missed the 5-percent mark with 4.6 percent of the party list vote but won in three single-member districts. Other parties, particularly the Communists, targeted women voters more strongly in the 1999 election cycle, and two new women's blocs registered: the Russian Party in Defense of Women and Ella Pamfilova's For Civic Dignity. These blocs won less than 1 percent of the vote each. In all, just 34 women

Table 1: Parliamentary Elections, December 19, 1999

Party/Bloc	% of Vote	Party List Mandates	Single Member Mandates
Communist Party	24.29	67	56
Unity	23.32	64	8
Fatherland/All Russia	13.33	37	30
Union of Rightist Forces	8.52	24	5
Zhirinovsky Bloc/LDPR	5.98	17	1
Yabloko	5.93	16	4
Communists & Working People of Russia for the SU	2.22	0	0
Women of Russia	2.04	0	0
Party of Pensioners	1.95	0	1
Our Home is Russia	1.19	0	9
Other parties	<1. each	0	9
Independents	—	0	93
Total	100	225	216

Note: In eight districts, "Against ALL" received a plurality, thus necessitating new elections. Elections were not held in the one electoral district in Chechnya.
Source: Central Election Commission of the Russian Federation.

were elected to the Duma in 1999. They account for 7.7 percent of Duma membership, down from 11 percent in the previous Duma.

At the regional and municipal levels, the Communists elect the largest number of deputies. It is difficult to argue, though, that the CPRF maintains a powerful hold on politics in the periphery. A great deal of research now points to a disconnect between the degree of institutionalization of the party system at the national level and the 89 regions of Russia; that is, the national parties have failed to penetrate significantly the political institutions of most of Russia's provinces. The problem is that provincial politicians either shun party labels or easily exchange and discard them. Political parties are not considered vital for electoral success in provincial legislatures or executive races; more than three-quarters of winning candidates in regional legislatures are not affiliated with national parties. A crucial factor inhibiting provincial party development is that very few regional or local legislatures have adopted proportional representation electoral systems.

The lack of institutionalization of political parties in the provinces certainly does not bode well for the development of democracy in the Russian Federation. Indeed, despite high turnouts for national elections, apathy toward most local and provincial elections is growing. For example, in Chita Oblast, low turnout meant that deputies were elected in only 10 out of 39 districts. Low voter turnout and a high percentage of voters voting "against all" have marked regional elections throughout 2000.

During the period covered by this report, 44 of 89 regions held elections for their leaders. Of those, 29 incumbents were reelected. In Krasnodar Krai and Kaluga Oblast, "successors" tapped by the sitting governors were elected. In almost every case in which incumbent governors moved up election dates and therefore gave their competition less time to prepare, the incumbents won. Among the newly elected corps, there are five Duma deputies and four former military officials. Voter turnout varied from 34 percent in Vladimir Oblast to 74.99 percent in Saratov Oblast.

The regional elections demonstrate two significant trends: the power of incumbency in the provinces and the weakness of Russia's political parties. Communist incumbents managed to hold on in 12 regions, and only three were defeated. In Ulyanovsk, the Communist Party withdrew its support for incumbent Yurii Goryachev in favor of General Vladimir Shamanov, who won.

Most winning candidates, not just Communist victors, emphasized their allegiance to the policies and person of President Putin. Almost a dozen candidates backed by Unity were elected, but three were unseated. Two more Unity-backed candidates either withdrew or were withdrawn from the race. Moreover, in a number of regions, the local branch of Unity either backed, or tried to back, a candidate different from the one supported by Unity's Moscow-based organization. In some regions, the local Unity branch backed the same candidate as the Communist Party.

As popular as President Putin might be with voters, his ability to influence gubernatorial elections is limited. Thirteen candidates that the Kremlin did not support were successful, and only seven of its candidates were victorious. Of these seven, two were incumbents in relatively successful regions; three others were challengers in regions like Kaliningrad Oblast, Voronezh Oblast, and Marii El Republic that had unpopular governors and administrations dogged by charges of corruption. The victor in Marii El, Leonid Markelov, was only supported by the Kremlin in the election's second round. The presidential administration's apparent inability to influence strongly the outcome of regional elections might be one reason that Putin's reforms seek both to weaken the power of regional governors and to build a strong state.

There is one other group of political significance with which Putin must deal: the so-called oligarchs. Although hurt by the financial crisis of August 1998, these powerful businessmen still exercised great power as Yeltsin was leaving the political scene, particularly since some of their key "clients" remained in political office after Yeltsin's surprise resignation. In fact, Putin was initially regarded as simply a puppet of Yeltsin's political family and the business elite. However, such views were not borne out in the first ten months of 2000. During the year, several top oligarchs felt the power of the federal government encroach upon their once unassailable empires. Vladimir Gusinsky, for example, was forced into exile after spending a few days in jail in June 2000 on vague charges related to past privatization issues. Later in the year, Boris Berezovsky was questioned by police about his dubious business dealings and was coerced into relinquishing his shares in the state television channel ORT. Similarly, Vladimir Potanin, Anatoly Chubais, and Roman Abramovich found themselves the subject of investigations and tax inspections. Whether or not this signals a final victory in Putin's battle with the oligarchs will be an important issue for the year 2001.

Civil Society

1997	1998	1999-2000	2001
3.75	4.00	3.75	4.00

Russia's sector of nongovernmental organizations (NGOs) has developed substantially over the past decade and now comprises thousands of organizations that are diverse in size, structure, and area of specialization. They deal with issues ranging from health care and community services to the environment and human rights. According to most NGO websites, as well as recent Charities Aid Foundation reports, the number of NGOs in Russia (excluding religious groups, political parties, consumer cooperatives, and professional unions) is 60,000 to 70,000. Some of the biggest NGOs represent groups like the disabled that are trying to get recognition and subsidies from the state. Although there is a

significant amount of volunteerism, there is less philanthropy. Most grassroots philanthropic groups that are not directly connected with the state lack substantial resources, though some larger groups receive local support.

Article 30 of the Russian constitution guarantees nongovernmental associations the freedom to choose their activities. Individuals have the right to participate in associations and to form trade unions that protect their interests. Other provisions regarding organizations and associations are found in the civil code, the Law On Public Associations, the Law On Charitable Organizations and Charitable Activity, and the Law on Non-Profit Organizations. Under Article 51 of the civil code, a legal entity must be registered with the Federal Ministry of Justice. Official registration of regional and local public associations is carried out through the departments of justice in their respective locales; interregional public associations are registered by the departments of justice in the locality where the permanent governing body of the groups is based.

Article 52 of the 1995 Federal Law On Public Associations required all public associations registered before May 25, 1995, to renew their registration and set June 30, 1999, as the deadline for reregistration. Public associations that failed to reregister by that deadline risked liquidation. Initially, reregistration was fairly easy. Over time, though, regional authorities began to abuse the process in order to harass groups into changing their activities and mandates. In particular, there have been many attempts to outlaw organizations that monitor the conduct of governmental institutions (especially law enforcement agencies). Consequently, during the period covered by this report, many public associations were denied reregistration, either on illegal grounds or on the basis of dubious pretexts. Among the most vulnerable groups were human rights and environmental organizations. Article 16 of the Law On Public Associations does prohibit the establishment of public associations whose activities promote the violent change of the constitutional order, violations of the integrity of the Russian Federation, damage to the security of the state, the creation of armed organizations, or the incitement of social, racial, ethnic or religious conflict. It is highly implausible, however, that more than a few of the NGOs that have been denied registration or reregistration actually violate Article 16.

According to the Ministry of Justice, as of July 1, 1999, 770 international and national public associations had reregistered under Article 52 of the law on public associations. This accounts for 57.8 percent of the total number of public associations registered before the law entered into force. A number of environmental organizations, including the Green Don and the Don Green Party, were denied registration as a result of their opposition to the opening of the Rostov Atomic Power Plant. Many applications for reregistration were held up for extended periods of time without explanation. This practice affected NGOs like Glasnost, the Union of Soldiers' Mothers Committees of Russia, and the Disability Center for the Social Rehabilitation of Children.

The Justice Department of Kaluga Region denied registration to three organizations—the Obninsk Regional Human Rights Group, the regional branch of Democratic Russia Movement, and the Obninsk Youth Club for Role-plays—on purely technical grounds and did not give them the opportunity to correct, within the time limit, any inadequacies in their documents. The Information Center of the Human Rights Movement and the Center for the Development of Democracy and Human Rights reported in 2000 that the illegitimate, and sometimes insulting, demands made by officials of justice departments to groups applying for reregistration were so common that they suggested a conscious policy directed against NGOs.

Moreover, the Russian public remains mostly distrustful of NGOs, and government officials and NGOs view each other with mutual mistrust. The government (at all levels) has made little effort to include NGOs in the policy-making process, although in a few places such as Nizhnii Novgorod and Yekaterinburg there has been some engagement. Most regional and municipal governments have not adopted laws or put mechanisms in place that enable them to interact with NGOs on a broader scale. Similarly, the media generally ignores the work of NGOs, though some organizations have been quite successful in their public relations efforts. The environmental group Dront in Nizhnii Novgorod reportedly has the best relations with the media.

Russia's current economic climate hampers the financial viability of most NGOs. Very few are financially sustainable with only local income sources. Donors to charitable groups get some tax breaks, and the groups themselves can conduct a little bit of business. Advocacy groups get no such consideration. Indeed, financial constraints, coupled with the absence of significant incentives for donors in the current tax laws, are considered the greatest impediments to the long-term growth of Russia's NGO sector. NGOs have had success is some areas, though much still needs to be accomplished.

The Committee of Soldier's Mothers remains one of the largest and most enthusiastic women's organizations, and the Ural Association of Women also boasts of a large membership. Among the explicitly feminist organizations, the most influential are the Consortium of Women's Non-Governmental Organizations and the Association of Crisis Centers, each of which has dozens of member organizations. The Moscow Center for Gender Studies has a smaller membership base.

One seemingly successful effort of particular note has been the work of activists, including the Washington-based Initiative for Social Action and Renewal in Eurasia, to force a nationwide referendum on environmental issues. More than 2.5 million signatures have been collected in 62 of Russia's 89 regions in support of such a referendum. (Only 2 million signatures are required by law). Local election commissions are in the process of reviewing the signatures and will present them to the central election commission. Sergei Tsyplenkov, the executive director of Greenpeace in

Russia, announced that the central election commission is expected to make a decision on the referendum in November 2000 and that the referendum could be held in the spring of 2001.

Despite the positive developments, it is clear that more time is needed for the NGO sector to become sustainable. NGO's organizational capacity in management, governance, and planning skills remains uneven. Although some organizations are advanced in these areas, many are just beginning to address such issues. Without adequate skills and information, an organization's ability to survive on its own over the long term is seriously jeopardized. According to experts, organizations with Western funding have tried to emulate Western NGO organizational practices with varied success. The ones that do not have direct or indirect access to Western funding are generally run badly and, in many cases, have no desire to emulate international standards. Groups only began to address accountability and governance issues a few years ago. Although the number of experienced trainers and practitioners is growing, their ability and willingness to act as mentors varies widely. Of course, some do work great; others use their connections simply to increase their own status.

Article 30 of the constitution also guarantees the right "to create trade unions to protect one's interests." Approximately 60 percent of Russian workers belong to a trade union. The sharp decline in membership in the post-Soviet era is a result both of the proliferation of non-unionized jobs in the private sector and of the inability of unions to perform the same functions they did in the previous era. Most workers belong to unions affiliated to the Federation of Independent Trade Unions of Russia (FNPR), the successor-organization to the Communist-era unions and still, by far, the largest labor confederation in Russia. The FNPR officially maintains that over 90 percent of workers belong to its constituent movements, but public opinion data and surveys of enterprises suggest substantially lower figures. Since many of FNPR's officials have long-standing ties to enterprise managers, newer independent unions are at a disadvantage.

An estimated 1.5 percent of employed persons are involved with labor protest movements, and less than 5 percent of Russians have reported ever going on strike. In fact, if the country's Labor Inspectorate is to be believed, the number of reported strikes dropped from nearly 6,000 in the first three quarters of 1999 to only 720 in the same period of 2000. Most labor strikes are related to wage arrears. According to Vladimir Varov, the deputy minister of labor and social development, the country's Labor Inspectorate found more than 1.5 million violations of the country's labor laws during the first nine months of 2000. However, precious little is ever done to deal with such massive violations, and the weakness of organized labor in Russia does not bode well for democratization and the consolidation of reform. Social partnership committees, which are designed to give labor a formal role in policy making, have become disorganized sideshows and have little power or influence.

The largest farmers' organization is the Association of Peasant Farms and Agricultural Cooperatives. The much smaller Russian Peasants' Party favors private ownership of agricultural land but has no representation in the Duma. Millions of Russians belong to consumer cooperatives, and there are numerous business associations, trade councils, and economic lobbying groups throughout the country. Exact membership figures are not available. NGOs and other interest groups use a variety of means to publicize their views and pursue their interests. The managers of wholly or partly state-owned enterprises and farms are among the principal groups involved in the political and policymaking process.

Independent Media

1997	1998	1999-2000	2001
3.75	4.25	4.75	5.25

Russians are great consumers of the media— whether television, radio, or the print press. A recent study by the National Social Psychology Research Institute found that 97 percent of Russian households have televisions (24 percent have two or more sets). More than 80 percent of respondents watch television on weekdays and weekends, and only 5 percent do not watch television at all. Although approximately 1,600 television broadcast licenses have been issued, the number of private and state-owned television stations is somewhere between 500 and 600. Three television stations reach a national audience: the government stations Russian Public Television (ORT) and Russian Television (RTR) reach 99 percent and 96 percent of the total viewing audience, respectively, and the privately owned NTV reaches 72 percent. Only RTR and the St. Petersburg Channel 5 remain wholly state-owned. There is also a limited degree of foreign ownership of media sources.

In the post-Soviet period, the vast majority of Russia's newspapers and magazines have been privatized, and big business has gradually replaced the state as their principal controller. Boris Berezovsky's Logo-VAZ owns controlling stakes in the daily newspapers *Nezavisimaya gazeta*, *Novye izvestiya*, and *Kommersant*, and the weekly *Ogonek*. (Berezovsky also owns a 49-percent stake in ORT and a 75-percent stake in TV-6.) Vladimir Gusinsky's Media-Most owns the daily *Segodnya* and the weekly *Itogi*, and Vladimir Potanin's Interros owns a substantial stake in the daily *Izvestiya*. Moscow Mayor Yury Luzhkov and the Moscow city administration have built up a media holding that includes Center-TV and the newspapers *Moskovsky komsomolets*, *Vechernyaya Moskva*, and *Literaturnaya gazeta*.

Most privatized media, especially in the provinces, rely on some form of state sponsorship or patronage in the form of reduced prices on printing, distribution, etc. Pri-

vate distributors have sprung up throughout Russia, but the former state-owned monopoly, Rospechat, remains dominant. Subscriptions must still be expedited through the state postal system, though local delivery and distribution through kiosks is now largely in the hands of smaller, private distributors. For private newspapers, distribution is a very rough business that requires payoffs and security precautions. This is particularly true in the provinces and naturally puts them at a disadvantage vis-à-vis the more than 2,000 regional government newspapers.

Since most major media outlets receive some measure of government subsidy and/or have private sponsors or owners with political connections, editorial independence has been increasingly threatened. Local officials exert political pressure, particularly in regions where local elites are in competition. And since major media outlets increasingly are controlled by big financial groups, they reflect the financial groups' political biases and the battles of the business concerns that control them. The politicization of the media and the internecine squabbling among elites that is reflected in the press have contributed to a loss of influence.

The financial viability and editorial freedom of provincial media is not much better. Outside large cities, small local newspapers are sometimes the only reading available, and regional and local newspapers have gained a larger market share vis-à-vis the national press. The shift in media market share (especially of the print press) to the provinces has had the negative political consequence of increasing the influence of provincial authorities over the flow of information. This may be done by indirect means such as denying independent media access to printing presses or paper supplies while subsidizing publications that toe the official line. Like their counterparts in the Kremlin, regional and local authorities have not been afraid to use economic and political pressure to try to influence media coverage, particularly during elections. This is all the easier since the state still controls the majority of printing presses. Accreditation regulations also have been used to circumscribe media access and freedom.

Freedom House's annual *Survey of Press Freedom* has consistently rated Russia "Partly Free" since 1992. However, a series of controversial policy initiatives, political maneuvers, and government actions over the course of 2000 have seriously eroded even this meager standard. Independent media have come under attack on three broad fronts. First, journalists and media owners critical of the Putin regime have come under intense scrutiny and have been subjected to high-level arrests and politically motivated prosecutions. Second, state officials have taken their attempts to control media outlets to new levels by forcing the cancellation of critical programs and attempting to wrest ownership from media outlets by coercive measures. Third, a new 40-page "Doctrine on Information Security" emerged from the president's security council and was signed by Putin in September 2000. The document, which is a disturbing sign of the current government, accuses unnamed foreign powers of plotting to infringe on Russia's interests in the global information space. It even works out concepts for hampering the normal flow of information and telecommunication systems and for conducting information wars.

While the security council staff continues to flesh out the information security doctrine, the outcry about the potential danger it poses pushed the administration to engage in some damage control. At the end of October 2000, security council Secretary Sergei Ivanov claimed that he did not see the need for a major change in legislation on the mass media. Secretary Ivanov's comments were meant in part to counter earlier statements by Anatolii Streltsov, the deputy head of the security council's Information Security Department, that the current media law might require major changes. However, these comments were subsequently contradicted by the Minister of Press, TV, and Radio Broadcasting and Mass Media Mikhail Lesin, who said that he expected the Media Ministry to finish work on a new media law at the end of November 2000.

Electronic communications are fast becoming an important element in Russian society. According to Deputy Communications Minister Alexander Volokitin, Russia has 7 million Internet users who account for $700,000 a day in transactions carried out on-line. A poll by the Public Opinion Foundation of over 66,000 people in 115 cities found that 55 percent of Russians know little or nothing about the Internet, while 10.3 million people have Internet access at work, at home, or through a friend. Nevertheless, Minister for Economic Trade and Development German Gref has acknowledged that Russia "considerably lags behind" other developed countries with regard to the Internet. The increased use of the Internet has not been lost on the security organs either. Civic groups across Russia have made great strides in organization, networking, and fundraising through their savvy use of e-mail. Whether the authorities have the resources to monitor the burgeoning information flows is unclear, but many environmental and other political activists are concerned and now eschew e-mail for sensitive communications in favor of faxes. Harking back to the Soviet tradition, they reserve crucial communication for face-to-face meetings.

The government continues to interpret laws on information dissemination very broadly. For example, in April 2000 both *Novaya Gazeta* and *Kommersant* received warnings from the Media Ministry for publishing interviews with Chechen leader Aslan Maskhadov. The ministry did not specify which provision of the Federal law on News Media the papers had violated but rather cited a federal law on combating terrorism. Another high-profile event should be noted here: the acquittal of retired Soviet Navy captain Aleksandr Nikitin, who was accused of espionage and divulging state secrets. The violations of Nikitin's rights, too numerous to list here, were the consequence of intense government pressure to convict Nikitin and send a message to future whistle-blowers.

The government has adopted another, more popular, strategy to restrict free speech. It attacks the media empires of its political rivals under the guise of an anticorruption drive. Unfortunately, this tactic has been somewhat successful because of the unsympathetic nature of the government's main targets, Vladimir Gusinsky and Boris Berezovsky. Berezovsky's ORT savagely criticized Putin's handling of the Kursk submarine disaster, and Gusinsky's NTV has been a tough critic of Putin's Chechnya campaign. The frontal assault on Gusinsky's media empire began in May 2000 when dozens of agents from the FSB, the tax police, and the prosecutor-general's office raided his Media-Most holding company. Documents were confiscated, all telephone lines were cut, and employees were required to hand over their cell phones. Although the search was connected to a criminal investigation of the Most Security Service, which provides security services under contract to Media-Most, the heavy-handed message of intimidation was meant for all independent journalists and producers. Gusinsky was jailed for several days in June 2000 and left Russia the following month, saying he had been forced to sign a deal handing over Media-MOST to cover debts to Gazprom.

A new round of the battle began in September 2000 with the publication of a secret agreement between Gusinsky and the head of Gazprom-Media, Alfred Kokh, on the sale of the media company to the gas giant for $763 million. What shocked many, and helped prove subsequent assertions of government coercion, was that the document carried the signature of Media minister Mikhail Lesin. Although Lesin claimed that the decision to sign the document was a personal one, rather than a government-related one, it is clear that he participated in the process as a government representative. Gusinsky later disavowed the deal and now claims that he was pressured by the government to sign away Media-Most in order to stay out of prison. Subsequently, a criminal investigation was launched into whether Media-MOST has hidden assets abroad; an arrest order was issued by the Prosecutor-General's Office on fraud charges.

Putin continued his battle with the media barons by calling upon Boris Berezovsky to give up his 49-percent stake in ORT, Russia's largest television network. In an open letter published in the newspaper *Kommersant*, Berezovsky claimed that a high-ranking government official issued him an ultimatum to place his shares of ORT under state management or follow in the footsteps of Gusinsky, i.e., to Butyrka Prison. This issue was resolved when more than a dozen journalists signed an agreement establishing a new company, Teletrust, to manage Berezovsky's stake in ORT. However, this did not end the government's pressure on ORT. While the issue of Berezovsky's ORT shares was being resolved, ORT yanked a popular political show anchored by Berezovsky's ally Sergei Dorenko, allegedly on Kremlin orders. Indeed, Putin must have been surprised when Sergei Dorenko, the erstwhile pro-regime media attack dog, devoted the entire hour of the first episode of the new television season in September 2000 to a harsh indictment of the regime's handling of the Kursk submarine disaster. Although ORT head Konstantin Ernst argued that the decision to cancel Dorenko's program was his alone, most analysts lay the blame squarely on Putin's shoulders and called attention to the prior dismissal of ORT news executives Tatyana Koshkaryova and Ruslan Narzikulov. According to a report in *Novaya Izvestiya*, RTR employees have been banned outright from any criticism of Putin.

The Dorenko case shows that the Kremlin's assault on free speech is aimed at individual journalists as well as the oligarchs. There is little protection for journalists who are critical of the government. The Russian Union of Journalists is the major professional organization of journalists. Igor Yakovenko, the general-secretary of the union, has been an outspoken critic of what he calls a two-year trend of "government newspapers being converted in the expansion of state organs" and has lamented that "journalists are becoming government bureaucrats." However, unlike in Soviet times, unions like this one have so little impact that few journalists or officials take them seriously. A number of organizations aim to defend journalistic freedom and integrity, and many operate at the regional level. Perhaps the most prestigious group is the Glasnost Foundation, whose activities often meet with government interference. But even groups with high profiles or wealthy benefactors have little protection.

Court rulings on libel and defamation have been used frequently to curtail journalists' freedom to criticize public figures. Libel is a criminal offense under the 1992 Law on the Mass Media and the 1991 Law on the Protection of Citizens' Honor, Dignity and Business Reputation. Many government officials and politicians have attempted to utilize this legal mechanism. For example, in October 2000, a Moscow court ruled in favor of Prosecutor-General Vladimir Ustinov in a suit against NTV and its general director and anchorman Yevgenii Kiselev, which asserted that parts of an NTV broadcast defamed Ustinov. NTV's lawyers said that the station would appeal the court's decision. Defense Minister Pavel Grachev, however, unsuccessfully sued *Moskovsky Komsomolets.*

All this being said, the public has had little sympathy for Russia's media moguls. First of all, those who control the country's media empires looted the country's assets and built vast fortunes and patronage networks. Their downfall, regardless of the wider political implications, cannot help but bring smiles to the faces of the tens of millions who live at or near the poverty line. Second, the type of journalism upon which these media empires were built leaves a great deal to be desired. Whether it is Berezovsky at ORT, Gusinsky at Media-Most, Mikhail Khodorkovsky at Independent Media, Mayor Yury Luzhkov at TV Center, or the many other media outlets owned by Gazprom, almost all of them are widely known to accept money, directly or indirectly, in return for writ-

ing articles. So, regardless of government interference, few of these groups have done much to establish a truly free press in Russia. Of course, there are many sincere, independent, hardworking journalists in Russia, even at the entities mentioned above, but their efforts are overshadowed and undermined by the manipulation of free speech by both the government and its political rivals.

Governance and Public Administration

1997	1998	1999-2000	2001
4.00	4.50	4.50	5.00

There have been several important administrative developments in 2000, all of which are related to President Putin's efforts to establish greater federal control over Russia's regions. Putin enjoyed a seemingly significant victory over regional governors when they grudgingly acquiesced to the reorganization of the federal legislature's upper chamber, the federation council. However, on September 1, 2000, Putin also set up a new state council in which the leaders of all of Russia's 89 republics and regions will be represented. It will be, in effect, a replica of the federation council. Although the state council will only meet every three months and its powers will be consultative, it does represent a compromise in center-periphery relations.

According to President Putin, the state council will not take precedence over the upper or lower legislative houses but will assist federal authorities in "tackling important issues." Of particular interest will be the body's specially created presidium that will meet monthly and consist of seven members, each representing one of the newly created "super" federal districts. (See Table 2.) What is particularly noteworthy is the number of presidium members who come from the military or the security services. President Putin's May 13, 2000, decree on consolidating Russia's 89 regions into seven larger administrative districts and replacing the 89 presidential representatives with seven is still a work in progress. While the consensus was that the reorganization did not violate the constitution, newspapers such as *Izvestiya* and *Vremya MN* suggested that it was simply a means for the president to take over local power structures without a constitutional battle.

Boris Yeltsin had permitted the regions so much leeway that Putin was faced with the necessity to rein them in. In particular, he needed to regain control over those federal bureaucrats in the regions who had become more responsive to their regional leader than to the federal government. Putin's approach has been to attack the problem with more personnel and administrative structures. Clearly, without some recentralization, the Russian Federation faces the danger of greater fragmentation. But, by foisting a number of reforms on the regions from above, Putin risks undermining the democratic process even further, by separating citizens from the centers of power by another layer of bureaucracy that is not subject to voter control.

The real question is whether Putin's right to dismiss individual regional leaders will solve his problems in the provinces. Regional leaders are usually backed by local business elites, who can easily find other front men to replace those dismissed by the federal executive. As a number of analysts have argued, a more effective solution to the decentralization dilemmas inherited from Yeltsin would be to take the regional courts out of the direct influence of regional governors.

The multilayered, multiethnic character of the Russian Federation has presented some headaches for the federal executive branch. The Russian Federation is a multiethnic state divided into a complex, and often unwieldy, federal system that comprises 89 component parts: 21 are non-Russian republics, 1 autonomous oblast (region) and 10 autonomous okrugs (districts) that are also non-Russian ethnic units, 55 predominantly Russian oblasts, and 2 cities, Moscow and St. Petersburg, with special representative status. According to Article 5 of the constitution, all 89 regions are equal in status, but this is not the case in practice. The respective powers of the federal government and the regions are laid out in Articles 71 through 73 of the constitution, but these provisions have less weight than the series of bilateral power-sharing treaties signed by the Russian Federation with many of its 89 components.

These unconventional agreements are a legacy of Yeltsin's internecine political battles, and the center has long

Table 2. Leadership in the New Federal Districts

Federal District	District Center (City)	Appointed Representative (affiliation)
Central	Moscow	Gen. G. Poltavchenko (Presidential Representative to Leningrad Province)
Northwest	St. Petersburg	Lt. Gen. V. Cherkesov (First Deputy Director of FSB)
Urals	Yekaterinburg	Col. Gen. P. Latyshev (Deputy Minister, Internal Affairs)
Volga	Nizhny Novgorod	S. Kiriyenko (Leader, Union of Rightist Forces)
North Caucasus	Rostov-na-Donu	Gen. V. Kazantsev (Commander of North Caucasus Military District)
Siberia	Novosibirsk	L. Drachevsky (Ministry of CIS Affairs)
Far East	Khaborovsk	Lt. Gen. K. Pulikovsky (Commander of Far East Military District)

recognized that the system is flawed. For one thing, since no two treaties are the same there are institutionalized inequalities among the regions. For example, the constitutional court's provocative ruling that the claims to sovereign statehood enshrined in Tatarstan's 1992 constitution conflict with the 1993 Russian constitution were initially viewed as the first phase of a concerted effort to rein in the wayward republic. However, subsequent concessions by Putin, such as his tacit acquiescence to a probable third term for Tatarstan's Mintimer Shaimiyev, suggested that a review of the unorthodox 1994 bilateral treaty between Tatarstan and the Russian Federation is no longer a priority. Under current law, regional heads can only serve two terms.

Russia's 89 republics and regions only have limited rights to set tax bases and tax rates. The center prescribes revenue shares from the value-added tax and the corporate tax between the federal and regional budgets. It is in the political realm that the republics and regions make the most waves. Each has its own legislature, and some have laws that conflict with federal legislation. For example, Tatarstan's electoral law permits candidates to run unopposed, contrary to federal law. According to a deadline set by President Putin, all regional laws must be brought into compliance with federal ones by January 1, 2001, and all legal acts within the first six months of 2001. Nevertheless, significant discrepancies remain in the federal-regional battle of laws. In fact, it is no coincidence that Putin's administrative reorganization decree came only two days after he ordered Ingushetia and Bashkortostan to rescind legislation that contradicts federal law. One of the chief tasks of the new representatives to the regions is to ensure that regional laws conform to federal laws. Each envoy has already presented the regions in his district with a list of local laws that do not conform to federal legislation.

Putin's attempts to limit regional power also have affected the balance of power among the national branches of government. On July 26, 2000, members of the federation council bowed to executive pressure and voted overwhelmingly to pass a compromise bill reforming the upper house. By law, the council is made up of the heads of the executive and legislative branches in the 89 republics and regions. Under the new legislation, though, its current members will be replaced by two permanent working representatives, one named by each region's legislature and another appointed by its executive branch. The new representatives will be dismissed the same way they are selected. The bill requires that the upper house be in place by January 1, 2002. After this date, the current members of the federation council who are not members of local legislatures will lose their immunity from criminal prosecution.

Republic presidents and krai and oblast governors are popularly elected. Electoral laws vary from region to region, and elections of regional and local leaders have been far from free and fair. Often, irregularities, violations, and low voter turnout have undermined the results. In some regions, opposition candidates have complained that local officials have denied them access to the media. There also have been numerous complaints of harassment or intimidation of journalists.

The constitution delineates regional and local powers, though important elements are yet to be codified into law. There have been numerous attempts to reform the civil service. In 1991, the government created the Main Administration for Training Civil Service Cadres (Roskadry), a special organization for the selection and grooming of fast-track civil servants. Yet there remains an acute shortage of efficient civil servants at all levels of government. Low pay is one reason that competent individuals shun civil service jobs; it is also a reason why a 1991 law prohibiting civil servants from engaging in private business continues to be completely ignored. Civil servants may not be members of either federal or regional legislatures or serve in local government, and prospective civil servants must report income and property.

The effectiveness of local and municipal governments is also undermined by the shortage of competent full-time civil servants. In general, municipal governments in cities and rural districts are responsible for their own budgets and raise some revenue from taxes on municipally owned business. But compared with the authorities at the republic and oblast level, municipal governments are very weak. Less than a quarter of their revenue comes from sources they control. (The cities of Moscow and St Petersburg are exceptions, since they have the status of regions and, therefore, have regional, not local, governments.) Until the adoption in September 1997 of a new law on local government financing, municipal governments had to petition their regional government for almost every ruble of their budget. The 1997 law was intended to give them more independence, but the underlying paucity of funds has undermined the measure.

Governors and mayors in a number of regions and cities have been caught up in corruption scandals involving the misuse of funds. On October 4, 2000, the Duma voted 364 to 1 (with 2 abstentions) to approve a new code on administrative offenses. The new code has been criticized by some quarters because it proposed a sharp increase in fines that could provide even more incentive for bribery. Chuvash president Nikolai Fedorov, a former federal justice minister, argued that that the code poses "significant dangers" to citizens' rights and suggested that a conciliatory commission be created to revise the document. The Federation council rejected the new code, but Duma deputies are expected to override the veto.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.00	4.25	4.25	4.50

Perhaps the most interesting constitutional battle to date in 2000 is one that has not been fought. President Putin's reorganization of the country into seven administrative districts took place without a constitutional fight. The federation council decided that it would not turn to the constitutional court for a ruling on Putin's package of laws reforming the Russian Federation. However, several months after the imposition of the new system, federation council Chairman Yegor Stroev said that he supports the drafting of a law that would define clearly the powers of the seven presidential envoys to the federal districts. Meanwhile, Putin has decided to continue his reform efforts by taking aim at the constitutional court. He has submitted draft legislation to the Duma that would amend the law on the constitutional court by extending judges' terms from 12 years to 15 years and abolishing the mandatory retirement age of 70. Some analysts have suggested that Putin is eager to revise the constitution in even more ways.

Russian voters approved the current constitution by referendum on December 12, 1993. Article 1 defines Russia as "a democratic, federative, rule-of-law state with a republican form of government." The constitution provides for a strong executive and a bicameral legislature. It gives the president unusually strong powers, including the right to issue legally binding decrees and directives, to appoint senior members of the judicial and executive branches and, in certain circumstances, to dissolve the lower house of parliament, the State Duma. Presidential decrees and directives, like other laws, may be appealed to the constitutional court.

The ability of the judiciary to interpret and enforce the constitution is weak since the 1993 constitution restricts the powers of the constitutional court. The court does not, for example, have the right to select issues for consideration on its own initiative; the range of bodies that may submit issues to it is also limited. Even when the constitutional court makes a ruling, no mechanism exists to enforce it. In general, court rulings do not constitute a source of legislation under the Russian legal system. However, on June 27, 2000, as part of Putin's assault on the regions, the constitutional court invalidated portions of the constitutions of a number of republics, striking down statutes that claimed ownership rights for republics over natural resources on their territories, accorded these republics the status of subjects of international law, and asserted republican laws over federal laws.

The Russian constitution meets world standards in its provisions for human and civil rights. Article 2 defines the individual and his or her rights and freedoms as "the supreme value" of the state. Subsequent articles guarantee freedom of movement, conscience, belief, expression, association, and assembly. Article 46 guarantees individuals the right to judicial protection and affirms their right, "if all available means of legal protection inside the state have been exhausted," to appeal to international bodies for the protection of their rights and freedoms. Article 15 states that generally recognized principles and norms of international law, and the international treaties to which Russia is party, are constituent parts of its legal system. Article 15 also states that if an international treaty to which Russia is party establishes rules other than those stipulated by Russian law, the provisions of the international treaty take primacy. In 1998, Russia ratified the European Convention for the Protection of Human Rights and Fundamental Freedoms. This gives Russian citizens the right to file appeals with the European Court on Human Rights in Strasbourg, whose rulings are supposed to be binding in Russia. Nonetheless, implementation of constitutional rights and freedoms remains inconsistent.

The Russian Federation also has a human rights ombudsman, but the office has no power to make or change law. It can only propose changes to laws that the ombudsman considers unjust. The U.S. State Department's 1999 report on human rights worldwide found that the government's human rights record "remained uneven, and worsened in some areas." Areas of particular concern included: killings of civilians in Chechnya "through the use of indiscriminate force"; "extremely harsh" and frequently "life threatening" prison conditions; arbitrary arrests and detentions; police corruption; and "violent hazing" of new military recruits. On October 26, 2000, Human Rights Watch released a report detailing the cycle of torture and extortion faced by thousands of Chechens detained by Russian forces. The rights group called on European states to file a case against Russia in the European Court of Human Rights.

The international obligations into which Russia entered in the 1990s created an urgent need for a new code of criminal procedure. A new code was drafted at the end of 1997 but became bogged down in bureaucratic infighting. Meanwhile, the code of 1960, with some amendments adopted over the years, remains in force. The constitutional court has declared several specific provisions of the 1960 code to be unconstitutional. Search and arrest warrants are signed by the procurator at various administrative levels. Although Article 22 of the constitution states that a suspect may not be detained for longer than 48 hours without a court order, the constitution's transitional provisions specified that this provision would remain in abeyance until a new code of criminal procedure was adopted. Meanwhile, Russia has no tradition of habeas corpus, and arbitrary arrest and detention remain significant problems.

Article 21 of the constitution prohibits torture, violence, and "other brutal or humiliating treatment or punishment." Since September 1998, responsibility for administering the prison service has rested with the Minis-

try of Justice. Human rights activists assert, however, that the most serious human rights violations tend to take place not in prison but in the first few hours after suspects are detained.

Article 19 of the constitution guarantees equality of rights and liberties "regardless of sex, race, nationality, language, origin, property and position, place of residence, attitude toward religion, convictions, membership of public associations, and other circumstances." This includes the rights of persons belonging to ethnic minorities. Nonetheless, there are frequent reports of discrimination against people from the North and South Caucasus, Roma, darker-skinned persons in general, and other non-Russians. Some of these attacks have been the work of members of far-right racist organizations, but others, including arbitrary searches and arrests, have been carried out by police and other security forces under the pretext of fighting crime and enforcing residential registration requirements. There have been numerous cases of desecration of Jewish cemeteries and synagogues, as well as anti-Semitic remarks made by high-level officials.

The controversial 1997 Law on Freedom of Conscience discriminates against all but a handful of so-called traditional religions. President Putin has modified the law. Since only half of Russia's religious organizations had registered by the December 1999 deadline, he extended the deadline by one year. However, he also made it a requirement, instead of an option, to ban and take away the rights of groups that do not register or whose applications are rejected. The Soviet Union's religious organizations could register with the government in 1990, but the process was pro forma and voluntary. Today, new groups that are independent of a centralized religious organization cannot register at all. Other groups must reapply and submit a thick package of material documenting the history of their religion and other information.

Women face both domestic violence and discrimination in the workplace. In fact, according to Lyudmila Zavatskaya, a representative of the American Bar Association, the number of Russian women who die from domestic violence each year is comparable to the total number of casualties sustained by the former Soviet Union during its war with Afghanistan. Official statistics find that some 12,000 to 16,000 women die from domestic violence, but the actual total is likely much higher. In addition, Russian women are barred from more than 500 professions, including coal mining and senior positions in the Russian navy.

The new criminal code that entered into force on January 1, 1997, and replaced the RSFSR Criminal Code of 1960 included new sections protecting individual rights and freedoms and regulating economic activity. It decriminalized some activities that had been banned during the Soviet era but criminalized others that were not included in Soviet-era legislation such as money laundering, tax evasion, and securities fraud. In general, the changes over the past few years have not been satisfactory. State Duma Security Council Chairman Aleksandr Gurov told reporters in 2000 that he favors a thorough reform of the country's law-enforcement system, calling it "unprofitable and too expensive for the country." He added that there is repetition among the various agencies and stressed that the reform should affect not only the special services and the Interior Ministry but also prosecutors and the courts.

The 1992 Law on Judges established the independence of the judiciary for the first time. However, this law has been ignored all too often. On October 11, 2000, the Qualification Collegium of Judges stripped Judge Sergei Pashin of his post for allegedly violating judicial ethics. Pashin was dismissed for criticizing the sentencing of a young man to prison for draft dodging—even though the constitution allows conscientious objection—and for giving his personal telephone number to a listener in need of legal help during a radio show. In August 2000, the supreme court endorsed the removal of arbitration court judge Tatyana Loktionova by a collegium of judges that acts as professional licensing body. Loktionova's husband is suspected of accepting bribes to influence Loktionova's rulings. However, she claims that her dismissal is related to pressure from controversial Primorsky Krai governor Yevgeny Nazdratenko to change some of her rulings, particularly with regard to bankruptcy cases.

Judicial independence is also seriously threatened by a chronic lack of funding. Local courts have problems meeting their wage bills, buying equipment, paying telephone bills, and undertaking building repairs. This makes them easy targets for bribery and corruption. Some Union of Right Forces deputies in the Duma have called for extensive reform of current methods of financing the courts, as well as for large sums of money to be allotted to intensify and speed up judicial reform. Judges such as Sergei Pashin harbor strong doubts about the Kremlin's dedication to reforming the legal system, since, in the words of Pashin, "the government's financial decisions so far show that legal reform is far from being a priority."

A 1995 Law on Judges required judges to have had at least five years' experience in the legal profession and, in an effort to attract skilled lawyers to the profession, raised judges' salaries and changed retirement provisions. Most Russian judges are women, but unfortunately this reflects the low prestige of the profession rather than the positive effects of affirmative action. The court system remains seriously under funded. Article 48 of the constitution guarantees the right to qualified legal assistance and states that legal aid should be rendered free of charge as provided by law. The criminal code fleshes out this right by requiring the courts to appoint a lawyer if a suspect cannot afford one. In many cases, however, poorer defendants receive little useful legal assistance because there are no funds to pay trial attorneys and many public defenders are poorly trained. It is not surprising, then, that lengthy pretrial detention is a serious problem. Although the law requires court consideration to begin no more than 14 days after a judge issues the

order designating the location of the trial, congestion in the court system frequently leads to prolonged postponements. According to Judge Pashin, judges are themselves rated by the number of "acceptable," rather than legally correct, decisions they make, which helps explain the extreme harshness of Russian court decisions.

Prison conditions remain extremely harsh because of low health and sanitation standards. The prison service, like most services in the country, lacks proper funding. Overcrowding is a particularly serious problem, and some prisoners are forced to sleep in shifts because there are not enough beds. Overcrowding is blamed on a surge in the number of crimes being investigated and the acute shortage of judges to hear the trials. With a prison population of more than a million (800 convicts for every 100,000 citizens), Russia has one of the highest rates of incarceration in the world. In addition, since bail is rarely granted, overcrowding in pretrial detention centers is also a problem. A new penal procedure code is expected in the near future. Meanwhile, the 40-year-old Soviet document is still in effect.

Corruption

1999-2000	2001
6.25	6.25

Organized crime and corruption costs Russia about $15 billion a year, according to figures provided by the State Duma Security Committee. According to the Interior Ministry, crime cartels control about 40 percent of Russia's private enterprises, around two-thirds of state enterprises, and 50 to 85 percent of banks. The black market economy, which is largely criminally run, amounts to about 40 percent of Russian GDP.

The government's structure, personnel, and attitudes toward the law—all holdovers from the Soviet era—seriously impede efforts to make the economy more transparent and to reform the criminal justice system. President Putin came into office pledging to institute a "dictatorship of the law," but there was little evidence that he made any headway in 2000. In fact, he may have added to the country's corruption dilemma by reverting to a distinctly Soviet approach.

Even more troubling is the fact that some of the most prominent corruption scandals of the Yeltsin era, including the Maabetex case that involved kickbacks and secret Swiss bank accounts to refurbish the Kremlin, have been swept under the rug. Similarly, the Bank of New York scandal, which broke in the fall of 1999 and involved the alleged money laundering of hundreds of millions of dollars from Russian companies, has largely disappeared from view on both sides of the Atlantic.

The concept of conflict of interest is not widely assimilated in Russia. Politicians often combine executive power with a direct or indirect interest in businesses that are affected by that power. As a result, the boundaries between public and private sector activity are tenuous, at best. Many scandals have come to light in recent years over the way in which privatization was carried out in Russia. These cases highlight the ease with which members of the elite have moved between government and business, using their connections and positions to accumulate private fortunes.

Deputy Prosecutor-General Vasilii Kolmogorov told the federation council on October 25, 2000, that his office should be able to name the main culprits behind the 1998 financial crisis by mid-2001. According to Kolmogorov, his office began an investigation at the central bank soon after the August 1998 meltdown. Officials at the central bank and the Finance Ministry bought and sold government securities, but many did not pay taxes on their earnings. Kolmogorov added that some of those officials appear to have been involved in broad insider-trading arrangements under which they accepted money in return for well-timed hints about the collapsing market in Russian treasury bills. He added that some central bank and Finance Ministry officials also held second jobs and collected second salaries at institutions such as the Moscow Inter-Bank Currency Exchange.

Financial disclosure requirements have been imposed by decree on several occasions, but official reports of income have been extremely low and, thus, highly dubious. Little has been done with the information that has been disclosed. Racketeering is punishable under Article 163 of the criminal code. The old Soviet underworld has been largely replaced by sophisticated political-criminal organizations that are often staffed by police and former security professionals. Mafia organizations have close relations with officials at many levels of the Russian government. According to a Gallup International poll reported in April 2000, Russia placed in the top 20 of the most corrupt countries in the world. The poll was conducted through interviews with senior bankers, business leaders, and government officials in many countries. Russia was ranked 82 out of the 90 countries surveyed in Transparency International's 2000 Corruption Perceptions Index (CPI) and received a score of 2.1 on a scale of 0 (highly corrupt) to 10 (highly clean).

Corruption and extortion pervade everyday life in Russia. And despite public support for the Putin government, polls show widespread skepticism about his anticorruption promises. For example, in a survey conducted by the Obshchestvennoye Mnenie Foundation in 56 regions on the eve of Putin's election, some 48 percent believed that he would not succeed. In earlier surveys conducted by the foundation, 81 percent of respondents said that corruption was prevalent in their region.

Businesspeople routinely pay bribes in order to conduct their affairs, and government officials routinely accept and even demand them. Ordinary people are often required to pay bribes, for example, to get a bed for a hospital operation, to obtain a passport, or to register residency. Azalea Dolgova, the head of the Russian Association of Criminol-

ogy, gave the following figures from a 2000 survey of businessmen in Moscow, Volgograd, Voronezh and Vladivostok: tax inspectors typically demand 25 percent of a business tax payment, and customs officials demand 20 percent of total customs duties. It is common knowledge that the salaries of low-ranking officials are pitifully low and subject to arrears of payment. Among police officers, for example, low salaries and wage arrears have fostered corruption and prompted many of the best officers to move into private employment as security guards.

As the pending case against central bank and Finance Ministry officials demonstrates, some anticorruption initiatives have been initiated. In June 2000, former Federal Security Service Director Nikolai Kovalyov was named as chairman of the parliamentary commission on corruption. Kovalyov noted that the lack of clarity in the law and the low salaries of officials contribute to high levels of corruption. This anticorruption commission, which consists of 19 Duma deputies, is supposed to study, analyze, and summarize materials regarding corruption. It is also tasked to come up with recommendations for improving legislation in this general area.

The government has introduced a new flat tax system that it hopes will reduce the widespread tax evasion—one of the root causes of corruption. It has also introduced more transparent laws and regulations governing customs, including ending commercial banks' unrestrained control over overseas financial transactions. These measures are largely aimed at cutting capital flight, which totaled an estimated $200 billion in the 1990s and is believed to be a key indicator of the extent of corrupt or illicit economic activities.

Duma deputies are taking aim at other parts of the law enforcement picture as well. A group, including Viktor Pokhmelkin (SPS), Sergei Ivanenko (Yabloko), and Valerii Grebennikov (OVR), has prepared a new draft law on the prosecutor-general's office that would drastically alter its status. Pokhmelkin told the daily *Segodnya* that the law would transfer from the prosecutor-general to the Justice Ministry the task of monitoring whether federal and regional power structures are implementing laws. In addition, the legislation would establish an office of special prosecutors that would be appointed by the parliament whenever there are reasons to suspect that the prosecutor-general office cannot conduct an objective investigation. In another potentially helpful development, President Putin has signed a law requiring the fingerprinting of employees of executive agencies, the police, the Interior Ministry, the Federal Security Service, the Federal Agency for Governmental Communications and Information, and foreign intelligence and customs services. Fingerprinting will also be required of draftees, bailiffs, fire and rescue services, and those who claim the status of refugee.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
3.00	3.25	3.75	3.75

Macroeconomic Policy

1998	1999-2000	2001
4.25	4.75	4.25

Microeconomic Policy

1998	1999-2000	2001
4.25	4.50	4.50

Deputy Labor Minister Galina Karelova reported in October 2000 that some 50 million Russians have incomes below the subsistence level, which is pegged at 1,185 rubles ($42.50) a month. Nearly 70 percent of families with three or more children fall below this level, and more than 26 billion rubles ($933 million) are overdue in child allowance payments. The Russian poor are mainly composed of large families with children, single pensioners, the unemployed and disabled, and women. Elderly women are far more likely to be poor than elderly men. Far too many of these people struggle just to pay for food. The monthly price of a basket of 25 basic food products at the end of October 2000 was 595 rubles ($21), a 5.6 percent increase from the beginning of the year.

A recent positive sign is that the proportion of the population in the middle class has shown signs of expanding. The number of people with a monthly income exceeding 2,000 rubles ($72) jumped from 18.5 percent in 1999 to 35.2 percent in 2000. According to Tatyana Maleva of the Moscow Carnegie Center's research council, about 20 to 25 percent of Russian citizens can be categorized as middle class; most of then work in the banking sector. The average number of citizens employed during the first eight months of 2000 ranged from 64.9 million (January) to 65.2 million (August). Unemployment, as measured by the International Labor Organization, declined from 11.9 percent in January 2000 to 9.9 percent in both July and August. According to the State Statistics Committee, average per capita income totaled 2,243 rubles ($80.5) in October 2000, and average nominal wages totaled 2,391 rubles ($86). PlanEcon reports found that the average monthly nominal wage in the economy rose from $64.4 in January 2000 to $86.4 in August, with the real wage figure for August steady at is $77.4.

Due to progress on tax collection, extremely high world oil prices, and relatively effective exchange rate policies, Russia's macroeconomic picture for 2000 looks positive. Furthermore, the seemingly fair and transparent privatization of a large state-owned oil company suggests that the Putin regime might finally be turning away from the insider deal-

ings that were characteristic of the Yeltsin era. The European Bank for Reconstruction and Development projects that GDP will grow 6.5 percent in 2000, up from an estimated 3.2 percent in 1999.

Despite the progress in collecting taxes in 2000, taxation remains a problem area. The Russian government derives only about 15 percent of its annual revenues from income taxes, a far smaller proportion than in most Western countries. President Putin promised reforms aimed at the wide-scale resistance to paying income taxes, the inefficiency of the tax service, and the huge scale of the underground economy. Consequently, the government introduced a flat income-tax rate of 13 percent in an effort to get more citizens to pay taxes. Ignoring taxes still remains the norm. Only 3.8 million of the estimated 20 million Russians who are required to file personal income tax declarations did so in 2000; for other workers, statements are filed by the employer. The new rate goes into effect at the beginning of 2001 and replaces a graduated system in which in the year 2000, the basic rate on income was 12 percent and the highest bracket was 30 percent. Although the new system will result in slightly higher income tax bills for poorer workers, the increase should be offset by reductions in other payroll deductions.

Russia's trade surplus in 2000 reached $66.8 billion, nearly triple the $22.6 billion figure from the previous year, with exports growing to $100.4 billion. More than half (54.7 percent) of the exports were in the petroleum sector. Official reserves continued to rise through mid-October 2000, reaching $25.5 billion. Producer price inflation fell to 32 percent from 67.3 percent in 1999. Investment in fixed capital reached 17.2 percent, up from 5.3 percent in the previous year. Meanwhile, Russia's money supply minus foreign currency deposits increased 47.1 percent over the first 11 months of 2000. In addition, the Finance Ministry had some success in resuscitating the treasury bill (GKO) market: 90-day issues were successfully floated in February, April, July, and August 2000. Annualized yields are still negative in real terms, but the 22 percent nominal annualized yield on the July 2000 issue could turn out positive.

The country's industrial production is set to grow 9.2 percent in 2000, up from 8.1 percent in 1999. This is encouraged by healthy export potential and a domestic market that can no longer afford imports. In terms of agricultural production, PlanEcon forecasts made in September 2000 call for 3 percent growth in animal products for the year, and 8 percent in gross agricultural output overall. Remonetization of the economy is another promising sign. The share of total sales revenues collected in monetary form from Russia's largest taxpaying enterprises rose to 67 percent for the first seven months of the year, up from 50 percent in 1999. Gazprom and the railroad industry pushed the share of monetary surrogates (e.g. barter, promissory notes, etc.) below the 30 percent mark, while UES finally topped the 50-percent mark in such collections.

There is some anxiety that Russia's economy is riding too much on world oil prices and that a sharp decline could be devastating. However, although oil revenues have increased liquidity and aided tax collection revenues, it is the weak ruble that figures predominantly in Russia's recovery; it has provided Russian manufacturers with a price advantage over foreign produced goods in both foreign and domestic markets. The strong fiscal trends began to slow in the second half of the year. Moreover, the balance of payments data suggest that foreign investors still avoid Russia. Nevertheless, the overall macroeconomic-picture remained impressive.

Another positive development is the inclusion of several liberals in Putin's economic team. The naming of German Gref as economics minister, as well as the appointment of Aleksei Kudrin and Viktor Khristenko as deputy prime ministers, provides a healthy balance to the presence of security agents and Yeltsin "clan" members in leadership positions. Nonetheless, despite these positive trends, developments in a number of areas that affect the continued path of democratization and openness in Russia remain disturbing. For example, calls for greater financial support for the military and security branches, problems in the area of banking and capital flight, and insufficient strides regarding business competition, land reform, and privatization have political repercussions domestically and internationally.

Under old rules, Russia must adopt a budget for 2001 in which the biggest expenditure line item is servicing of foreign debt; defense spending should be set at 2.66 percent of GDP. However, after the Kursk disaster, key groups of Duma deputies called for a defense budget at 3 percent of GDP. Anatoli Aksakov, the deputy chairman of the Duma's Committee on Economic Policy, says the budget can accommodate a defense line of 3.5 percent of GDP. The share of GDP devoted to debt service has decreased from 5.3 percent (mid-1998) to 4.3 percent (mid-1999) to 3.2 percent in mid-2000. The share of GDP going to the military and security apparatuses, however, is set to rise in the next budget from 3.8 percent to 4.4 percent of GDP.

The news regarding privatization issues has been generally positive in 2000, though much still needs to be done in this area. In recent years the private sector has accounted for about three-quarters of GDP, with 60 to 65 percent of the workforce employed privately. Most estimates maintain that the informal economy represents about 30 percent of GDP (compared with an average of 10 percent in developed nations). In September 2000, a majority of deputies voted to withdraw several bills that would have put into effect Chapter 17 of the civil code, which was suspended pending adoption of the land code. Article 34 of the constitution guarantees the individual's right freely to use his or her abilities and property for the purpose of entrepreneurial activity and for "other economic activity not prohibited by law." Article 35 guarantees the rights of private property and inheritance. Article 36 states that citizens are entitled to hold land in private ownership. However, the gov-

ernment's attempts to liberalize land ownership have been stymied by parliament, which has so far refused to countenance the creation of a free market in agricultural land. A handful of republics and regions have legalized the sale of land on their territory but, in the absence of a federal land code, there have been few buyers.

The Duma has been unable to pass the land code for several years. About 20 presidential decrees aimed at regulating land relations are in effect, but there are no federal laws in this sphere. Nevertheless, land deals continue despite the lack of legislation (or perhaps because of it). According to the Federal Land Registry 130 million hectares of land in Russia have become privately owned over the last decade. *Izvestiya* reported in September 2000 that in 1999 more than 200,000 transactions involving the purchase and sale of land were concluded. Now there are some 43 million landowners, and these proprietors own approximately 8 percent of the country's total land surface. In October 2000, the Duma approved an amendment to the mortgage law eliminating the ban on mortgages on agricultural land. According to some analysts, this is the first step toward legalizing the private ownership of land.

The September 2000 sale of an 85 percent stake in the state-owned ONAKO oil company was also a positive development. The fact that the winning bid of $1.08 billion was more than double the initial price suggests that this was perhaps the first relatively honest privatization to take place in several years. This contrasts sharply with the last oil privatization, in which an obscure company purchased a 9-percent stake in Lukoil with a bid that was just $5,000 above the government's minimum asking price. It also suggests that the government might finally be moving away from nontransparent insider privatization deals. However, earlier in the year, criminal investigations led authorities to consider reversing privatization in several high profile cases, including the UES electricity monopoly, the TNK oil company, and the Norilsk Nickel works. In the latter case, the federal prosecutor's office announced that the owner of Norilsk Nickel, former deputy prime minister Vladimir Potanin, either hand over millions of dollars to the government—an amount that he allegedly underpaid for the Siberian metals giant—or face charges. However, the bulk of the tax investigations were dropped; the Norilsk privatization charges were never pursued; and the manner in which these threats were bandied about served to undermine investor confidence. It is no wonder, then, that capital outflows are also still a problem. A net outflow of $18.4 billion was reported at mid-year.

President Putin has made attempts to lure back foreign investment. He declared that Russia is against any redistribution of property and is expending great effort to rid the economy of red tape, in order to establish transparent and equitable rules for all businesses. The government introduced a simpler, and more liberal, tariff system in September 2000; it will go into effect in 2001. The new tariff system replaces the seven-tier tariff framework with a four-tier system and cuts the top tariff rates (for all goods except tobacco and sugar) from 30 percent to 20 percent. Putin also stressed that Russia's legal system must become independent from central and regional executive authorities and from businesses.

Duma Security Committee Chairman Aleksandr Gurov told reporters that he favors the extension of a financial amnesty to woo back capital that has fled the country. He suggested that international institutions might serve as a guarantor for the amnesty, since the Russian people have been deceived many times and do not trust domestic authorities.

Russia's banking sector is in dire need of reform. Although Russians seem to be placing more money into banks, foreigners remain leery of them. Many Russian banks had used high-yield, high-risk, short-term state bonds as collateral on foreign loans to make more investments. Majority shareholders of many banks also took advantage of the murky regulatory framework during the 1998 financial crisis to transfer assets to newly created "bridge banks," thereby defrauding their creditors, depositors, and minority shareholders. Most of this was done with impunity. The Central Bank of Russia (CBR) has, on more than one occasion, issued refinancing credits to these bridge banks.

Foreign ownership is legally limited to 8 percent of Russian banking assets, and Russian elite seems to favor retaining national banks. Intrabank competition is prevented by the dominant position of the State Savings bank (Sberbank), in which the CBR owns a 57.66-percent stake. Thanks to its de facto government guarantee on savings deposits, Sberbank holds 90 percent of household savings deposits and does 25 percent of Russia's commercial lending. The CBR's commercial relations have generated scandalous charges about money laundering and the diversion of International Monetary Fund and World Bank monies. Much of the blame falls to CBR Chairman Viktor Gerashchenko, who enjoys legal autonomy from the government and strong support in parliament and the financial sector.

Legislation to promote bankruptcies remains stuck in parliament and is opposed by the CBR. However, in September 2000, the Kremlin submitted legislation to the Duma to amend banking laws by prohibiting the CBR from engaging in commercial banking activities. The CBR is completely independent of the executive branch of government (at least legally), and, at the same time, is the country's largest financial holding company. Moreover, charges of mismanagement and corruption at the CBR are not infrequent. President Putin proposes turning the bank into a federal government agency. If the CBR were given this status, it would likely be subordinate to at least one of the branches of the federal government. The decom-mercialization of the CBR is also an important goal. However, divestiture of these assets is likely to take place either by sales to privileged insiders or via their transfer to explicit state ownership. Opening Russia's commercial and retail banking to foreign banks would

probably be a better solution. This could have the effect of reducing the opportunities for corrupt financial practices, which carry over into Western economies, as well as inhibiting the strength of criminal enterprises to utilize their ill-gotten gains.

There is an argument to be made that having the CBR independent from the executive branch of government and from the Duma is a positive attribute. Unfortunately, the potential benefits that might accrue from the bank's autonomy, especially in relation to Putin's consolidation of power, have been wasted because of inadequate leadership and poor policy development. Perhaps a different team at the head of the central bank might even prove to be a boon to the Russian executive.

Greater strides regarding fair business competition also need to be made. Endless bureaucracy, problems obtaining credit, and a tangled legal system make running a small business in Russia difficult. For women business owners, the problems are often magnified. While exact figures are difficult to come by, the Association of Women Entrepreneurs estimates that between 30 and 40 percent of the 890,000 registered businesses in Russia are owned by women. Small businesses employ almost 25 million people in Russia, including part-time workers and family members. They contribute between 10 and 12 percent of GDP, according to the Federal Fund for Small Business Development. Credit for women entrepreneurs is difficult to obtain, although groups like the Russian Women's Microfinance Network makes loans available to them.

On the negative side of the ledger was the Communication Ministry's September 2000 decision to revoke licenses arbitrarily for the use of cellular telephone frequencies by Mobile TeleSystems (MTS) and VimpelCom. In October 2000, the government backed off in its battle over the radio frequencies and announced that the seizure of several bandwidths from the two companies had been annulled. Unfortunately, the ministry's unexplained cancellation of the licenses caused the price of the companies' shares to drop 15 to 25 percent. By the time the cancellation was revoked, pending a further review, the damage had already been done. The wider fear is that if the regulatory authorities renege on the agreements, investors will be less likely to participate in the development of Russian capital markets. On a more hopeful note, discussions regarding the reorganization of all natural monopolies are set to begin in November 2000. The process is supposed to be completed by late 2001.

According to a report by Yuri Maslyukov, chairman of the Duma's Committee on Industry, Construction, and Science-Intensive Technologies, the picture in Russia is not as bright as it seems. Due to the lack of a consistent state investment policy, investments have fallen by a factor of five since 1991, and the share of equipment that is less than ten years old has fallen below a third. He argues that at current rates of reproduction, by 2005 fixed capital will be the main factor limiting development: by 2010, fixed capital will have shrunk by 25 percent since 1998, with only 55 to 60 percent of the pre-reform capacity remaining. This will undermine any effort to improve the standard of living of the population and, thus, make it impossible to restore the population's confidence in the state and to create constructive motivation for business or labor.

Of Russia's 145 million residents, more than 100 million receive various kinds of state benefits, though by no means does everyone need them. For example, all parents (from factory workers to oligarchs) receive child benefits equal to 70 percent of the minimum monthly wage for each child. Benefits are jealously guarded. For example, two dozen people in Tula Oblast who were disabled during the clean up of the 1986 Chernobyl nuclear disaster went on hunger strike in October 2000. They were protesting amendments to the law on welfare benefits to Chernobyl workers. Subsequently, the Duma approved a law changing the social benefit system for workers who took part in the clean up, dividing them into three different groups that receive monthly compensation ranging from 5,000 rubles ($179) to 1,000 rubles.

Russia has a number of extrabudgetary funds that finance social insurance policy. Payroll taxes and transfers from the federal budget mainly finance these funds. Since they are constructed on a pay-as-you-go basis, they are unsustainable and inefficient. This is especially true given the graying of the Russian population, 16 percent of which is 60 years or older. Pensions, especially the minimum guarantees, have eroded significantly in real terms over the course of the Russian transition. Many pensioners continue to work, and most do not live alone. The official retirement age is 60 for men and 55 for women. Russia operates a 'pay-as-you-go' pension system that requires companies to transfer 28 percent of their wage bill and individual workers to pay 1 percent of their salary to the State Pension Fund. Pension fund chairman Mikhail Zurabov feels that without pension reform, in the near future the government will not be able to meet its social welfare requirements.

The legislation currently in force (Law No. 113) ties the size of the average pension to the average wage in the country. Thus, as the labor force shrinks, less money will be available. In 7 to 8 years, he asserts, the ratio of pensioners to workers will reach a critical point beyond which the Pension Fund will have to operate in the red. Zurabov is wants to untie pensions from workers' wages and peg them to the minimum living standard. In October 2000, President Putin announced a 10-percent increase in all pensions as of November 1, 2000. The average pension in Russia today is 615 rubles ($22) per month.

Wage arrears continue to be one of Russia's biggest problems. For instance, the Health Ministry reported in October 2000 that unpaid wages to health care workers had increased by 63.8 million rubles ($2.29 million) to a total of 648.5 million rubles ($23.27 million). Health care workers are not the only group that is not being paid on time. In October 2000, striking teachers in the Altai Re-

public threatened to widen their protests if their demands were not met. Teachers from 29 schools in three raions blocked the highway leading to Mongolia and demanded the payment of their overdue wages. The good news is that the total arrears to the general government budget, wage arrears, and company arrears (vis-à-vis other enterprises and banks) dropped by 37 percent during the first half of 2000. Unpaid wages comprise most of this sum, and the lion's share of this is in the enterprise sector. Furthermore, it seems that there are less and less people to pay. The population of the Russian Federation has declined from 148.7 million in 1992 to 144.99 million as of November 1, 2000. Migration helped to stem the 23.1 percent decline in the population due to natural causes. According to Russian immigration officials, more than eight million people have arrived in the Russian Federation from former Soviet republics and the Baltic states during the last decade. They also noted that there are an estimated 1.5 million illegal immigrants in Russia at the present time.

During the same period, the number of marriages increased 1.2 percent while divorces rose 19.9 percent. The downward trend in birthrates is also alarming: the number of babies born in 1998 declined by nearly 50 percent from 1987 and dropped another 5.3 percent in 1999. Births of second and third children have been cut almost in half. Out of 4 million pregnancies, only 1.3 million end in births. Russia also has an extremely high mortality rate, reaching 14.7 per 1,000 people in 1999. The mortality rate exceeds the birthrate by a factor of 1.8. According to revised estimates for mid-year 2000, life expectancy is 59.8 years for men in the Russia Federation and 72.2 for women. The latest World Health Organization figures showed that there were 4.7 doctors per 1,000 of the population and 6.6 nurses/midwives per 1,000. The Russian Federation allots 5.4 percent of GDP on health expenditures, with 76.8 percent of that figure spent by the public sector. The medical infrastructure remains in terrible shape.

The country's demographic decline can also be seen in the sphere of education, where the number of school children is declining even faster than the number of schools. The number of daytime state schools has decreased by 2.2 percent since 1995, while the number of non-state schools has risen 16 percent. Overall, during the past five years there has been a 2.1 percent decrease in the total number of schools from 70,800 to 69,300; the number of school children has fallen by 3 percent, from 22 million to 21.4 million. Since the school systems themselves are starved for funds and materials, the level of instruction is also declining. Efforts have been made to address this problem, though so far there is more rhetoric than reality. For instance, some educational reformers are calling for large increases in educational spending. A recent proposal suggested that over the next four years government funding for education should be increased from 3.2 percent to 4.2 percent of GDP. Thus far, education has yet to become a top priority for government spending.

Despite a recovering economy, Russian society remains divided between the "haves" and the "have-nots." For far too many Russians, the promises of liberalism have yielded not to the dream of liberalism but to the reality of "miserabilism." The big question is whether the alienation in Russian society that is plainly evident, but rarely acknowledged, will motivate the new government to take radical action. The long-standing tendency of the elite, like many other ruling classes, to try to divert attention from its own failings by blaming foreigners, or by blaming the past, no longer serves the interests of stability. This might have been a necessity in the difficult days of the initial transition period, but almost a decade has gone by and the standard of living of most Russians worsens by the day.

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SLOVAKIA

Polity: Parliamentary democracy
Economy: Mixed capitalist
Population: 5,400,000
GNP per capita at PPP $ (1999): 9,811
Capital: Bratislava
Ethnic Groups: Slovak (85.7 percent), Hungarian (10.6 percent), Roma (2 percent), Czech (1 percent)
Size of private sector as % of GDP (mid-2000): 75

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	3.80	↑ 3.65	↑↑ 2.50	↑↑ 2.25
Rule of Law	na	na	3.13	↑ 3.00
Economic Liberalization	3.38	↓ 3.58	↑↑ 3.25	3.25

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	2,721.0	3,423.0	3,679.0	3,802.0	3,970.0	3,650.0	3,742.0
Real GDP growth (% change)	4.9	6.7	6.2	6.2	4.1	1.9	2.2
Inflation rate	13.4	9.9	5.8	6.1	6.7	10.6	12.0
Exports ($ millions)	6,691.0	8,579.0	8,831.0	9,639.0	10,667.0	10,197.0	11,000.0
Imports ($ millions)	6,633.0	8,807.0	11,124.0	11,720.0	12,959.0	11,301.0	11,700.0
Foreign Direct Investment ($ millions)	236.0	194.0	199.0	84.0	374.0	701.0	1,500.0
Unemployment rate	14.6	13.1	12.8	12.5	15.6	19.2	17.9
Life Expectancy (years)	72.3	72.3	72.7	72.7	72.9	72.7	73.0

INTRODUCTION

During the period covered by this report, Slovakia reconfirmed its commitment to democracy and the rule of law. It also launched important market-oriented economic reforms and pursued greater integration with the international community of democracies. This progress came after the four-year tenure of an authoritarian and nationalistic administration headed by the charismatic and populist Vladimir Meciar.

After the Slovak Republic gained independence in 1993, advocates of democracy and stalwarts of authoritarianism engaged in a permanent struggle over the character of the country's political regime. The policies of the authoritarian forces that were at the helm between 1994 and 1998 caused political confrontation, instability of constitutional institutions, and frequent violations of fundamental principles of the rule of law. These policies were based on a privatization process that lacked transparency and was teeming with partisan clientelism and corruption. Under the leadership of Vladimir Meciar, the country lapsed into regional and international isolation. Unlike the neighboring Czech Republic, Hungary, and Poland, Slovakia was not invited to join NATO and was removed from the first group of post-Communist countries with which the European Union (EU) opened negotiations on full membership.

A broad democratic alliance of political parties, nongovernmental organizations (NGOs), churches, trade unions, self-government organs, ethnic minorities' representatives, and influential intellectuals emerged in direct response to the Meciar regime. This mobilization of Slovakia's pro-democratic citizenry eventually led to the 1998 parliamentary election victory of political parties oriented toward liberal democracy. Since then, under the leadership of Prime Minister Mikulas Dzurinda, Slovakia has witnessed positive political and economic changes that are characterized, among other things, by institutional stabilization, legal reform, and increased respect for human and minority rights. The country also has rejoined the process of international integration by catching up with its neighbors in the EU accession race, becoming a full-fledged member of the Organization for Economic Cooperation and Development (OECD), and convincing NATO that it is a serious candidate for membership.

The inauguration of a new government led by democratic forces has mobilized the country's social capital as well. To solve pressing societal problems, the new administration has engaged experts who were forced out of state administrative organs during Meciar's tenure because they disagreed with his undemocratic practices. The new government also has engaged representatives of civil society whose principal goal is to help Slovakia catch up with its neighbors in the transition and integration process. During the period covered by this report, a culture of negotiation became increasingly embedded in Slovakia's political and social life.

Slovakia must intensify its reform efforts if these positive trends are to continue. The only way reformist political forces can drum up sufficient public support for further reform, however, is by pursuing consistent policies that will bring concrete results. The launch of public administration reform and the introduction of extensive constitutional revisions that will strengthen the country's democratic character are key challenges the government will face in the next few years.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.75	3.50	2.50	2.25

The Slovak Republic is a parliamentary democracy that has been characterized by a growing level of stability and, thereby, by the improved functioning of democratic institutions since 1998. From 1994 to 1998, Slovakia was ruled by a coalition comprising the Movement for a Democratic Slovakia (HZDS), the Association of Slovak Workers (ZRS), and the Slovak National Party (SNS). Domestic politics was characterized by ongoing confrontations between power institutions, and this significantly reduced the level of stability in the political system. The government did not cooperate with the president. The cabinet and parliament ignored the verdicts of the constitutional court. And state authorities violated the basic principles of the rule of law and the separation of powers, thus narrowing the possibility for democratic competition among political forces.

This situation changed immensely following the 1998 parliamentary elections and the subsequent formation of a new ruling coalition comprising four democratic political parties: the Slovak Democratic Coalition (SDK), the Democratic Left Party (SDL), the Hungarian Coalition Party (SMK), and the Party of Civil Understanding (SOP). The government, parliament, and president now cooperate with each other, and the system of separation of powers functions without fail. The ruling coalition government enjoys a two-thirds parliamentary majority, which provides for a relatively efficient legislative process. Both the cabinet and parliament abide by all verdicts of the constitutional court, and parliament efficiently performs its control functions with regard to the executive branch. During the period covered by this report, the constitutional court did not strike down a single measure that parliament passed. In contrast, between 1994 and 1998, the constitutional court deemed 19 laws and amendments unconstitutional.

Relations between the ruling coalition and the opposition are confrontational. Immediately following the 1998 parliamentary elections, the new ruling coalition offered the opposition adequate representation (commensurate to its election results) in the leadership of parliamentary commit-

tees, but the opposition refused. Rather, the HZDS and the SNS opposition parties tried to reverse the election results, and thus to destabilize the political situation, by leading a successful petition drive to hold a referendum on early parliamentary elections. However, low voter turnout (20.03 percent) on November 17, 2000, turned the referendum into a political disaster for the opposition.

The most recent parliamentary elections took place in September 1998. During the campaign, the then-ruling HZDS-ZRS-SNS coalition changed the rules of the game to the detriment of the opposition parties by inserting into the election law provisions that discriminated against coalitions. The amendment meant that the SDK, the strongest opposition bloc comprising five independent parties, had to make fundamental changes to its organizational structure just to participate in the elections. The election law amendment also restricted the participation of privately owned electronic media and strengthened the powers of the civil service in the election process. Opposition parties, NGOs, and numerous international institutions, fearing state administration organs would violate or manipulate the election process, were critical of the amendment. And their fear was not unfounded: Politicians and political analysts cited the May 1997 referendum on direct presidential elections and on accession to NATO, which the Meciar administration thwarted by leaving a key question off the ballot. In response, NGOs led a massive campaign for free and fair elections, opposition parties spurred a strong civic mobilization, and international observers participated in the election process. Together they prevented the feared election manipulations. The Organization for Security and Co-operation in Europe (OSCE) declared that the elections took place in compliance with the law and certified them as free and democratic.

Six political groupings received a mandate in parliament: the HZDS (27 percent of the popular vote and 43 seats), the SDK (26.3 percent and 42 seats), the SDL (14.7 percent and 23 seats), the SMK (9.1 percent and 15 seats), the SNS (9.0 percent and 14 seats), and the SOP (8.0 percent and 13 seats). In October 1998, the SDK, the SDL, the SMK, and the SOP formed a new coalition government. The cabinet has 20 members: 9 representatives from the SDK, 6 from the SDL, 3 from the SMK and 2 from the SOP). The prime minister is Mikulas Dzurinda of the SDK. As of October 2000, the ruling coalition controlled 91 votes in parliament, and the opposition parties had 56 seats. There are also three independent members of parliament who formerly stood for the SDL, the SOP, and the SNS.

The last presidential election took place in May 1999. The question of how Slovaks should elect their head of state had been an issue of key importance in Slovakia's constitutional and political development. Between 1993 and 1998, parliament elected the president. But when the term of Michal Kovac, Slovakia's first president, ended in 1998, parliament was unable to elect his successor because of an unbridgeable gap between the government and the opposition parties. The HZDS-ZRS-SNS ruling coalition rejected the opposition's proposal to introduce direct presidential elections and, a year earlier, had even marred a referendum on the issue. Simply put, the government had little support among voters and feared defeat.

In January 1999, Slovakia's new ruling coalition amended the constitution and enacted direct presidential elections. According to the presidential election law, presidential candidates must be nominated either by 15 members of parliament or by 15,000 citizens whose signatures are collected on a petition. Although the conditions governing the registration of candidates for presidential elections cannot be considered onerous, one might argue that candidates representing parliamentary political parties have an advantage over other candidates.

In May 1999, ten candidates competed in Slovakia's first direct presidential election, which observers proclaimed was free and democratic. Rudolf Schuster, a joint candidate of the new ruling coalition, won with 57 percent of the popular vote in the second round. His rival, HZDS chairman Vladimir Meciar, took 43 percent of the popular vote.

Since the introduction of free and fair elections in Slovakia, voter participation has been relatively high. The highest levels of participation typically have been recorded in parliamentary elections: 95.4 percent in 1990, 84.4 percent in 1992, 75.7 percent in 1994, and 84.2 percent in 1998. The increase in voter turnout in 1998 was caused by a massive nationwide NGO campaign called "OK 98," which encouraged young voters in particular to participate. Turnout for the May 1999 presidential election was also relatively high: 73.9 percent in the first round and 75.5 percent in the second.

Voter participation in municipal elections in Slovakia traditionally has been lower than in parliamentary elections. Turnout was 63.8 percent in 1990, 52.4 percent in 1994, and 53.6 percent in 1998. These rates are comparatively low because many citizens underrate the importance of local self-government organs. Likewise, political parties seem to pay far less attention to campaigning for municipal elections. The media, for their part, cover municipal elections in a far more superficial manner than parliamentary or presidential elections. Sociological surveys indicate that gender is not a factor in the electoral behavior of the Slovak population because females and males vote in almost equal numbers.

Voters elect members of parliament according to a system of proportional representation. The most serious interference with election rules was the May 1998 amendment to the election law by which the HZDS-ZRS-SNS ruling coalition attempted to weaken the position of the opposition. The amendment contained a number of discriminatory provisions that prevented opposition parties from creating pre-election coalitions, which had been a significant component of Slovakia's political party system since 1990. In particular, these provisions were designed to hurt the election prospects of the ruling coalition's two fiercest opponents: the SDK and the SMK. However, despite the

election law's discriminatory provisions, these two opposition groupings managed to find an appropriate way to reorganize and to score an election victory.

In July 1999, parliament approved another amendment to the election law that reversed all the distortions introduced by the previous administration. According to the current wording of the law, individual parties need to gain at least 5 percent of the popular vote to secure parliamentary representation; coalitions of two or three parties must obtain at least 7 percent of the popular vote; and coalitions of four and more parties need to exceed 10 percent of the popular vote.

Slovakia's election system is fully compatible with a multiparty system. In total, six political groupings are officially represented in the current parliament: the SDK, the SDL, the SMK, the SOP, the HZDS, and the SNS. Since the SDK is itself a coalition, its parliamentary caucus comprises a number of informal factions representing SDK member parties. These are the SDKU, the KDH, the LDU, the DS, the SDSS, and the SZS. Most of the parties that form the current ruling coalition have a clear ideological character: Christian democrats, conservatives, liberals, socialists, social democrats, and greens. They have compatible political partners abroad and are members of international party organizations such as the European Democratic Union, the Liberal International, the Socialist International, and the International Federation of Green Parties.

The opposition HZDS and SNS, on the other hand, do not belong to international party organizations. Their international contacts are limited to radical nationalist parties in the case of the SNS (e.g. the Front National of Jean-Marie Le Pen in France or the Serb Radical Party of Vojislav Seselj in Yugoslavia) and authoritarian groupings in the case of the HZDS (e.g. the Serb Socialist Party of Slobodan Milosevic in Yugoslavia).

At the end of 1999, former SDL vice chairman Robert Fico founded a new political party called *Smer* (Direction). Smer enjoys a relatively stable place in opinion polls and ranks consistently as the second or third most popular party. However, its ideological profile is ambiguous, and its leader is a populist who uses both leftist and rightist arguments in his rhetoric.

The legal framework of Slovakia's party system is standard and democratic, and there are no noteworthy legal obstacles to the organization and registration of political parties. All parties represented in parliament have developed organizational structures on national, regional, and local levels. The Interior Ministry will register a political party if it submits a petition containing the signatures of at least 1,000 citizens. For a party to run in parliamentary elections, it must do one of three things: (1) have a caucus of at least eight members in the sitting parliament, (2) submit a list of at least 10,000 current members, or (3) submit a petition that contains at least 10,000 signatures. The Political Parties Law bans parties that act in contradiction with the law or whose organs are not constituted in accordance with democratic procedures. There are almost 100 political parties currently registered in Slovakia. Not a single party has been banned since 1999.

Political parties strive to attain mass membership bases, but none has more than 70,000 members (the membership base of the HZDS). Most major parties have 10,000 to 30,000 members. The ratio of political party members to the overall population does not exceed 5 percent, according to most estimates. One may safely conclude that this low ratio reflects citizens' general distrust of political parties.

There are no exact figures on the proportion of political party members that are women, but one may assume that the number is relatively low. An indirect estimate might be made on the basis of how many women are nominated to political posts. Of the 1,618 candidates running in the 1998 parliamentary elections, only 273 were women (16.9 percent). Currently, there are only 20 female members of the current 150-seat parliament. In the 20-member cabinet there are only two female ministers. And of the 136 mayors in Slovak towns and villages, only 6 are women. Only one of the ten candidates in the 1999 presidential election was a woman.

The Hungarian Coalition Party (SMK), a member of the current ruling coalition, champions the political interests of the Hungarian ethnic minority. This minority's representation in parliament is not the result of affirmative action but of the SMK's success in free and fair elections. SMK representatives occupy key posts in parliament (the deputy speaker of parliament and the chairmen of two parliamentary committees) as well as in the cabinet (the deputy prime minister and two ministerial posts). The Romany ethnic minority, however, has weak political representation because it is extremely fragmented. There are 18 Romany political parties currently registered in Slovakia, and all attempts to unite them have failed. At the moment, not a single Romany member of parliament sits in the legislature. Vincent Danihel, the Government Plenipotentiary for Solving the Issues of the Romany Minority, is the highest-ranking Roma in the executive branch. Although Slovakia's ethnic Ruthenians and Ukrainians do not have their own political parties, many are involved in countrywide parties.

Civil Society

1997	1998	1999-2000	2001
3.25	3.00	2.25	2.00

Slovak civil society is vibrant, and experts consider it one of the most advanced among post-Communist countries. At the beginning of the 1900s there was enormous growth in the number of NGOs. After a short period, the types of organization began to diversify as well. Despite this promising start, Slovak civil society passed through a period of uneasy cooperation with the government, especially after the 1994 elections. During the 1998 election season,

Slovakia's civil society sector successfully influenced politics on a national level for the first time through the OK '98 pre-election campaign. During the campaign period, NGOs became serious partners for democratic political parties and other state institutions. Since October 1998 when a new government was installed, NGOs have been able to develop their activities freely. Relations between the NGO sector and the current government are very good.

Various agencies, including the Statistical Office of the Slovak Republic, the Ministry of Interior, and the Ministry of Culture, keep basic data on NGOs. The Service Center for the Third Sector, which is associated with the Slovak Academic Information Agency (SAIA-SCTS), also maintains records and publishes directories of NGOs. In April 2000, the Ministry of Interior listed 17,844 organizations that could be considered NGOs in a broad sense. Of these, 17,000 (95.3%) are civil associations (societies, clubs, associations, movements, trade unions, international nongovernmental organizations, sports clubs or their organizational units); 472 (2.7%) are foundations; 269 (1.5%) are non-investment funds; and 103 (0.5%) are nonprofit organizations. However, not all registered NGOs are active. An estimated 1,300 to 2,000 are active on a daily basis.

NGOs are most active in sports, tourism, recreation, education, social welfare and charity work, health care, the arts, the environment, and human rights. Research conducted by the Center for Social Policy Analysis in 1999 showed that NGOs employ 18,822 persons (approximately 1 percent of the working population) and account for approximately 1 percent of gross domestic product (GDP). Opinion poll data on volunteerism and charitable giving show that Slovaks are becoming increasingly involved in volunteerism. The scope of charitable giving is even greater if you also include church collections, which have a long tradition in Slovakia. The Gremium of the Third Sector (G3S) has made considerable efforts to increase philanthropy and volunteerism in Slovakia.

It is estimated that there are more than 70 different women's organizations operating in Slovakia. Some are associated with political parties and some with social organizations. Others were founded as independent women's organizations in part because of the expansion of the activities of international organizations.

National minorities have effective cultural and civic organizations in Slovakia. This is especially true for the Hungarian minority, which is the largest ethnic minority group in the country. The effectiveness of Roma minority organizations, however, offers a gloomier picture. Roma organizations are almost 20 times underrepresented in comparison to the number of majority population organizations. Official records from the Ministry of the Interior indicate that the Roma minority had registered 114 civil associations, 4 foundations, 3 non-investment funds, and 1 nonprofit organization as of March 1, 2000. The effectiveness of Ruthenian and Ukrainian organizations is complicated by unresolved internal problems regarding their identity. Too often, organizations representing both ethnics groups fight with each other. Organizations of other national minorities do not play a significant role in Slovak civil society.

The majority of NGOs operate under legal norms adopted after November 1989. The constitution and various laws provide the basic legislative framework for the work of NGOs. The constitution guarantees freedom of expression (Article 29), freedom of assembly (Article 28), and freedom of association (Article 29 and 37). The Law on the Associating of Citizens regulates civic associations, the most common legal form of assembly. Religious societies are subject to the Law on Freedom of Religious Belief and Status of Churches and Religious Societies and the Law on the Registration of Churches and Religious Societies. Section 20f-20j of the Civic Code regulates the status of interest groups. Special laws regulate the work of certain kinds of associations such as professional bars, nonprofessional chambers, the Slovak Red Cross, hunting associations, and the fishermen's union.

The Law on Foundations (207/1996) defines a foundation as a special association that has property, bonds, or some other financial asset with an assessable value. Foundations are established primarily for the purpose of developing spiritual values, implementing and protecting human rights or other humanitarian goals, protecting the environment, conserving natural and cultural values, and improving health and education. A foundation's specific purpose must be a public utility, and it must document the sources of its property. A founder must deposit funds amounting to at least 10,000 *koruna* (SKK) ($200). Within six months of the foundation's establishment, this amount must be increased to SKK 100,000. (These funds can never fall below this level.) The Ministry of the Interior acts not only as the registrar but also as the supervising institution for foundations.

The Law on Non-Investment Funds, adopted in 1997, establishes the legal framework for foundations that do not have an endowment but, rather, collect finances on an ad hoc or regular basis. The Law on Nonprofit Organizations Providing Beneficial Public Services, adopted in 1997, establishes guidelines for the creation, termination, and administrative and financial management of nonprofit organizations. Both legal entities and private persons may establish nonprofit organizations, which must work for the fulfillment of the purposes for which they were established.

According to the Law on Income Taxes (286/1992), NGOs are subject to taxes only in the case of "income from activities executed for profit, or income from activities the execution of which can make a profit." These incomes are taxed only if they exceed SKK 100,000 ($2,000). Foundations, unlike civic associations, may not engage in financial ventures. However, they may lease their property, organize public collections, operate lotteries, and organize cultural, educational, social, or sporting events.

NGO representatives have long complained that the legal regulations governing NGOs are inadequate. Despite the new government's more positive attitude toward NGOs,

the legal framework for NGOs is changing very slowly. Experts from both the G3S and the Ministry of Justice have been preparing revised legislation for several types of organization. During the period covered by this report, the most significant legal changes affecting NGOs were the adoption of law 366/1999 on the income tax and changes in §48 that allow every tax payer to devote 1 percent of the tax to a publicly beneficial aim.

The Stupava Conference and the G3S have been key players in the development of Slovak civil society. The Stupava Conference is an annual conference of NGOs that evaluates the development of civil society and determines goals for the following year. Since 1994 the conference has elected the G3S, a voluntary advocacy group whose basic mission is to develop partner relations with representatives of the state, local governments, the business sector, and international organizations. The G3S's task is to defend and pursue the interests of NGOs, to develop cooperation and solidarity within the third sector, and to publicize NGOs.

NGOs in Slovakia have relatively well-developed infrastructures and informational, communications, training, and research bases. The best-known service organization, the SAIA–Service Center for the Third Sector, was established in 1990. It deals with the development of the third sector and carries out the administrative and organizational services of the G3S, which does not have a legal presence. Experts from groups such as the Center for Conflict Prevention and Resolution run training programs that focus on communications, the development of human resources, and strategic planning for NGOs. The Donor's Forum, a new independent association, is made up of leading personalities from Slovak grant-making foundations.

According to several experts, NGOs in Slovakia are remarkably well developed in comparison with other post-Communist countries. However, the majority of Slovak NGOs still do not have established, long-term organizational, financial, and human resources strategies. Only a small proportion of organizations have exactly formulated missions and plans of action. Most groups exist thanks to several enthusiastic volunteers whose activities might give the impression that their group is a well-organized body. The concept of a board of directors and membership participation is still new and will require considerable time to develop. There is also little understanding of the separation between governance and program functions, and many boards take an active role in the day-to-day management of their organizations. NGOs often have problems attracting board members.

Private and public financial assistance from Western democracies has been instrumental in developing a vital civil society in Slovakia. The sustainability of NGOs is a growing public issue, and discussions focus on the diversification of funding sources, public funding, financial management, and strategic planning. Very few Slovak NGOs receive subsidies from public budgets. Organizations that provide basic services for persons who are physically or mentally disabled people and for the "state order" (e.g., the Slovak Red Cross) are exceptions. The ministries of labor, social affairs, family, education, culture, health, interior, and the environment, as well as individual state funds administered by the appropriate ministry, also provide financial assistance.

Without foreign funding, many NGOs could not continue their work. The most important foreign organizations are the Open Society Fund, the Ford Foundation, the German Marshall Fund of the United States, and the Sasakawa Peace Foundation. Foreign governments also support several programs.

Although funds raised through activities like charging membership fees are still a rather small part of NGOs' incomes, large organizations with professional staffs are trying to increase their funding by charging fees for courses, publications, welfare activities, and products made by the physically or mentally disabled. Charity fundraisers such as concerts and art auctions are increasingly popular.

The Slovak government favors the decentralization of power and is supportive of civic initiatives, human rights, and minority rights. According to repeated sociological surveys conducted by the FOCUS agency since 1993, the public's image of NGOs is prevailingly positive. According to data from 1996, 1997, and 1998, the public finds NGOs most useful in the area of traditional social solidarity, i.e., assisting the needy and hospitals, health care, and social welfare institutions. During the period covered by this report, Slovak NGOs received substantive coverage from both public and private media. This is thanks to the new phenomenon of close cooperation between the media and Slovak think tanks in following domestic politics and in influencing political actors and the broad public.

The political influence of trade unions depends on the strength of their membership bases and on the effectiveness of their members. In 1990, the Confederation of Trade Unions (KOZ) represented 2.4 million employees. By January 2000, its membership base had contracted to 759,791. In a relatively short period of time, Slovakia's trade union movement managed to reorganize and adjust to the new democratic environment after 1990. The enactment of collective bargaining legislation and the establishment in 1990 of the Council for Economic and Social Accord (RHSD) legitimized trade unions and provided for the equal status of unions vis-à-vis employers and the government. At the same time, though, reformed unions found it difficult to gain the trust and support of the general public in a deteriorating social and economic environment. Even though the Trade Union Movement Act gave the trade union movement a pluralistic nature, the establishment of the RHSD gave KOZ a privileged and exclusive status. That is, the Confederation became the only "official" partner of the government and the Association of Employers' Unions and Associations (AZZZ) in the framework of a nationwide social dialogue.

Owing to a nonviolent political tradition and the early establishment of a tripartite mechanism, trade unions in

Slovakia mostly rely on collective bargaining. Industrial actions, especially strikes, are much less frequent than in neighboring countries. Despite economic changes in 1999 and a subsequent decline in the standard of living, Slovakia did not witness serious public protests during the period covered by this report. The only exception was the protest meeting of 40,000 trade union members in Bratislava in September 1999.

In 1991 and 1992, parliament enacted several laws that provided for a new system of interest group representation, namely specialized chambers and trade organizations. This gave rise to various chambers of auditors, lawyers, tax accountants, architects, construction engineers, physicians, pharmacists, nursing professionals, farmers, food industry specialists etc. The new system also transferred some licensing powers from government authorities to interest-based organizations. By guaranteeing groups the monopolistic right to represent the interests of and to regulate a given profession, the state granted these organizations an official status that enhanced their potential influence. The Association of Employers' Unions and Associations (AZZZ), an umbrella organization, is the best-known representative of business interests. The AZZZ represented 37 member unions in 1999. The Slovak Chamber of Commerce and Industry (SOPK), which was established in accordance with a law enacted by the Slovak parliament, is another prominent body that represents business. Several dozen associations and umbrella organizations are also active in articulating and representing business interests in Slovakia. The Slovakia Entrepreneurs' Association (ZPS) was established in 1989 as the first organization of private entrepreneurs.

Independent Media

1997	1998	1999-2000	2001
4.25	4.00	2.25	2.00

During the period covered by this report, there are no reported cases of harassment of journalists. Likewise, no journalist was killed or imprisoned in connection with his or her work. Newspapers and periodicals were published freely, and the basic conditions for a dual public-private broadcasting system remained in place.

Press freedom in Slovakia is legally protected even though the country's so-called Press Law dates to 1966 and several of its provisions are unsatisfactory. There is no censorship in Slovakia, and private ownership dominates the media sphere. Sixteen drafts of a new media law have been prepared since 1990, but none have been submitted to parliament. The media includes both public institutions (Slovak Television, Slovak Radio, and the Press Agency of the Slovak Republic) and private institutions (television stations, radio stations, periodicals, and the SITA information agency). In 1999, 96.4 percent of all households had television sets.

According to laws passed in 1991, Slovak Television (STV) and Slovak Radio (SR) are public institutions supervised by broadcast councils that parliament elects. During the period covered by this report, members of these councils were named according to the proportional representation of political parties in parliament. Funding for both STV and SR comes from fees paid by the owners of televisions and radios, commercial advertising, and subsidies from the state budget.

Even though the price of daily newspapers has been rising, the market is generally stable. The newspaper *Novy Cas* has the highest circulation rate among dailies, followed by *Pravda* and *Sme.* There were no dramatic changes in the Slovak weekly newspaper market in the period covered by this report. Although distribution of the press is privately controlled, the distribution network has been increasingly inefficient. Some experts describe it as being close to collapse.

STV broadcasts on two channels, STV1 and STV2, and provides nonpartisan information to the public. Markiza, the most popular private television station, has been broadcasting since 1996. Luna, another private television station, has been broadcasting through cable networks since 1999. According to data released by the Broadcast Council, as of January 2000, there were 64 broadcast license holders in Slovakia, including STV, Markiza, and Luna. Most licenses were issued for cable networks. Only eight licenses for terrestrial broadcasting are valid. Slovak Radio (SRo) maintains its dominant position in the Slovak media market. According to the Broadcast Council, there are currently 27 private radio operators in Slovakia.

The financial viability of media is relatively good and stable. However, the scale of the media market makes the sustainability of most media outlets problematic without foreign investment. Foreign direct investment in the media did not increase significantly during the period covered by this report.

In September 2000, the Slovak parliament passed a law on the transmission and retransmission of television and radio programs. The new law strictly defines the conditions for licensing and, in doing so, decreases the ability of Broadcast Council members to make subjective decisions. The new law is a very positive step toward full independence of the Slovak press and, therefore, toward EU membership. Parliament is also expected to pass a law on mass media that was submitted by the Slovak Syndicate of Journalists. There are no legal penalties for libeling officials or for "irresponsible" journalism. The only exception is Article 103 of the penal code, which prohibits defamation of the president. In 2000, parliament also approved a law on freedom of information.

The Slovak Syndicate of Journalists (SSN) has been the largest association of journalists in the country since 1990. It is a member of the International Federation of Journalists and represents more than 80 percent of Slovak journalists. Other important press associations are the Association of Slovak Periodical Publishers, the Association of Indepen-

dent Radio and Television Stations, and the Union of Slovak Television Creators. In the period preceding the 1998 parliamentary elections, members of these associations were not accepted as members of the Council of Slovak Television and the Council for Slovak Radio. This is no longer the case. Leaders of the Slovak Syndicate of Journalists, the Association of Slovak Journalists, and the Association of Slovak Periodical Publishers reached a mutual agreement on the need to form the Media Council of the Slovak Republic to deal with ethical problems in the mass media. The groups also agreed to form the Association for the Defense of Journalistic Ethics. The proportion of women in journalists' association differs. The highest proportion—35 percent—is in the SSN.

There are no restrictions on Internet access in Slovakia. The biggest obstacles to Internet usage are neither connection charges not the prices of PCs but, rather, expensive telephone connections. The increasing numbers of Internet users is becoming commercially interesting. According to a survey by the Focus agency in September 1998, 21 percent of the adult population in Slovakia used a personal computer daily or almost daily. According to a Markant agency survey in April 2000, 42.7 percent of the adult population has used a computer. The number of irregular users increased from 9.5 percent in 1998 to 15.7 in 2000. The most regular users of the Internet are young people with higher education, persons with higher incomes, and inhabitants of larger towns.

Freedom House's annual *Survey of Press Freedom* rated Slovakia "Partly Free" from 1993 to 1998 and "Free" in 1999 and 2000.

Governance and Public Administration

1997	1998	1999-2000	2001
3.75	3.75	3.00	2.75

The Slovak constitution defines the basic structure and powers of the legislative and executive branches of government. Parliament is the legislative organ, and the cabinet is the supreme executive organ. The president, who is directly elected by the country's citizens, enjoys certain executive powers. A coalition majority supports the cabinet in parliament. The parliament enjoys a control function vis-à-vis the cabinet; however, since 1993 the exercise of this function has largely depended on the nature of the dominant political force. In other words, existing constitutional mechanisms cannot fully and effectively prevent political parties from abusing this function.

Such was the case in the period between 1994 and 1998, when the ruling Meciar coalition applied the "winner takes all" principle to the formation of parliamentary organs. That is, it prevented representatives of opposition parties from sitting on parliamentary supervisory committees and from participating in the leadership of other parliamentary committees. According to a 1996 parliamentary rule, all parties must be represented proportionally on parliamentary supervisory organs (a precondition if parliament is to fulfill its control function). However, the dominant parties control the appointments of chairmen and vice-chairmen to parliamentary committees.

The system of checks and balances in Slovakia's political system includes the following rights: the right of the cabinet to submit legislative initiatives to parliament; the right of the cabinet to tie parliament's vote on cabinet legislative proposals to a vote of confidence; the right of the president to dissolve parliament under circumstances that are precisely defined by law; the right of the president to veto laws approved by parliament; and the ability of parliament to defy presidential vetoes by passing a vetoed law a second time by a two-thirds majority. The president also enjoys the right to appeal to the constitutional court regarding a law passed by parliament, if he believes that the law contradicts the constitution. The speaker of parliament, the prime minister, and the president must sign all passed laws before they can take effect. Similarly, particular cabinet members must countersign certain decisions that the president makes.

Parliament is an efficient legislative organ that consists of 150 members who are elected to four-year terms. Laws are approved after they pass three readings at three consecutive sessions of parliament. The vote taken after the third reading is decisive. Both members of parliament (MPs) and the cabinet can propose bills to parliament. Of the 169 laws approved in 1999 and 2000, the cabinet proposed 135 (80 percent) and MPs 34 (20 percent). The cabinet has a special expert and consultative body called the legislative council, whose role is to coordinate the preparation of some draft laws with the appropriate ministries. The legislative council also reviews bills proposed by MPs.

When rushing bills through parliament, the cabinet often uses a tool called "accelerated legislative proceedings," which means that all three readings of a law take place during a single parliamentary session. In 1999, parliament used this procedure for 49 percent of all approved laws. It did so because the new government wanted to rectify the body of laws it inherited from the previous administration, which had been dominated by authoritarian, populist, and nationalist political parties. Considerably fewer laws (6 out of 69) were adopted through accelerated legislative proceedings in 2000.

Parliament has been able to use the "accelerated legislative procedure" since 1997. This procedure gives the cabinet the opportunity to speed up the process of adopting new legislation in case of an emergency. Nevertheless, it does not reduce the democratic spirit of the legislative process because it provides coalition and opposition parliamentary deputies the same opportunity to discuss and approve legislation.

It is important to note that Slovakia is an associate member of the European Union (EU) with whom the EU has

opened negotiations on full membership. As such, Slovakia is trying to harmonize its legal system with that of the EU. Each law that is approved must contain an "EU law compatibility clause."

Parliamentary sessions are open to the public. STV regularly broadcasts recordings of parliamentary sessions, usually late at night. Parliamentary debates are closed to the public only in certain specific instances (e.g., debates involving state secrets). The public also has access to the content of parliamentary debates through regularly published transcripts.

Generally speaking, the media and the public have adequate access to draft bills even before they are debated in parliament. The only possible exception applies to bill discussed in accelerated legislative proceedings. Some bills become subject to broad public debates, and, thanks to the media, many citizens participate. After each of its sessions, the cabinet issues a press release containing detailed information on the agenda discussed and decisions adopted. Each cabinet session is followed by press conferences or briefings by particular members of the cabinet. In May 2000, parliament approved the Free Access to Information Law, which considerably improved the conditions for citizens to exercise their constitutional right to have access to and to disseminate information. The law lists the obligations of state and municipal government officials regarding giving information to citizens.

Slovakia has a dual public administration system that combines state administration institutions and elected municipal governments. The system is based on the principle of subsidiarity, which says that power should be exercised by the public administration organ that is the closest to citizens (i.e., if a power can be wielded just as efficiently by a municipal office as by a state ministry, the local office should be preferred). Between 1994 and 1998, the Meciar administration strove to concentrate political power. Not surprisingly, the changes in the organization of public administration that this government pushed through in 1996 clearly contradicted the principle of subsidiarity. Essentially, these changes tried to strengthen the powers of state authorities at the expense of municipal officials and to deepen the centralization of public administration.

Immediately after its inauguration, the administration of Mikulas Dzurinda designated public administration reform as one of its most important objectives. It appointed an extraordinary plenipotentiary to draft two basic documents, the Strategy of Public Administration Reform and the Conception of the Decentralization and Modernization of Public Administration, which constitute a set of legislative, executive, and administrative measures designed to establish a decentralized system of public administration. They envisage a significant transfer of power from central state organs to regional and municipal elected organs; seek to introduce a form of territorial administration that is sensitive to the economic, historical, and cultural differences between regions; and outline a plan for reducing the state apparatus and changing the distribution of tax revenues. The main objective of the reform is to better the efficiency of public administration, to improve the delivery of public services, and to strengthen the finances of nonstate government organs. In 2000, the cabinet approved both documents.

For the time being, Slovakia has nonstate popularly elected organs only at the municipal level. Citizens also directly elect their mayors and the chairmen of parish councils. Local elected government organs issue regulations that govern local affairs, approve local budgets, and call local referendums on issues related to the individual municipality, among other things. The new public administration reform scheme calls for the creation of regional parliaments that would enjoy new regional level powers. The regional parliaments are expected to be established after the passage of the Higher Territorial Units Law (a proposal to increase the number of regions from 8 to 12) and the Regional Government Election Law. Both laws are expected to be passed in 2001.

Municipal elections are held in accordance with the principle of general and equal suffrage. The electoral system enables both representatives of political parties and independent candidates to run for election. In 1998, the HZDS-ZRS-SNS ruling coalition pushed through an amendment to the Local Government Elections Law that violated the principle of the equality of votes by introducing an ethnic quota in municipalities with mixed populations. In October 1998, the Slovak constitutional court declared the amendment unconstitutional. The parliament that was elected in 1998 subsequently nullified the amendment and changed the law back to its original wording. In December 1998, elections for municipal mayors and councilors and parish council chairmen were held according to the original law. The candidates who stood for the political parties in the new ruling coalition were victorious in most regional and district capitals.

Tax revenues and public expenditures are highly centralized in Slovakia. As much as 94 percent of all tax revenues are collected at the highest level of public administration. Similarly, central state administration organs disburse as much as 80 percent of all public administration expenditures. This extremely low degree of fiscal decentralization reflects the state administration's dominance over municipal governments—a situation inherited from the Meciar period. In 1999, municipal governments fully controlled only 15.5 percent of all public revenues and 35.8 percent of tax revenues.

With its public administration reform plan, the cabinet aims to change the current state of affairs and to equip local governments with greater powers to handle their own funds. For the time being, the central government provides local governments with subsidies set by the Finance Ministry according to certain criteria (mainly the size of the municipality). In 2000, although local governments asked for SKK 9.8 billion in total subsidies from the state budget, they

received SKK 8.25 billion (or approximately SKK 1,500 per capita). Local government officials maintain that this amount allows the basic survival of towns and villages but does not leave any money for development programs. That's why representatives of local government associations, including the Association of Slovak Cities and Municipalities (ZMOS) and the Union of Cities and Municipalities of the Slovak Republic (UMO), have been urging the cabinet and the ruling coalition parties to accelerate the public administration reform process in order to improve the financial situation of local governments.

State administration and local government officials generally have adequate professional skills, although a significant number of bureaucrats still have not completed special professional training courses. Nevertheless, the situation is changing for the better. In August 2000, the cabinet approved a document titled Concept of Education in Public Administration. Under the scheme, the ZMOS and the UMO will organize training programs, educational courses, conferences, seminars, and workshops for local government representatives. In recent years, NGOs have increased their role in the education of public administration employees. Likewise, the European Union, the United States, and Canada are sponsoring educational exchange programs designed to help improve the professional qualifications of state administration and local government employees. However, experts say the lack of both money and a complex educational system remain the most serious obstacles to improving the professional level of public administration employees.

Civil service reform is inseparable from public administration reform. Over the course of 2000, Dzurinda administration continued work on a civil service bill that became the focus of a heated debate among politicians and ruling coalition experts. Disagreements over the final draft law prevented its submission to parliament as of the writing of this report. Passage is expected sometime in 2001.

Although state administration workers at the regional and district levels are employed by the national government, the administrative employees of local governments are paid by municipal budgets. In 1999, there were 19,800 state administration employees at the local level, as opposed to 17,600 municipal government employees. Since the 1998 parliamentary elections, there have been no cases of political pressure exerted by state administration authorities on municipal government officials. Under the Meciar administration, such practices were frequent.

Nonetheless, since political party representatives are often elected to municipal government organs, it is quite common for political parties to try to exert influence at the local level. Fortunately, political party headquarters usually wield little influence because the coalitions that govern municipal governments tend to differ from the make-up of the ruling coalition at the national level. Since citizens directly elect town mayors and local parish chairmen citizens, these officials are sufficiently immune to political pressure from national parties.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.00	4.00	2.50	2.25

The Slovak constitution was proclaimed in September 1992 and since then has been amended only twice. A 1998 amendment transferred some crucial presidential powers to the speaker of parliament so that someone could exercise them if it proved impossible to elect a new president. (At that time, the president was elected by parliament.) In 1999, parliament approved another, more extensive constitutional amendment that introduced direct presidential elections and further circumscribed presidential powers.

In 2000, the ruling coalition prepared an extensive constitutional amendment that seeks to change more than 100 provisions in the constitution's nine chapters. The amendment's sponsors aimed to improve and modernize the country's constitutional system. In July 2000, parliament passed the amendment in its first reading, but final adoption is not expected until 2001. One of the main objectives of the amendment is to harmonize international law and domestic law, a task that is necessary given Slovakia's preparations for accession to the EU. The amendment defines the legal status of the soon-to-be created regional territorial units, as well as their organs and powers. It also extends the powers of the Supreme Audit Office (an independent body that examines how public money is spent), reduces the level of immunity from prosecution that MPs enjoy, and clarifies the conditions under which MPs may voluntarily give up their mandates. Last but not least, the amendment reduces the scope of the president's power to grant amnesties and pardons.

Through the proposed constitutional amendments, legislators are also seeking to strengthen the independence of the courts. The amendment increases the number of constitutional court judges from 10 to 13 and simultaneously extends their term in office from 7 to 12 years. It also endorses the principle of "preventive supervision" for the constitutional court that would allow the court to block illegal measures before they are passed. Presently, the court can only vainly file nonbinding rulings after such measures are passed. This mainly applies to international agreements that are subject to parliamentary ratification and to petitions for referendums that are submitted to the president. The amendment makes the constitutional court's verdicts enforceable, in response to the situation between 1994 and 1998 when the HZDS-ZRS-SNS ruling parliamentary majority ignored 19 of the court's verdicts. Last but not least, the amendment introduces the institution of an ombudsman as a public defender of human rights.

During the period covered by this report, Slovakia's criminal code was amended but not fundamentally redrafted. Nevertheless, rewriting the penal code remains on the

cabinet's legislative agenda and is expected to occur in 2001. In October 2000, parliament approved a cabinet bill to fight money laundering by strengthening the powers of the police in their campaign against organized crime. Criminal offenses are investigated under the supervision of the public prosecutor. Only a judge can issue an arrest warrant on a person who is reasonably suspected of having committed a criminal offense. A prosecutor must file in court a formal accusation against a person indicted for a criminal offense.

In 1999 and 2000, the media sporadically reported cases in which police mistreated people in their custody. Romany organizations have been particularly outraged and frequently have voiced discontent about the police's treatment of Roma. International police investigators have taken on some of these cases, and policemen convicted of mistreating detainees have had to face the consequences. Since Slovak courts are overwhelmed by outstanding caseloads, court proceedings are unacceptably long in many instances. The judicial reform plan that the Dzurinda administration is preparing should eliminate, or at least reduce, this phenomenon.

The Slovak constitution provides a framework for the implementation and protection of human rights, including property rights. Slovakia has ratified a number of international documents on the protection of human rights that subsequently have become part of the country's legal system. Since 1993, the Slovak Republic has been a member of the Council of Europe.

The legal basis for protecting minority rights comprises the constitution, individual laws, and international agreements incorporated into Slovakia's legal system. Although human rights activists and ethnic representatives (especially from the Romany minority) have long demanded a special law against discrimination, no such legislation has been adopted. The fact that a political party representing Hungarians, the country's largest ethnic minority, became a member of the current ruling coalition in 1998, had a positive impact on the overall status of ethnic minorities in the country. The cabinet also named a plenipotentiary for solving the problems of Roma.

Although the problems of the Hungarian ethnic minority have lost much of their political explosiveness due to the adoption of certain important laws, solving the problems of the Romany ethnic minority remains a key issue in the country's future social development. Slovakia's Roma face an extremely difficult economic situation, low social status, insufficient education, and other negative factors, all of which have spurred, among other things, increased emigration. In 1999 and 2000, several thousand Romany citizens applied for political asylum in various EU member states and in Norway. To date, though, no one in the Romany community has ever been successful in winning asylum. Fearing continuation of the Slovak Romany immigration wave, some states have introduced a visa requirement for Slovak nationals.

Slovakia does not have special laws on gender rights, which are governed instead by more general laws. Nevertheless, since traditionalism and patriarchy significantly influence Slovakia's political culture, some NGOs are working to improve the population's sensitivity to gender issues.

Slovakia's constitutional system is based on the separation of the legislative, executive, and judicial branches of government. The independence of the judiciary is observed in principle, and the country has not witnessed any open manifestations of political pressure on court decisions. Neither the current Dzurinda administration nor other executive organs has mounted any political pressure on Slovak courts.

Between 1994 and 1998, though, doubts arose about the objectiveness of some verdicts in politically sensitive cases. For example, during this period the constitutional court generally fulfilled its duty as the fundamental pillar of constitutionality and proclaimed a number of laws, acts, and cabinet decisions as unconstitutional. However, two verdicts issued by a constitutional court panel of judges in 1999 raised questions about the court's objectivity. These verdicts pertained to the 1995 abduction of Michal Kovac, Jr., the son of former President Michal Kovac, and the foiling of a 1997 referendum on direct presidential elections. Tibor Safarik, the chairman of the panel of judges that ruled in both cases, had been nominated to his post by the SNS, a member of the Meciar coalition government. The media reported that Safarik, some members of his panel, and now-former Prime Minister Meciar had met just before the verdict was delivered. And legal experts maintained that there were sufficient reasons to issue a contrary verdict. Safarik later became the defense attorney for former Interior Minister Gustav Krajci, who is reasonably suspected of having thwarted the 1997 referendum and whose case Safarik subsequently deliberated on as a constitutional court judge.

Reform of the judiciary is an important part of the Dzurinda administration's platform. In September 2000, parliament passed a law on judges and lay judges (known as the Judicial Code) that strengthened the judiciary's power to govern itself. The latest constitutional amendment, which parliament passed in its first reading in June 2000, strengthens guarantees of judicial independence. The constitution envisages the creation of a judicial council as a constitutional organ that would enjoy significant decision-making powers.

Parliament, acting on proposals from the Ministry of Justice, elects judges. The justice minister is entitled to elect chief justices and deputy chief justices, who are in effect state administration judicial officials. After the 1998 parliamentary elections, however, the minister of justice nominated chief justices and deputy chief justices only after considering the opinions of judicial councils, even though the law does not stipulate any obligation to do so.

Although the effectiveness with which court rulings are carried out is satisfactory, Slovak courts are generally overwhelmed and, consequently, slower to reach verdicts. This situation is expected to change, though, as judicial reforms are implemented and the technical assistance extended to

courts improves. The constitution enshrines the right to legal protection, including the right to counsel. The state is obliged to provide counsel to every person indicted for a criminal offense, if he or she is unable to find or pay for a defender. In 2000, the Ministry of Justice introduced the practice of offering free legal counseling to citizens in court buildings during set hours.

Corruption

1999-2000	2001
3.75	3.75

A law on conflicts of interest sets limits on the public and private sector activities of public officials and higher-level civil servants. However, according to experts, the law does not actually prevent conflicts of interest because public figures can relatively easily circumvent it by transferring business interests to their closest relatives. Between 1994 and 1998, in particular, the obscure privatization process that the HZDS-ZRS-SNS ruling coalition orchestrated strengthened economic and political clientelism and created a breeding ground for corruption. This situation began to change after the 1998 parliamentary elections. The privatization process is now more transparent, and privatization decisions are adopted on the basis of official public tenders.

For the time being, Slovakia continues to lack a civil service law that, in addition to regulating the professional advancement, remuneration, and job security of civil servants, would set ethical standards for civil servants and therefore decrease corruption. Current legislation undoubtedly encourages unethical behavior. NGOs, activists, the media, and other experts have debated publicly the adoption of a code of ethics for public administration employees. Transparency International Slovakia (TIS), in particular, monitors the situation, publishes analyses and reports, and organizes conferences and workshops. TIS has drawn up models for the conduct of state employees in the fields most plagued by corruption (e.g. privatization). In 2000, thanks to the participation of politicians and experts, the public debate on transparency and the fight against clientelism and corruption have been well covered by the media.

Slovakia's criminal code punishes all active and passive forms of bribery. The money laundering law, which parliament passed in October 2000, has a strict anticorruption character as well. It requires banks and other financial institutions to report all transactions the exceed SKK 100,000 (about $2000) and abolishes the widespread practice of opening anonymous bank accounts. Nevertheless, over the course of 2000 the Slovak media have published information on the business activities of certain politicians, alleging that their success was directly affected by their status within the public administration system. These charges concern politicians at all levels of government–local politicians, MPs, and top executive officials.

Among the most high-profile suspects of alleged corruption are former interior minister Gustav Krajci, former head of National Property Fund Stefan Gavornik, former privatization minister Peter Bisak, and former intelligence chief Ivan Lexa. Krajci was accused of abuse of office, falsifying documents, and taking bribes, but legal proceedings against him were lifted in September 2000 on the grounds that the amnesty he received from former Prime Minister Meciar could not be overturned. Gavornik was accused of taking a SKK 15 million ($326,000) bribe from Magnatech in order to conclude the purchase of a Slovak chemical company. Bisak was charged with irregularities in connection with the privatization of Bratislava's electrical system. And Lexa, prosecuted for his alleged involvement in the 1995 kidnapping of former President Kovac's son, has been hiding out in Spain. The Lexa case drew attention to the existence of a transnational crime ring led by Jozef Rohac, a Slovak who has been linked to the murder of several witnesses to the killing. Another prominent figure, former transportation minister Alexander Rezes, returned to Slovakia to face charges of financial irregularities.

Slovakia's conflict of interest law has been in effect since 1995. According to the law, the president, members of the cabinet, MPs, constitutional court judges, and other higher civil servants may not receive remuneration for acting as business intermediaries between private and public entities. Similarly, they may not receive income ensuing from other employment or business activities in excess of the official minimum wage. The law also requires constitutional officials and higher civil servants to submit annual disclosures to the parliamentary conflict of interest committee. However, public control over the law's enforcement is hindered because the disclosures are not available to the public. In 2000, a number of MPs declared their willingness to amend the law and subject it to public supervision.

The financing of political parties remains one of Slovakia's most serious corruption-related problems. In October 2000, parliament passed an amendment to the Law on Political Parties, which, on the one hand, improved public control over party financing, but, on the other, failed to increase the insufficient and ineffective sanctions for violating the law.

The practice of nominating members to the boards of "strategic enterprises" (i.e., natural monopolies that the Meciar government defined as strategically important to the economy) on a partisan basis continues to breed clientelism and corruption. A promising short-term solution seems to be the privatization of these monopolies, which will significantly reduce the extent to which state officials participate in the management of these corporations.

All public administration organs, which are fully or partly funded from the state budget, are subject to inspections by the Supreme Audit Office. The office of the government also enjoys certain supervisory powers.

Slovakia's criminal code defines racketeering as extortion and gross duress. During the period covered by this

report, the police achieved some success in their campaign against this relatively widespread criminal activity. In addition to arresting some individuals, the police managed to break up several dozen organized crime gangs that profited, among other things, from racketeering.

In 2000, the cabinet approved the National Anti-Corruption Fight Program. Transparency International drafted the program, which aims to adopt laws to fight corruption, and the cabinet handed the document over to ministerial departments for feedback. This process was accompanied by a public debate that lasted several months and was aimed at perfecting the scheme. However, according to experts who deal with transparency and corruption issues, bureaucrats have hijacked implementation of the national program. Phases of the scheme that were intended to take little time, including the drawing up of ministerial action plans, have been excessively prolonged.

Among the tools used to eliminate non-transparency, clientelism, and corruption is the audit of the state administration. The cabinet approved an audit in August 2000 that aims to improve transparency in the work of central state administration organs. Another positive anticorruption measure taken by the government was the adoption of the Freedom of Access to Information Law in May 2000.

The most important cases of corruption among public officials currently under investigation are related to the previous Meciar administration. These cases include privatization scandals from 1994 to 1998. The investigations continue free of political pressure, but in certain cases the work of prosecutors has been hampered by the fact that indicted persons have fled the country.

Since 1998, certain legislative and administrative measures have reduced the space for corruption. However, the new ruling coalition has been unable to elaborate and approve enough legal rules to create an adequate institutional environment for reducing the overall rate of corruption more dramatically. Moreover, the efficiency of anticorruption measures is reduced further by factors that tend to have a long-term character: traditional patterns of behavior, public perceptions that corruption is inseparable from certain spheres of public affairs, and a general acceptance of corrupt practices by a significant part of the population.

Slovakia's public administration system continues to be dominated by a centralized approach to management. The system is characterized by excessive influence on the part of the state executive and relatively limited powers for elected officials at the local level. The recently completed audit of central public administration organs indicated certain systematic deficiencies in state administration that leave room for corruption. The final report on the audit's findings observed that many negative aspects of the state administration (especially the duplication of the functions of state administration organs and their fragmentation) are magnified by insufficient transparency in the activities of state organs.

Most central organs resist a clear division of roles and responsibilities between them and the departments they directly manage. One direct consequence is insufficient transparency in their joint relations and financing. The audit report also pointed out that the lack of transparency in the provision of numerous goods and services and the practice of establishing prices for these goods subjectively makes state organs inefficient and creates a breeding grounds for corruption and clientelism. The current system does not motivate central state administration managers to use funds sparingly to minimize costs and maximize efficiency.

Acting on a request from the Slovak cabinet, the World Bank and the U.S. Agency for International Development (USAID) analyzed the state of corruption in Slovakia using diagnostic surveys in 1999 and 2000. According to their analysis, citizens perceive corruption to be excessive in the health care sector, the judiciary, at the National Property Fund (the state privatization agency), customs offices, the police, and government ministries. This perception is based on personal experience. That is, many entrepreneurs and ordinary citizens admitted that they had bribed officials, and many civil servants admitted that their clients had been offered them gifts or money. (See table.) The average monthly civil service wage as of June 30, 2000, was SKK 13,670, while the average monthly wage for Slovakia overall was SKK 11,224.

General Experience With Corruption

HOUSEHOLDS	
Have made an unofficial payment over the past two months	14.3 percent
Have made an unofficial payment over the past three years	41.3 percent
ENTREPRENEURS	
Have made an unofficial payment over the past two months	17.6 percent
Have made an unofficial payment over the past two years	41.4 percent
CIVIL SERVANTS	
Have been offered a small gift over the past two years	42.3 percent
Have been offered money or expensive gifts over the past two years	9.7 percent

Source: World Bank, 2000

The World Bank and USAID analysis suggests that Slovak citizens believe corruption is more widespread now than it was ten years ago. And although there is some evidence that corruption has become less of a problem over the past several years, many citizens believe that it remains equally problematic. The health sector is perceived by the public as the most severely affected by corruption, i.e., bribes are offered much more often in return for medical services than for services offered by any other public organ. According to public opinion polls conducted in 1998, 1999, and 2000,

about 15 percent of respondents perceive corruption in the long term as a pressing problem. Only that standard of living, unemployment, and criminality are seen as worse problems than corruption.

For the time being, Slovakia lacks systematic anticorruption education. Nevertheless, in 2000 governmental organizations and NGOs organized a number of professional events and short-term programs devoted to corruption. Among these was the successful NGO campaign for the Free Access to Information Law.

According to Transparency International's 2000 Corruption Perception Index (CPI), which indicates the extent to which citizens of particular countries perceive corruption, Slovakia ranked among those countries in which corruption was perceived as widespread. Out of 90 monitored countries, Slovakia was tied for 52nd place with Argentina, Bulgaria, Ghana, and Senegal and scored 3.5 on the 0 to 10 CPI scale. (The lower the score, the stronger the perception of corruption in a given country.)

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
3.25	3.25	3.00	3.00

Slovakia's new cabinet has redefined the country's fundamental economic policies, but expectations have been fulfilled only partially. As a result of measures designed to stabilize macroeconomic indicators, for example, the external imbalances of the Slovak economy have been reduced. However, if this economic stability is to last, additional steps such as restructuring the banking sector, revitalizing large corporations, and completing the economy's institutional framework must be taken. The country still has not achieved tangible results in health care, education, social security, and taxation reform. Expectations regarding monetary developments are quite optimistic. According to many estimates, inflation in 2001 is expected to drop to levels last seen between 1996 and 1998 (5.2 to 7.5 percent). In the short term, the Slovak koruna exchange rate is not expected to face any serious risks, due partly to the substantial foreign exchange income generated by privatization.

Slovakia has entered the final stage of privatization. The government has started to privatize the banking sector, and it has created a favorable environment in which to sell off other sectors. Nevertheless, the privatization process could still create complications in the coming years.

In its October 2000 evaluation report, the European Commission observed that Slovakia has a functioning market economy that, in the medium term, should be able to cope with international competition and market forces within the EU. This assessment assumes, of course, that structural reforms will be implemented fully and extended to include reforms that are currently falling off the pace.

Moody's and Standard & Poor's have repeatedly improved Slovakia's economic ratings outlook. Both agencies lifted the country's outlook from negative to stable in fall 1999 and from stable to positive in fall 2000. In 2001, this development should cause not only an increase in the volume of foreign direct investment but an upgrade to investment rating. Recognition and certification of the country's positive economic development also came from the Organization for Economic Cooperation and Development (OECD), which accepted Slovakia as its 30th member on July 28, 2000.

In 1999 and 2000, two significant amendments to the 1991 Law on Large-Scale Privatization were passed. The first amendment, introduced in 1999, was designed to permit the privatization of stakes in natural monopolies and financial institutions controlled by the state. Before this law was passed, the privatization of corporations like these was banned under a law on "strategic enterprises." (Some corporations received this label under the Meciar government, but the designation followed purely political, and not economic, criteria). Given the deepening technological backwardness and worsening economic performance of many Slovak "strategic enterprises" and the global trend towards liberalizing traditionally state-controlled monopolies (e.g., telecommunications and energy), it was obvious that the strategic enterprises law did not reflect the country's economic reality and needed to be abolished.

The second important amendment to the Law on Large-Scale Privatization was passed in March 2000. Its main objective was to widen the scope in which earnings from the privatization of state property could be used. Under this amendment, the cabinet may use privatization gains to back state guarantees for bank loans, pay down the state debt, replenish health sector funds, and meet part of the costs of the state road fund. Although the International Monetary Fund (IMF) criticized the amendment, it praised the cabinet for launching an extensive restructuring program as an adjunct to bank privatization and for removing 35 corporations from the list of strategic enterprises.

In 1999 the investigation into privatization decisions made by the Meciar administration between 1994 and 1998 ended. A digest of legal violations that occurred over this period was submitted to the cabinet, which in December 1999 proclaimed the investigation process to be over. The National Property Fund (NPF) continues to settle legal disputes arising from invalid or unlawful privatization contracts and has managed to recover the state's stake in a number of companies. Nevertheless, no one has been convicted for crimes related to the previous administration's privatization decisions or for the failures of new owners to fulfill privatization contracts. Furthermore, the public has not been

informed of the investigation's findings because the cabinet document was marked confidential.

The privatization process slowed in 1999 primarily because preparatory work was being done on the privatization of natural monopolies, banking institutions, and strategic enterprises. Nevertheless, some sizable companies were privatized and the earnings were quite significant. In return for the National Bank of Slovakia's 24-percent stake in Ceskoslovenska obchodni banka, a former Czechoslovak federal bank, the state received SKK 16.1 billion ($371 million). The sale took place in 1999 but was settled in 2000. In July 2000, Deutsche Telekom acquired a 51-percent stake in Slovenske telekomunikacie, a state-run telecom company, for SKK 42 billion ($900 million).

There has been some improvement in the transparency of the privatization process. In September 2000, the cabinet experimentally published sections of the business register on the Internet. Beginning January 1, 2001, the entire register will be made available electronically. Transparency International Slovakia is monitoring the privatization process and has asked the cabinet to allow it to sit on the commission organizing a public tender for the sale of Slovenske telekomunikacie. Still, not all promises to make the privatization process more transparent and to provide detailed information on specific privatization decisions have been kept fully.

The private sector produces about 85 percent of economy's overall output. The share of the so-called shadow sector is estimated at 20 to 30 percent of GDP.

Macroeconomic Policy

1998	1999-2000	2001
3.75	3.50	3.50

During the period covered by this report, several changes were made to Slovakia's tax system. On January 1, 2000, the tax rate levied on the income of corporate entities dropped from 40 to 29 percent. Taxation of physical persons (a self-employed person, for instance) also experienced a moderate decline. However, the excessive burden of fund contributions, which amount to 50 percent of an employee's gross wage, was not lowered at all. Moreover, on July 1, 1999, the cabinet increased the lower value added tax (VAT) rate from 6 to 10 percent as part of its first package of stabilization measures. Although the cabinet simultaneously pledged to reduce the higher VAT rate from 23 to 22 percent, it had failed to deliver on that promise as of October 31, 2000.

On January 1, 2000, the cabinet introduced a lump-sum tax that allows advanced annual payments of a fixed tax sum. The lump-sum tax was originally designed for tradesmen whose annual turnover is less than SKK 1.5 million. According to the scheme, eligible tradesmen would pay 1.5 to 2.5 percent of their anticipated annual income (calculated on the basis of the previous year's income), regardless of their expenditures or investments. In the end, less than 1 percent of all eligible tradesmen showed an interest in the new tax, mainly because the law restricted eligibility to a very narrow range of tradesmen. It excluded, for example, nearly all licensed trades and professions. Apart from these modest steps, tax reform has not made any major leaps forward, and Slovakia continues to suffer from an excessive direct and indirect tax burden.

In 1999, the cabinet launched a project to restructure and aid recovery at the three largest state banks: Vseobecna uverova banka (VUB), Slovenska sporitelna (SLSP), and Investicna a rozvojova banka (IRB). This process that was essential for their privatization. As of December 31, 1998, these banks held as much as 85 percent of country's classified (bad and doubtful) loans, and none had a satisfactory ratio of equity capital to classified assets. Therefore, the entry of strong foreign investors seemed like the only viable long-term solution to the Slovak banking sector's overall situation. But in order to attract these investors, all three banks had to be revitalized first.

The status of the National Bank of Slovakia (NBS) was influenced to a certain extent in 1999 by a change in its governorship. Marian Jusko, who was promoted from the post of NBS vice-governor, replaced Vladimir Masar after six years in office. This personnel change made the NBS politically fragile that year. Since then, the NBS has also changed how it carries out monetary policy by shifting from quantitative regulation (in which overall financial liquidity in the economy is controlled by NBS "repo tenders" that pump money into the bank sector or siphon it off) toward qualitative regulation (which is characterized by the setting of interest rates for particular repo tenders).

During the period covered by this report there was considerable currency turbulence. The exchange rate of the koruna was influenced by changes in the exchange rate between the U.S. dollar and the euro, as well as by the koruna's floating exchange rate. The exchange rate of the koruna to the euro, its reference currency, changed dramatically over this period. During a currency crisis in the summer of 1999, the koruna dropped to as low as 47.299 SKK to the euro. However, after the adoption of an additional package of economic measures, the koruna began to strengthen. Since December 1999 it has fluctuated between 41.5 and 43.5 SKK to the euro. The exchange rate to the U.S. dollar has fluctuated between 44.4 and 51.1 SKK to the dollar.

At the beginning of 2000, the central bank intervened to prevent further appreciation by setting the informal level for currency interventions at 42.3 SKK to the euro. Since then, whenever the koruna has appreciated above that level, the NBS has sold crown reserves on the currency market to weaken its value. In May 2000, the koruna began to depreciate dramatically because of turbulence on Central European currency markets. This spurred the NBS to intervene once again—this time to rescue the currency. A slight appreciation in the koruna in the fall of 2000 was widely ex-

plained as a reaction to the economy's improved ratings outlook. The general belief is that the koruna should not face any serious risks in the short term, due partly to the substantial foreign exchange income generated by privatization. The forex reserves of the NBS were 4 billion USD in October 2000.

Slovakia's capital market, which has long been described as inefficient, illiquid, and nontransparent, did not experience any fundamental changes or significant developments during the period covered by this report. The official SAX index of the Bratislava stock exchange (BSE) fluctuated between 70 and 98 (in October 2000), while the RMS equity index of the Slovak RM system (RMS 100) vacillated between 411 and 564 (in October 2000). The RM system experienced some turmoil after November 22, 1999, when the cabinet allowed trading in NPF bonds to resume. The bonds had been issued by the Meciar administration to all citizens who had decided to participate in the second wave of voucher privatization. The date of their maturity is December 31, 2000. After July 19, 2000, similar turmoil was recorded on the BSE after the cabinet authorized the stock exchange to trade in NPF bonds.

Microeconomic Policy

1998	1999-2000	2001
3.75	3.50	3.50

In an attempt to remove legislative and bureaucratic barriers to business, parliament amended several laws in June 2000. The most important was an amendment to the Bankruptcy Law that cuts the time limit for bankruptcy procedures to 18 months, equalizes the positions of individual creditors and strengthens their collective rights, and allows companies to be revitalized even after they have declared bankruptcy.

These changes were adopted six months later than intended and addressed only the most pressing problems. Likewise, the cabinet aims to overhaul bankruptcy legislation completely in the next two years. Still, these preliminary changes should accomplish their primary objective of curbing a practice widespread among debtors and creditors of abusing bankruptcy procedures for financial gain. However, it is very unlikely that the time limits for bankruptcy set by the newly adopted amendment will be kept. First, courts are already overwhelmed by bankruptcy cases. Second, the number of bankruptcy cases filed is sure to rise. And third, a broad scope for obstruction by both debtors and creditors still exists in the civil code. A total of 1,872 companies declared bankruptcy in 1999, but only seven cases were closed.

Clearly, then, fundamental changes to bankruptcy legislation are not enough. They must be accompanied by extensive changes in the judicial system. This applies particularly to bankruptcy trusteeship procedures, since many bankruptcy trustees are more interested in acquiring a judge's blessing to liquidate a company than in reviving it. By the start of 2001, the import surcharge that was introduced on June 1, 1999, and reduced from 7 to 5 to 3 percent in 2000 should be fully lifted.

The country's foreign trade deficit reached SKK 45.7 billion in 1999 ($1.2 billion), equal to 5.7 percent of its GDP. Despite the negative balance, the fact that the deficit had fallen by 31 percent compared to 1998 was viewed as positive. In summer 1999, the cabinet reintroduced an import surcharge of 7 percent. Although this move complicated imports of foreign goods, it reined in the trade balance deficit. For the first half of 2000, the trade balance remained in the red, but the trade deficit shrank year-on-year by 62.5 percent to SKK 10.1 billion ($240 million). Most importantly, the turnaround was caused by a slowdown in imports (19.1 percent growth) and a simultaneous rise in exports (31 percent growth).

In 1999, foreign direct investment (FDI) was SKK 29.3 billion ($707 million)—the most ever in the country's short history. However, SKK 16.1 billion ($318 million) of that amount came from the NBS's sale of its 24-percent stake in CSOB. Since these funds cannot really be considered foreign direct investment, a more accurate FDI picture would show that in 1999 the country attracted investments worth only SKK 13.2 billion, thus registering a drop of 25 percent from the year before. This trend continued in the first half of 2000, with FDI amounting to SKK 6.6 billion ($147 million). In addition to the low rate of FDI, a negative change has occurred in the structure of FDI. In 1999, foreign investors began putting their money into industries where the recovery period for investments is shorter (i.e. the retail trade). According to economic analysts, this move reflected a perception of increased business risks on the part of foreign investors.

Based on the foregoing, one might argue that the cabinet's March 1999 program to attract FDI failed, even though it gave foreign investors a considerable advantage over domestic investors by offering them a five-year income tax holiday if they complied with certain conditions. As a consequence of this failure, the cabinet redefined its criteria for foreign investors in 2000.

According to analysts, FDI inflows have been low because of Slovakia's unattractive and unpredictable economic environment, inefficient legal and regulatory framework, high tax burden, poor law enforcement, and persisting anxiety about its political stability. Nevertheless, a number of analysts have forecast that before the end of 2000 FDI will reach SKK 78.6 billion ($1.6 billion). By September 30, the volume of FDI had increased to 50.2 billion SKK ($1.1 billion).

For the time being, the energy sector remains in state hands. Nevertheless, preparations for restructuring and then privatizing the sector have progressed. Slovenske elektrarne (SE), the state energy monopoly, is currently in a precarious financial situation. It can cover its operational costs only if the cabinet provides state guarantees for additional loans. In January 2000, for example, the state had to pay back a loan amounting to $27 million (more than SKK 1 billion)

to Vneshekonombank, a Russian bank, on behalf of the insolvent SE. Another important reason to accelerate privatization in the energy sector is that the state budget urgently needs funds. Among other things, the state needs to pay off NPF bonds that will mature on December 31, 2000, and to launch social insurance reform.

Given these circumstances, the government, contrary to its original plans, has decided to privatize significant stakes in energy corporations. On May 24, 2000, it approved a document called the Conception of Restructuring and Transforming the Slovak Gas Industry. This document envisages the transformation of SPP, a state-run gas transport and storage corporation, into a joint-stock company with 100-percent state ownership, and then the sale of a 49-percent stake in SPP. Eventually, the entire company will be sold. Several corporations have shown preliminary interest in a stake in SPP. These include a consortium of Western European companies (comprising SNAM of Italy, Gaz de France, and Ruhrgas of Germany), the German company Wintershall AG, and, reportedly, Gazprom of Russia.

Following a number of delays caused by doubts on the part of certain ministers, the cabinet approved another document called the Transpetrol Privatization Scheme on June 21, 2000. Transpetrol, which the Economy Ministry owns in full, is a monopoly operator of the Druzba and Adria transit oil pipelines that run across Slovak territory. A 34-percent stake is available for a strategic foreign investor, and 15 percent should be sold through the capital market. As with SPP, Transpetrol eventually will be entirely in private hands.

The restructuring process that precedes privatization will be the most painful and complicated in the electric energy sector. The cabinet's scheme for restructuring and partially privatizing electric energy corporations envisages the transformation of electricity distribution companies into independent joint stock companies, the separation of heating companies from electric power plants and their subsequent transformation into independent joint stock companies, and the privatization of up to 49-percent stakes in each company. Privatization advisors, selected through a transparent public tender, will decide the most suitable structure of available privatization stakes and the best way of privatizing SE. For the time being, it is difficult to say when the privatization of Slovakia's electric energy sector will be started or completed because the launch date depends largely on the quality and speed of restructuring at the various companies. However, in the case of SPP and Transpetrol, partial privatization (of up to 49 percent of their shares) could be completed in the course of 2001.

Social Sector Indicators

High unemployment is perhaps the most serious economic problem affecting Slovak society. Indeed, it is the only macroeconomic indicator that has worsened steadily since the beginning of the country's economic transformation in 1990. Due to the macroeconomic stabilization measures introduced in 1999, the jobless rate rose from 16.3 percent in January to 19.2 percent in December. The Slovak economy employed 2.132 million people in 1999, or 82.9 percent of the country's economically active population. The growth in unemployment did not stop even in the first quarter of 2000, when the jobless rate hit 19.4 percent. Only the second quarter of 2000 brought a whisper of improvement, with unemployment taking a slight dip to 18.8 percent.

The high jobless rate among young people and long-term unemployment are matters of principal concern in Slovakia. Persons under the age of 29 account for approximately 45 percent of unemployment. Long-term unemployment accounted for 43.2 percent of all jobless people in 1999. Likewise, since Slovakia's economic development will likely continue to favor one region over another, severe regional disparities in unemployment will only deepen. In developed regions unemployment fluctuates around 5 percent, but in rural areas it exceeds 35 percent.

Unemployment is currently over 20 percent in half of the country's 78 districts. The main causes of joblessness are as follows: limited access to information, insufficient education, low workforce mobility, and a social security system so benevolent that it discourages employment. Combined, these factors are deepening poverty and increasing the elite's determination to leave the country. Of the 485,000 people without jobs in 1999, a total of 130,000 collected unemployment benefits worth an average of SKK 3,406 per month ($82.3). The long-term unemployed, meanwhile, consumed as much as 92 percent of all state budget funds earmarked for social security benefits.

In 1999, the Social Insurance Company's disbursement of SKK 63.5 billion ($1.5 billion) in retirement pensions represented about 8 percent of GDP. Retirement pensions were disbursed to a total of 790,000 pensioners, whose share of the country's overall population has grown by 2.7 percent over the past ten years. The number of people receiving disability pensions was 225,000, a moderate decline relative to the total population.

Retirement pensions have risen less rapidly than wages. After a long period of growth, the real value of retirement pensions experienced a decline in 1999 to 77.8 percent of their 1989 value. The average monthly retirement pension in 1999 was SKK 4,878 ($ 117.8 USD), or 45.5 percent of the average monthly wage. As of October 31, 2000, it was SKK 5,379 per month. Over the past four years, the average retirement pension has represented between 89 and 93 percent of the average net monthly income per capita. Widowed women are in an especially precarious situation because their allowance is 30 percent lower.

In June 2000, parliament approved a 10-percent increase in retirement pensions that took effect on August 1, 2000. The cabinet originally had proposed only a 7-percent increase, knowing that the state budget did not have enough funds to cover a higher payout. It is widely expected that the Social Insurance Company will have serious problems meeting the increase that parliament approved.

Slovakia's pension and health insurance system is expensive and in a critical financial state. On February 15, 2000, parliament approved a document titled Conception of Social Insurance Reform that proposes a fund-oriented system built on multiple-source financing. The proposal suggests a system with three pillars, two of which involve compulsory contributions and a third that involves optional contributions. The basic idea is to transfer social security benefits payments from the first pillar, which is financed continuously, to the other two pillars, whose funds are capitalized. However, since the scheme was passed, nothing groundbreaking has happened in the field of social insurance reform.

The average monthly wage in 1999 was SKK 10,728 ($259.1), which in nominal terms represented a 7.2 percent increase over the previous year. However, in real terms, Slovak wages actually declined by 3.1 percent. This trend deepened further in the first half of 2000, when the average monthly real wage fell to 6.1 percent below its level for the same period in 1999. The highest average monthly wages were recorded in the banking, insurance, and electric energy sectors. The lowest average monthly wages were recorded in education, agriculture, health care, and the social care system.

The quality of education and the number of students at all types of schools remained virtually unchanged during the period covered by this report. However, teachers are not sufficiently appreciated. The education sector has long had the lowest average monthly wage in the country. In 1999, the average wage in education was SKK 8,400 ($202.9), while the overall average monthly wage in the country was SKK 10,728 ($259.1). Consequently, many qualified people are leaving education for better wages elsewhere.

In 1999, the number of university students grew to 118,641, a 7-percent increase over 1998. A total of 22,866 new students were accepted to universities, while 15,000 to 20,000 applicants were rejected. This is waste of human resources is mostly the result of a long-term decline in the funds allocated to universities. In 1998, funding for universities equaled 0.76 percent of GDP. In 1999, funding dropped to SKK 5.4 billion ($ 131 million), or just 0.70 percent of GDP.

Another problem in the educational system is the unequal status of public, private, and church schools. Private schools receive only 60 percent and church schools only 90 percent of the state subsidies extended to public schools.

The greatest problem in the health care sector is its debt, which exceeds one-third of the annual expenditures allocated by the state to the system. This naturally has influenced the quality and level of health care provided. The overall debt of health insurance companies to health care providers was SKK 9.4 billion ($207.7 million) as of June 30, 2000. The amount of money owed to health insurance companies was SKK 18.306 billion ($403.2), most of which is accounted for by unpaid insurance dues (54.6 percent) and fines and penalties (28.1 percent).

The debt of hospitals and other health care facilities equipped with beds was SKK 12.171 billion ($268.1) as of June 30, 2000. The greatest share of this outstanding debt (37.1 percent) comes from unpaid compulsory contributions to social security funds. Unpaid bills for drugs and special medical equipment account for almost 31.5 percent. The health sector continues to be plagued by a high degree of centralization and corruption, a lack of transparency, and the absence of a long-term vision among the sector's top officials. Most of the Health Ministry's reformist measures in the post-1989 period have been based on the philosophy of combined financing, exclusive state ownership, and wrong-headed legislation, which has, if anything, worsened the sector's problems.

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SLOVENIA

Polity: Parliamentary democracy
Economy: Mixed capitalist
Population: 2,000,000
GNP per capita at PPP $ (1999): 15,062
Capital: Ljubljana
Ethnic Groups: Slovene (88 percent), Croat (3 percent), Serb (2 percent), Muslim (1 percent), other (3 percent)
Size of private sector as % of GDP (mid-2000): 55

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	2.00	↑ 1.95	↑ 1.94	1.94
Rule of Law	na	na	1.75	1.75
Economic Liberalization	2.38	↑ 2.17	↑ 2.08	2.08

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	7,231.0	9,418.0	9,439.0	9,103.0	9,793.0	10,020.0	9,320.0
Real GDP growth (% change)	5.3	4.1	3.5	4.6	3.8	5.0	4.7
Inflation rate	21.0	13.5	9.9	8.4	8.0	6.1	8.9
Exports ($ millions)	6,832.0	8,350.0	8,353.0	8,408.0	9,091.0	8,623.0	8,806.0
Imports ($ millions)	7,168.0	9,303.0	9,178.0	9,184.0	9,880.0	9,868.0	9,887.0
Foreign Direct Investment ($ millions)	131.0	183.0	188.0	340.0	250.0	144.0	133.0
Unemployment rate	9.1	7.4	7.3	7.1	7.6	7.4	7.2
Life Expectancy (years)	73.4	73.5	74.5	74.7	74.4	75.1	75.0

INTRODUCTION

Slovenia is the smallest and one of the most successful Eastern European states. Its transition to a democratic political system and a market economy began slowly in the late 1980s and intensified when the country declared independence from the Socialist Federative Republic of Yugoslavia (SFRJ) in June 1991. Since then, Slovenia has been a constitutional parliamentary democracy characterized by free and fair elections, a national assembly with full legislative power, and an independent judiciary. The country's political system is stable, but events in 2000 suggested the potential for upheaval. The collapse of the ruling coalition in April was followed by three months of wrangling and the formation of a new coalition, which promptly collapsed after taking power. However, at the end of the period covered by this report, Slovenia had a sound ruling coalition and a firm commitment to democracy.

Despite government turmoil, Slovenia made progress in 1999 and 2000. Civil society continued its upswing, gaining in importance even though it remained poorly developed. The media remained free and independent, and Internet use increased. In fact, during the 2000 parliamentary election campaign, most important political parties called for wider Internet access in their platforms. Government transparency was high and human rights were respected.

The world has taken notice of Slovenia's successful economic transition. Together with Hungary, Slovenia's economy was named the strongest in the region in 2000 by the Dun and Bradstreet Agency. The World Bank declared Slovenia "fully developed" and struck it from the list of countries eligible for development loans. The International Monetary Fund (IMF) released statistics showing that Slovenes earn the highest wages in the region.

Slovenia is already nearing the successful completion of its transition, and the fact that all major political parties support the country's bid for EU membership shows that the country as a whole is taking its commitment to democracy and the free market seriously. Slovenia signed a partnership agreement with the EU in June 1996 and formally submitted an application for membership at the same time. The membership criteria provide a yardstick by which political and economic progress can be judged, and the fact that Brussels is predicting Slovenia will be among the first of the new members shows just how far the country has come in its nine years since independence.

In terms of the country's progress towards EU membership, much of the work is already complete. The government hopes to be fully prepared to join by 2003, but in fact it might be ready even earlier. Perennial problems that must be addressed include the slow rate of privatization and denationalization, the low level of foreign direct investment, the conversion of duty-free shops, and the strengthening of border controls. Given that Slovenia will become part of the EU's external border and given that the country has become a major transition point for trafficking in human beings, the border issue has come to the fore in recent years.

In many ways, the most difficult criteria have already been met. Slovenia's agricultural sector is already compliant with that of the EU. Most of Slovenia's foreign trade is conducted with EU members. The introduction of the VAT in 1999 also represented a significant step forward. Even though continued work is necessary, Slovenia seems ready to bear the burdens, and to enjoy the privileges, of EU membership. Therefore, it would seem that the transition to democracy and the free market in Slovenia is virtually complete.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
2.00	2.00	2.00	1.75

Since declaring independence from the Socialist Federative Republic of Yugoslavia in 1991, Slovenia has had one of the most stable political systems in the region. Elections occur regularly and without significant irregularities. Transfers of power after elections have taken place consistently without incident.

Ever since 1989, when Slovenia's Communist Party renounced its monopoly on political power and ushered in political pluralism, a wide range of parties has existed. In the country's first parliamentary elections in 1992, eight parties won seats; seven won seats in the 1996 elections. The current parliament held its first session on October 27, 2000. Eight parties representing diverse political ideologies, historical foundations, and generational interests enjoy a mandate.

Slovenia held its first direct, multiparty parliamentary elections in 1990 while it was still a republic of the SFRJ. It held its first presidential election in December 1992. Milan Kuèan, the head of the Communist Party since 1986, won the vote, which was considered free and fair. Kuèan was popular because in the late 1980s he led the Communist Party to renounce its monopoly on political power and opened political space to alternative parties and social movements. Kuèan was re-elected in November 1997 with 65 percent of the vote. The second-place candidate, Speaker of Parliament Janez Podobnik, won only 18.4 percent. The rest of the votes were distributed among six other candidates. The next presidential election will take place in 2001. President Kuèan is not eligible to run, but thus far there are no predictions on who will succeed him.

Elections to the upper house of parliament, the 40-member national council, were last held in November 1996. Municipal administrations elect 22 members, and economic groups elect the other 18. Specifically, nonprofit organizations elect 6 members; employers, 4; employees, 4; and farm-

ers, small businesses, and professionals, 4. The council's powers are limited. It may propose the enactment of statutes by parliament, give its opinion to parliament, require that parliament reconsider a statute, call a referendum, or call a parliamentary inquiry. Members of the council are elected to five-year terms. The next election will take place in 2001.

The first election to independent Slovenia's lower house of parliament, the national assembly, took place in December 1992. The Liberal Democrats (LDS), led by reformed Communists, won the highest percentage of the vote and thereby led the governing coalition. LDS leader Janez Drnovšek became prime minister. General elections were next held in 1996. A deadlock emerged when the left-leaning and right-leaning parties each won half of the assembly's 90 seats. The LDS again won the highest percentage of the vote and set out to form a government. After three months of maneuvering, a grand coalition composed of the LDS, the center-right People's Party (SLS), and the Pensioners' Party (DeSUS) took power.

In April 2000, Slovenia's government came to a standstill when the SLS united with the Christian Democrats (SKD) and left the governing coalition. Prime Minister Drnovšek proposed replacements for the exiting SLS ministers. In doing so, he attached his proposals to a vote of confidence and lost. According to procedure, parliament then had 30 days to propose a new prime minister. If it failed to do so, the president would have had to dissolve parliament and call early elections. President Kuèan, now-former Prime Minister Drnovšek, and other prominent government officials favored early elections, but in late April the SLS and the SKD formally united as the SLS+SKD Slovene People's Party and began agitating for Andrej Bajuk to become prime minister. The party believed it would have a strong advantage in the fall parliamentary elections if it were the incumbent.

It took three attempts and almost a full month to gain parliamentary approval for Andrej Bajuk. Once he had secured the post of prime minister, Bajuk then had 15 days to nominate ministers. Procedure states that if his ministers had not been approved, early elections could still have been called. It took two tries and two more weeks to gain approval for his nominees.

In August, parliamentary elections were called for October 15. However, the constitutional court had deemed the election law unusable, and parliament was forced to pass a new one. In 1996, a referendum had been held on the issue of the election law. The right-leaning Social Democrats (SDS) had pushed for a two-round winner-takes-all system, while the upper house of parliament, the national council, advanced a compromise proposal that combined features of both majority and proportional systems. The results of the referendum were contested, and the constitutional court determined that the SDS's proposal had won. But parliament debated the law four times between 1996 and 2000 and failed to gain approval each time. On July 26, 2000, parliament finally passed an electoral law that mirrored the compromise proposal of a modified proportional system and raised the threshold for gaining seats in the national assembly from 3.2 to 4.0 percent. The constitution, in turn, was amended to reflect the new law. In protest against the new law, the SDS abandoned the ruling coalition. Likewise, Prime Minister Bajuk left the SLS+SKD to form his own party, but the government continued on in a caretaker role until the October elections.

On Sunday, October 15, 2000, Slovenia held its third parliamentary elections since independence. Eleven parties fielded candidates in the country's eight electoral districts. Eight parties received a mandate: the LDS, the SLS+SKD Slovene People's Party, the SDS, the United List of Social Democrats (ZLSD), the Pensioners' Party (DeSUS), the Nationalists (SNS), the Slovene Youth Party (SMS), and the New Slovenia-Christian People's Party (NSi). The right-leaning ruling parties fared poorly because voters were dissatisfied with the way they ran the government from June to October.

Parliamentary Election Results, 1996 and 2000

Party	Percent of Vote	2000 (# seats)	1996 (# seats)
LDS	36.21	34	25
SDS	15.80	14	16
ZLSD	12.07	11	9
SLS+SKD	9.53	9	29[1]
NSi	8.76	8	na
DeSUS	5.16	4	5
SNS	4.38	4	4
SMS	4.33	4	na
Total	100.00	88 [2]	88 [2]

[1] In the 1996 election, the SLS and the SKD ran as two parties. The SLS won 19 seats and the SKD 10.

[2] The remaining two seats are reserved for one representative of the Italian minority and one representative of the Hungarian minority.

Slovenia's parliamentary system closely resembles Western models. Even though only 1.5 million people are eligible to vote, there is a wide range of parties to choose from. At the beginning of the 2000 election campaign, 33 parties were officially registered. Independent candidates and candidates with multiple party affiliations also participate in national elections, but they generally have more success in local ones. No political parties have been banned or declared illegal.

In 1992, voter turnout in independent Slovenia's first general election was 80 percent. Turnout has been declining ever since. The general elections in 1996 had a turnout rate of about 74 percent. For the October 2000 elections, that number dropped to 70.4 percent. Local elections have

much lower rates. Voter turnout for municipal elections in 1994 was 60 percent in the first round and 50 percent in the second. In 1998, turnout was around 55 percent. The State Election Commission does not collect data on female voter participation.

The number of women in parliament increased from 7 in 1996 to 12 in 2000. In 1997, the governmental Women's Policy Office reported that women account for the following percentages of membership in parliamentary parties: 31 percent of DeSUS, 30.1 percent of the LDS, 28 percent of the SDS, 60 percent of the SKD, 35 percent of the SLS, and 35.6 percent of the ZLSD. Generally, though, membership figures for political parties are not widely circulated.

Civil Society

1997	1998	1999-2000	2001
2.00	2.00	1.75	1.75

Slovenia has one of the longest civil society traditions in the region, dating back to the early 1980s. The most significant of the early civil society movements was the Committee for the Defense of Human Rights, organized in 1988 to protest a highly politicized trial of Slovene journalists who were accused of possessing classified military documents. Less than a year later, more than 100 grassroots organizations and ten alternative political parties were thought to exist. Slovenia is unique among the countries in the region because the Communist Party embraced the birth of political and social pluralism, rather than suppressing it. For this reason, it is tragic that Slovenia's nongovernmental sector has lost much of its influence and has fallen into a sharp decline since independence. A survey conducted in 1992 found that Slovenia had the lowest levels of membership in nongovernmental organizations (NGOs) in the region. A follow-up survey in 1999 showed that membership had almost doubled but was still well below the European average of 1992. Membership in trade unions and political parties continues to fall.

Slovenia's NGOs focus on a wide spectrum of issues. Environmental groups, gay and lesbian groups, religious organizations, ethnic organizations, marketing associations, and organizations promoting awareness about social issues like sexual harassment, drug use, and suicide are all active. There are also many NGOs working to increase technical competence in business and public policy or to provide training for university faculty and media professionals. Amnesty International and the Helsinki Monitor have offices in Slovenia as well. According to the Regional Environmental Center, which reports on the status of some 120 environmental NGOs in Slovenia, most NGOs have weak organizational structures, small memberships, and very few, if any, paid staff members. The most experienced groups guide and provide assistance to others on a limited basis. The governmental Office for European Affairs, together with 15 NGOs, has been working to establish an independent center that would facilitate cooperation among NGOs during Slovenia's bid for membership in the European Union (EU). Other than a public letter of intent, though, few concrete steps have been taken.

According to the Open Society Institute, most women's NGOs have informal structures and few, if any, full-time employees. The major political parties all have women's groups within them. There are also professional women's groups such as the Women's Section of the Managers' Association and the Slovene Policewomen's Network. Other prominent NGOs working on women's issues are the Prenner Group, the Slovene Women's Society for World Peace, the Women's Counseling Service, and the City of Women. There are also numerous crisis and help lines for victims of violence. The Autonomous Women's Groups is an NGO network that cooperates with international and foreign organizations to promote women's issues.

The government has created several nonprofit institutes and foundations to address broad social welfare issues. While some receive public funding, all of them are generally independent of direct state administration. The government retains indirect influence through representatives who serve on the institutes' administrative bodies.

A 1995 law regulates the activities of associations and foundations. It also refers to the nonprofit activities of commercial companies, political parties, unions, and religious groups. Slovenia has more than 12,000 associations; most are involved in activities such as sports, culture, and fire fighting.

Information about NGO management issues is widely available in Slovene. However, NGOs generally lack financial resources and depend on external sources of funding to conduct their programs. While NGOs may earn income, they may not be founded for the sole purpose of making a profit. Existing tax legislation does not encourage the development of the nonprofit sector. Tax exemptions and tax deductible contributions are permitted only under special conditions.

Foundations and associations may receive government funding according to specific regulations and conditions. Foundations must submit yearly financial reports to appropriate governing bodies. Foreign financing is often distributed through re-granting organizations.

Trade unions play a larger role in public life in Slovenia than in other Southeast European countries. The constitution protects the right to form unions, bargain collectively, and strike. According to the European Commission, approximately 50 percent of Slovene workers belong to trade unions. For a total workforce of about 850,400, there are two major national labor unions with constituent branches throughout the country, several unions for government administrative workers, and a number of small business associations. The Association of Free Trade Unions is an independent trade union federation. The Association of Trade Unions is the de facto successor of the Communist trade union federation.

The Union of Workers in State Organs and Organs of Local Communities covers persons employed in state or local administration. It has some 13,500 members, or about 45 percent of state or local administrative workers. The Police Union, with 4,000 to 5,000 members, represents only public servants in the Interior Ministry. Most farmers are represented by their political parties. Unions are independent of the government, though individual union members hold positions in the legislature.

The principal small business associations are the Association of Employers of Slovenia, the Chamber of Crafts of Slovenia, and the Association of Employers in Small Businesses, Catering, Intellectual Services, Tourism, Trade, and Freight Transport. These groups signed an economic and social agreement that set up a council to determine wage and social policies. According to the Chamber of Crafts of Slovenia, Slovenia's small manufacturing and skilled trades sector employs almost 130,000 Slovenes, or nearly 20 percent of the workforce. At the beginning of 1998, membership in the Chamber of Crafts was approximately 51,400.

Parliament's national council includes 22 members elected by the municipalities to represent their local interests. Membership includes four employer representatives; four employee representatives; four representatives of farmers, small business, and the self-employed; and six representatives of nonprofit organizations. Interest groups and other associations are not consulted during the pre-parliamentary stages of the legislative process. But each piece of legislation must be submitted to the national council, which often consults with NGOs on draft laws. In recent years, informal consultations with different interest groups have taken place during the preparation of major pieces of legislation.

Although the interests of the average citizen are represented in the government structure, citizens can take more initiative to influence policy through lobbying. Though American-style pressure groups do not exist, other groups are active. Trade unions strike; small business associations conduct policy negotiations with the government; and citizens petition, demonstrate, and engage in media debates. Members of trade unions and other interest groups also comment on relevant draft legislation. Citizens wishing to unite communities into larger municipalities, and thus gain greater legislative autonomy, can do so by referendum. Certain ethnic Hungarian communities have exercised this right. The constitution explicitly provides for two fundamental forms of direct democracy: referenda and popular initiatives.

Independent Media

1997	1998	1999-2000	2001
1.75	1.75	1.75	1.75

True freedom of the press in Slovenia can be traced to the 1980s. The weekly *Mladina* was the official organ of the socialist youth organization, but throughout the 1980s it took a highly independent stance and became quite critical of the regime. The magazine and its journalists played a major role in opening up the political and social space in Slovenia. However, by the 1990s the quality of the media had started to slip.

A small domestic market and a lack of diversified funding contribute to intense competition among Slovene media. Private independent media are more susceptible to financial difficulties. Previously state-owned media tend to have greater capital assets. Immediately after independence, the Slovene government set up the Fund for Pluralization of the Media to support smaller papers. It was abolished in 1992 for no clear reason. Even well funded papers cannot count on a diversified funding base to insulate them from sudden financial difficulties.

Freedom House's annual *Survey of Press Freedom* rated Slovenia "Partly Free" in 1994 and 1995, and "Free" from 1996 to 1999. Freedom of the press is guaranteed by Article 39 of the constitution, which secures the right to "collect, receive, and circulate information and opinions." The greatest threats to press freedom stem not from government control but from self-censorship, indirect political pressure, and journalistic inexperience resulting from more than 40 years of authoritarian Communist rule.

In 1994, the government passed a media law that had the unfortunate side effect of making journalists vulnerable to the commercial interests of media owners. Through privatization, media professionals became media owners, and this created the opportunity for conflicts of interest and violations of professional ethics. The 1994 law also had the result of creating monopolies.

Parliament has been debating revisions to the 1994 media law since spring 1999. One principal reason is that Slovenia must harmonize its media legislation with EU laws as part of the accession process. No one has questioned the need for a new law, but there is controversy over exactly what the law should cover. Since commercial media did not exist in Slovenia when the current law was passed, it operates with very little regulation. The government hopes to cover print, radio, television, and the Internet with a single piece of legislation. The draft law looks to establish a government-financed media fund, primarily for print media, with an administrative board that is chaired by the minister of culture and is composed of representatives of all parliamentary parties. However, such a board undoubtedly will be heavily politicized, especially during election campaigns.

Although Slovene media are generally editorially independent, self-censorship and political pressure do exist. Print media enjoy greater freedom than broadcast media, which rely to some degree on government funding. Slovene journalists have complained about the influence of economic and political interests, about inexperienced journalists who report crudely or ignorantly, and about economic competition that gives rise to sensationalism. Nonetheless, the media offer a full range of opinions and

ideas. The election law requires the media to offer free space and airtime to political parties during elections. Television networks routinely give viewers access to public figures and opinion makers from across the political spectrum via a broad range of public interest programming.

Article 169 of the civil code, which prohibits insulting public officials, was last used in 1996 to prosecute a journalist. In April 1999, the criminal code was amended so that persons who disclose state or military secrets will not be punished if the disclosure aids in exposing "irregularities" in the organization of the intelligence services or the military, or if the disclosure has no detrimental consequences for the state.

According to the World Association of Newspapers, the privatization process for Slovene newspaper publishers is complete. One of three publishing houses has entered the stock market. The top daily newspapers are *Delo* (with a declared circulation of 91,000), *Slovenske Novice* (80,000), *Veèer* (73,000), *Dnevnik* (71,000), and *Ekipa* (25,000). In addition, there are about five regional, two national, and three local non-dailies with a total circulation of about 330,000. Independent vendors control distribution.

Radiotelevisija Slovenija (Slovenia Radio-Television, or RTV) broadcasts in Slovene over three radio stations and two television channels. It is reportedly moving toward privatization but is still government subsidized. There are four commercial national television stations—Gajba TV, Kanal A, POP TV, and TV3—and at least 42 private local television stations.

There are also some 68 private national and local radio stations. The most popular stations include Radio Maribor and Radio Student. The latter has been an independent voice for almost 20 years.

The Slovene Journalist Society was established in 1944. Today, around 95 percent of Slovene journalists belong to it, but data on membership are not readily available. Four groups offer media assistance: the Coordinating Center for Independent Media, the Slovene Open Society Institute, the International Federation of Journalists Balkan Coordinating Center for Independent Media, and the Union of Slovene Journalists.

The Internet has not made much headway in Slovenia. Regular Internet usage is estimated at 100,000 out of a population of about two million. Usage is low because access is costly and the public does not yet see the Internet's value. According to Research on Internet in Slovenia (RIS), as of June 2000, approximately 25 percent of the population had used the Internet at least once. More than 30 percent of persons aged 15 to 65 had used the Internet in the last 3 months. Nearly 20 percent of persons aged 15 to 65 reported using the Internet on a monthly basis.

In Summer 2000, the firm Aragon conducted research on Internet usage among young people. It surveyed 1508 school children ad found that 86.1 percent of Slovene school children are familiar with the Internet. One-fifth of the respondents said their parents have no idea what the Internet is. On average, Slovene children who have access to the Internet use it 12.8 hours per month, primarily to find information. Slovene legislation does not cover the Internet specifically. However, existing legislation concerning violent content and pornography in the media may be interpreted to cover the Internet.

Governance and Public Administration

1997	1998	1999-2000	2001
2.50	2.50	2.25	2.50

Slovenia has legislative, executive, and judicial branches of government. The bicameral parliament forms the legislative branch and is in charge of rule making. The Office of the President of the Republic of Slovenia forms the executive branch. The Constitutional Court and lower courts form the judicial branch.

The legislative process is slowed by procedure, which requires three readings of every draft law, and by disagreement among coalition members. A tradition of compromise among parliamentary factions that was born in the early days of independence further hampers the legislative process. Parliament has failed since 1998 to pass a proposed bill on new parliamentary procedures. Debate on the bill was scheduled for the summer of 2000, but the spring parliamentary crisis delayed action until after the October parliamentary elections.

Executive and legislative bodies operate with a level of transparency comparable to international standards. State and local laws, acts, and other regulations are published in the *Official Gazette of the Republic of Slovenia*. The *Gazette* also includes public tenders, public advertisements, judicial decisions, and international agreements or contracts signed or ratified by the government. This information can be obtained on the Internet, on CD-ROM, on diskette, or by written request and is available in Slovene and other languages. The government is working to bring legislation into line with that of the EU. It also regularly publishes economic statistics in accordance with regulations from the Organization for Economic Co-operation and Development (OECD).

The need for civil service reform has been a regular criticism of EU bodies. Regulation of the civil service is of even greater importance in the Slovene context because the majority of complaints received by the Office of the Ombudsman are related to poor government administration. There is neither a full statutory basis for a civil service nor a clearly stated set of principles to govern it. A Civil Service Act is still under preparation. The Law on Public Servants and the Law on Wage Ratio in Public Institutions, Government Bodies and Local Community Bodies, both passed in the mid-1990s, contain some civil service regulations.

Since Slovenia has only 2 million inhabitants, regional governments do not exist. As part of its EU membership plan, though, the government envisions the creation of a regional structure with two parts: the metropolitan area of Ljubljana and the rest of the country. Such an arrangement, if enacted, would allow Slovenia to receive EU funds for regional structures within member states.

In the fall of 2000, just before the European Commission (EC) issued its progress report on EU accession, the subject of a regional structure gained in importance. Maribor mayor Boris Soviè, who suggested that his city and the southern Styrian region in general have unique needs and concerns, called for a tripartite regional scheme that would consist of a metropolitan Ljubljana region, a Maribor-Styria region, and then the rest of Slovenia. Almost simultaneously, a group of eleven mayors from the northern Koroška (Carinthia) region began lobbying for the creation of a formal Koroška region. The EC is expected to issue an opinion on the government's formal regionalization scheme in the near future. For the time being, the government has created decentralized administrative bodies to supervise the activities of local authorities. These bodies are under the supervision of specific ministries, and their heads are appointed and dismissed by the government

Slovenia's single-tier system of local government came into force in January 1995. Cities and towns that have the status of "city municipality" may be required to carry out specific tasks that fall under the jurisdiction of the state but are related to their own development. A municipality is created by law following a referendum in which the residents of a particular area participate. There are currently 192 municipalities. But this number can change since municipalities may join and form provinces or other larger self-governing communities. Municipalities have authority over town planning, trade and industry, housing, gas, heating, water supply, sewage, trash collection and disposal, roads, transport, ports, education, welfare homes and services, social security, health protection, fire protection, civil protection, parks, cultural institutions (theatres, concerts, museums, libraries), sports and leisure, and tourism.

Even though a significant level of authority has been devolved to municipalities, Maribor mayor Soviè has emerged as a sharp critic of what he sees as the government's centralizing policies. For example, Maribor had lobbyied to become the seat of a newly created Agency of Energy. But when the government announced in spring 2000 that the agency would have its headquarters in Ljubljana, Soviè made several harsh public statements. According to Soviè, the government wants to locate the agency in Ljubljana because it will have significant power and be a magnet for capital. Although the government does seem resistant to establishing important offices outside the capital, smaller, less important bureaus have headquarters around the country, including in Maribor and its environs.

Taken together, the government's reluctance to headquarter an important agency outside Ljubljana and the official bipartite regionalization plan could give the impression that the government is promoting centralization, as Soviè suggests. However, when one considers the small size of the country and its population, the problem begins to look less severe. It does bear mention, though, that a plan for five or six regions, instead of the officially promoted two, could go a long way towards appeasing the government's critics.

The division of powers between state and local governments was outlined in the 1994 Law on Local Government. This law increased the number of municipal authorities from 62 to 147 and took the responsibility for state and local tasks away from local governments. State tasks are now administered through local units linked to the national ministries. The officials in charge of these units are nominated by the central government. Local tasks are carried out through the municipalities, whose leaders are employees of the local government. The constitutional court decides disputes over jurisdiction between the state and municipalities.

Municipal councilors and mayors are elected in free and fair elections every four years. The mayor represents the municipality and heads the local administration. Voting rights are the same as for national elections, with the additional requirement that a voter must be a permanent resident of the municipality in which he or she votes. Local elections were last held in November 1998.

Municipalities are self-financed through local taxes, duties, and revenues received from municipal property. Taxes generally account for 46 percent of local revenues. Economically underdeveloped municipalities may receive additional funding from the state.

Aside from supporting greater decentralization, the mayor of Maribor believes that municipalities should be able to seek financial assistance from sources other than the national government. At an international conference organized by the Slovene Ministry of Finance in June 2000, Mayor Soviè said that cities and towns throughout Central and Eastern Europe should look to international financial institutions, commercial banks, and the private sector for help in financing infrastructure projects. Soviè said that this is necessary in Slovenia because the government is constantly giving new responsibilities to towns and cities but is not providing appropriate funding. This is a particular problem with environmental and other legislation designed to harmonize Slovene practices with those of EU member states. Likewise, Soviè has publicly criticized the government's plan to eliminate duty-free shops—another criteria for EU membership. Without a proper plan to convert the duty-free shops, municipalities could face increased unemployment and a sharp loss in revenues.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
1.75	1.50	1.50	1.50

The Slovene constitution has been in force since December 1991. Since then, the constitution has been altered only twice. Article 68 of the constitution was amended in 1997 to allow foreigners to own property. In 2000, Article 80 was amended to reflect changes in electoral procedures.

The highest judicial authority in the country is the constitutional court. It is composed of nine judges who are appointed by the national assembly upon presidential recommendation for a single nine-year term. The court's mandate is to ensure that laws, decrees, and regulatory acts issued by local authorities are consistent with the constitution, international treaties, and the general principles of ratified international law. It also rules on appeals. The president, the government, or one-third of the national assembly may ask the court to rule on whether an international treaty is consistent with the constitution. Article 160 of the constitution empowers the constitutional court to rule on jurisdictional disputes between courts and other state bodies.

The election law that parliament passed in July 2000 did not correspond to the format voters favored in the 1996 referendum. Prime Minister Bajuk referred the incident to the Council of Europe's European Commission for Democracy through Law (commonly known as the Venice Commission). In mid-October, the commission decided that the new law met European standards of democracy. The primary rationale was that parliament, in adopting the new law and relevant amendments to the constitution, had acted as the supreme constitution-making body of the Republic of Slovenia. Its decisions, therefore, could override those of the constitutional court.

In addition to the constitutional court, Slovenia's judicial system consists of district courts, regional courts, and a court of appeals. Judges, who are elected by parliament on the nomination of the Judicial Council, are independent and serve indefinitely, subject to an age limit. The Judicial Council is composed of six sitting judges elected by their peers and five presidential nominees elected by the state assembly.

Overall, Slovene judges rule fairly and impartially, and judicial decisions are effectively enforced. Lengthy exposure to international standards of rule of law has contributed to the development of an independent court system. Courts operate as an independent branch of government and are not linked to any executive body. According to the European Commission, the main problem facing the Slovene judiciary is inefficiency.

Slovenia's criminal code was adopted in September 1994 and came into effect on January 1, 1995. The constitution prohibits abuse and "humiliating punishment or treatment" of prisoners, and such treatment has not been reported. No human rights organizations have complained about prison conditions or abuse. Changes to the penal code and to the Law on Criminal Procedure were introduced in 1997 in order to bring Slovene legislation in line with European standards and to address "new" forms of crime such as money laundering, corruption, and computer hacking. Amendments to the law on penal procedures related to the use of special investigation methods entered into force in January 1999.

Persons held in custody for the alleged commission of a crime must be advised in writing within 24 hours, and in their own language, of the reasons for their detention. Detention may last up to six months and then may be extended for up to two years once charges are brought. Slovenia's judicial system is overburdened, and in some instances criminal cases have taken up to five years to come to trial. According to the U.S. State Department, the problem is not widespread, and defendants are released on bail except in the most serious criminal cases. The constitution guarantees the right of a defendant to an attorney, and this is respected in practice.

Human rights are addressed explicitly in section II of Slovenia's constitution. Although there is a provision for the suspension of these rights in a state of emergency, certain rights, such as the inviolability of human life, may not be suspended at any time. The constitution covers most rights generally found in Western constitutions such as due process, freedom of movement, freedom of expression, and freedom of conscience. Intellectual property rights are also covered.

Business and property rights are guaranteed under Articles 66 through 79 of the constitution, though the property rights of foreigners are limited. According to the European Commission, little progress has been made with regard to denationalization (the process of returning property to persons dispossessed by the Communist regime). A special office for denationalization was established in March 1999 to act as a coordinating body, but its mandate is not clear. A land registry exists, but it has not been computerized. As of fall 2000, the government had rendered decisions on 40 percent of claims on agricultural land, 60 percent of claims on forests, 65 percent of claims on dwelling units, and 37 percent of claims on movable property. However, these figures merely represent claims on which decisions have been made. They do not necessarily indicate that the decisions have been implemented.

The constitution also calls for the appointment of an ombudsman who is responsible for the protection of human rights and fundamental freedoms in matters involving State bodies, local government bodies, and statutory authorities. From January 1 to August 31, 1999, 2063 cases were taken to the ombudsman. Of these, 602 were referred to the police and courts, 401 concerned matters of administration, and 260 addressed social safety.

In May 2000, the fifth annual report of the ombudsman was released. It concludes that there were no serious or systematic violations of human rights in 1999, and that the majority of violations were consequences of poor state administration. The number of complaints the ombudsman receives annually has remained about the same for several years. In 1999, though, the nature of the complaints changed. The number of complaints related to the protection of personal data and the publication of the names of people accused of crimes increased, while the number of complaints related to violations of children's rights and the work of security services fell. The ombudsman also received a number of new complaints regarding surveillance cameras in public places. Although no serious human rights violations were reported in 1999, the report does cite numerous problems. These include: inconsistencies between laws; the absence of legislation in key areas such as payment of war compensation, labor relations, the rights of the mentally disabled, and free legal aid; delays in harmonizing laws with the constitution; the lack of a code of conduct in state administration; a backlog in processing complaints at ministries; delays in denationalizing property; and often unreasonably lengthy court proceedings.

Article 64 of the constitution grants Slovenia's Italian and Hungarian communities the right to education, media, and legal defense in their own languages. These two communities are also granted cultural autonomy in those areas in which they are the dominant ethnic group. Each group is represented by a deputy in the national assembly who has the power to block the adoption of laws that concern the exercise of the specific rights of these communities or their status. The Italian and Hungarian communities also have the right to promote their ties with Italy and Hungary.

Although a general-protection law on the Roma community (some 7,000 to 10,000 people in Slovenia) has not been passed, the Roma community is protected legally under Article 65 of the constitution, the 1993 law on local self-government, the law on local elections, and education regulations. The law on local self-government guarantees political representation for Roma, but only one municipal council includes Roma. The European Commission has applauded the government of Slovenia for its commitment to supporting the Roma community and to finding solutions to outstanding minority rights problems. The Slovene branch of Helsinki Watch, however, told reporters in 2000 that the treatment of Roma varies greatly around the country.

Since independence, the Austrian government has tried to exert pressure on the Slovene government to recognize a German-speaking minority. However, inquiries into the state of this German-speaking minority have shown that the group is scattered throughout the country and numbers no more than 1,000 people. Further, there is doubt that the German speakers are indigenous to the territories in which they live. The government of Slovenia refuses to grant special right to such a small group.

Corruption

1999-2000	2001
2.00	2.00

In 1999, Transparency International ranked Slovenia 25 out of 99 countries in its Corruption Perceptions Index. Slovenia received a score of 6.0, where 10 represents the least corrupt and 0 the most corrupt. In the 2000 edition of the Index, Slovenia fell to 28 with a score of 5.5. However, the country still has a significantly low amount of corruption. According to Slovene sources, ten state employees were denounced between 1998 and 1999 for accepting bribes; 39 people were denounced for offering bribes. Only two state employees were convicted of corruption during the period covered by this report.

The gross base pay of civil servants, as set out by the Law on Salary Ratios in Public Institutions, State Organs, and Organs of Local Governments, is comparable to that of workers in the private sector. This policy lessens the risk of corruption. The average monthly salary of a private sector employee is about $850, whereas the average monthly base salary of a civil servant is around $784. Base pay ranges from around $460 at the lowest level to about $1,960 for the head of an administrative unit. In addition to base pay, public servants receive bonuses based on the number of years worked, the conditions of work, the number of hours worked, or special responsibilities. Some fringe benefits, such as housing and payment of tuition fees, also may be included in a civil servant's pay.

Slovenia's Law on Workers in State Organs (LWSO) sets out mechanisms to prevent incompatibilities and conflicts of interest between officials and private business. For example, Article 27 of the LWSO prohibits senior public officials from performing the same or similar types of jobs for private businesses and companies that they perform for the state. Lower level officials may work for private businesses and companies on a contractual basis, but only if they obtain explicit authorization from the head of their administrative units. Government inspectors may not perform jobs privately in their field of competence. These ethical standards are observed in practice.

The current system of public administration provides for several internal and external control and oversight mechanisms. Higher administrative bodies may verify the legality, the professional nature, or the appropriateness of a decision by a lower administrative body. An inspectorate may be established to supervise the execution of laws and legal norms in a ministry's area of competence. The constitution provides for a Court of Audit, the powers and administration of which are determined by the 1994 Law on the Court of Audit. This court functions independently and is responsible for auditing state finances, the state budget, and funds spent for public purposes, including those spent by local self-governing bodies. The national assembly, on the proposal of the president, appoints members of the court. Aside from budget inspection and the

Court of Audit, there are no wide-ranging mechanisms for preventing corruption. Only certain public officials are subject to financial disclosure.

The Slovene criminal code penalizes offenses against the economy. Bribery in commercial enterprises is defined in Articles 247 and 248, while bribery of officials is included in Articles 267 and 268. Initiatives to combat corruption have been included in efforts to ensure compliance with EU membership requirements. The law on penal procedures was amended in October 1998 and the penal code was amended in March 1999. Both sets of amendments contain anticorruption measures. The penal code amendments extend the maximum allowable prison sentence from 20 to 30 years and introduce other more severe penalties for economic crime, organized crime, corruption, bribery, and money laundering.

In 1998, Slovenia ratified the Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. In April 1999, Slovenia signed the Council of Europe's Agreement Establishing the Group of States Against Corruption (GRECO). In May 1999, Slovenia signed the Council of Europe's Criminal Law Convention on Corruption. In February 1999, the government initiated the preparation of a code of ethics for public employees and a methodology for gathering statistics on organized crime and corruption. Some ministries have codes of conduct for their employees and internal committees in charge of implementation. There is no common code of conduct for all public officials. In February 2000, parliament ratified the Council of Europe's Criminal Law Convention on Corruption.

A report from the Corruption and Organized Crime in States in Transition (OCTOPUS) joint project between the European Commission and the Council of Europe states that many corruption cases related to privatization are concealed under criminal charges of abuse of position and fraudulent contracts because corruption is difficult to prove. The European Commission also has reported that public confidence in the civil service is variable, and that widespread corruption is not a problem. Anecdotal evidence suggests that bribe requests are not standard practice in the attainment of services. Accusations of insider deals and a lack of transparency have surrounded the privatization process.

According to the Institute of Criminology at the Ljubljana Faculty of Law, no systematic survey of the perception of public sector corruption in Slovenia has been conducted. However, other surveys have included questions on corruption. A 1998 public opinion survey asked the question "Do you agree that today in Slovenia a man can climb to the top only using unfair means, i.e.: corruption?" The responses were as follows: 14.3 percent of respondents strongly agreed, 25.9 percent agreed, 26.5 percent neither agreed nor disagreed, 24.2 percent disagreed, 4.2 percent strongly disagreed, and 4.9 percent did not know. Two international crime victimization surveys were conducted in 1992 and 1997. A low number of respondents (less than 2 percent) reported having been victimized by public sector corruption. In addition, an ad-hoc opinion survey by the *Dnevnik* newspaper concluded that many think that the level of corruption in Slovenia is considerable. But since very few respondents could remember any particular incident, there is little evidence of growing public intolerance of official corruption. There are no anticorruption public education efforts taking place at this time.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
2.75	2.50	2.25	2.25

Macroeconomic Policy

1998	1999-2000	2001
2.00	2.00	2.00

Microeconomic Policy

1998	1999-2000	2001
2.00	2.00	2.00

The Slovene economy has been one of the strongest in the region for many years. Gross domestic product has grown steadily since the end of the economic disruption caused by independence, building on the strong manufacturing and export base Slovenia built up in the 1980s. Economic reforms undertaken since independence have proceeded smoothly, with little strain on the political system. All parties are committed to economic liberalism and free-market economics, though their ideas about the speed of implementation vary.

The national currency, the Slovene *tolar* (SIT), was introduced in 1991. By 1995, it was fully convertible, though for current account purposes it had been convertible since 1992. In recent years, the SIT has shown signs of weakening, but it remains stable. In 1999 and 2000, the SIT weakened. The Institute for Macroeconomic Analysis and Research (IMAR) gives several reasons for the weakening: the introduction of foreign currency accounts for legal entities and private individuals in September 2000; high demand for foreign currency resulting from a deficit in the current accounts of the balance of payments; and the strength of other currencies like the U.S. dollar (USD). In 1999, the average exchange rate of the SIT depreciated by 0.7 percent in real terms. Statistics from October 2000 showed an average depreciation of 3.4 percent already.

Inflation was on the rise in Slovenia in 1999 and 2000. High oil prices in 2000, higher inflation rates in the country's main trading partners, and the relative strength of the USD all contributed to this trend. The weakening of the SIT further compounded the problem. Due mostly to international pressures on the domestic market, the country expects an inflation rate of almost 9 percent in 2000, up from just 6.1 percent in 1999 and considerably higher than the 7.6 percent forecast in the spring.

The good news is that the September 2000 introduction of the EU's value added tax (VAT), replacing the national sales tax, went smoothly. In the first half of 1999, anticipation of the VAT caused minor fluctuations in the economy, including an acceleration of imports and a decline in exports. By the end of the year, though, the situation had normalized. However, in addition to the weakening tolar and rising inflation, three problem areas are readily apparent in Slovenia's economy: the slow rate of privatization, the low level of foreign investment, and the need for reform of the state pension system.

In the communist period, Slovene companies were "socially owned" rather than state owned. That is, they were formally without legal owners. Staff worker councils nominated managers, though often with direct or indirect influence by the state. Consequently, the post-Communist privatization process has been more decentralized than in other countries. Individual companies had a high degree of autonomy, giving them much more latitude to make privatization decisions relative to central authorities.

By the end of the large-scale privatization process in 1998, 1,600 state-owned firms had been privatized. Insiders now own a large majority of firms. In a November 1998 law, the government agreed to cover the so-called privatization gap—the $960 million difference between the value of the ownership certificates given to the population and the amount of equity actually transferred into private ownership. The government promised to publish a list of properties it would give away to cover the gap, but it failed to do so. The pension law passed in June 1999 indirectly addressed the gap by promising to convert privatization promises into pension promises. In other words, individuals can choose to transfer their vouchers into pension funds. Some banks, utilities, and other large firms are still state-owned. One reason for the slow pace of privatization might be the strength of the economy. Since the government is not desperate for foreign money, it is content to wait until state-owned industries can be sold for the best price.

The second major flaw in the economy is the low level of foreign investment. The Law on Foreign Investment protects foreign companies' rights. Foreign companies can take on every form of organization allowed by law, and profit repatriation is permitted. Nevertheless, foreign companies operate under strong restrictions. In addition to delays in obtaining property, foreign investors are restricted in the composition of their management boards. Slovene-registered companies have to be managed by Slovene citizens, but company directors may be foreigners. In practice, these restrictions either have been loosely enforced or complied with through figurehead managers.

In July 1997, parliament passed a Law on Takeovers, which gives the government a powerful role in protecting large enterprises from hostile foreign bidders. Under the law, an investor must make a full bid when seeking to acquire a voting stake of more than 25 percent in a publically traded company or in a company that has more than 500 shareholders and is valued at more than one billion tolars. The government has full discretion to block or approve all takeovers of privatized companies valued at more than 800 million tolars. The law affects between 100 and 150 companies and is valid for five years. Foreign ownership is restricted further in what are considered "strategic" sectors. These include defense, rail and air transportation, communications, insurance, publishing, and mass media.

Although foreign companies may establish branch offices and legal entities in Slovenia, they may not establish representative offices. Foreign investors are also restricted in obtaining credit. In order to obtain credit from abroad, a foreign company must deposit 40 percent of the loan amount into a Slovene bank. This deposit is returned when the foreign debt is paid off. The issuance of visas is a moderate obstacle to foreign business practice. Visa applications are often completed in three week, but can take up to six months. New rules liberalizing foreign ownership of property were introduced in February 1999.

According to the European Bank for Reconstruction and Development (EBRD), cumulative foreign direct investment (FDI) from 1988 to 1999 measured approximately $1.4 billion and was the sixth highest in the region in terms of FDI per capita. However, net FDI has been declining since 1997. Net inflow was $340 million in 1997, $250 million in 1998, and an estimated $144 million in 1999. The EBRD has project net FDI for 2000 at $50 million.

The final major problem is the country's pay-as-you-go pension system. The system is well known for its unstable finances, especially given adverse demographic trends. The EBRD has noted that the payroll tax and the 13.6 percent ratio of pensions to gross domestic product (GDP) are high by European standards. There has been a sharp decrease in the ratio of contributors to pensioners. The elderly dependency ratio is projected to rise to 90 percent in 2040.

A new Law on Pensions and Disability Insurance took effect on January 1, 2000. It raised the average age of retirement and introduced a new, less generous, method for adjusting pensions. In the near future, a second-pillar pension and disability insurance scheme will be created. The new modifications certainly ease part of the burden the pension scheme puts on the government and the economy, but further changes will be necessary.

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TAJIKISTAN

Polity: Presidential
Economy: Statist
Population: 6,400,000
GNP per capita at PPP $ (1999): 981
Capital: Dushanbe
Ethnic Groups: Tajik (65 percent), Uzbek (25 percent), Russian (4 percent), other (6 percent)
Size of private sector as % of GDP (mid-2000): 40

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	6.20	↑↑ 5.95	↑↑ 5.69	↑↑ 5.44
Rule of Law	na	na	5.88	5.88
Economic Liberalization	6.13	6.13	↑ 6.00	↑↑ 5.50

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	159.1	104.6	177.0	185.4	217.5	178.0	157.6
Real GDP growth (% change)	-18.9	-12.5	-4.4	1.7	5.3	3.7	8.3
Inflation rate	350.0	609.0	418.0	88.0	43.2	27.6	34.0
Exports ($ millions)	559.0	779.0	770.0	746.0	586.0	666.0	792.0
Imports ($ millions)	686.0	838.0	786.0	806.0	725.0	693.0	849.0
Foreign Direct Investment ($ millions)	12.0	10.0	18.0	18.0	25.0	21.0	19.0
Unemployment rate	1.7	2.0	2.6	2.8	2.9	2.8	2.5
Life Expectancy (years)	66.0	68.3	68.3	68.3	68.5	68.6	69.0

INTRODUCTION

Since the signing of a landmark peace deal on June 27, 1997, Tajikistan has begun to recover from a devastating five-year civil war. The environment for reconciliation and dialogue between the government and the political opposition has improved in spite of political violence, repression, and a backward economy. President Imomali Rakhmanov and the leader of the United Tajik Opposition (UTO), Abdullah Nuri, continue to adhere to the conditions outlined in the peace agreement as the country recovers from the war. The implementation of the military phase of the peace accord has been highly successful and has resulted in the disbanding of more than 6,200 former UTO fighters. Moreover, several thousand of these fighters have been successfully integrated into the Tajik army and border forces. By the end of 1998 nearly all the UTO leaders in exile and tens of thousands of Tajik refugees from Afghanistan had returned to the war-torn country. Finally, the level of trust between the government and the opposition improved considerably after the Tajik parliament pardoned the remaining UTO fighters in May 1999.

However, President Rakhmanov has failed to use the new environment of reconciliation to heal the wounds from the civil war. Instead, the president has used the postwar period to strengthen his base of power. His efforts to accommodate the political opposition have been only halfhearted; resentment among his political opponents has grown. On several occasions they nearly abandoned the peace process as a result Rakhmanov's refusal to implement the final provisions of the peace accord, particularly his refusal to free a small group of UTO fighters still detained by the government. Additionally, Rakhmanov's refusal to permit greater freedom of the press and to share power with the UTO has infuriated the opposition, nearly causing a second civil war before the November 1999 presidential election.

The Tajik opposition threatened to boycott that election because of the government's refusal to allow the opposition equal access to the media. The dispute ended peacefully after a last-minute meeting between President Rakhmanov and Abdullah Nuri resulted in the release of 93 UTO political prisoners. More importantly, Rakhmanov promised Nuri that he would allow the UTO to participate in his government after the election by filling 30 percent of the positions in his new government with representatives of the UTO.

Rakhmanov won a resounding victory in the presidential election, receiving 97 percent of the votes. After the election Rakhmanov fulfilled his pledge by allowing representatives of the UTO to serve in senior government positions. The Islamic cleric Hajji Akbar Turajonzoda and Davlat Usmon, both senior UTO officials, received high-level posts in the new Rakhmanov government. The February 2000 parliamentary vote gave Rakhmanov a majority in the country's new parliament. Although the parliamentary vote was marred by widespread voter irregularities, the UTO managed to win seven percent of the seats in the new parliament. Rakhmanov used these election victories to strengthen his control over the country by amending the Tajik constitution to extend his presidency to seven years.

Increased stability in Tajikistan has allowed the economy to register its first positive signs of development since the country gained independence in 1991. Efforts to develop a market economy have intensified and the International Monetary Fund (IMF) has applauded the economic reforms imposed by the Tajik government. Major economic decisions made during the period under review include the privatization of all small- to medium-sized firms. The majority of the country's cotton mills have also been privatized, and nearly all large-scale manufacturing plants will be privately sold within the coming year. Privatization has replenished the nearly-depleted state treasury. Economic reconstruction has led to improved economic performance as GDP rose by four to five percent from 1998 to 1999. Yet in spite of these achievements, Tajikistan remains one of the poorest republics in Central Asia, and widespread government corruption may endanger the economic progress achieved since the end of the civil war.

Tajikistan's external isolation has forced the government to maintain a Moscow-centric policy fueled by concern over the Taliban in neighboring Afghanistan. In 1999, the Rakhmanov government strengthened its long-term security ties with Moscow by signing a ten-year agreement that provides the Russian military with the right to base up to 20,000 troops in Tajikistan. These forces guarantee that Tajikistan's authoritarian regime will remain aligned with Moscow for the near future despite Russia's declining political and economic influence in the region. Externally, the Taliban-backed government in Afghanistan is expanding its influence beyond the Syr Darya river, and repeated incursions by the Islamic Movement of Uzbekistan from Afghanistan into southern Kyrgyzstan endanger regional stability. While Rakhmanov's refusal to allow greater political freedom increases the threat of political violence at home, the growing assertiveness of Islamic movements endangers regional stability.

Ultimately, the outlook for Tajikistan's transition to democracy is grim. It is extremely unlikely that the Rakhmanov government will diverge from the authoritarian path of other Central Asian states. The rising threat of Islamic extremism – real or imagined – may be used to crack down on the opposition and further undermine Tajikistan's transition to democracy. Although the political climate has tentatively shifted from one of confrontation to one of reconciliation and dialogue, reconciliation is endangered by President Rakhmanov's unwillingness to loosen his grip on power, and the power-sharing arrangement with the political opposition could unravel at any time. If rapprochement fails, it may plunge the country into a second civil war and permanently endanger Tajikistan's cohesion as a state.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
6.00	5.75	5.50	5.25

Following parliamentary elections in February and March 2000, Tajikistan's 181-member, unicameral Supreme Assembly was split into a 63-member lower house, or Council of Representatives, and a 33-member upper house, or National Council. On February 27, the Council of Representatives was chosen in Tajikistan's first multiparty election. Twenty-two members were elected from party lists, and the remaining 41 from single-mandate districts. In all, six parties and several independent candidates contested the vote. Rakhmanov's ruling People's Democratic Party of Tajikistan (PDPT) won nearly 65 percent of the vote and secured almost half of the council seats. The Communists ran a distant second, receiving 23 percent of the vote. The Islamic Renaissance Party (IRP) received 7 percent.

Twenty-five members of the National Council were elected on March 23 by deputies of local assemblies. President Rakhmanov directly appointed the remaining eight members. The PDPT took an overwhelming majority of contested seats.

Opposition parties denounced the outcome of the February vote, accusing the government of vote rigging and interference. A joint United Nations (UN)/Organization for Security and Cooperation in Europe (OSCE) mission noted that the election marked an important step in the implementation of the peace accord, and that the plurality of the polls contrasted sharply with the limited choice available to voters in previous elections. However, the observers concluded that the vote was marred by widespread procedural irregularities and failed to meet the minimum democratic standards of transparency, fairness, and accountability. During the campaign period, opposition access to the media was limited, and election coverage overwhelmingly favored the PDPT. A series of bombing incidents in the month prior to the election contributed to a general atmosphere of insecurity. On election day, vote counting and tabulation were conducted improperly, and proxy voting was considered "unacceptably high" in more than 68 percent of precincts. In 67 percent of precincts, voters were allowed to cast ballots without proper identification. Moreover, the UN/OSCE mission expressed the opinion that the 96 percent turnout figure announced by the government elections commission "cast serious doubt over the integrity of the voting results."

Still, the elections were a significant milestone in Tajikistan's postwar transition, particularly given the inclusion of the former warring parties in the electoral process. The new parliament is far more representative of the electorate than its Soviet predecessor, which convened only a few times a year and served as a rubber stamp on executive decisions. The distribution of 25 National Council seats among administrative regions is an important step toward reconciling the deep regional differences that played a major role in igniting the civil war.

On November 6, 1999, Tajikistan held its second presidential election. The vote was an important step for Tajikistan in its efforts to achieve greater domestic stability. Both the OSCE and UN played a major role in organizing the election, as specified by the June 1997 peace accord. The presidential election proved to be a one-person contest, and Rakhmanov secured a second term with 97 percent of the vote. Candidates from the Agrarian Party, the Renaissance Party, and the Justice and Development Party were disqualified for failing to obtain the 145,000 signatures necessary to register for candidacy. Davlat Usmon of the UTO received 2.11 percent of the vote.

Perhaps the greatest achievement of the presidential election was the avoidance of renewed fighting with the United Tajik Opposition (UTO). After a bloody five-year civil war, the UTO nearly renewed hostilities with the Rakhmanov government due to the numerous restrictions imposed on the opposition prior to the vote. In addition, the candidate of the Islamic Renaissance Party (IRP), Davlat Usmon, also opted to participate in the election despite his differences with the incumbent government. In 1994, both the IRP and the TDP had boycotted the presidential election. An IRP boycott was averted on the eve of the November 1999 election when President Rakhmanov met the leader of the UTO, Abdullah Nuri. The two leaders signed a protocol on political guarantees obliging Rakhmanov to allow a free, fair, and democratic parliamentary election in February 2000. Rakhmanov also agreed to grant members of the UTO high-level positions in his government after the November presidential elections and offered to permit the opposition more than 20 percent representation on district and local election commissions. These last-minute political concessions by the Rakhmanov regime avoided a renewed outbreak of civil unrest and paved the way for multiparty politics in Tajikistan.

The Tajik constitution guarantees each citizen the right "to participate in the formation of political parties, including parties with democratic, religious, and atheistic character." However, the government has attempted to ban the Islamic Renaissance Party (IRP) on the grounds of its religious orientation. All potential parties must apply for registration to the Ministry of Justice with at least 1,000 signatures. Local party structures may be established in districts, cities, and regions, but all local authorities must be informed in writing about the creation of such local branches.

Tajikistan's post-civil war political arena is a far cry from the days of the Soviet era, when the Communist Party was the sole legal party. The Communist Party retains some domestic popularity and still draws its support from the northern industrial region of Khojent (Leninabad) and other areas with ethnic Russian or Uzbek concentrations. After being briefly banned following independence, the Communist Party regained its dominant status when the govern-

ment outlawed four main opposition parties in June 1993. These included the anti-Communist Tajik Democratic Party (TDP), which drew its support from the Gorno-Badakhshan region; the rural-based Islamic Renaissance Party; the Badakhshan Ruby Movement, a party of the Pamiri people from Gorno-Badakhshan, who are Ismaili Muslims, regard themselves as ethnically distinct from Tajiks, and seek autonomy or outright independence for their homeland; and the Rebirth Movement, an anti-Communist nationalist-religious party.

Several pro-government parties formed the leftist People's Party (PP) between 1993 and 1994. This party involves the northern-based Party of Popular Unity and Accord (PPUA) headed by former premier Abdumalik Abdullajanov; the northern-based People's Democratic Party; the business-oriented Party of Economic and Political Renewal (PEPR), and the Union of Progressive Forces. The PP, PPUA, and PEPR won a total of eight seats in the 1995 legislative elections. In July 1995, the government recognized a faction of the TDP. In July 1996, Abdullajanov (who lost a November 1994 bid for the Tajik presidency in a flawed election) established the Khojent-based National Revival Movement (NRM). One of the largest opposition parties is the Islamic Renaissance Party. Its leader is Abdullah Nuri, who led the United Tajik Opposition during the five-year civil war. In May 1998, the Tajik parliament passed a law prohibiting the creation of political parties with a religious orientation. The UTO, the largest component of the IRP, along with international organizations and foreign governments, strongly criticized the law for violating the June 1997 peace agreement, which included a government commitment to lift the ban on member parties of the UTO. Amendments to the Tajik constitution authorizing political parties with religious orientation were passed in a September 1999 voter referendum.

It is not clear what proportion of the population belongs to political parties. Most political parties draw their strength from regional strongholds. Only the Communist Party has branches in all of the republic's regions, and therefore remains the dominant political force. In addition, the IRP is generally a rural-based organization; the majority of its supporters are based in Gharm and Badakhshan.

Five years of civil war disrupted the conduct of municipal and provincial elections. Local elections have not been held on a regular basis since the dissolution of the Soviet Union. Voter turnout in the November 1994 presidential elections was reportedly over 90 percent. The opposition contested the results of the election, noting that votes were cast for many citizens who had fled as refugees to Afghanistan and other neighboring states. The parliamentary elections in February and March 1995 reportedly drew a turnout of 85 percent. However, international organizations declined to send observers due to their concerns over the fairness of the polls, and these figures cannot be corroborated. Tajikistan's highest registered voter turnout, 93 percent, occurred during the November 1999 presidential elections. Turnout in February 2000 parliamentary elections was reportedly 87 percent.

Civil Society

1997	1998	1999-2000	2001
5.50	5.25	5.25	5.00

Since the end of the civil war, the number of nongovernmental organizations (NGOs) working in Tajikistan has grown significantly. There are an estimated 1,000 unofficial NGOs operating in Tajikistan, as many nonprofit groups refuse to register with the government for fear of being illegally taxed. Some 300 NGOs are registered with the Ministry of Justice. The majority of NGOs operating in Tajikistan have limited funding and remain deeply dependent on foreign contributions.

The Rakhmanov government has offered little resistance to the development of NGOs in Tajikistan, and has even allowed several Tajik human rights NGOs to operate. The government also does not actively prevent citizens or government officials from participating in international and local seminars sponsored by the OSCE, the ICRC, or United Nations agencies. Until the end of the civil war, the U.S. Agency for International Development (USAID) primarily focused its efforts on supporting the development of NGOs to support the peace process. By 1998, the relocation of the U.S. ambassador and all U.S. embassy employees from Dushanbe to Almaty, Kazakhstan severely limited USAID's ability to support the peace accord.

The majority of organizations operate in Dushanbe, but approximately 35 NGOs operate in other cities, such as Khojent. One organization at the forefront of NGO activities is Women in Development (WID). This UN-backed NGO has substantially expanded its efforts to support women's rights in Tajikistan, as well as other important issues. One of the largest NGOs operating in Tajikistan is the Movement for the National Unity and Rebirth of Tajikistan, which boasts a membership of 5,000 members. Its chief goal is to facilitate national reconciliation and encourage the development of Tajikistan as a democratic, secular, unified state.

Tajik NGOs have increasingly expanded their efforts to address women's rights due to increased Western assistance. In 1998, USAID funded a two-day conference and workshop on violence against women. This was the first time a conference on women's rights had ever been held in Tajikistan, and local specialists took part. The Tajik NGO Open Asia organized the conference with assistance from the OSCE and the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA). Open Asia also conducted a nationwide sociological survey on this issue with funding from the World Health Organization. Another Tajik NGO, the Association of Women Scientists

and Union of Women organized a two-day seminar on the role of women and strengthening development in Dushanbe in 1998.

More than half of the NGOs in Tajikistan are environmental organizations. These groups have played a vocal role in denouncing damage to the environment caused by years of Soviet neglect. This movement has been influenced by the ill-effects of decades of ecological damage caused by clandestine uranium mining and experimentation with radioactive materials. More than a dozen of these groups banded together in March 2000 to organize a council of environmental NGOs. The aim of the council is to lobby government agencies for better nature protection efforts. It has formed a productive relationship with the new Tajik parliament to implement better ecological programs and has successfully advocated the passage of a new law on environmental education. The lobbying efforts of the council also resulted in a government decision to increase the size of the Tigrovaya Balka nature reserve. The council also publishes an environmental newspaper and a magazine, both of which have had a positive impact on public opinion.

Tajikistan's coalition government has been attempting to restructure the legal framework of the country in order to create stable conditions conducive to economic and social progress. The Rakhmanov government has devoted increased attention to NGOs, considering them to be an important source of revenue due to their ability to attract foreign funding.

Shortly after the presidential election in November 1999, President Rakhmanov sanctioned a working group to examine the future of NGOs in Tajikistan. The working group finalized the content of two draft laws: the Law on Nongovernmental Organizations, adopted in December 1999, and the draft law On Charities and Charitable Activities. NGOs have been successful in lobbying government agencies and in changing public opinion. There has been increased cooperation among NGOs and between NGOs and government officials. One example of this sort of cooperation was the Agreement of Social Harmony concluded between the president of Tajikistan and NGOs in June 2000. Trade unions formally consult with the Council of Ministers during the drafting of social welfare and worker rights legislation.

The first draft law on NGOs submitted by the parliament in March 1999 was rejected by the NGO community because it was a moderately revised version of the former Soviet law. Combined pressure from the international NGO community and local organizations influenced the Tajik parliament to alter the draft law. In June 1999, a new law was passed by the parliament permitting associations to engage in commercial activity, loosening the registration requirements for associations, and creating an overall framework for improved relations between the government and the NGO community. The new civil code outlines the rights of different forms of NGOs, such as public associations, foundation, and institutions. The Ministry of Justice has been actively involved in working with NGOs and has prepared a number of draft laws providing substantially more democratic mechanisms for the regulation of NGO activities. These draft laws differentiate between political parties and NGOs. With consultative support from the International Center for Not-for-Profit Law (ICNL), the Ministry of Justice has also started drafting laws on grants and charity. A prominent Tajik NGO has been working with the Ministry of Justice and other government agencies on a draft tax code that would set out definitions for charitable associations and activities.

The organizational capacity of NGOs in Tajikistan has improved significantly since the end of the civil war. Although the majority of NGOs in Tajikistan operate at a rudimentary level, their operations have become increasingly sophisticated and many groups have formed good working relationships with the newly elected Tajik parliament.

There are few locally-led efforts to increase philanthropy and volunteerism. The majority of NGOs in Tajikistan are unviable financially and dependent upon foreign funding for almost all of their activity. Few government procurement opportunities exist for NGOs. The majority of conferences and workshops are funded through international organizations and the government provides little or no assistance. There are no accurate data on the proportion of the population that is active in private voluntary activity.

The Federation of Trade Unions is the dominant labor organization in Tajikistan. It has 1.5 million members and consists of approximately 20 professional trade unions. Almost every nonagricultural worker is a member of a trade union, and many farmers belong to the state-controlled Union of Agricultural Workers. The state-controlled Trade Union of Non-State Enterprises has registered unions in more than 3,000 small- and medium-sized enterprises, covering some 50,000 employees. However, many of the enterprises that make up the Federation and the Union of Non-State Enterprises do not function because of the general economic depression in Tajikistan.

Strikes in Tajikistan are legal if arbitration, which is mandatory, fails. Workers may also bargain collectively, although the prevailing economic conditions give workers little leverage in such bargaining. Depending on the scale of a labor disagreement, arbitration can take place at the company, sector, or government level. The Law on Tariff Agreements and Social Partnerships gives citizens the right to affiliate with international organizations, including international labor organizations. It does not prohibit unions from affiliating with international organizations; however, there are no unions with international affiliations. There have been no union-sanctioned strikes in Tajikistan since the end of the civil war in 1997. The last official strike in Tajikistan occurred in 1996. Union membership has experienced a precipitous drop since the civil war and may continue to decline due to privatization and market reform.

The government maintains strict control over any NGO suspected of having a political agenda despite constitutional

guarantees of freedom of association. NGOs must obtain a permit to hold public demonstrations or rallies, and even when this right is granted, authorities have in some cases carried out severe reprisals against organizers. In mid-May 1996, several thousand people demonstrated in Khojent, Ura-Teppe, Kanibadam, and other cities in the Khojent region following the murder of a prominent Khojent businessman, Akhmajon Ashurov. In 1997, security forces permitted several demonstrations in Khojent, Ura-Teppe, and Kanibadam calling for former premier Abdullajanov's National Revival Movement (NRM) to be included in the ongoing peace and reconciliation process. The organizers were later harassed by authorities. Prior to the 1999 elections, the Tajik government loosened its ban on antigovernment activity by allowing tightly-controlled political demonstrations. The general environment for public expression of discontent remains sharply restricted.

Media coverage of NGOs in Tajikistan is quite limited, but is evolving in a positive direction. The NGO group Ekologiia received extremely favorable media attention during the drought, which plagued Central Asia in 2000. The NGO worked with drought-stricken farmers and improved the overall level of public understanding of the causes of the drought. While government engagement with NGOs is limited, NGO cooperation with the Ministry of Justice has expanded. The Ministry of Justice is responsible for monitoring NGO activity and its initial suspicion of NGOs has declined over the years.

Independent Media

1997	1998	1999-2000	2001
6.25	6.00	5.75	5.50

The 1994 constitution provides for freedom of speech and the press. Unfortunately, the Tajik government severely restricts this right in practice. Journalists, broadcasters, and individual citizens who disagree with the government and its policies are rarely allowed to speak freely or critically. The Tajik government exercises control over the media through licensing requirements and through such mechanisms as "friendly advice" to reporters about what should or should not be covered. The State Committee for Radio and Television is responsible for issuing media licenses. Its head is appointed by the president. The government also controls all the printing presses, the supply of newsprint, and broadcasting facilities, and subsidizes virtually all publications and productions. Editors exercise self-censorship for fear of reprisal. The legislative and regulatory framework for the media is woefully inadequate.

Prior to the 1999 presidential elections, Tajikistan's state-owned TV provided limited air time to opposition parties competing in the election. This was a positive development for the political opposition in its efforts to receive more balanced news and editorial coverage of their campaign. The general easing of restrictions was intended to appease the OSCE and other election monitors. Nevertheless, at the national and regional levels, both publicly and privately funded broadcasts as well as the print media failed to provide voters with consistent unbiased information. Since the election the news media remain strictly under government control, although the number of print media has grown. Independent journalists still experience harassment, intimidation, and violence.

Reprisals against the press are frequent in Tajikistan, including retaliation for investigative reporting into government involvement in narcotics trafficking. In 1999, the head of the Ministry of Interior Press Center, Jumankhon Hotami, was shot and killed near Dushanbe. His investigation into government involvement in the drug trade is believed to be the reason for his death. Hotami had fallen out of favor with the government, resulting in the temporary suspension of his television program.

During the 1999 presidential elections, the OSCE monitored the allocation of free time to political parties and candidates by the state-owned Tajik TV prime time news and media. It found that each opposition party received ten minutes on television and each candidate received five. In addition, fifteen minutes were allocated to round tables between candidates. In the sixteen days before the election, the state-owned television network devoted more than four hours and 20 minutes to political parties, candidates, or their proxies. While each party was able to broadcast at least one advertisement on television, this was not the case for each candidate. Nearly 39 percent of the total time on state television was allocated to representatives of President Rakhmanov's PDPT party. Several private television stations covered the 1999 presidential election campaign, offering the candidates one free campaign presentation on prime time television. SM 1 (Khujand), in co-operation with Internews, allocated time for television debates between candidates.

The plurality of views in the print media was also limited and in general newspapers supported the ruling party. Owners and editors avoided criticizing the ruling party due to the fear that their newspapers might be closed down. *Biznis i Politika,* the most widely distributed Russian-language newspaper (circulation of 10,000), devoted nearly 90 percent of its pre-election coverage to President Rakhmanov and his ruling party. Opposition parties and representatives (mainly CPT and IRP) received only negative coverage from the state-owned press. The campaign coverage of the electronic bulletin, *Asia Plus,* which was founded shortly before the 2000 parliamentary election, differed from that of the other news publications by providing neutral coverage of the views of the Islamic Renaissance Party. However, two publications, *Asia Plus* and *Vechernii Dushanbe,* published the political platforms of all six registered parties. Several Tajik newspapers published the answers of the six registered political parties to six key questions prior to the presidential elections, which proved to be an important development.

Some 14 broadcast media outlets and 245 newspapers are registered in Tajikistan. Four newspapers belong to the government. Twenty-one newspapers are published by the political parties. Sixty-four regional, city, and district papers are distributed throughout the country. Three independent papers circulate in Dushanbe. Daily newspapers are nonexistent as a result of poor economic conditions. The majority of newspapers are published weekly.

The private media are highly dependent on the central government. Newspapers are expensive and in short supply. The absence of a daily publication is attributed to the high price and short supply of newsprint, as well as economic and political constraints. Many publications appear for short periods of time but are forced to close down weeks or months later due to the high costs of operating a newspaper. Low salaries have forced many experienced professionals to quit the field in search of more lucrative salaries elsewhere. Moreover, job security is further complicated by the prevailing atmosphere of self-censorship.

The newspapers *Vechernii Dushanbe* and *Biznis i Politika,* and the electronic bulletins published by *Asia Plus* are the only independent publications with significant circulation and political coverage.

The most influential source of information in Tajikistan is television and radio; however, both are state-owned. Prime time news (Akhbor) is broadcast in the Tajik, Russian, and Uzbek languages. Radio and television are the only daily sources of information and are broadcast to most parts of the country. The only source of alternative news outside of Tajikistan is from Russia; approximately 78 percent of the population watch the Russian television channels ORT and RTR. Two independent broadcasters, Asian Plus and Radio NIC, are currently awaiting broadcast licenses.

The private news agency Asia-Plus publishes Russian and English-language print and electronic bulletins on politics, social and economic issues, and business. Its bulletin, *Asia-Plus Blitz*, is published five days a week, while the *Tajikistan Economic Review* appears twice monthly. The news agency serves as a resource for other newspapers and offers almost no analysis. Asia-Plus' publications are popular among international organizations, the diplomatic community, and government ministries, but high subscription prices prevent them from reaching the local population.

In recent years Tajikistan has achieved wider access to the Internet thanks to the U.S.-funded Central Asia Development Agency (CADA). CADA began providing limited Internet access to Tajikistan in 1995, and the number of people accessing the Internet has slowly grown. Internet service providers have been set up in Khujand, Kurgan-Teppa, Kuliab, and Khorog. However, high subscription rates and user fees prevent the large majority of Tajik citizens from using the Internet. To open an e-mail account costs about $20, while the minimum user fee is between $4.00 and $6.00 per hour, a month's salary for most Tajiks. Foreign residents constitute the bulk of Internet users in Tajikistan. Some government-operated research institutes provide Internet access to an elite group of professors and staff. The exact number of Internet users in Tajikistan is unknown. Reportedly 1,500 people have e-mail addresses and an estimated 100 organizations are connected to the Internet.

In May 2000, Tajikistan published its first Internet magazine, *New Tajikistan*. The magazine is expected to become a full volume of thirty pages, highlighting political and economic events in Tajikistan. It is located at www.pressclub.tajik.net.

Freedom House's *Survey of Press Freedom* has rated the Tajikistan press Not Free since the country's independence in 1991.

Governance and Public Administration

1997	1998	1999-2000	2001
7.00	6.75	6.25	6.00

The 1994 constitution established a multiparty parliamentary democracy with separation of legislative, executive, and judicial powers. Amendments adopted in 1999 introduced a seven-year mandate for the president. Parliament is nominally the highest legislative body in the country and can override a presidential veto by a two-thirds majority. In practice, the Rakhmanov government dominates the political scene, frequently setting policy by decree and bypassing the legislature to impose new legislation. The majority of government posts are held by members of Rakhmanov's Kulyabi clan. However, the Tajik president has recently shown greater willingness to allow others into his government. As part of the 1999 election-eve agreement with the UTO, President Rakhmanov agreed to allot 20 percent of government seats to representatives of the UTO. The UTO defense minister, Mirzo Ziev, was appointed Minister for Emergency Situations. Since 1998, paramilitary formations affiliated with the UTO have disbanded and are integrating into the regular army.

The peace accord signed in June 1997 between the government the UTO established a National Reconciliation Commission (NRC). This commission oversaw the implementation of the accord and officially ended its work in March 2000 after the parliamentary elections. With the work of the commission complete, the president is no longer accountable to a high-profile domestic institution that is perceived as impartial.

Political power in Tajikistan remains highly centralized. The national parliament can disband local legislatures and call new elections on the grounds that the local bodies are in violation of national law. The Rakhmanov government depends on the Russian 201st motorized rifle division and its 20,000 troops to enforce his rule and ward off regional border attacks by Uzbek Islamists based in Afghanistan. The government wields little influence in opposition enclaves controlled by the United Tajik Opposition and large parts

of the country, such as Gharm and Badakhshan, fall under the rule of local warlords. These militia commanders prevent the Dushanbe-appointed heads of local government from exerting their authority. The climate for power sharing at the subnational levels of government may improve, however, as the UTO disbands its paramilitary groups and turns its attention to advancing its agenda through the new parliament.

Tajikistan is divided into 19 administrative regions, plus the capital of Dushanbe. Local civil servants are nominally employees of local governments. In practice, they are controlled by central authorities or local strongmen. Under the 1994 constitution, the president appoints heads of regional governments, subject to confirmation by local legislatures. The president also has the authority to dismiss local officials. The state has held elections to regional and municipal legislatures on an irregular basis since 1991.

During the civil war, all locally collected revenues outside republican control were turned over to the central government. Officials in Dushanbe then distributed the funds to the regions. The central government approves all municipal budgets and determines how revenue is disbursed. Due to the country's post-civil war economic malaise, most of the municipal governments have been operating at a deficit. The improving economy and rising GDP have had some benefits for municipal governments as the economic dividends start to trickle down to the local level, but local government remains deeply inefficient and provides few services to its constituents.

In a conciliatory gesture toward the opposition, President Rakhmanov appointed Akil Akilov to be his new prime minister. Akilov's appointment is important because he is a native of Khojent, the Uzbek-populated enclave in northern Tajikistan. The nomination of Akilov has restored some of the lost political prominence once enjoyed by the regional elite in Khojent (formerly Leninabad). Under Rakhmanov's rule, representatives from the Khojent region have traditionally been excluded from national-level posts, which has exacerbated disaffection within the Uzbek community and alienated the government from one of the most robust economic regions in the country. As the central government seeks to rebuild the country and restore government authority beyond Dushanbe it will undoubtedly open more high-level government posts to the regional elite.

Under the constitution, citizens are entitled to receive information on the functioning of all branches of government. In practice, government institutions at all levels operate with a minimum of transparency. There are no mechanisms to ensure transparency in the executive branch. Parliamentary sessions are partially broadcast on national television, and both the legislature and government newspapers publish transcripts of parliamentary deliberations. Substantive debate, to the extent that it occurs, is often conducted behind closed doors, and draft legislation is not easily accessible to the media and the public.

Entry into and advancement within the civil service is dominated by local family and patronage networks. The majority of civil servants have no specialized training in public administration. Civil servants are frequently shuffled by politicians in an effort to exercise greater influence, which hinders the development of the civil service. There have been no local or national initiatives to reform civil service codes.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
6.25	6.00	5.75	5.75

Tajikistan's post-Communist constitution was approved in a 1994 referendum held concurrently with presidential balloting during a time of civil conflict. The referendum was marred by irregularities and boycotted by the Islamic opposition. Official results of the election indicated that 90 percent of the voters approved the constitution. The opposition UTO maintains that this referendum was neither free nor fair. The constitution provides for a tripartite division of power with a strong president, who is empowered to appoint the government, the chairman of the national bank, the head of the constitutional court, the state prosecutor, and the head of regional administrations.

The constitution provides for the right to privacy in the home, freedoms of speech, the press, assembly and association, and religion, as well as the right to travel internally and abroad. The constitution also bans discrimination on the basis of nationality race, gender, and religion. However, the government continues to arrest and detain citizens arbitrarily and frequently violates human rights. From 1994 to 1997, there were scores of extrajudicial killings and disappearances attributed to government forces, the opposition, and local strongmen, either on political or ethnic grounds, or simply for the purpose of settling old scores. These killings have subsided somewhat since the agreement to end the civil war was signed in June 1997. The government has begun disarming UTO units and merging these forces with the regular army. Attacks on civilians, particularly opponents of the Rakhmanov government, continue. A number of local officials, businessmen, and professional figures were killed for a variety of political, economic, and ethnic reasons during the period under review. One of the most prominent cases involved the murder of Tolib Boboev, an official from the banned opposition Party of Popular Unity. Boboev was killed by masked gunmen while visiting his son's home in January 1999. In another instance, Socialist party leader and parliamentary human rights commission chairman Safarli Kenjaev was shot and killed by unidentified gunmen outside his home in Dushanbe in early

1999. At the time of his death, it was widely believed that Kenjaev was planning to run for president in the November 1999 election.

The criminal code is a holdover from the Soviet era. It retains many of the defects inherited from that period and has not been reformed since independence. However, it has been significantly amended. The code places few checks on the power of procurators and police to arrest persons, and presumes the accused to be guilty. By law, the police need the approval of a procurator to search homes. In practice, however, police and soldiers routinely carry out arbitrary searches and seizures. Authorities also frequently harass or arrest opposition figures on trumped-up charges, particularly through accusations of narcotics smuggling.

The Tajik government insists that the revision of the criminal code is a high priority. Progress has been slow due to the size and complexity of the code, the small parliamentary staff, and limited time in session for the legislature. There is no projected date for its completion. The criminal code has been changed repeatedly to increase punishment for crimes such as rape, theft, and illegal drug use. The government has made some improvement in its efforts to halt the ill-treatment of prisoners. The U.S. State Department's human rights report has noted that several security officials in Tajikistan were convicted of abuses in the Kurghanteppa region in 1999. This is a significant step forward considering that the Rakhmanov government had previously failed to take any official action against government forces for the 1997 takeover of Khojand prison, which resulted in the deaths of 26 prisoners. In another step forward, the Tajik government has admitted that members of its security forces have been corrupted by criminal elements and have acted inappropriately.

Prison conditions remain harsh and life-threatening due to massive overcrowding and unsanitary conditions. A lack of food and adequate medical treatment results in a significant number of deaths in custody. This problem is attributed to the self-funded status of most prisons. Before 1992, prisoners grew most of their own food or crafted goods for sale. The general collapse of government programs and the deterioration of the economy during the civil war forced these programs to disappear. Food production has resumed in some Tajik prisons, but it still remains largely inadequate. Since Tajikistan gained independence there has been little initiative to reform the country's prison system.

Although the 1994 constitution provides for an independent judiciary, the judicial branch is not independent in practice. Most judges in Tajikistan are holdovers from the Communist era, and the court system is largely unmodified since the Soviet period. Judges have almost no power to interpret or enforce the constitution. The president of Tajikistan has the right, with confirmation by the parliament, to appoint and to dismiss judges and prosecutors, and President Rakhmanov has used this right in practice. Armed paramilitary groups as well as political leaders pressure and intimidate judges at all levels. Judges at the local, regional, and national levels are poorly trained and lack an understanding of the concept of an independent judiciary. Problems persist with the basic rule of law and there are often long delays before trials. Bribery of prosecutors and judges is widespread.

The number of lawyers in Tajikistan is growing, but only a small proportion works in private practice. The independent lawyers' association estimates that the country's higher education system produces a handful of new lawyers each year. Women are underrepresented in the professions and it is not clear what proportion of lawyers and judges are women.

The 1994 constitution requires the state to provide public defenders to the accused at all stages of a criminal investigation and trial. Previously, the state only provided public defenders immediately before trial. In practice, many of those arrested do not receive prompt access to an attorney, and some defenders do not receive any legal counsel at all.

Tajikistan's population is 65 percent Tajik, 25 percent Uzbek, and 3 percent Russian. The constitution bans discrimination on the basis of nationality, race, or religion. Both the 1994 constitution and the 1990 Law on Language make discrimination on the basis of ethnicity or language illegal. While maintaining that Tajik, a Persian-based language, is the state language, both documents establish Russian as the language of interethnic communication. The constitution stipulates that a citizen of any of the republic's groups has the right to demand and receive government information in his or her language. The Law on Language mandates that official government documents be made available in three languages: Tajik, Uzbek, and Russian.

According to human rights monitors, minority groups suffer pervasive discrimination and occasional violence. Following the civil war, more than 60,000 people of Gharmi and Pamiri descent fled to Afghanistan to escape reprisals by government security forces. Although nearly all these refugees have returned, many still face occasional physical abuse, confiscation of property, and discrimination in employment. Since the 1997 peace accord, numerous Uzbeks have been murdered in the Parij district. Other ethnic groups face similar problems. Ethnic Russians, Ukrainians, Kazakhs, Kyrgyz, and Uzbeks have fled Tajikistan because of pervasive discrimination and harassment. Local Tajik minorities in the Uzbek-dominated areas around Tursonzade have also experienced discrimination.

Tajikistan's Jewish community consists of Bukharans, who trace their roots in the region to the fourteenth century, and Ashkenazi Jews, who arrived after World War II. Prior to the breakup of the Soviet Union, there were an estimated 20,000 Jews living in Tajikistan. Most have since emigrated and only about 2,000 remain. Jews are occasionally attacked in incidents with anti-Semitic undertones.

Corruption

1999-2000	2001
6.00	6.00

There continue to be widespread problems related to crime, corruption, and insecurity in Tajikistan. The civil service is highly corrupt. Anectodal evidence suggests that bribery is necessary for most public transactions with the government, as well as for health services and training. Corruption is also widespread in the police force. Reflecting growing concern over corruption, the Tajik media have increasingly discussed cases of corruption by local officials. In a rare report, the Tajik media announced in 2000 that local police militias in Dushanbe were attempting to extort newspaper vendors, the vast majority of whom are children and pensioners, by demanding to see vendor licenses as proof of tax payment.

Most government officials in Tajikistan retain strong ties to private business. Allegations of official corruption have yielded no government investigations into high-level corruption. The legal and ethical standards for government ministers and the judiciary are ill-defined and nontransparent. Although the government has announced plans to introduce anticorruption legislation, it has no effective plan for combating corruption and has failed to develop formal legal standards to deter it. The legal framework regarding financial disclosure and conflict of interest is inadequate and enforcement is weak. Observers have viewed the few publicized corruption cases as politically motivated and inconsequential. No laws exist against racketeering, and the presidential administration and parliament operate with minimum transparency. Tajikistan is not a signatory to the OSCE's Convention on Combating Bribery.

Pervasive corruption among Tajik officials and fear of political and economic retaliation deter local monitoring organizations from investigating or carrying out surveys of public perceptions of corruption. Transparency International and other major corruption-ranking organizations have not rated Tajikistan.

Increased involvement in narcotics trafficking by Tajik officials has led to appeals by the international community for tougher government laws on the drug trade. Narcotics smuggling is becoming a well-developed part of the Tajik economy. Powerful supporters of the Rakhmanov government are thought to be deeply involved in narcotics trafficking. Several Tajik diplomats were arrested in Kazakhstan in July 2000 for their involvement in transporting drugs. A Tajik commercial attaché and several other diplomats working in Almaty were arrested for their involvement in transporting narcotics using government vehicles. Afghanistan has become the world's largest exporter of heroin, and the bulk of this drug is transported to Russia and European markets through Tajikistan. In recent years Central Asia has been referred to as the Golden Crescent by world narcotics experts, surpassing Myanmar as the world's major exporter of narcotics. An increase in the lucrative narcotics trade exacerbates endemic corruption among Tajik officials. In April 2000, President Rakhmonov declared a war on crime and drug smuggling.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
6.25	6.25	6.00	5.75

Macroeconomic Policy

1998	1999-2000	2001
6.00	6.00	5.50

Microeconomic Policy

1998	1999-2000	2001
5.75	6.00	5.25

In the aftermath of the civil war, the Tajik government has started to focus more of its attention on reforming the economy. Tajikistan has privatized an estimated 83 percent, or nearly 5,500, small state-owned properties since privatization began in 1991. Privatization efforts have accelerated because government authorities in Dushanbe have insufficient funds to continue subsidizing thousands of state-owned enterprises. In 1999, nearly 300 auctions were held throughout the country, resulting in more than 1,400 sales that generated $14.4 million for the state treasury. More than 265 companies were sold in the first half of 2000, totaling more than $148 million.

Medium- to large-scale privatization continues, but has lagged behind the privatization of smaller properties. Privatization of these types of properties may accelerate now that small-scale privatization is nearing completion. In April 2000 the State Property Committee (SPC) held an auction selling the controlling shares of 18 of the 19 remaining state-owned cotton ginning plans, which provided the state treasury with $10.5 million in revenue.

Privatization continues to be burdened by problems related to asset valuation and transparency. Factory workers and employees often receive insufficient instruction about the vouchers they have been given. Influential business and political figures have enjoyed preferential treatment and have been awarded lucrative state assets at especially low prices.

The labor market barely functions as the country rebuilds from five years of civil war. Employment does not appear to be significantly related to poverty. However, there is an excess supply of labor caused by demographic pressures, the collapse of the old command system with

overemployment, and the lack of a new market mechanism for labor mobility.

Agriculture is still the leading sector of the economy, employing 45 percent of the work force. In 1998, it was one of the main contributors to the economy, accounting for 20 percent of GDP and employing 65 percent of the workforce. The Tajik government started a program in 1995 to spur private farming and increase the food supply, resulting in the distribution of 75,000 hectares of irrigated, state-owned farmland to private farmers (known as presidential lands). The government also permitted the distribution of 225,000 hectares of state farmland as lifelong inheritable plots to mainly rural households known as dehqan, or peasant farms. More than 75,000 hectares of mountainous land are also being plowed by household farmers, mostly producing rain-fed wheat or forage crops.

The government has accelerated its agricultural reform program in recent years. The goal is to generate more commercial activity through increased production. Presently, the agrarian sector is still controlled by a large collection of state-owned farms, which are to be privatized. The Tajik government has started to liberalize the marketing systems by reducing its demand for agricultural products and by allowing producers to sell more.

The process of land distribution is fraught with corruption. Wealthy businessmen and interest groups have secured much of the fertile land, to the detriment of many landless farm workers. Many profitable properties have been quietly sold to insiders without advertising or open auctioning. According to one poll, 74 percent of citizens cannot take part in the privatization process for financial reasons. Officials have reportedly rigged many privatization auctions, and insider groups have intimidated potential buyers of shares. Consequently, authorities often sell state enterprises to government officials, their relatives, and other elements of the political elite, and to leaders of armed factions.

Tajikistan made remarkable progress during the review period by implementing a new tax code and creating a treasury department. However, despite substantial technical assistance from the West, tax administration remains weak, particularly with regard to complex forms of taxation, such as the value added tax (VAT). The formulation and execution of a budget is hampered by limited capacities in macroeconomic forecasting and monitoring, and the ability to formulate expensive policies and programs, which use limited resources, is still weak. This has hampered the formulation and implementation of a proper social safety net and public investment programs. Much remains to be done in Tajikistan in order to redefine the government's role in a market environment. The government continues to reduce its responsibilities in providing goods and services and is refocusing its activities on enforcing tougher regulatory measures, which are important steps toward developing a market economy.

Tajikistan has managed to intensify its revenue collection and prioritize its expenditures, allowing the central Tajik government the benefit of reporting a balanced budget for the first half of 2000. Inflation stood at 16.6 percent. The public sector share of GDP has declined significantly since independence. Tajikistan has one of the smallest governments in the developing world. In 1997, the government expenditure to GDP ratio was only 17 percent. However the government's influence on economic activity was greater than this measure suggests. Apart from traditional budgetary operations, there were large operations performed by state-owned financial and nonfinancial enterprises. In addition, formal and informal regulations and network links enabled government authorities to influence the decisions of state enterprises and also of private enterprises.

In 1998, subsidies constituted only 0.6 percent of GDP. Capital expenditures increased from 0.6 percent of GDP in 1997 to 3 percent of GDP in 1999. With regard to the country's budget deficit, the overall cash deficit of Tajikistan has declined from 5.8 percent of GDP in 1996 to 3.3 percent in 1997 and 3.8 percent in 1998 as the government stabilization programs have taken hold. Financing of the deficit in 1998 and 1999 relied on World Bank loan disbursements and privatization proceeds, while central bank financing has been sharply curtailed. According to the Minister of Finance, for the first six months of 2000, GDP increased by 6.5 percent compared with the first six months of 1999, while industrial output grew by 9 percent. Salary arrears in the budget sector were reduced, but pensions arrears grew during the first half of the year.

The banking system remains weak and is highly concentrated. Most banks are saddled with nonperforming loans, operational management of banks is poor, and the financial system suffers from a weak regulatory environment. As a result, overall confidence in the banking system is low, and banks' ability to mobilize savings is limited. From 1995 to 1997, there was tremendous consolidation in the Tajik banking system. Tajikistan's banks operate under a two-tier system, consisting of the central bank and nineteen commercial banks. Since the introduction of the Tajik *ruble* in May 1995, the National Bank of Tajikistan (NBT) has performed the role of a central bank by issuing the national currency, conducting monetary policy, managing foreign exchange reserves, and supervising commercial banks. The financial services offered by Tajik banks are neither sophisticated nor varied. In addition to their commercial banking activities, some banks have activities on the side to increase their revenues, such as providing foreign investment services and appraisal services for engineering and construction projects.

The number of banks operating in Tajikistan has declined significantly, from 28 in 1997 to 17 in 1999. One of the largest banks, Tajikbusiness Bank, was liquidated. Most banks have a small or negative net worth. At the end of September 1999, the consolidated net worth of the four major banks (Agroinvestbank, Orionbank, Savings Bank, and Vneshekonombank) was estimated to be 0.9 percent of their total assets. These banks collect about 70 percent of total

deposits and control about 75 percent of total loans to the economy. They are the successors to the specialized banks of the Soviet period, which were established to serve particular sectors of the economy—agriculture, industry, foreign trade, and households—for the purpose of sociopolitical interests rather than profits. Agroinvestbank and Savings Bank have large branch networks covering the whole country. Most of the loans made by these banks are government-guaranteed. Savings Bank remains fully state-owned.

Due to weak macroeconomic conditions, the opportunity for banks to invest in viable and low-risk projects is significantly limited. The legal and regulatory framework does not provide adequate support for bank restructuring, and the lack of a reliable court system forces banks to hesitate in claiming their rights through the Tajik courts. As a whole, the banking system in Tajikistan is undercapitalized and unrestructured, and foreign investors are cautioned to avoid investing in the Tajik banking sector. Efforts to reform the banking sector include raising capital requirements and the signing of restructuring agreements with larger banks. In September 2000, the board of the NBT created an association of banks with the intention of encouraging banks to coordinate their efforts to reform the banking sector.

Tajikistan is phasing out the use of the ruble and introducing a new currency, the *somoni*. One somoni is worth about $2.20. It is the equivalent of 1,000 Tajik rubles. Both currencies will be valid until April 1, 2001, when the ruble will be taken out of circulation. The introduction of the new currency created confusion and uncertainty, and some merchants closed their businesses temporarily after the currency was introduced. In response, the Tajik government announced that the new notes would carry Tajik words on one side and English on the other side. This eased local concerns and the currency is now widely circulated.

In spring 1999, parliament passed a World Bank-backed amendment to the post-Communist Stock Exchange Law, which regulates securities trading. The stock exchange held its first stock auction in March 1999. Several commodities exchanges also operate in Tajikistan. However, there is still no cotton exchange, even though cotton is the major agricultural commodity. Authorities effectively set cotton prices and control export marketing. The tiny capital markets consist mainly of central bank credit and treasury bill auctions.

Tajikistan has gradually improved its protection of private real estate and intellectual property rights. The constitution guarantees property rights and also protects non-property author rights on discoveries, inventions, and scientific achievements. Property rights connected with the creation and enjoyment of achievements of science, literature and art, and other intellectual property are regulated by copyrights and other legislation. Tajikistan became a member of the World Intellectual Property Organization in 1994, joining the industry property protection committee.

However, the growing number of property rights violations in Tajikistan has concerned the U.S. Department of Commerce. The U.S. Trade Representative at the Department of Commerce, Charlene Barshefsky, placed Tajikistan along with 15 other countries on a "Priority Watch List." Countries assigned to the list deny adequate and effective protection of intellectual property, and deny equitable market access to U.S. artists and industries in their countries. A country may be removed from the list if the United States determines that it is properly enforcing intellectual property rights.

Government food subsidies ended gradually after the civil war. Bread prices were liberalized in 1996, and by 1998, subsidies constituted only 0.6 percent of GDP. Capital expenditures increased from 0.6 percent of GDP in 1997 to 3.0 percent of GDP in 1999. Capital spending in the first nine months of 1999 reflected increased expenditures on projects related to the celebration of the 1,100 anniversary of the Samanid Empire and the 1999 presidential election campaign. The government has fully liberalized prices of fruits, vegetables, bread, and livestock products and inputs. Government officials in Dushanbe have devoted increased attention to complying with World Bank recommendations for price liberalization on a wider range of goods. State-owned enterprises have also informally set prices for raw materials and outputs since independence and are complying with world price norms. The UN World Food Program has significantly expanded its assistance efforts to help Tajikistan through this difficult period of price liberalization. Authorities have also replaced the universal bread subsidy with targeted food subsidies to the most vulnerable groups. From 1999 to 2000, the removal of price controls on petrol and foodstuffs caused a 90 percent and 30 percent increase, respectively, in prices for consumers.

Barriers to private enterprise include bureaucratic inefficiency and delays, the demand on businessmen to pay bribes to authorities and the criminal elite, and limited access to commercial real estate and other assets that remain controlled by state enterprises.

Since 1997, economic disputes have been adjudicated by a Higher Economic Court (HEC), which is governed by the 1997 Constitutional Law on Economic Courts, the 1995 Legal Code, and the Economic Procedures Code. The HEC's mandate covers any economic disputes arising from civil, administrative, business, or other economic relationships. The number of cases brought before the HEC is limited due to financial costs. Plaintiffs are required to pay in advance legal expenses equal to ten percent of the suit's sum. There are no formal alternative mechanisms for adjudicating disputes. Cases are usually decided by fifteen-member panels consisting of government-appointed judges, and high-level political interference is commonplace.

Tajikistan's business culture is based more on power and personal connections than on competitive processes and the rule of law. Large state enterprises still dominate almost every sector of the economy, including supply networks and transport. The government supports state enterprises through preferential credits and tariffs, lax enforcement of overdue power bills, and other means. The world commu-

nity has encouraged the Tajik government to crack down on monopolistic practices. Parliament passed an antimonopoly law in 1993 and the government created a department in the Ministry of the Economy to enforce it. However, authorities have failed to enforce this legislation. Opposition groups have accused local governments of allowing nepotism and corruption to control local economic assets, regulation of private business, and distribution of land rights. Local warlords, Mafiosi, and drug traffickers control a considerable share of economic activity. The procurement process is neither open nor unbiased.

There are few legal obstacles to foreign direct investment (FDI) or to foreign ownership of shares in Tajik companies, nor are there any restrictions on the repatriation of profits and capital. Foreigners are prohibited from owning land, but are allowed to lease it. The Tajik government exempts foreign companies from taxation for investments greater than $5 million. Enterprises that receive foreign investments are exempt from profits tax for two to five years, depending on the amount invested. This tax exemption does not, however, apply to agriculture and extraction of natural resources. Although the country has passed a relatively liberal legal regime, Western investors remain reluctant to invest in Tajikistan due to its remote location and history of instability. Progress in talks on national reconciliation and the peaceful November 1999 presidential election have improved the perception of stability in Tajikistan. The post-civil war economic decline has subsided and industrial production, which was down by 70 percent between 1990 and 1997, has improved. Real GDP growth of 1.7 percent was reached in 1998 and 1999. These improvements in the Tajik economy may lead to greater foreign investment.

The total amount of FDI in Tajikistan since 1993 is about $126 million. FDI decreased from $12 million in 1998 to $7 million in 1999. The first four months of 2000 saw an increase to $12.8 million. The vast majority of foreign investment is related to gold production, with Nelson Gold of Canada as the largest foreign investor. Other investment has been directed toward the textile industry and the production of soft drinks. The Chinese government agreed to modernize the Dushanbe tobacco factory, which would produce one billion cigarettes annually. This agreement is part of a $6 million aid package provided to Dushanbe by the Chinese government.

The European Bank for Reconstruction and Development (EBRD) has allotted a $4.6 million line of credit to a private Tajik bank to support the development of small- and medium-sized businesses. Since the end of the civil war, the Tajik government has revived several large infrastructure development projects, thus increasing opportunities for foreign investment.

Trade ties to the Commonwealth of Independent States (CIS) dominate most of Tajikistan's overall trade. CIS trade, particularly with Russia and Uzbekistan, accounts for 62 percent of all Tajik trade. A vast majority of imports, 78 percent, comes from the CIS. More than half of Tajik exports (54 percent) go to markets outside the CIS. Aluminum, cotton, and electricity constitute nearly 75 percent of Tajikistan's exports. Tajikistan participates in a regional customs union with Russia, Belarus, Kazakhstan, and the Kyrgyz Republic. In order to bring its external tariff structures into line with the requirements of the customs treaty, Tajikistan has altered its import tariff structure to create a more transparent means for reducing trade barriers. No customs tariffs exist within the new Russian-backed customs union. Tajikistan also has announced that it intends to apply for membership in the World Trade Organization (WTO). To comply with WTO requirements, the government has announced plans to reform its tax system by eliminating export taxes and reducing its sales tax.

Tajikistan has started to reform its energy sector after receiving a post-conflict rehabilitation loan from the Asian Development Bank (ADB) in 2000. Energy sector reform has been primarily aimed at strengthening the legal and regulatory environment, rationalizing energy use and supply, and improving the operations and finances of private banks. With backing from the ADB, the Tajik government has concentrated its efforts on improving payment collection, reducing accounts receivable, and achieving full cost recovery for electricity and communal services provided to industrial and residential users.

Private Tajik banks, such as Barki Tajik, have started collecting utility payments for government energy distribution to private households in an effort to fulfill pledges made to the World Bank at the annual donors' conference in 1999. By late 2000, the government was expected to increase the price of utility rates by as much as 65 percent. Thousands of arrears were rescheduled from August 2000 onward in agreements with Western investors. By late 2000, the Tajik government had drawn up a new mechanism and timetable for carrying out a gradual increase in residential and industrial tariffs to achieve full cost recovery. However, a major outburst of public criticism over the new increases forced the government to postpone these reforms until March 2001.

Tajikistan remains heavily dependent on natural gas imports from neighboring Uzbekistan, which provides about 95 percent of Tajikistan's natural gas requirements via pipelines from Uzbekistan through northern Tajikistan to Dushanbe. In January 2000, Tajikistan and Uzbekistan agreed that Tashkent would supply Dushanbe with $25 million worth of gas as payment for Uzbekistan's use of the pipeline. The two countries have been operating under similar mutual offset arrangements for the past few years.

The Tajik government continues to look toward the hydroelectric sector as an important source of alternative energy. Tajikistan is the third largest producer of hydroelectric power in the world, after the United States and Russia. However, it supplies less than half of its own total energy needs. The bulk of Tajikistan's hydroelectric production is based around the immense Nurek dam, whose turbines generate over 11 billion kilowatt hours (KWH) per year. A second giant power station, the Rogun station, is

under construction, and once completed will generate an additional output of 13 billion KWH annually. However, a shortfall in funding for the project has delayed its construction. Western investors hesitate to invest in the project until further energy sector reforms are undertaken. The IMF has heeded their call by demanding greater reforms in the energy sector before it provides additional assistance.

The population of Tajikistan in mid-2000 was estimated to be 6.25 million. Population growth is slower than in the 1980s, but is still relatively high, averaging 1.3 percent a year from 1997 to 1998. Tajikistan's population density is the lowest in Central Asia, at 143 people per square kilometer. Tajikistan's rural population makes up three quarters of the population. The civil war caused a net population outflow, which began at independence and peaked in 1993. Many of those who emigrated were ethnic Russians and Ukrainians who were considered to be the best-educated members of the population. Ethnic Russians, who once constituted eight percent of Tajikistan's population, now account for a mere two percent of the total population. This has led to the growing marginalization of the Russian minority in Tajik society. Most Russians remaining in Tajikistan live in Dushanbe or in Khojent.

Tajikistan suffers from a shortage of skilled manpower. The economy has failed to create a sufficient number of jobs for the population at large. Official figures put unemployment at three percent. However, according to the UNDP, in 1998 up to 51.5 percent of the population was unemployed, with the unemployment rate for women at 53 percent.

Tajikistan's existing social safety net is poorly targeted and inadequate. The government provides free electricity to war veterans, invalids, and Chernobyl victims.Outlays of the social safety net increased from 2 percent of GDP in 1997 to 2.2 percent of GDP in the first nine months of 1999. There are two types of social allowances in Tajikistan: a cash compensation program for the poor, and benefits provided as social insurance for pensioners, disabled, and other needy people. According to a working paper produced in March 2000 by a president-appointed commission on reducing poverty, the total financing for the cash compensation program should amount to TR 6 billion assuming that the number of people eligible for such allowance is approximately one million, or less than 20 percent of the population. In reality, however, compensation payments have been considerably less, in part because the real value of the compensation is so low that only about 25 percent of those eligible collect them. Compensation program reforms have aimed to reduce operational costs, simplify procedures for submitting required documents, and schedule payments quarterly instead of monthly. These reforms have had no significant effect.

Average pension benefits in relation to average wage have fallen from 50 percent in 1995 to 35 percent in 2000. The pension system functions more efficiently than the cash compensation system, but significant problems remain with regard to past arrears. There is no private pension system. The government is working to reform the pension system under the auspices of the IMF and World Bank as part of a comprehensive restructuring of the social welfare system. In 1999, the pension system was funded in part through a 37 percent payroll tax on the monthly wage bill of enterprises, of which 85 percent went to the pension fund and 15 percent went to the social insurance fund. The pension age for men is 60 years and for women 55. The minimum pension is $1.40 a month.

According to the World Bank and IMF, per capita GDP rose from $106 in 1995 to $213 in 1998. An improved economy in the second half of 1997 caused real wages to double the following year due to the combined effect of a drop in inflation and an increase in nominal wages. The stabilization of the exchange rate in the first three quarters of 1998 indicated that that in U.S. dollar terms, the average monthly wage rose sharply from the equivalent of $10 in December 1997 to almost $14 in September 1998. From 1995 to 1998, the average monthly wage rose from $9.20 to $11.10. This increase reflected a gradual improvement in the economy since the end of the civil war in June 1997.

The government provides subsidies to workers and their families at the minimum wage. The government adopted a wage indexation law for state employees in 1993, but has not implemented it. In 1998, the government eliminated arrears on wages and cash compensation payments. Previously, wage arrearages had been severe, and some government offices and businesses had compensated by providing in-kind payments of food or goods. Median wages for women are often considerably lower than median wages for men, though no reliable figures exist regarding this differential.

Secondary education suffered the debilitating effects of the civil war, during which many schools were destroyed or damaged. Tajikistan has approximately 15 higher education institutions, but the learning environment has deteriorated as the infrastructure breaks down and teachers leave to earn their living elsewhere. The World Bank estimated primary school enrollment to be 95 percent of the relevant age group and secondary school enrollment to be 78 percent in 1996. The enrollment rate for youths between 6 and 23 years of age is 62 percent. By some estimates, 15 percent of children do not attend school because they work, because their parents cannot afford clothing or shoes for them, or because of a lack of security. This is especially true in ethnically mixed locations such as the Qurghonteppa region.

The UNDP reports that the dropout rate for primary schools appears to be 20 percent for boys and 25 percent for girls. Observers believe that the dropout rate after the ninth grade is even higher. The problems of low enrollment and high dropout rates occur in the context of severe economic hardship and the end of a government policy of transporting children to school. Data on the student-teacher ratio are not available, although there is clearly a shortage of teachers. There are also serious shortages of textbooks and other teaching materials.

The state-funded education system has suffered from the drastic decline in available resources and years of social and economic dislocation. In 1997, government spending on education was 14 percent of total expenditures, or 2.6 percent of GDP. It is not clear how this compared with earlier post-independence years, although in general, social sector spending has declined since independence. Although school attendance is compulsory for nine years, in reality many children work to alleviate family hardship. Many schoolteachers also supplement their meager salaries by working in agricultural fields, raising animals, or becoming vendors at local bazaars.

Along with general educational levels, literacy rates have declined since the collapse of the USSR. Educational levels are particularly poor among women. In the Kulyab region, for example, a 1998 UN study estimated only 3.3 percent of women had attended secondary or higher education. Tajik is the main language of instruction, although Russian and Uzbek schools also exist. Private schools and colleges have appeared, mainly in Dushanbe, Khojent, and Khorog (the capital of Badakhshan, where the Aga Khan University is based). There are seven Turkish lycees operated by a Turkish nongovernmental organization. The top graduates of these schools, along with thousands of other Central Asian students, are regularly sent to universities in Turkey with funds from the Turkish government.

Medical care in Tajikistan is below average for a former Soviet republic. According to the CIA's *World Factbook 2000*, Tajikistan's infant mortality rate is estimated to be 117 per 1,000 live births. This total nearly doubled, from 61 per 1,000 in 1998. This rate is the second highest among the countries of Eastern Europe and the Central Asian republics, after Turkmenistan. The maternal mortality rate in Tajikistan is 130 per 100,000 live births, the highest in the former Soviet Union.

The average life expectancy in Tajikistan was 68 years in 1997, which is comparable to the life expectancy of 67 years in Russia. According to the most recent statistics available from the World Health Organization, the suicide rate was 3.7 per 100,000 people in 1992. There is no data available on divorce rates. Life expectancy in Tajikistan is declining as a result of poor nutrition, deteriorating water supplies, and the reappearance of diseases such as typhoid, cholera, tuberculosis, and malaria. Given the continued deterioration of the health care and sanitation systems, which is exacerbated by frequent flooding in some areas, epidemics are a major risk.

Since independence, several hundred thousand people have emigrated from Tajikistan, among them many health personnel. While there are no figures on the ratio of doctors and nurses to the population, the ratio is certainly low, and the government has done little to improve the skills of those health care workers who remain in the country. The combination of IMF-mandated fiscal orthodoxy, the country's impoverishment, and the deleterious effects of corruption and mismanagement has left little money for health care and other social spending. Tajikistan's social spending per capita remains among the lowest in the transition economies, forcing extended family networks to provide the bulk of the social welfare net.

There are no figures on average and median monthly wages for doctors, nurses, and medics, although anecdotal evidence suggests that these professionals receive extremely low wages.

Government expenditures on health care fell from $6.20 to $2.70 per capita between 1990 and 1997. In 1998, government spending on health care amounted to 8.6 percent of GDP. The UNDP has reported that nearly the entire health budget was spent on salaries while few funds were left over for human resource development, equipment, commodities, transport, and repair and maintenance of facilities.

Tajikistan ranks among the poorest countries in the world, and is growing poorer. Per capita GNP was $330 in 1997. By 2000, it had dropped to $182. A World Bank-supported survey of poverty by Goskomstat in 1999 found that some 80 percent of the population is below the poverty line. Nearly one out of every six citizens is classified as extremely poor and destitute. The scale of poverty in Tajikistan seems to correlate significantly with the family size based on data collected in the poverty survey. There are encouraging signs that land privatization is helping to alleviate poverty, especially in Gorno-Badakhshan and the Karategin Valley. Government efforts to carry out land reform may help reduce poverty if carried out efficiently.

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TURKMENISTAN

Polity: Presidential
Economy: Statist
Population: 5,200,000
GNP per capita at PPP $ (1999): 3,099
Capital: Ashgabat
Ethnic Groups: Turkmen (77 percent), Uzbek (9.2 percent), Russian (7 percent), Kazakh (2 percent), other (5 percent)
Size of private sector as % of GDP (mid-2000): 25

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	6.90	6.90	↓ 6.94	6.94
Rule of Law	na	na	6.38	↓↓ 6.63
Economic Liberalization	6.38	↓ 6.42	6.42	↓ 6.50

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	517.0	606.7	480.2	520.6	511.3	374.4	415.3
Real GDP growth (% change)	-17.3	-7.2	-6.7	-11.3	5.0	16.0	17.6
Inflation rate	1,748.0	1,005.0	992.0	83.7	16.8	24.2	8.3
Exports ($ millions)	2,176.0	2,084.0	1,692.0	774.0	614.0	1,162.0	2,350.0
Imports ($ millions)	1,691.0	1,644.0	1,388.0	1,005.0	1,137.0	1,328.0	1,720.0
Foreign Direct Investment ($ millions)	103.0	233.0	108.0	108.0	62.0	89.0	100.0
Unemployment rate	na	na	na	na	na	na	na
Life Expectancy (years)	na	na	na	65.7	65.9	66.1	66.0

INTRODUCTION

Among all the former Soviet republics, Turkmenistan remains the least changed politically and economically since the collapse of the Soviet Union. During Soviet times, Communist Party boss Saparmurad Niyazov and his predecessors governed Turkmenistan with an iron fist.

Since the collapse of Soviet central power, Niyazov's power has, if anything, increased. Political dissent is not permitted. The economy remains mostly state-owned and centrally planned, and is run for the personal benefit of cronies of the system.

As long as Niyazov retains his dictatorial powers, there seems little hope for positive political or economic development in the country. But neither is it possible to predict a future course with any sense of certainty. The recent history of transitions in authoritarian, dictatorial regimes without solid infrastructures shows that there is always hope for a transition to democracy, if only gradually, after a change in leadership.

Since Turkmenistan became an independent country in 1991, the government has not allowed any political pluralism and has routinely prohibited, reprimanded, and oppressed opposition movements, religious minorities, and the press. Under the leadership of President Saparmurad Niyazov, Turkmenistan has become the worst-case scenario of post-Soviet development. Human Rights Watch does not shrink from calling Turkmenistan one of the most repressive countries in the world. Alone among the post-Soviet bloc countries, Turkmenistan remains a one-party state. And even that party is a mere shadow of the former ruling Communist Party. All real power resides in the country's dictator, who savagely crushes any opposition or criticism. In December 1999, Niyazov proclaimed himself president for life, thus deepening his already omnipotent cult of personality.

Turkmenistan's economy remains dependent on state control, and there have been few reforms of the Soviet-style command system. Turkmenistan contains among the world's largest known gas reserves, which, along with oil, account for much of the country's export revenues. Despite this wealth of natural resources, the potential for the country's energy sector continues to be limited by a lack of adequate export routes. The economy suffers from a large trade deficit and foreign debt. Corruption, poor infrastructure, and an inadequate legal environment discourage foreign investment. The predominantly state-controlled agricultural sector, especially cotton cultivation, employs nearly half of all workers, and most of Turkmenistan's citizens live in poverty.

In 2000, President Niyazov introduced a series of new laws on banking and education that will dramatically increase the seclusion of the state. In June, he barred citizens from holding foreign bank accounts, and in July, he announced that all potential university students would be screened—back three generations—to filter out all but "the most worthy" applicants. Students previously approved to study in the United States have been barred from departing. All told, these measures effectively prevent most legitimate cross-border contact, discourage investment, and isolate the country.

Turkmenistan survives by virtue of its vast wealth in natural resources. Although the country must be viewed as grossly unsuccessful economically, its resources are sufficiently great to yield enough income for the economy to limp along and for Niyazov to remain in power. Unfortunately, there have been virtually no advances in human and political rights since independence, relative to the progress made by other former Soviet Republics. One can only hope that a nation of such great human and natural resources will one day begin its long-awaited transition to freedom and prosperity.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
7.00	7.00	7.00	7.00

Since the establishment of Turkmenistan's independence in 1991, President Niyazov has led the country as an authoritarian ruler and has fostered an elaborate cult of personality centered on his adopted title of *Turkmenbashi* (leader of the Turkmen). The president's birthday is a national holiday, monuments to Niyazov are found across the country, and the state controlled media lavish constant praise on the president and his policies. In practice, there are very few checks on executive power.

Turkmenistan is a single party state, and there is little separation between the party and the state. Nearly all outspoken opponents of the regime have either spent time in prison, are currently imprisoned, or are in exile. The legislature and judiciary enjoy no genuine independence from the executive branch. There is still only one political party, the National Democratic Party, which Niyazov leads. On December 28, 1999, Niyazov proclaimed himself president for life.

The 1992, post-independence constitution created a bicameral parliament. The 150-member *Khalk Maslakhaty* (People's Council) meets at least once per year to establish broad policy guidelines and to consider constitutional amendments, treaties, and referenda. A smaller 50-seat *Majlis* (assembly) is directly elected for a five-year term and performs legislative functions. The People's Council is chaired by Niyazov and includes the 50 assembly members; one directly elected member from each of the country's 50 districts; ten appointed regional representatives; the cabinet ministers; regional, district, and city governors and mayors; the chairmen of the supreme court and the economic court; and the general prosecutor. There is no prime minister. The Supreme Soviet became the parliament following the adoption of the constitution, pending elections.

The December 11, 1994, legislative elections bordered on the farcical. Fifty-one candidates "contested" the 50 assembly seats, and officially 99.8 percent of the population turned out to vote. President Niyazov selected the candidates on the basis of loyalty, and nearly all belonged to his Democratic Party of Turkmenistan, the sole legal political party. The remaining candidates were nominally independent but firmly pro-Niyazov. The government did not permit foreign observers to monitor the elections, which were neither free nor fair.

Parliamentary elections were held on December 12, 1999, but the Organization for Security and Cooperation in Europe (OSCE) decided not to deploy any election monitors on the grounds that even the minimum level of pluralism for competitive elections was absent. Virtually no political activity was allowed, and the president reportedly selected the candidates for the Majlis. According to the President's Ten Year Democratization Plan, Turkmenistan should be moving gradually towards a multiparty system. Increased powers are supposed to be granted to the Majlis, and opposition political parties should be allowed to form by 2008 or 2009.

The 1992 constitution declares Turkmenistan to be a secular democracy in the form of a presidential republic. It calls for the separation of powers between the various branches of government but vests a disproportionate share of power in the presidency. In practice, President Niyazov's power is absolute, and the country remains a one-party state. Despite the appearance of decision making by consensus, most decisions are made at the presidential level.

Niyazov ran as the sole candidate in the June 21, 1992, presidential election. The government announced the election barely one month before the polling date. The official results gave Niyazov 99.5 percent of the vote. Voter turnout reported was 99.9 percent. The government did not permit foreign observers to monitor the vote, which was neither free nor fair. In the January 15, 1994, referendum, a reported 99.9 percent of participants approved the extension of Niyazov's rule until 2002, thus eliminating the need to hold the elections scheduled for 1997. International observers did not monitor the referendum, which was neither free nor fair.

By official count, turnout was 99.9 per-cent for the June 1992 presidential elections; 99.9 percent for the January 1994 referendum that extended the president's tenure; 99.8 per-cent for the December 1994 parliamentary elections; and 98.9 percent in the December 1999 parliamentary elections. Anecdotal reports suggested that actual voter turn out was low in all cases. No data are available on the turnout for local elections, or on the actual level of female voter participation.

Turkmenistan is a single party state led by an authoritarian president and his advisors. The ruling National Democratic Party of Turkmenistan is the only registered political party; President Niyazov heads the party, which is the direct successor to the Turkmen Communist Party. Two small democratic reform-oriented parties, Agzybirlik (Unity) and the Democratic Party of Turk-menistan (not to be confused with the ruling party), surfaced respectively in 1989 and 1990. Neither party was registered nor permitted to operate. Most persons involved in opposition activity have left Turkmenistan and now reside in Russia, Turkey, Sweden, or the Czech Republic. In the mid-1990s, Niyazov described opposition groups as lacking both popular support and political programs that offer constructive alternatives to existing policies. He has cited these qualities in disqualifying groups from eligibility to register as opposition parties.

Insofar as such groups have the potential to promote ethnic or other tensions in society, they may be viewed as illegal and, hence, may be banned under the constitution. Given such an environment, opposition in Turkmenistan has been quite restrained. Agzybirlik, originally registered in 1989, consists of intellectuals who describe the party program as oriented towards a multiparty democratic system based on the Turkish model. Unity has devoted itself to issues connected with national sovereignty and the replacement of the communist political legacy.

At the 25th Congress of the Communist Party of Turkmenistan held in December 1991, the party was renamed the Democratic Party of Turkmenistan. Niyazov was confirmed as its chairman. According to its program, the Democratic Party serves as a "mother party" that dominates political activity but promotes the activity of a loyal political opposition. Following Niyazov's proposal, the Peasant Justice Party, which is composed of regional secretaries of the Democratic Party, was registered in 1992 as an opposition party.

The National Democratic Party claimed a membership of 60,000 in early 1995. Party membership is likely to be of importance mainly to government officials and those seeking government office. Given the lack of a competitive party system, however, party membership appears to be solely a means of professional advancement. No data are available on the proportion members who are women. Party and government activities are largely male preserves. Women occupy several key state positions, but they hold only a handful of parliamentary seats and are underrepresented in the bureaucracy.

Civil Society

1997	1998	1999-2000	2001
7.00	7.00	7.00	7.00

The constitution permits peaceful assembly and association, but severely restricts it in practice. While a number of domestic nongovernmental organizations (NGOs) do exist, they have limited and politically unthreatening agendas like nature conservation or women's rights. The government forbids the formation of any organization with even the slightest suggestion of a political agenda. Only a handful of

unregistered organizations without a political agenda are permitted to function in Turkmenistan. Among them are the Ashgabat Ecology Club, the Dialogue Youth Leadership Center, the Information Consultative Center of Turkmenistan, the Society for Preservation of Nature, and the Dashkavouz Ecological Club. Other even less formalized organizations undertake social activities like assisting battered women. However, information on these groups is sketchy. They fear exposure and contact with foreigners, which may result in the suspension of their work.

There are several government-controlled entities that attempt to occupy a niche filled by NGOs in democratic societies. One of them, the Institute for Democracy and Human Rights, was established in October 1996 and is attached to the Office of the President. It helped bring about some limited penal reform in 1997.

There are few locally led efforts to increase philanthropy and volunteerism. No data are available on the proportion of the population that is active in private voluntary activity. Anecdotal evidence and the small size of the nongovernmental sector suggest that relatively few citizens are involved in civil society. Several unregistered, female-led NGOs provide services such as psychological and legal counseling to female victims of violence and discrimination, legal education, and skills training. Most of these groups have, at the most, several dozen members. They include the Anna Women's Club, the Ynam Club, and Zaman. There are also several associations of businesswomen, including the Center for Businesswomen and the Women's Issue Club, both located in Ashgabat.

The government of Turkmenistan does not encourage the formation of NGOs, and it uses registration requirements to prevent the emergence of potential opposition groups. The political environment in Turkmenistan is hostile to organized independent activity of almost any variety. Article 28 of the constitution guarantees citizens the right to form "social associations" and NGOs. The 1992 Law of Turkmenistan on Social Associations (as amended in 1994) stipulates that citizens may form and register social associations by holding a founding convention or general meeting; drafting a charter; and submitting an application and its charter to the Ministry of Justice or the appropriate local body (depending on the geographical scope of the NGOs activities). In practice, though, the government denies registration to most groups.

The 1992 law guarantees NGO's the right to engage in a variety of activities but does not articulate a set of legal rights or otherwise provide protection from arbitrary state action. The law authorizes state agencies to monitor the financial operations of NGOs, including their sources of income, amounts of contributions, and payments of taxes. The law also authorizes the Ministry of Justice to monitor NGOs' compliance with their charters by, among other means, sending ministry representatives to participate in NGO activities. NGOs function under constant threat of reprisal and, as such, do not push for legal or regulatory reforms or otherwise engage in political activities.

The handful of NGOs that exists in Turkmenistan does so by remaining uncontroversial and limiting its activities. Given Turkmenistan's totalitarian character, the conditions for expanding the NGO sector are poor. Little information on the functioning of Turkmen NGOs is available. Most NGOs have less than a dozen members and, therefore, have simple lean management structures. Some international NGOs provide information on management issues, generally in English or Russian. A few domestic NGOs provide legal and management advice to less developed organizations. Right, an NGO based in Ashgabat, provides legal advice to other NGOs. The Information and Consulting Center distributes information on management issues, helps NGOs develop grant proposals and funding sources for projects, and provides information technology training for administrators and Web masters of local groups.

Little information concerning the financial status of NGOs is available. Some, however, have received external support and work in conjunction with other organizations based in Central Asia. Most NGOs depend on funding from foreign governments, foreign nongovernmental organizations, or international nongovernmental organizations. NGOs enjoy few tax benefits.

According to an April 1998 report by the U.S. Embassy in Ashgabat, religious organizations and entities that are engaged in educational activities approved by the government are exempt from profit tax payments. However, it is not clear how many entities have taken advantage of this benefit. The 1992 Law of Turkmenistan on Social Associations (as amended in 1994) authorizes state agencies to monitor the fiscal records of NGOs, including their revenue sources. There are few procurement opportunities for NGOs in Turkmenistan's statist economy. In general, the government views NGOs with suspicion. This attitude is most evident in the fact that authorities usually deny registration to NGOs that do not even have political agendas. It is difficult to determine the public's attitudes toward NGOs because there is no public opinion polling or other accurate means of evaluating citizens' preferences. Few citizens are involved in NGO activities, but this may reflect the threat of government sanctions more than negative public attitudes towards NGOs. Media coverage of nongovernmental groups is virtually nonexistent. Government officials rarely engage with NGOs. Due to the hostile environment NGOs face, they refrain from policy advocacy.

Turkmenistan has inherited the Soviet system of government-controlled trade unions. Under the 1992 Law of Turkmenistan on Social Associations (as amended in 1994), citizens may form trade unions by holding a founding convention or general meeting in which the delegates represent at least 1,000 people. The Soviet-style Colleagues Union is the only legal trade union federation and claims 1.6 million members. Unions almost never act as true labor advocates, and employers flout workers rights with impunity.

Workers lack the right to hold strikes or bargain collectively. Data are not available on trends in union membership. Although no law specifically prohibits the establishment of independent unions, no such unions exist. No attempts have been made to register an independent trade union during the past few years. In fact, unions in Turkmenistan function as arms of management to monitor and control workers rather than to defend workers' rights.

Interest group participation is limited to government-controlled organizations that take their cues from the president and his most senior advisors. The only, very limited, intervention in the policy process that has been accepted, particularly since 1996, has been advice from some international lending institutions. In reality, the Niyazov regime does not permit interest group participation in politics. Nearly all NGOs work in nonpolitical fields such as agriculture, cultural affairs, business promotion, youth activities, the environment, education, science, health care, and the provision of aid to the disabled. There are no formal human rights organizations, and the government harasses groups like the Ashgabat-based Russian Community that try to protect human rights. The Russian Community is consistently denied registration and faces serious harassment. On January 21, 1999, for example, the Committee on National Security (KNB, the state security and domestic intelligence organization) arrested the cochairman of the Russian Community, Viacheslav Mamedov, but released him on February 3 after forcing him to sign a statement promising not to engage in any "political activities" or to speak to the press.

The government has organized several tightly controlled organizations that ostensibly fill the niche occupied by NGOs in democratic societies. In 1996, the state organized National Institute for Democracy and Human Rights, which reports directly to President Niyazov, began operating. It mainly receives complaints from citizens regarding the judicial process and issues replies. Institute personnel have also conducted investigative tours of prisons and met with local and regional authorities. In practice, the Institute has little, if any, power to obtain redress.

Independent Media

1997	1998	1999-2000	2001
7.00	7.00	7.00	7.00

The Niyazov regime does not permit private print or broadcast media. At independence, authorities closed several autonomous newspapers and magazines published by individual ministries and other state institutions. Niyazov issued a decree in 1996 declaring himself the founder and owner of all national newspapers. As of July 1999, there were 23 state-owned periodicals. Fourteen newspapers and ten magazines are published in the capital, including one magazine and two newspapers in Russian and one newspaper, *Zaman*, in Turkish. The main government dailies are the Turkmen language *Turkmenistan* (circulation 70,000) and the Russian language *Neutral Turkmenistan* (which received its current name in December 1995 after the United Nations General Assembly granted Turkmenistan the special status of a neutral state (circulation 40,000). *Vecherny Ashgabat* (Evening Ashgabat) is issued three times a week. Almost all newspaper and magazine publishers are located in the Ashgabat Press House. Two nominally independent newspapers, *Adalat* (Justice) and *Galkynych* (Revival), were in fact created by presidential decree and are under state control. In recent years, authorities frequently seized Russian newspapers from arriving passengers at the Ashgabat airport. Since 1998, though, Russian and western newspapers often have been available at hotels in Ashgabat.

The state-owned National TV and Radio Broadcasting Company is the sole domestic broadcaster. Channel One of Turkmenistan TV broadcasts nationally in Turkmen and Russian. The Ashgabat channel (Channel 2) broadcasts mainly in Turkmen to the capital region. Radio-1 broadcasts nationally and features mainly news and entertainment. The National TV and Radio Broadcasting Company delays and censors the Public Russian Television (ORT) and Radio Mayak broadcasts from Russia. Turkish television programs can also be received in Turkmenistan. Radio Liberty's Turkmen Service broadcasts a one-hour program in the Turkmen language three times per day every day on short wave. Authorities permit few foreign journalists to enter the country and often restrict the movement of those allowed to enter.

Since all media are state-owned, their viability is subject only to Niyazov's whim. Journalists are civil servants, and the government funds newspapers largely out of the state budget. Advertising and sales amount to only a small portion of newspapers' income. The government imports and strictly controls the distribution of newsprint, which Turkmenistan does no produce, and controls the availability of equipment and other material required for publishing.

The OSCE Representative on Freedom of the Media reported in February 1999 that Turkmenistan is characterized by a "virtual absence of media freedom" and "offers no independent media nor any healthy debate on the issue." In January 2000, OSCE Representative Freimut Duve condemned parliament's decision to allow the president to serve without term limits. A press release from Duve's office stated that the decision "virtually rules out the possibility of the development of any independent media in Turkmenistan." In March 2000, the New York-based Committee to Protect Journalists (CPJ) said that among all the countries of the former Soviet Union, Turkmenistan stands out as having the most repressive climate for journalists.

The 1994 Rules for Publishing in Turkmenistan place numerous restrictions on the press. Most notably, the rules authorize the cabinet-controlled Committee on Protection of State Secrets in Press and other Mass Media to exercise censorship over all print and electronic media. Each newspaper editorial board reportedly has a designated employee

who maintains regular contact with the Committee on Protection. The 1994 Rules on State Licensing of Publishing Activity require all publications to obtain a permit from the Committee on Protection. In February 1998, the government ordered all publishing houses and printing establishments to obtain a license and to register their equipment. The government controls the distribution system for newspapers.

The presidential press service and the department of press issue guidelines for political content. Party functionaries hold most key positions in the main newspapers, television channels, and radio stations. Overall, the government prohibits the media from covering opposition views, criticizing the president, or reporting on Turkmenistan's political and social problems, with the exception of the president's frequent criticism of government officials. News segments on both domestic television channels are almost entirely devoted to coverage of Niyazov's activities and speeches. They slavishly praise and promote the president's policies and nationalist ideology. In March 1999, Radio Free Europe/Radio Liberty noted that the media "regularly portray Niyazov as a genius or in the role of a wise and benevolent father figure."

Radio Liberty's (RL) short-waive broadcasts are the only alternative, non-state source of information in the Turkmen language. CPJ has documented a regular pattern of state-sponsored abuses against RL journalists, including harassment, beatings (often severe), and detention. Two RL stringers use bylines; the rest write anonymously or use pseudonyms. In 1999, KNB officials questioned Saparmurad Ovezberdiev, a stringer, after his meetings with international human rights monitors. In August 2000, Turkmen authorities ordered Ovezberdiev to stop working. According to a CPJ report, "the authorities claimed he lacked accreditation, although the Ministry of Foreign Affairs had granted permission for RFE/RL journalists to work in the country." The KNB warned several journalists not to meet with an advisor to the OSCE Special Representative on Freedom of the Media who visited Turkmenistan in April.

The European Commission reported in 1997 that a 1995 presidential decree (the text of which has never been made public) apparently dissolved all independent associations of intellectuals, including the Journalists' Union of Turkmenistan. Currently, all press and journalistic associations are under government control. These include the Turkmen Branch of the Central Asian Association of Journalists, located in Ashgabat; the Ashgabat-based Women in Media of Central Asia; and the "Initiative" Center of Young Journalists at Turkmen State University, which offers training to prospective journalists. No data are available on the proportion of their membership that is made up of women.

In January 1999, agents from the Committee for National Security broke up a meeting of journalists in Ashgabat at which participants planned to announce the formation of an independent journalists' association. In February, the OSCE's Representative on Freedom of the Media reported that his advisor had been scheduled to meet in Ashgabat with journalists who were either not employed by the state media or unemployed. None showed up, and some invited journalists reported that intelligence agents had warned them not to participate in the meeting. Others told OSCE representatives that they did not attend the session due to fear of government reprisal.

Internet use in Turkmenistan is low. According to the International Telecommunications Union, Turkmenistan had only 2,000 Internet users in 1999, or 4.56 users per 10,000 inhabitants. In May 2000, the Ministry of Communications revoked the licenses of Turkmenistan's five private Internet service providers and, thus, eliminated all competition to the state-run service. According to the CPJ, one of the five service providers was Ariana, a company launched with assistance from USAID in 1995. Prior to this measure, some NGOs had free access to the Internet at the expense of commercial users. Turkmen Telecom's revocation of licenses seriously damaged the development of NGOs.

Turkmenistan's domain name, .tm, was assigned years ago, but until recently there was no technological infrastructure to make the domain work. Every domain must be run by a root server, which, like a central switchboard, keeps track of all the Web pages in the domain. Turkmenistan lacks the resources to provide such a server and uses the services of NetNames, a London-based private Internet registry. Under an agreement with Turkmenistan, NetNames runs the .tm root server in London and provides various technical services to operate the domain. In exchange, NetNames acquired the right to register companies for a fee under the attractive .tm domain. Purely coincidentally, Turkmenistan's domain name also happens to be the international symbol for the word "trademark." NetNames registers domain name for a fee of $249; the Turkmenistan Network Information Center charges $50 per year for registration. This is the same price as any domain name in the United States.

Freedom House's annual *Survey of Press Freedom* has rated Turkmenistan "Not Free" since 1992.

Governance and Public Administration

1997	1998	1999-2000	2001
6.75	6.75	6.75	6.75

Article 4 of the constitution states that the government is based on the principle of the separation of powers between the legislative, executive, and judicial branches. Article 68 of the constitution grants the president, deputies of parliament, and the cabinet of ministers the right to introduce legislation in parliament. In practice, President Niyazov has consolidated state power in his hands, handpicks the nominees for parliament, and maintains tight control over the body. He also frequently bypasses parliament entirely by ruling by decree. Parliament does debate and amend draft legislation but otherwise has no real independent power.

The constitution also established the people's council to serve as "the highest representative organ of popular power." Intended to unite the three branches of government, it comprises the president of Turkmenistan, the deputies of the national assembly; members of the supreme court, the cabinet of ministers, and the supreme economic court; 50 peoples' representatives elected from the districts to the council; and officials from scientific and cultural organizations.

Members of the people's council serve for five years without compensation. This body meets at the request of the president or the national assembly, or when mandated by a one-third vote of its members. Functions of the people's council include advising the president, recommending domestic and foreign policy, amending the constitution and other laws, ratifying treaties, and declaring war and peace. In theory, its powers supercede those of the president, the national assembly, and the supreme court. However, the council has been described as a kind of "super-congress of prominent people" that rubber-stamps decisions made by the other national bodies, in most cases the executive. Essentially, the principle of separation of powers in Turkmenistan is a mere formality.

Article 82 of the constitution gives executive authority over local governments to the governors of the regions, districts, and towns. Article 81, however, subordinates the governors to the president. Under Articles 85 and 86, towns, villages, and settlements have elected councils, whose duties include setting basic local priorities in economic social and cultural development, approving the local budget, establishing local taxes and tariffs, and making decisions on the use of natural resources. In practice, Turkmenistan is a highly centralized state, and local authorities have perhaps even less power than they did under the Soviet system.

Under the Article 81 of the constitution, the president appoints and may dismiss governors of the regions, districts, and towns. Niyazov regularly shuffles, dismisses, and often reappoints governors. Towns, villages, and settlements have local councils that in theory are directly elected and serve as representative bodies. In practice, these elections are neither free nor fair.

Article Five of the constitution stipulates that "legal acts" of government bodies must be published for general notice or otherwise made available to the public, with the exception of acts that contain vaguely-defined "state or other legally protected secrets." Article 26 guarantees citizens the right to "receive information," subject to the broad qualification that this information is not a "state, official, or commercial secret." In practice, executive and legislative bodies operate with a minimum of transparency. State media publish legislation only after it becomes law.

According to an August 1998 International Monetary Fund (IMF) report, the Ministry of the Economy and Finance (MEF) does not make the state budget public. Compounding this lack of transparency is the fact that a large number of ministries remain off budget, including "self-financing" ministries that generate their own resources mainly through commercial activities. In addition, the MEF has no control over the revenues and expenditures of four state funds created by presidential decree between 1996 and 1998 in the energy, agriculture, transport and communications, and health sectors. The funds manage the resources of state enterprises in their respective sectors, and receive their revenue directly from the sale of goods and services. Moreover, many ostensibly on-budget ministries have revenues that are not included in the regular budget. The IMF noted in its report that it has an institutional policy of encouraging governments to prepare budgets according to economic categories such as wages and interest in order to make fiscal management and projections more transparent. In 1998, the MEF presented the budget on the basis of economic classification for the first time, alongside its traditional functional classification system.

Turkmenistan is divided into five administrative *velayats* (divisions), headed by governors. Ashgabat, the capital, is geographically located in Ahal Velayat but does not come under the velayat's administrate jurisdiction. The velayats are subdivided into districts, villages and towns. Local governments generally lack sufficient funding to carry out their duties. They are financed by transfers from the central government and by limited tax revenues. The primary local government expenditures are on education, health care, investment, operational spending, and subsidies. Municipal governments have little control over their budgets.

The quality of public administration in Turkmenistan is poor. President Niyazov's practice of frequently shuffling local leaders, civil servants' relative lack of training, and local governments' limited resources all contribute to poor service delivery. There have been no significant constitutional or legislative changes to local power since the country gained independence. The government has also not carried out civil service reform. Local civil servants are generally appointed and employed by the central government.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
6.75	6.75	6.75	7.00

In May 1992, the Supreme Soviet approved a post-independence constitution that was drafted without public consultation. The constitution neither grants the judiciary the power to interpret the constitution nor makes explicit provisions for judicial enforcement of the basic law. In practice, the judiciary has no independent power and has played no role in interpreting and enforcing the constitution.

In June 1997, the rubber-stamp parliament approved a new criminal code that actually contains few true reforms. In April 1999, the Moscow-based Interfax news agency

quoted President Niyazov as saying, "Outrages in law enforcement agencies, such as illegal accusation or detention of citizens, still take place." Nevertheless, Niyazov's repressive style of government suggests that in practice he condones such actions. There have been credible reports that political prisoners are singled out for cruel treatment. Security forces also have used denial of medical treatment and food, verbal intimidation, and placement in unsanitary conditions to coerce confessions. Prison conditions are poor and fall far short of international standards, and in recent years several prisoners have died due to overcrowding or lack of medical attention. Prison officials reportedly often requested bribes to implement releases under amnesties.

The constitution formally guarantees freedoms of expression, assembly, association, and religion, and the right to move freely within the country. Article 9 guarantees citizens the right to own private property, including the "means of production," land, intellectual property, and other material and intellectual "items of value." Article 18 of the constitution states that men and women have equal civil rights. Article 21 prohibits torture or cruel, inhumane, or degrading treatment or punishment. Articles 22 and 23 guarantee the right to privacy. However, Article 19 conditions the exercise of rights and freedoms on the vaguely-defined stipulation that they do not "violate . . . social order, or harm national security." Despite all of these guarantees, state agents violate human rights with impunity.

The KNB and the criminal police, a separate entity that falls under the Ministry of Internal Affairs, cooperate on internal security matters and regularly monitor the activities of suspected or actual government critics and dissidents. However, in May 2000, a law was passed that bans searches of homes without judicial authorization. According to a Human Rights Watch report, the law was intended to keep law enforcement officials from, in the words of President Niyazov, "searching in order to take vengeance on people."

Authorities do not permit peaceful opposition demonstrations. The government requires citizens to carry internal passports, which record their place of residence, as a form of identification. Citizens must obtain exit visas to travel abroad, and in practice the government restricts international travel. In June 2000, the government created the Council for the Supervision of Foreigners to monitor foreign nations living in or visiting the country.

Turkmenistan abolished the death penalty on December 29, 1999, after having announced a moratorium on the death penalty in December 1998. In previous years, hundreds of death sentences had been imposed, mostly for drug-related offences.

There is no state religion in this predominantly Sunni Muslim country. The Law of Turkmenistan on Religious Organizations (as amended in 1996) requires religious groups to have at least 500 adherents who are Turkmen citizens and over the age of 18 in order to register with the government. The only groups that meet these requirements are the Sunni Muslim and Russian Orthodox Christian communities. The government reportedly applies the 500-member standard on a regional rather than national basis, meaning that religious groups seeking to register in a particular city need to have at least 500 adherents in that city. Consequently, Catholics, Seventh Day Adventists, Lutherans, Baptists, Bahai's, and other groups have ambiguous legal status.

Likewise, the government has a consistent track record of harassing representatives of various religious faiths. Raids on religious meetings and places of worship, detentions, deportations, and dismissals from jobs are common tactics. Human Rights Watch reported, for example, that in February 2000 authorities arrested Khoja Ahmed Orazgylych, a Muslim dissident, after he criticized the government in a Radio Liberty broadcast. Orazgylych was sentenced to internal exile and his copies of the Koran in Turkmen were burned. President Niyazov subsequently decreed that Muslim religious schools should be brought under the state's authority.

Article 42 of the constitution protects citizens from having to give testimony against themselves or close relatives. Article 105 mandates that all trials must be open to the public, and Article 108 guarantees defendants the right to obtain legal assistance at any stage of the legal process. The criminal code guarantees defendants the right to have a public trial, to be represented by a defense attorney, to have access to evidence, and to call witnesses to testify on their behalf. In practice, judges frequently and arbitrarily deny due process rights. Corruption in the judiciary remains a serious problem, and the government has not carried out any real reform of the judicial system. Most judges, it seems, remain from the Communist era.

Turkmenistan's court system is divided into three levels. At the highest level, the supreme court consists of 22 members, including a president and associate judges, and is divided into civil, criminal, and military chambers. The supreme court hears only cases of national importance. It does not function as an appeals court. At the next level, appellate courts function as courts of appeal in the six provinces and the city of Ashgabat. Sixty-one trial courts that operate in the districts and in some cities have jurisdiction over civil, criminal, and administrative matters. In courts at this level, a panel of judges presides in civil and criminal suits, and typically one judge decides administrative cases. Outside this structure, military courts decide cases involving military discipline and crimes committed by and against military personnel.

The constitution stipulates that the president of Turkmenistan is responsible for appointing all judges at all levels to terms of five years. The president may reappoint judges indefinitely. The judiciary is subservient to the Ministry of Justice but is especially deferential to the wishes of the president. The office of the procurator general fills the roles of grand jury, criminal investigator, and public prosecutor. It dominates the judicial process, especially criminal proceedings.

According to the U.S. Department of State's report on human rights practices in Turkmenistan in 1999, there are no independent lawyers available to represent defendants, with the exception of a few retired legal officials. As such, attorneys who are employed by the state represent most defendants. The court appoints a lawyer to defendants who cannot afford to pay for one, but public defenders generally only see their clients at trial.

The legal system disregards the role of lawyers in civil and criminal proceedings, and the Ministry of Justice has not permitted the formation of an organized bar. No data are available on the number of new lawyers graduated by the higher education system or on the proportion of lawyers and judges who are women. Given the government's discrimination against women in employment opportunities, it is likely that women are underrepresented in the legal profession and the judiciary.

Article 17 of the constitution guarantees equal rights and freedoms for all citizens regardless of nationality, ethnicity, language, or religion. However, Article 13's designation of Turkmen as the official language potentially puts ethnic minorities at a disadvantage in education and employment opportunities. The Turkmen language is a mandatory subject in school, although in some schools it is not the language of instruction. Russian language instruction and usage are widespread. Minorities are underrepresented in government, the bureaucracy, and parliament. The government favors ethnic Turkmen for employment and promotion opportunities in the state sector and the civil service, effectively limiting employment and educational opportunities for ethnic minorities. A 1995 agreement between Moscow and Ashgabat gave ethnic Russians the right to hold dual citizenship.

The state enforces judicial decisions to the extent that it suits its interests to do so. Judges do not rule against the interests of the state or state actors, so there are no test cases in which the state has been required to enforce judicial decisions that adversely affect its interests. Officials reportedly demand bribes to enforce many routine judicial decisions.

Corruption

1999-2000	2001
6.00	6.25

Government officials at all levels reportedly demand bribes to provide most basic services. Judges and law enforcement officials are notoriously corrupt, at times using the threat of detention or imprisonment to collect bribes. In recent years, President Niyazov has announced amnesties for several thousand prisoners, but many reportedly had to pay their jailers in order to be released. Prisoners must pay bribes to receive basic necessities. The U.S. Department of Commerce reported in its June 1999 "Commercial Overview of Turkmenistan" that, "Complaints of corrupt and inept practices have marred the foreign investment environment."

President Niyazov and his close advisors are widely believed to have direct ties and interests in the agricultural, energy, and industrial sectors of the economy. Niyazov vets major contracts and frequently awards contracts for political reasons with little regard for the feasibility and economic viability of the project or the competency of the contract recipient. There are no formal boundaries between public and private sector activity either in law or in practice.

Turkmenistan does not have laws, regulations, or penalties to combat corruption effectively. Authorities have pursued few, if any, anticorruption cases. Executive and legislative bodies operate with a minimum of transparency and are not subject to audit and investigative rules.

As in previous years, the government has not carried out any major anti-corruption initiatives during the period covered by this report. President Niyazov frequently criticizes government officials and agencies for corruption and has dismissed several officials for alleged corruption. However, most officials who are dismissed for corruption are never formally charged with a crime. For example, at a cabinet of ministers meeting in September 2000, Niyazov lashed out against widespread corruption in the country, particularly noting that poor harvests in the Dashoguz region were the result of a lack of discipline among the region's leadership. President Niyazov then dismissed Yaggeldy Gun-dogdyv, the head of the Dashoguz region, and Sergar Babayev, the head of the local agricultural concern. No charges were filed against the officials. Likewise, in January 2000, Saparmurat Nuryev, the deputy premier and minister of energy and industry, was dismissed from his posts and charged with embezzling $2.5 million from the state treasury. The president gave Nuryev the option to repay the money or face prosecution. (No information is available on Nuryev's decision.)

In April 1997, President Niyazov fired the prosecutor general. He accused prosecutors of incompetence and corruption and of prosecuting innocent people rather than criminals. In 1999, he dismissed Deputy Premier Boris Shikhmuradov for allegedly being involved in the leasing of a bookstore to companies that did not sell books. That same year he dismissed three senior officials, including the chairman of the National Radio and Television Company, for embezzlement and taking bribes worth up to $1 million. There is no evidence that courts have prosecuted any of these officials.

There is no public opinion polling in Turkmenistan, so it is impossible to determine public attitudes regarding public sector corruption. Transparency International and other major corruption-ranking organizations have not rated Turkmenistan.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
6.75	6.75	6.75	6.75

Reliable data on Turkmenistan's economy has proved difficult or impossible to get. Unlike other nations in the region, the country regularly fails to report its economic performance to the CIS Statistics Committee. When the government does make figures public, they are almost invariably positive. The government does not utilize international accounting methods and generally withholds information on the economy. There are no data concerning Turkmenistan's informal economy.

Turkmenistan's economy remains dependent upon central planning mechanisms and state control. The government, however, has taken a number of steps that appear designed to give the impression that it is being won over to the cause of economic liberalization. It also often announces grandiose programs of reform that lead nowhere. In its *Transition Report 2000*, however, the European Bank for Reconstruction and Development (EBRD) gave Turkmenistan the lowest transition indicator scores of all countries in Central and Eastern Europe, the Baltic states, and the Commonwealth of Independent States. On a scale of 1 to 4+, in which 1 represents little or no change and a minus sign indicates that a country is on the borderline between two categories, Turkmenistan received the following scores: large-scale privatization (2-), small-scale privatization (2), governance and enterprise restructuring (1), price liberalization (2), trade and foreign exchange system (1), competition policy (1), banking reform and interest rate liberalization (1), and securities markets and non-bank financial institutions (1). Turkmenistan and Uzbekistan were the only countries whose average scores declined due to backtracking in the reform process.

In 1993, the State Property and Privatization agency was formally established. At the close of the year, the government enacted a law that resulted in the privatization of about half the country's minuscule trade and service sector (catering shops, barbershops, etc.) in 1995 and 1996. In January 1994, a program of economic reform, "Ten Years of Prosperity," was enacted with the approval of the people's council. Key elements of the plan included the privatization of state enterprises and the reform of land ownership, including the privatization of collective and state farms. In the spring and summer of 1997, the government issued a presidential order and three presidential decrees on privatizing industrial enterprises and allowing the auctioning of small- and medium-size enterprises.

According to the EBRD, the first wave of small-scale privatization ended that year, and since then the country has sold only 200 out of 2,000 small-scale assets remaining in state hands. Likewise, by mid-2000, Turkmenistan had privatized only six out of a total list of 280 medium-scale enterprises. In June 2000, according to the EBRD, the government announced a tender for 32 medium-size enterprises. However, at a meeting with members of the Turkmen intelligentsia in October 2000, President Niyazov said that Turkmenistan would not privatize its oil and gas industry for at least the next 10 or 15 years. The president expects the oil and gas industry to remain a key branch of the country's economy and to provide funds for social policy.

State and collective farms dominate Turkmen agriculture. Land has only been leased to farmers under promises of good behavior. Farmers are permitted to hold only an estimated three hectares of land, which cannot be traded. The government retains control over all inputs, access to irrigation, equipment, pricing, transportation, and international markets. Compulsory purchases are the rule in agriculture. There are only a handful of private farmers in the entire country.

Land remains under state control. A 1996 law makes Turkmen eligible to own land but does not grant them the rights to sell, exchange, or transfer it. Housing has been privatized to a modest extent and remains heavily subsidized by the government.

Macroeconomic Policy

1998	1999-2000	2001
6.25	6.25	6.25

The government is trying to broaden the tax base in the face of a massive shortfall in gas revenues, particularly in 1997. Although international lending institutions and individual donor countries have agreed to support the government's avowed desire to do so, it is unclear if reforming the tax system is a government priority. The existing tax system has been built on an ad hoc basis without concern for the practicalities of implementation. Changes to the contradictory, and often incoherent, tax system were made in 1997, but details are unavailable. Although income and corporate taxes range from 25 percent to 35 percent, there are no tax laws detailing specific rates, liability, and collection procedures. As a result, rates often are applied arbitrarily. The government also imposes a 20 percent value added tax (10 percent for foodstuffs) and various taxes on foreign exchange earnings and capital gains. There is also a 25 percent profit tax and a 15 percent dividend tax on income from dividends, copyrights, licenses, leases, royalties, and other sources of income. Various exemptions are available, especially for foreign investors.

Tax arrears in 1997 reached 600 billion *manat*, or 21 percent of total revenues. A major shortfall in tax revenue occurred in the first half of 1999. Official tax arrears increased to 1.75 trillion manat, though, of course, the real

level is likely higher. Much of the taxes paid to the government are in the form of goods and services. In 2000, the oil and gas industry accounted for 38 percent and consumer goods for 13 percent of tax revenues.

The official budget was essentially balanced in 1996 and 1997, but the deficit increased to **2.7** percent of GDP in 1998. The EBRD estimated Turkmenistan's general government balance at 0.9 percent in 1999 and 0.2 percent for 2000. The government announced that Turkmenistan rounded out the first nine months of 2000 with a budget surplus of three billion mantas, equivalent to 0.02 percent of GDP.

According to the Economics and Finance Ministry, revenues in 2000 were expected to be 4.1 trillion mantas (98 percent of what had been targeted). Expenditures were expected to be 4.97 trillion mantas (85 percent of what had been targeted), with 3.11 trillion mantas out of the total being used for wages, pensions and various welfare allowances. However, major expenditure items are off budget and thereby distort the real versus reported deficit. Delayed payments of wages and pensions, a regular feature of post-Communist Turkmenistan, also serve to artificially improve appearances on the expenditure side. According to official statistics, the country's GDP was 17 trillion manats at the end of September 2000.

Banking reform has hardly occurred in Turkmenistan. The Central Bank of Turkmenistan is not independent but, rather, acts as the government's main lending institution. It attempts to implement monetary policy but lacks the necessary mechanisms and authority to do so. Some autonomy was granted in 1997 in an attempt to stabilize the free-falling economy. Yet the sacking in May 1999 of reformist central bank Governor Khudayberdy Orazov (who successfully battled hyperinflation) clearly showed the limits of this policy.

There are two state banks (Vneshekonombank and Sberhank), a state agricultural bank (Dayhan, or Peasant, Bank), and 13 commercial banks. The first three dominate the financial sector and control more than 83 percent of bank credits. In January 1999, 52 former state agricultural banks were converted into the Peasant Bank. As of December 1996, 90 percent of bank credits had been extended to state enterprises, which also hold most bank deposits. Private enterprises have little access to credit. In January 2000, president Niyazov set up a new bank with US $50 million in starting capital to provide cheap loans primarily to small and medium enterprises. According to the EBRD, though, the bank had made only one loan by mid-year. As of June 2000, citizens may no longer hold foreign bank accounts.

The president has the power to restructure private commercial banks into state commercial banks by decree. In December 1998, three banks were converted in this way and restricted into narrow areas of financial activities. The minimum reserve requirements were increased to 500 million manats from 100 million in July 1997, following an increase from 25 million manats to 100 million in February 1996. There is no depositor insurance in Turkmenistan. A liquidity crisis at the end of 1998 forced an emergency merger program to reduce the number of banks.

The Interbank training center was established in 1995 to train staff for commercial banks. Since then, an estimated 300 students have gone through the program. In June 1997, the government established the Interbank Council to oversee the reorganization of the banking system. The status of this endeavor and the government's commitment to such reorganization are uncertain. In September 1999, President Niyazov dismissed the chairman of Turkmenistan's Vneshekonombank (the official foreign trading bank) for failing to attracting foreign investment and reporting an allegedly false foreign debt figure to the IMF.

Turkmenistan introduced the manat in November 1993. The Central Bank and the government control the main foreign exchange market. Access to foreign exchange auctions is limited, thus allowing the central bank to set the official rate. Commercial banks also operate a smaller foreign exchange market. The commercial bank rate generally values the manat at 30 percent below the official rate. The country has attempted to unify the official and commercial bank rates three times, with the last try failing in October 1998. As of October 2000, the annual average exchange rate was 11,630 manats per $1.

Capital markets are undeveloped in Turkmenistan. The State Commodity Exchange in Ashgabat was founded in August 1994. There is no stock market in Turkmenistan, though officials claim they were working on establishing one in the near future. The government has been selling small amounts of treasury bonds to local commercial banks since August 1996.

Microeconomic Policy

1998	1999-2000	2001
6.25	6.25	6.50

The concept of private property and its protection is not well known or widely accepted in Turkmenistan, and a genuine real estate market does not exist. Citizens may own property but cannot sell, trade, or transfer it. Although the right to own land does exist under Article 9 of the constitution, few citizens actually own any. President Niyazov signed a law protecting intellectual property rights in September 1992, but the country is not currently a member of the major international intellectual property conventions.

According to the EBRD, during the course of 1995 and 1996, Turkmenistan's formerly comprehensive system of price controls was loosened significantly. A wide range of basic goods, including meat, sugar, vegetable oil, tea, bread, slat, and flour, were subsidized until spring 1998. Small businesses in the trade and service sector are permitted. The laws that regulate them, including numerous presidential decrees, legislative acts, and administrative rules, are not

only contradictory but changes are often applied retroactively. Private citizens are poorly informed about commercial law, and there are few private lawyers available to provide them with professional advice.

Although a bankruptcy law was passed in June 1992, few companies have been forced into bankruptcy to date. The state retains extensive influence and coercive power over the private sector. For example, it has reserved the right to control employment in privatized enterprises. Licensing procedures require persons to navigate a corrupt bureaucracy.

Turkmenistan's system of commercial courts is unreformed. It lacks the resources, independence, and experience necessary to handle commercial disputes. Judges are inept and corrupt. The situation is even more hopeless with regards to disputes with the state. Disputes tend to be resolved through informal channels, not institutionalized ones.

The state dominates the most profitable, and potentially profitable, sectors of the economy such as energy, agriculture and industry. Competition is an alien concept and can be seen only to a very modest extent among the small businesses that have cropped up. Some competition has been introduced to government procurement contracts through international tenders. Previously, they were awarded for purely political reasons, and some still are.

No tariffs are charged on imports or exports, except for excise duties on specific goods. In 1997, the number of items subject to excise taxes rose from 11 to 104. Delays, paperwork, and corruption constitute informal trade barriers. There are formally few quota restrictions on imports and exports, but most foreign trade is subject to licensing. Since 1994, all export and import transactions (with the exception of cotton, oil, and natural gas) have had to be processed and endorsed at the official State Commodity and Raw Materials Exchange (CRME). Foreign trading companies must pay a 0.2 percent commission. A 6 percent tax on income from international cargo transport is also charged. Furthermore, trading companies must be licensed by the CRME. These licenses are auctioned off. Reportedly, having a close personal relationship with someone on the CRME can be quite helpful.

According to the EBRD, merchandise exports rose from $614 million in 1998 to an estimated $1.162 billion in 1999. The EBRD has projected merchandise exports for 2000 at $2.4 billion. Ukraine is Turkmenistan's largest trading partner, followed by Iran. Turkmenistan has enjoyed most favored nation status from the United States since October 1993. Turkmenistan did not join the customs union established by other CIS countries in 1996, and it is not a member of any free trade arrangements. In June 2000, President Niyazov moved to isolate the country further by barring citizens from holding foreign bank accounts.

Turkmenistan officially welcomes foreign investment in all areas. In practice, though, corruption, forced contract renegotiations, and poor infrastructure have dampened investors' interest in entering the market. The tax and legal environment is uncertain and harsh. A May 1992 law on foreign investment is the main regulatory vehicle. It requires foreign investors to report quarterly to the Ministry of Foreign Economic Relations. Foreign investments that combine export/import transactions must be approved by the State Agency for Foreign Investment. Following approval, foreign companies need to complete registration documents and apply for an export license as well. Large investments must have the personal approval of President Niyazov, who is known for being arbitrary and unpredictable. Since passage of a new law on hydrocarbon resources in March 1997, the government has been actively courting energy multinationals to participate in the development of Turkmenistan's large oil and gas reserves through production sharing agreements and as minority joint venture partners. Few have taken the country up on the offer.

Though not a formal requirement, almost every single company investing in Turkmenistan forms a joint venture with a local company. Ten free economic zones have been in operation since 1992. In these areas, foreign investors have formally unrestricted rights to accumulate and repatriate profits. They also have the freedom to set their own prices. Reinvested profits are exempt from taxation in these zones, and profit taxes are not levied for the first three years of profitable operations. However, these zones are hardly used, mainly because of infrastructure problems. Cumulative foreign direct investment for the period 1989 to 1999 was only $782 million, or $159 per capita. The EBRD has estimated total FDI for 2000 at US $100 million.

The energy sector is the most important one in Turkmenistan, but it has hardly been restructured. The country has one of the largest natural gas reserves in the world, with an estimated 2.86 trillion cubic meters (and possible 4.5 trillion more). It also has substantial on and offshore oil deposits, which the government estimates to be as high as 6 billion barrels. The Office of the President controls the sector, and there are no plans to privatize any portion of it. Traditionally, some two-thirds of Turkmenistan's budget comes directly from gas export revenues. Gas has provided anywhere from one-third to two-thirds of the country's GDP.

Turkmenistan seeks significant investment and Western participation in the exploration, exploitation, and transport of hydrocarbons in eleven major geological blocks. Legislation to encourage this was passed in 1997, after it became apparent that Turkmenistan could not, as it intended, become a new Kuwait without attracting foreign investment. In fact, although foreign companies have come in force to the other Central Asian republics, they have avoided Turkmenistan because of its unfavorable investment climate.

Aside from a small pipeline to Iran, which became operational in 1997, Turkmenistan remains dependent upon exporting its gas via the Russian pipeline system. In 1994 and 1995, Russia unilaterally thwarted Turk-

menistan's ambitions to sell its competing gas to Western countries and, instead, directed the flow solely to CIS countries in the South Caucasus and Ukraine. This was a painful blow because these customers (Ukraine being the biggest) do not pay in hard currencies and go through prolonged episodes of payment arrears. In 1995, Turkmenistan's gas output fell to less than half of its pre-1990 level. In March 1997, Russia's Gazprom restricted the flow of gas through the northern gas pipeline to Ukraine and the Transcaucasus after President Niyazov suspended a Russia-Turkmenistan gas joint venture.

In the face of this, Turkmenistan has declared its desire to export gas via Iran to Turkey, via Iran or Afghanistan to Pakistan and India, and potentially under the Caspian Sea to Azerbaijan from where it would cross Georgia into Turkey. All of these potential export routes remain problematic for both political and commercial reasons. In August 1999, the government signed a preliminary agreement with an international consortium to build the 2,000-kilometer Trans-Caspian pipeline at an estimated cost of $2.5 billion. However, the project is subject to heavy Azeri demands for concessions (not to mention disputed oil fields with Turkmenistan) and uncertain Turkish demand for the gas. The country's two oil refineries (Turkmenbashi and Chardzhou) are in need of reconstruction and operate far below capacity.

Social Sector Indicators

The official unemployment rate, which measures only the registered unemployed, was 1 percent in 1997. Of course, there are large numbers of unregistered unemployed and underemployed workers. Although an employment guarantee exists, it is particularly problematic considering the country's high population growth and significant excess employment in the state sector. The official trade union, the Federation of Trade Unions (FTU), has used travel restrictions to prevent workers from changing jobs or moving.

According to the EBRD, the social security system is partly financed by payroll taxes set at 30 percent of wages in the enterprise sector and 20 percent in agricultural associations. Public pensions were provided to approximately 425,000 people in 1995. The demographic trend in Turkmenistan is a boom in the young population; only 4 percent of the population is over the age of 65. This huge influx of young workers may help to ameliorate the traditional problems of pay-as-you-go pension systems.

In July 1998, Turkmenistan increased the pension age by two years, to 62 years for men and 57 years for women. Pension insurance premiums were also increased from the previous 1 percent to at least four percent of earnings. The actual amount depends on a contract that individuals must sign with the social welfare ministry and an authorized bank.

The average monthly wage in mid-1999 was 400,000 manat. This amount was equivalent to $30 at the black market exchange rate and was down from $40 a year earlier. Wage arrears are a problem. The current income per capita in Turkmenistan is $2,500 to $2,800 and is expected to increase to $12,000 to $13,000, according to President Niyazov. GDP per capita was US $511.3 in 1998, an estimated US $381.7 in 1999, and a projected US $458 in 2000.

The 2000 *UN Human Development Report* indicates that the combined primary, secondary, and tertiary enrollment level is 72 percent. The report's education index for Turkmenistan is 0.89, which was quite high on even world standards and among the best of the transition countries. The proportion of GDP spent on education averaged 3.4 percent from 1994 to 1997, about half the level of developed countries. About 98 percent of the population is literate.

The infant mortality rate was 55 per 1000 births in 1998. The birth rate was estimated at 25.9 births per 1,000 in 1999. Life expectancy in 1998 was 62 years for men and 69 years for women. The divorce rate in 1996 was 18 percent of all marriages. According to the *Human Development Report*, the suicide rate in Turkmenistan for the period 1993-98 was 8.1 per 100,000 for males and 3.4 per 100,000 for females. There were 353 doctors and 1,195 nurses/midwives per 100,000 for the period 1993-95. In the period 1996-98, 3.5 percent of GDP was spent on health care. For the period 1990-97, there were 11.5 hospital beds per 1,000 persons. There is a medical insurance premium that equals 4 percent of individuals' wages.

According to the World Bank's *2000-2001 World Development Report*, in 1993, 20.9 percent of the population lived on less than $1 (at PPP) per day and 59 percent lived on less than $2 (at PPP) per day.

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UKRAINE

Polity: Presidential-parliamentary democracy
Economy: Mixed capitalist (transitional)
Population: 49,500,000
GNP per capita at PPP $ (1999): 3,142
Capital: Kiev
Ethnic Groups: Ukrainian (73 percent), Russian (22 percent), Jewish (1 percent), other (4 percent)
Size of private sector as % of GDP (mid-2000): 60

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	4.00	↓↓ 4.25	↓ 4.31	↓ 4.44
Rule of Law	na	na	5.25	5.25
Economic Liberalization	4.25	↓↓ 4.75	↑ 4.58	↑↑ 4.33

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	727.6	718.6	872.2	992.9	834.8	619.5	640.2
Real GDP growth (% change)	-23.0	-12.2	-10.0	-3.0	-1.9	-0.4	6.0
Inflation rate	891.0	377.0	80.0	15.9	10.5	22.7	28.2
Exports ($ millions)	13,894.0	14,244.0	15,547.0	15,418.0	13,699.0	12,463.0	15,722.0
Imports ($ millions)	16,469.0	16,946.0	19,843.0	19,623.0	16,283.0	12,945.0	14,943.0
Foreign Direct Investment ($ millions)	151.0	257.0	526.0	581.0	747.0	489.0	594.0
Unemployment rate	0.3	0.5	1.3	2.3	3.7	4.3	4.2
Life Expectancy (years)	67.9	67.1	67.4	67.4	67.2	67.3	68.0

INTRODUCTION

Ukraine became an independent republic in 1991. Since then it has developed into a presidential-parliamentary electoral democracy that holds multiparty elections. Despite reports of irregularities, international observers deemed the 1994 presidential and parliamentary elections and the 1998 parliamentary vote as generally free and fair. At the same time, Ukraine's government restricts some civil liberties, first and foremost freedom of the press. The judiciary is inefficient, overburdened, and subject to political interference. Corruption continues to be a serious issue.

The fall 1999 presidential election was the determining factor in Ukrainian politics during the period covered by this report. Incumbent President Leonid Kuchma soundly defeated Communist Party leader Petro Symonenko in a runoff, but the election was marred by multiple irregularities. Analysts deemed it the least democratic since independence. On December 22, 1999, President Kuchma proposed Viktor Yushchenko, the pro-market head of the National Bank of Ukraine, as prime minister. The *Verkhovna Rada* (parliament) approved the selection. In January 2000, for the first time since independence, an anti-Communist pro-presidential majority replaced parliament's leftist leadership. On April 16, 2000, Ukraine held a referendum to give the president broader authority.

Throughout most of the 1990s, Ukraine was slow to implement economic reforms. Limited progress was achieved in privatization, the liberalization of prices, and the reduction of trade barriers and subsidies. Widespread resistance within the parliament and the government itself slowed, or even blocked, reform efforts. Many industrial enterprises reduced or ceased production. Wage arrears remain a problem.

Put simply, democracy in Ukraine remains unconsolidated. In the period covered by this report, President Leonid Kuchma's policies drifted in the direction of authoritarianism. At the same time, the government led by Victor Yushchenko (whose personal integrity and adherence to the principles of democracy and market economics are well-known) managed to ensure macroeconomic growth and keep inflation moderate. In fact, in 2000 gross domestic product (GDP) increased for the first time since independence. A positive shift in the economy could make the resolution of social problems more feasible and, in turn, could increase popular support for democratic reforms. Still, the country's economic situation remains problematic, especially in the energy sector. And the Yushchenko government is under attack by the oligarchs, i.e., leaders of the new politico-economic holdings whose power depends on the shadow economy and protection from the president.

Prime Minister Yushchenko is working with the new parliamentary majority to elaborate and adopt legislation that is necessary for economic, judicial, and political reforms. However, the success of these reform efforts will largely depend on the attitude of the president, who can dismiss the prime minister at will. Presently, Kuchma is trying to maintain a balance between political groups that support Yushchenko and groups that want to replace him in the spring of 2001. The success or failure of the current government will be an important indicator of the future of democracy in Ukraine.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.25	3.50	3.50	4.00

The political process in Ukraine has been marked by two contradictory trends. As a result of President Kuchma's re-election in 1999, an anti-Communist majority has taken control of parliament and approved the reform-minded Viktor Yushchenko as prime minister. However, the crackdown on the opposition that took place during the presidential campaign has continued. This was especially evidenced by the April 2000 referendum on constitutional amendments that would strengthen the president's powers and introduce a kind of "soft" authoritarianism. The amendments are now pending before parliament.

The political preferences of Ukraine's electorate are comparatively settled. Yet, in the periods between elections, the decision-making process is more like an undercover fight than a public debate. Political forces are constantly realigning, and political leaders are switching their allegiances. Reshuffling in the executive branch is frequent as well. Since 1994, Ukraine has changed prime ministers five times.

The most recent elections to Ukraine's 450-seat unicameral parliament were held on March 29, 1998. The introduction of a proportional-majoritarian system stimulated the alignment of parliament along party lines. Winners in single-member districts now fill 225 seats, and candidates on party lists occupy the other 225 seats. Thirty parties or blocks qualified to participate in the election, but only eight met the four percent threshold to secure seats. More than 75 percent of the elected deputies were affiliated with parties.

During the 1999 presidential campaign, President Kuchma preferred to split parties and balance between them so that factions were constantly realigning. This process has been even more active since his reelection. In January 2000, the parliament split into two rival bodies that held separate sessions. Ultimately, the pro-presidential majority proved victorious, and parliament's leftist leadership was forced out. The new majority includes 11 out of 13 factions and excludes the Communists and the socialists.

Parliament can influence the government by rejecting a candidate for the post of prime minister or by rebuffing the government's program. Since parties have no significant say in the government's formation, though, the 1998 parliamentary election did not result in serious cabinet changes. The Yushchenko government, which was formed

in early 2000, enjoys the support of a pro-presidential majority but does not reflect the current composition of parliament. It is dominated by non-party politicians as well. The influence of political parties at the local level is even less. After the 1998 elections, party members accounted for only 7.6 percent of local deputies. However, among the heads of *rayon* and *oblast* radas (district and regional councils) this figure increases to 19.6 percent.

The 1998 elections were followed by approximately 90 lawsuits challenging the actions of local election authorities. Local authorities denied many opposition candidates the possibility of indoor meetings. Government-controlled media were very biased. And military officers often "helped" the soldiers fill out their ballots "properly." Likewise, the Central Electoral Commission counted the votes for party lists for three days and made corrections for a month. These actions aroused suspicions of foul play. Nevertheless, official observers from the Parliamentary Assembly of the Council of Europe reported that the violations did not affect the election results significantly. These elections and the first post-Communist elections in 1994 were considered generally free and fair.

The next parliamentary elections are scheduled for March 2002. A new draft of the electoral law, which has passed its first reading, introduces a fully proportional system of representation. This model favors large parties, principally the left-of-center ones, and raises the possibility that the oligarchs could try to reinstate a majoritarian system. Thus, it is highly likely that the existing mixed system ultimately will be preserved. If the constitution is amended according to the April 2000 referendum results, the total number of deputies will reduced to 300 and a second chamber introduced. It is still unclear, though, when the second chamber will be introduced (the president's legislative proposals for constitutional amendments omit this question) and how it will be formed.

The last presidential election took place in fall 1999. The first round was held on October 31 and the second round on November 14. By law, a presidential candidate must be at least 35 years old, speak Ukrainian, and have lived in Ukraine for at least 10 years. Candidates also must collect at least 1 million signatures from voters, with a minimum of 30,000 signatures from 16 of Ukraine's 24 oblasts. Fifteen candidates delivered their signature lists on time for the 1999 election, but the election commission only certified nine. When the other six candidates appealed to the supreme court and won, the election commission was forced to register them. Perhaps, this reflected the presidential administration's strategy of splitting the opposition camp.

In the first round of voting, President Kuchma received 36.49 percent of the vote, and Communist Party candidate Petro Symonenko took 22.24 percent. Other candidates performed as follows: Oleksandr Moroz (Socialist Party), 11.29 percent; Natalia Vitrenko (Progressive Socialist Party), 10.97 percent; and Yevhen Marchuk (an independent candidate), 8.13 percent. Kuchma defeated communist hardliner Symonenko in the second round with 56.25 percent of the vote.

Observers deemed the election as far from fair. According to the Organization for Security and Cooperation in Europe (OSCE), there was clear evidence that public officials systematically campaigned for Kuchma, that media were biased toward Kuchma, and that election procedures were not followed according to the law. Students and workers at state-owned enterprises were forced to attend pro-Kuchma rallies. Observers also recorded cases of voters casting multiple ballots. However, these violations did not affect the final outcome.

Even worse violations were reported during the April 2000 referendum. To ensure a vote in favor of expanding the president's authority, the executive branch put extreme pressure on every government agency, including the electoral commission. And it succeeded. According to international observers, the referendum was neither free nor democratic, apart from having a very weak legal basis.

Voter turnout in Ukraine at the national level has declined from 84.9 percent in the December 1991 referendum and presidential election to 63.8 percent in the 1998 parliamentary elections and to 70.2 and 74.9 percent in the first and second rounds of the 1999 presidential election. According to exit polls conducted by the Kyiv International Institute of Sociology, female participation in rounds one and two of the 1999 election was 50.6 and 51.2 percent, respectively. Overall, women account for 54.9 percent of the electorate. For the April 2000 referendum, voter participation rose to 81.2 percent. However, these data cannot be considered reliable because of obvious election violations. For example, 54.2 percent cast their votes before April 16. Since recent local elections have coincided with parliamentary elections, voter turnout is the same. However, in several mayoral elections in 1999 and 2000, turnout rarely exceeded 50 percent.

There are no onerous barriers to the registration of a political party. As a result, by fall 2000, there were 105 legally registered parties. However, most of them only exist on paper. In March 2000, parliament adopted a law on political parties that, if signed by the president, could make conditions for registration more stringent.

Only two Ukrainian parties have ever been banned. In 1991, the Communist Party of Ukraine was declared illegal in the wake of the August coup d'etat attempt. However, a new independent Communist Party was legalized in 1993. In 1995, the Ministry of Justice annulled the registration of the extreme right Ukrainian National Assembly-Ukrainian National Self-Defense (UNA-UNSO), but it was renewed when the UNA split from the UNSO (its paramilitary wing).

According to party estimates, almost two million Ukrainians (or four percent of the population) belong to parties. But this figure does not seem to be reliable because the number of persons who actually pay dues is much smaller. Only a handful of parties are mass membership based. These include the Communist Party (about 140,000 members),

the Socialist Party (about 28,000 members), and Rukh (60,000 before its split in 1999). The Social Democratic Party (United), the Agrarian Party, and the Peasants Party claim more than 100,000 members each, but these figures are doubtful.

Statistics on female membership are scarce, but, according to estimates, women comprise a minority of party members. For example, women account for 21 percent of the Communist Party's membership. The United Nations Development Programme (UNDP) has reported that the number of women in parliament rose from 4.2 percent in 1994 to 8.2 percent in 1998 (approaching the global average of 10 percent) and that the number of women in local radas has risen from 30 to 38 percent. Women account for more than 60 percent of civil servants.

Ethnic and religious minorities do not rely heavily on their own parties. Most Russians support all-Ukrainian leftist or centrist parties. As a result, three openly pro-Russian parties with slogans of "Slavic unity" did not overcome the four percent threshold in the 1998 parliamentary elections. On the eve of that election, the pro-Russian Verkhovna Rada of Crimea omitted a 1994 provision granting Crimean Tatars a quota for representation in that body. In the 1998 national elections, Crimean Tatars supported Rukh. Their leader, Mustafa Cemiloglu, was elected to parliament on Rukh's party list. Representatives of ethnic minorities are often elected in majoritarian districts. Ethnic minorities are active in parliament and in the presidential entourage.

Civil Society

1997	1998	1999-2000	2001
4.00	4.25	4.00	3.75

Civil society in Ukraine is still mostly atomized, and the activity of NGOs is overregulated. Nevertheless, the number of NGOs has grown quickly. The Law On Associations of Citizens was adopted in June 1999, and the draft of the Law "On Non-Profit Organizations" passed its first reading in October 2000.

According to a study by the Innovation and Development Center (IDC), at the beginning of 2000 there were approximately 28,000 NGOs in Ukraine. Of these, 95 percent were local NGOs; 4 percent, national; and 1 percent, international. Average annual growth between 1995 and 1999 was very rapid. Most Ukrainian NGOs are advocacy groups for women, children, families with many children, the poor, the disabled, and human rights. NGOs are the most developed in the Kiev, Lviv, Kharkiv, Donetsk oblasts. In small towns and villages, NGOs that operate well are an exception.

Thirty-eight ethnic groups have created their own civic and cultural NGOs. Of these, 25 operate at the national level. There are also several associations of ethnic NGOs. The most active ethnic organizations are those of the Crimean Tatars, Jews, and Roma. Some receive aid from international organizations (e.g., the International Renaissance Foundation supports a Roma cultural development program).

The number of regional organizations for women is around 300. Of these, approximately 30 are all-Ukrainian and have an umbrella structure called the National Council of Women of Ukraine. Major women's organizations include the Union of Ukrainian Women, Women's Community (Zhinocha Hromada), the Union of Women of Ukraine, La Strada Ukraine, the Organization of Soldier's Mothers of Ukraine, and the Olena Teliha Ukrainian Women's Society.

The following laws currently regulate NGO activities: the Law On Associations of Citizens (June 1999), the Law On Charity and Charitable Organizations (1997), and the Law On Youth and Children Non-Governmental Organizations (1998). Resolutions of the Cabinet of Ministers and more than 350 resolutions and instructions concerning taxation also regulate NGOs.

Registration of an NGO is rather onerous. An organization must submit to local authorities or the Ministry of Justice an application, two copies of regulations documents, minutes of a foundation meeting, information about the founders and the administration of the future NGO, information about branches of the organization, and a receipt for payment of the registration fee. Registration must be completed within two months. Then, within a month, the NGO must also register with the Department of Statistics, the State Taxation Administration, the Ministry of Interior (the department which authorizes the making of the organization's seal), the State Employment Fund, the Social Insurance Fund, and the Pension Fund. It also must open a bank account. Another means of registering is by declarative or de facto legitimization. To do so, an NGO must send a letter to an authority saying that the organization is already in operation. As a rule, local NGOs or local branches of national NGOs register this way.

The organizational capacity of Ukrainian NGOs has improved noticeably, but it is still a widespread practice for NGO leaders to combine intellectual leadership with practical office management. The management structures of many NGOs outside Kiev and other regional centers do not clearly delineate the authority and responsibilities of every member and/or employee. Quite often, a Ukrainian NGO consists of a leader and a group of his or her friends and relatives. While an increasing number of NGOs have independent supervisory boards with formalized internal procedures and rules, such NGOs still remain in the minority. Ukrainian-language and some Russian-language materials are published by resource and research centers in Ukraine. IDC publishes a magazine for NGOs called *Perekhrestia* (Crossroads), and Freedom House publishes *NUO Novyny* (NGO News). Some materials are translated from English, and most materials are distributed free of charge. A dozen foreign assistance programs and joint Ukrainian-Western projects provide experienced trainers for NGOs.

Most NGOs rely on donations and grants from foreign and domestic sources. Although an increasing number of NGOs has benefited from the growing interest of corporations, individuals, and society groups, only about one-fifth enjoys the philanthropy of local donors. In general, philanthropy and volunteerism are insufficiently developed and are usually connected to elections or publicity campaigns. Moreover, philanthropy is still mostly unofficial because of red tape and inadequate taxation. Companies prefer one-time donations, and few make long-term commitments.

Tax-exempt status exists for a limited number of organizations, including veterans' groups, Chernobyl-related organizations, and some organizations for children and the disabled. Registered nonprofit groups enjoy partial taxation benefits such as exemption from paying value-added taxes and capital-gain taxes. NGOs are obliged to disclose their revenue sources, and most do so when they acknowledge support for particular activities in their reports to donors. However, double bookkeeping is common.

Government procurement opportunities for private nonprofit service providers are virtually nonexistent. NGOs may not earn income or collect cost-recovery fees that would be tax-exempt, even if the money were spent on nonprofit activities or maintaining the NGO. Instead, an NGO may be the founder or cofounder of a commercial entity that donates part of its profit to the NGO. In such cases, any income (cost recovery fees included) is taxed as regular corporate income.

On February 12, 2000, President Kuchma issued a regulation On Stimulating Charitable Activity through tax exemptions. However, an amendment to the Cabinet of Ministers' decree On Income Tax on Citizens that parliament adopted on March 2, 2000, states that charitable aid must be considered income and taxed as income. On the other hand, the Ministry for Labor and Social Policy recently created a draft law on charity that will provide economic stimuli for charity.

Both the public and the policy-making community have shown an increasing awareness of the role of NGOs. Several NGOs, including IDC, the Pylyp Orlyk Institute for Democracy, and the Institute of Civil Society, offer expert analysis and create draft laws on NGO problems. Local authorities have started to show an interest in NGOs activities aimed at helping the poor, children, or the disabled. Some governmental institutions such as the Ministry of Labor and Social Policy are willing to cooperate with NGOs, while many other ministries do not pay significant attention to them. However, the role of NGOs is gaining in importance, especially when there are personal connections between NGO leaders and government officials. Former politicians and senior civil servants run some important NGOs.

The media's attitude toward NGOs is generally positive. According to an IDC poll conducted in fall 1999, the charitable activity of NGOs is the most popular subject for journalists. Yet, NGOs are still terra incognita for the majority of Ukrainians. According to the magazine *Perekhrestia,* 59 percent of people asked to name an NGO could not name a single one. Only 8.5 percent did not trust NGOs.

Legal forms of interest group participation in politics include political parties, business groups, NGOs, and trade unions. Pensioners and groups that address veterans' issues, Chernobyl, and the environment often seek to influence policy making through public protests. Some interest groups (pensioners, women, and trade unions) have created their own parties, but they do not enjoy significant support and mainly are used by the executive branch to split the opposition. Much more effective are private businesses and directors of state-owned enterprises who lobby their parliamentary deputies and political parties.

The Federation of Trade Unions (FTU) is a successor to the former Soviet state-sponsored trade unions. As of January 1, 2000, it claimed membership of 15.6 million workers. In 1998, the number was 16.5 million. Several important branch trade unions have seceded from the FTU. According to unofficial estimates, the FTU's actual membership is much lower. In general, the number of unionized workers in Ukraine has declined because of the development of the private sector, the closing down of enterprises, and disappointment with trade-union activity among 50 to 60 percent of the country's 23 million economically active persons. The National Confederation of Trade Unions, which has a stated membership of 3 million, is in decline and has not passed the requirements for reregistering. In addition to the FTU, Ukraine's largest trade union federations are the Solidarity Federation of Trade Unions of Ukraine, the Confederation of Free Trade Unions of Ukraine, the Federation of Trade Unions "Our Right", and the Association of Solidarity of Workers (VOST). Their total membership, however, hardly exceeds 1 million. On October 18, 2000, the constitutional court deemed several provisions of the Law On Trade Unions, Their Rights, and Guarantees of Activity (September 1999) as unconstitutional and, thus, eased the reregistration requirements for trade unions.

There are approximately 100 regional and 30 national associations for small businesses. The most influential group is the Union of Small, Medium and Privatized Enterprises. Yuri Yekhanurov, its former leader, was appointed to the post of first deputy prime minister early in 2000. Small businesses also have several rather strong trade unions such as the Federation of Trade Unions of Cooperatives and Other Forms of Entrepreneurship. However, according to the U.S. Agency for International Development (USAID), only 10 percent of all persons engaged in small businesses actively participate in these associations.

During the period covered by this report, the number of individual farms increased steadily, reaching 36,000 by January 2000 and 41,000 by July 2000. There are farmers' associations in every oblast and in most rayons. At the national level, there is the Association of Farmers and Private

Land Owners. According to expert estimates, around 10 percent of farmers pay dues to this association and around 30 percent actively participate in it.

Independent Media

1997	1998	1999-2000	2001
4.50	4.75	5.00	5.25

In 1999, the New York-based Committee to Protect Journalists included President Kuchma of Ukraine on its list of the world's ten worst enemies of the press. During the presidential campaign that same year and thereafter, the media situation in Ukraine has been marked by the government's crackdown on freedom of the press. Opposition newspapers have been harassed or suspended, and television broadcasts have been censored.

According to official figures, by July 2000 there were more than 8,000 printed media in Ukraine, although only about 2,600 are published regularly. As much as 70 percent of Ukraine's print media is privately owned. However, the true owners of private newspapers prefer to hide their names from the public. That is why most nongovernmental media claim to have been founded and to be owned by their editorial staff.

The most influential private media include the newspapers *Zerkalo Nedeli/Dzerkalo Tyzhnia* (with a declared circulation of 48,000 copies), *Kijevskiy Telegraf* (50,000), *Biznes* (60,000), *Den'* (62,500), *Sil's'ki Visti* (500,000), *Fakty* (1,000,000), *Segodnya* (122,000), *Kijevskije Vedomosti* (80,000), and *Vechernije Vesti* (480,000). Influential private electronic media include the television channels Inter, Studio 1+1, STB, and ICTV, which have signals covering most of the country, and the FM-radio stations Radio Roks, Radio Kontinent, Gala Radio, and Radio Kijevskije Vedomosti. Ukrainian versions of Russia-based newspapers include *Moskovskiy Komsomolets-Diorama Plus* (410,000), *Izvestiya-Ukraina* (232,000), *Komsomolskaya Pravda v Ukraine* (130,000), *Argumenty i Fakty v Ukraine* (110,000), and *Stolichnyje Novosti* (70,000). Among news agencies, the private ones, including Interfax-Ukrajina and UNIAN, are dominant. The official DINAU news agency looks like a mere Soviet relic.

The August 1998 Russian financial crisis greatly reduced the size of the advertising market. Today, most print media covering sociopolitical issues have to sell their publications very cheaply simply to hold on in the market. Newspaper-printing houses are state-owned. Newspapers are distributed by the state postal service Ukrposhta, state-owned kiosks, or private services. Some dailies also have a broad network of private citizens to sell their publications on the street.

The media's ability to gather news has been affected deeply by interference from oligarchs who control almost all major private media in Ukraine. Likewise, the media are subject to presidential pressure and are reluctant to criticize the executive branch. Ukraine does not have an opposition television channel or an opposition newspaper with mass circulation. *Zerkalo Nedeli* is analytical and objective, but it is not oppositional. The audience of the oppositional *Sil's'ki Vist*, *Komunist*, and *Tovarysh* is limited to the left and rural electorate. And the privately owned oppositional *Hrani* (circulation 30,000) is not subscription based and cannot be bought in kiosks; it is distributed on the street as a leaflet. It is no surprise, then, that according to a March 2000 survey by the Gfk-USM company (March 2000), BBC radio and the U.S.-sponsored Radio Svoboda have the highest credibility rating among all Ukrainian media. Both can be heard throughout the country.

The 1996 constitution, the 1994 Law on Television and Radio Broadcasting, and the 1992 Law on Information provide for freedom of the press. However, these laws do not distinguish clearly between the right to privacy of ordinary individuals and that of politicians. As a result, politicians have sued the media extensively and demanded huge sums of money as compensation for "moral damage." Recently, Ukrainian journalists led a series of efforts to force parliament to limit damages to one percent of a newspaper's annual income. However, the legislation failed to pass through the pro-Kuchma legislature.

During the 1999 presidential campaign, tax police, fire brigades, and printing houses harassed media that were critical of Kuchma. In June 1999, Crimean authorities stopped broadcasts at four independent Crimean television companies. In July 1999, one of STB's leading journalists, Mariana Chorna, committed suicide in response to pressure being place on the channel. And in August and September 1999, local tax officials froze STB's bank accounts and forced the channel to change its owner and its editorial policy. Live broadcasts of parliamentary session were halted in May 1999.

The crackdown on press freedom in Ukraine has continued since Kuchma's reelection. In September 2000, *Svoboda* was forced to suspend printing after it published articles that were highly critical of top government officials. The opposition *Sil's'ki Visti* was forced to pay an enormous tax fine and to suspend printing as well. On September 16, 2000, Heorhiy Gongadze, a well-known investigative journalist with the Internet newspaper Ukrajinska Pravda, disappeared.

The journalistic community in Ukraine has disintegrated, and professional associations no longer play a significant role. The official post-Soviet Association of Journalists of Ukraine (AJU) is not fully independent. The AJU's official membership is 12,000 persons, about one-third of which are women. Women account for 10 to 15 percent of membership in the Guild of Chief Editors of Ukrainian Mass Media. There are also a number of Western-sponsored press organizations, including the Committee to Protect Journalists, the Ukrainian Media Club, and the Freedom of Speech Center. In general, these organizations do not affect the policy-making process significantly.

While the number of Internet users in Ukraine is on the rise, less than one percent of the population has regular

access to the Web. This is due more to poor communication networks, a lack of computers, and high service fees (up to $0.70 per hour) than to political restrictions. Several influential and independent Internet media outlets have been created recently. These include Korrespondent.net, Ukrajinska Pravda, Uatoday, and Part.org.ua.

Since 1997, government authorities have tried several times to seize control over the World Wide Web. On June 27, 1999, for example, President Kuchma signed a decree On Licensing for Several Types of Business Activity, which can make the receipt of a license to provide Internet service contingent on installing equipment that traces transmissions. Although parliament vetoed the decree, Internet service providers still fear government efforts to control the industry.

In Freedom House's *Survey of Press Freedom*, Ukraine has been rated "Partly Free" since 1992.

Governance and Public Administration

1997	1998	1999-2000	2001
4.50	4.75	4.75	4.75

During the campaigns for the 1999 presidential election and the April 2000 referendum, President Kuchma's administration used its power to limit the autonomy of other government bodies. However, Kuchma's actions did not violate the constitutional framework outright.

On January 13, 2000, members of parliament formed a working majority that occasionally supports economic reform measures. The status and competence of the Cabinet of Ministers remain unclear because the president repeatedly has vetoed a relevant law. As a result, the government is not responsible to parliament, and parliament has no leverage in the formation of the government. The president can fire the prime minister at any time.

If the April 2000 referendum results are implemented in law, the president will have the right to dissolve the lower chamber if it fails to "create a working majority" within a month or to pass a budget within three months. The definition of a "working majority" is still unclear.

Neither executive nor legislative bodies operate with full openness and transparency. Detailed data about the spending of public funds and state procurement are unavailable. Since existing legislation is vague about what constitutes a state or a military secret, officials broadly adhere to the practice of withholding information from the public. Experts and journalists use their personal connections with members of parliament and government officials to obtain draft legislation. Some NGOs have tried to publicize the texts of bills and laws.

Local radas strictly address local issues such as the establishment and control of communal enterprises and organizations, the introduction of local taxes and duties, the development and implementation of social and cultural projects, and the management of communal property. They adopt and manage budgets for their territorial unit. Communities may call referendums on local issues and start local initiatives within their authority. Local and regional radas adopt programs for social, economic, and cultural development. They also adopt and control local and regional budgets. Parliament may terminate the powers of a local council if it decides that the council's actions contradict Ukrainian law.

The deputies of subnational levels of government are elected in direct elections that are generally free, but the media has reported an increase in interference from local state administrations and in illicit financial donations from businesses. Since heads of local state administrations are appointed and fired by the president, their loyalties are to the president's administration and not to the government. Several heads of local and regional state administrations were replaced after the 1999 presidential elections for failing to secure a majority of votes for Kuchma.

The Autonomous Republic of Crimea has its own constitution. The Crimean Council of Ministers operates a budget approved by the Crimean parliament, which has a substantial amount of independence from central authorities. However, Article 136 of the Ukrainian constitution contains an ambiguous provision that the head of the Crimean Council of Ministers must be appointed and dismissed by the Crimean parliament with the consent of the President of Ukraine. As a result, the pro-presidential government of Serhiy Kunitsyn remains in office, despite a no-confidence vote solicited by Communist Leonid Hrach, the head of the Verkhovna Rada of Crimea, on May 24, 2000.

Article 143 of the 1996 constitution and the 1997 Law On Local Self-Governance in Ukraine are aimed at decentralizing substantial power to subnational bodies and providing sufficient financing to local governments. However, this can happen only if budgetary functions are returned to district and regional governments. While several regional reform plans have been drafted, none have been endorsed officially.

Likewise, local and regional administrations have lost control of their budgets. The share of the state budget in the so-called consolidated budget increased from about 50 percent in the mid-1990s to more than 70 percent in 2000. This is mainly due to the centralization of taxes on personal incomes and enterprise profits. A draft budgetary code passed in its second reading in July 2000. However, according to estimates by the Ministry of Finance, even in the new consolidated budget the share of the state budget will equal 73 percent. Local and regional needs will be financed through budget transfers to regional administrations, which in turn will distribute them to lower administrative levels. This practice has been deemed inefficient because it can lead to payment delays, create opportunities for corruption, and limit the authority of local governments.

According to the Law on State Service, adopted in 1993 and amended in 1995 and 1996, civil servants are subordinated to the General Department of Civil Service of the Cabinet of Ministers. Local civil servants are nominally employees

of local governments. The law prohibits civil servants from misusing their authority but provides for no mechanism for enforcement. The law also gives civil servants the right to acquire information from a variety of sources and grants them a number of socioeconomic benefits.

Civil service reform is one of the most hotly debated issues by governmental officials and the media. In 1998, a special task force for administrative reform was created with former President Leonid Kravchuk as its head. To date, though, reforms mainly have concerned a decrease in the number of public officials and restructuring of the central executive organs. The most fundamental problems—redistributing functions and deregulating the economy—have seen no improvement. The number of civil servants as of 2000 was about 250,200. There were 176,800 in 1996 and 250,500 in 1997.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
3.75	4.00	4.50	4.50

After his reelection, President Kuchma ordered a "nationwide referendum on the people's initiative" on six basic questions aimed at substantially expanding the president's powers. The Parliamentary Assembly of the Council of Europe (PACE) harshly criticized the referendum, and the constitutional court deemed unconstitutional two proposals concerning the president's power to dissolve parliament and the adoption of constitutional amendments by national referendum. On April 16, 2000, voters approved four other proposals concerning (1) the president's right to dismiss parliament if it fails to form a majority or to approve a state budget, (2) limits on the immunity of parliamentary deputies from arrest and criminal prosecution, (3) a reduction in the number of parliamentary deputies from 450 to 300, and (4) the formation of a bicameral parliament. The president included the first three proposals in a draft bill that the constitutional court approved in July 2000. When 150 lawmakers drafted their own version of the bill, which would water down Kuchma's proposals and give more power to parliament, the court ruled it out. President Kuchma is putting enormous pressure on parliament to approve his bill.

The constitutional court issued several other important ruling during the period covered by this report. In June 2000, it deemed constitutional acts passed in February by the anti-Communist majority of then-split Verkhovna Rada. In December 1999, the court confirmed the status of Ukrainian as the state language and ruled that the death penalty was unconstitutional. The latter ruling came just before PACE was going to consider suspending Ukraine's membership in the Council of Europe.

Reform of the criminal justice system continues slowly. The 1996 constitution calls for reform of the court system by 2001, but parliament has failed to pass two draft laws on the judiciary. In August 2000, President Kuchma founded a Council on Reform of the Judiciary to accelerate the process of drafting necessary bills.

The current criminal code and criminal procedural code were adopted in 1960, but they have been amended substantially since independence. Probably the most crucial amendment to the criminal code was parliament's February 2000 decision to replace capital punishment with life imprisonment following the constitutional court's December 1999 ruling. In January 2000, parliament amended the criminal procedural code to provide legal protection for witnesses in criminal cases. In March 2000, criminal responsibility for violating the copyright law on audio and video recordings was introduced. Lawmakers have been in the process of drafting a new criminal code for more than five years. Finally, in September 2000, the new draft criminal code, which the government and parliamentary experts developed jointly, passed its second reading in the Verkhovna Rada.

Chapter II of the constitution guarantees broad human rights and civil liberties, including political liberties and religious and minority rights. Article 41 defines private property rights, and Article 42 guarantees the right to engage in free enterprise. It also provides protection for fair competition in business. Human rights include the de facto right to own a business and private property, but the mechanisms for protecting this right are ill defined. In July 1997, the Verkhovna Rada ratified the European Convention on Human Rights. In December 1997, parliament passed the Law On the Authorized Representative of the Verkhovna Rada for Human Rights that introduced the office of the ombudsman. The ombudsman's duty is to react to complaints of human rights abuse and to use his or her initiative to enforce human rights provisions and norms. However, the ombudsman has not been very active lately. For example, the Soviet-era system of compulsory registration for a permanent residence is still in place, even though it contravenes the right to freedom of movement.

According to the 1991 Law On the Procuracy, a prosecutor must issue an arrest warrant if a person's detention exceeds three days. Citizens may appeal their arrest either to the court or to the prosecutor; they must be released if charges are not brought within 48 hours. The prosecutor authorizes searches. Judges must initiate trials within three weeks after charges are filed. However, a shortage of judges and delays in the court system has repeatedly led to violations of this law. In some cases, for example, suspects have been detained for months. And while suspects are entitled to free public defenders in criminal cases, the role of public defenders in trials is sometimes little more than pro forma.

The European Court on Human Rights has consistently declared as admissible the complaints of Ukrainian inmates about torture and inhuman treatment. In several cases, torture has resulted in death, according to a February 2000

report by the Bureau of Democracy, Human Rights, and Labor of the U.S. Department of State. Prisons are overcrowded and lack funds, and conditions in them are at odds with internationally recognized norms. Many inmates suffer from tuberculosis.

Article 24 of the constitution prohibits discrimination or privileges based on race, gender, ethnic and social origin, language, and political, religious, or other views. Ethnic minority rights are guarantees under Articles 10 and 11 of the constitution and the 1992 Law on National Minorities. This law calls for respect of ethnic minorities' traditions, religions, and languages, and guarantees support for the development of ethnic identity and self-expression. Representatives of ethnic minorities can be elected or appointed to all levels of government, and passports no longer mention one's ethnicity. In places where an ethnic minority constitutes the majority of the population, its language may be used, along with Ukrainian, in public offices and institutions. However, the constitutional court's December 1999 ruling that the use of the Ukrainian language is compulsory for public officials at the national and the local level has raised criticism from Russian-speakers. In reality, though, many Ukrainians (especially in the eastern part of the country) still live in a Russified environment. Because of Ukraine's economic difficulties, public funds for the needs of ethnic minorities, including the return and resettlement of some 300,000 Crimean Tatars, are decreasing.

The Constitution and the 1992 Law On the Status of Judges guarantee the impartiality of judges, even though the courts are funded through the Ministry of Justice. Article 128 of the constitution stipulates that the president makes the first appointment of a professional judge to a five-year term. In all other cases (except for appointments to the constitutional court), judges are endorsed by the Verkhovna Rada for life terms and are immune from prosecution. A judge can be arrested only with the permission of parliament. In October 1999, parliament stripped judges of immunity from administrative prosecution. The law also specifies liabilities for attempts to influence or limit judicial independence. And, yet, courts and prosecutors' offices remain vulnerable to pressure by the executive because they are overburdened and lack sufficient funding and staff.

Pressure on the judicial branch usually takes the form of personal requests or orders from high-ranking officials. During the 1999 presidential election, for example, the courts did not register many suits filed against President Kuchma and his supporters. Even the constitutional court was under pressure from Kuchma. Likewise, the Supreme Council of Justice, established in January 1998 to ensure fairness and professionalism in the judiciary, did not effectively perform its duties.

The March 1998 Law On State Executive Service introduced executive bodies in the Ministry of Justice to enforce judicial decisions. However, enforcement of judicial decisions is only effective in criminal cases. When it comes to civil cases in which private economic interests are involved, judicial enforcement leaves a lot to be desired. This is largely because of the absence of a tradition of respecting private property, an inadequate legal framework, and a multitude of cases in which social rights are affected (i.e., when the government and enterprises fail to pay wages).

Corruption

1999-2000	2001
6.00	6.00

Corruption in Ukraine is widespread. Economic and social activities are too tightly regulated, administrative control and judicial review are weak, and salaries for public officials are low. The roots of Ukrainian corruption are similar to other post-Communist countries. That is, wealth is concentrated in the hands of a small elite whose livelihood depends on its relations with patrons in government. Corruption has implicated people at the very top of the system and is an outgrowth of the struggle for control over key economic sectors. The energy sector has been the most lucrative (or at least the most discussed) in terms of corruption. Most of Ukraine's gas and oil come from Russia and, therefore, are subject to both political pressure and economic cronyism.

In August 2000, a major scandal erupted when two key officials at Unified Energy Systems (UES), Ukraine's principal energy importer, were arrested on charges of embezzlement and fraud. One of the officials, Oleksandr Tymoshenko, is married to Deputy Prime Minister Yuliya Tymoshenko. The second official, Valeriy Falkovich, was the deputy head of UES. Mrs. Tymoshenko, who was the head of UES at the time of the alleged fraud, claims that she was instrumental in reducing kickbacks and under-the-table payoffs. The current charges, she claims, are the result of a political campaign against her.

A second major scandal also has illuminated the murky connections between politics and the black market. This case involves former Premier Pavlo Lazarenko, who was indicted in June 2000 for transferring $114 million to U.S. banks and brokerages. Lazarenko was jailed in San Francisco while awaiting the resolution of a Swiss extradition request. In the Swiss case, Lazarenko allegedly funneled more than $170 million obtained in kickbacks into Swiss banks. All told, Lazarenko supposedly made as much as $880 million from his tenure in office.

On June 29, the Geneva police court handed him an 18-month suspended sentence and confiscated $6.6 million from his Swiss bank accounts. Lazarenko insisted that he wasn't acting alone and suggested that other top politicians were the corrupt ones. Lazarenko also has been accused of arranging at least three murders, including that Yevhen Scherban, a prominent member of the Ukrainian legislature. Lazarenko continues to deny all charges, but President Kuchma wants Lazarenko to face trial in Ukraine.

In the process of defending himself, Lazarenko pointed to another questionable episode. He has claimed that in 1998 and 1999 officials in the Kuchma government diverted IMF funds to speculative government bonds. An audit produced no evidence for the charge, but the event strained relationships with Washington. Lazarenko's successor, Viktor Yushchenko, had to cancel a trip to Washington when he learned that President Clinton would not see him until Ukraine's government was "cleaned up." A parallel investigation was launched into suspected abuses of office by Viktor Yushchenko when he was the head of Ukraine's Central Bank.

What the foregoing shows is that corruption has been tied inextricably with political partisanship and has paved the way for a general atmosphere of corruption at all levels of government. Likewise, investigating corruption can be dangerous. Heorhiy Gongadze, a prominent investigative journalist, disappeared in September 2000 after publishing a dossier that linked Oleksandr Volkov, one of Ukraine's leading oligarchs, to organized crime. And there is little prospect that things will improve, primarily because Russia is focusing its attention on Ukraine's state energy and manufacturing sector. Several leading Russian entrepreneurs hope to reap the same windfall profits from Ukrainian privatization that they earned in Russia during the 1990s, and several mergers are underway. These include Lukoil's attempt to take over the Odessa oil refinery, Alfa bank's bid to buy a 76-percent interest in Kyiv Invest Bank, and Siberian Aluminum Group's purchase of a Ukrainian plant.

Ukraine's 1993 Law On the Civil Service specifies a code of ethics for civil servants, but the law generally is not observed. According to the 1995 Law On Fighting Corruption, civil servants may not engage in profit-generating activities. However, the law does not provide an enforcement mechanism and contains loopholes that allow civil servants to engage in "creative activities" like research, consulting, and, lecturing. While top government officials formally resign their positions as heads of companies, they often continue to promote their interests through honorary positions.

According to the Law On Elections of the President of Ukraine (January 1999), presidential candidates must disclose their income. Applicants for civil service positions must do the same. In general, persons tend to understate their earnings and property holdings by reporting their official salaries, which are relatively low.

Under the constitution, the Auditing Chamber controls budgetary spending on behalf of parliament. However, its effectiveness is undermined by the 1996 Law On the Auditing Chamber, which only gives the chamber power to inform law-enforcement agencies about misdemeanors. In turn, the Office of Attorney General represents the state in court and monitors investigations and criminal procedures—a common role for attorney generals in continental European countries. Under the Provisionary Articles of the Constitution, which are in force until 2001, this office has the power of general oversight over law enforcement "until the respective laws on other government oversight bodies take effect." However, the Office of Attorney General is unable to exercise oversight over the executive because it remains financially and materially dependent on it.

Ever year since 1994, the Ukrainian parliament, government, and presidential administration have devised anticorruption initiatives. By October 2000, there were 52 legal acts devoted to fighting corruption, including the 1995 Law On Fighting Corruption. The provisions of these acts are generally not observed, and investigations into corruption by top officials that are undertaken by special parliamentary commissions, investigative journalists, or even the Audit Chamber tend to go nowhere. Prosecutions mainly affect low-ranking officials, but the cases against Pavlo Lazarenko Oleksandr Tymoshenko are exceptions.

One of the core reasons for the proliferation of corruption in Ukraine is excessive regulation in the economic and social spheres. To start an enterprise, an entrepreneur must obtain 15 permits and official notifications from various authorities. In 1999, the number of laws and bylaws regulating taxation exceeded 500; this was an improvement over 1998 when the number reached 664. In 1991, there were only 21 normative acts on taxation. Foreign investment is regulated by more than 130 normative acts. These acts were adopted in different times and often contradict each other. Moreover, more than 100 local and state authorities have the right to inspect enterprises and other legal entities (including NGOs). Sixty different authorities have the right to seize bank accounts, revoke licenses, or impose similar punitive actions. According to World Bank estimates, the annual sum of bribes in Ukraine equals the country's trade turnover for a two-month period. In 1998 the president issued a decree On Deregulation of Business Activity, which was intended to curb the ability of different authorities to inspect enterprises. However, the decree's provisions are vague, and judicial review and law enforcement are weak. Moreover, the decree does not pertain to nonprofit institutions.

The severity of punishments only makes the situation worse. In Ukraine, a person or legal entity criminally liable if the sum of unpaid taxes exceeds 1,700 *hryvnia* (UAH). This provides an incentive for authorities to extort bribes as an alternative to criminal punishment. There have been several attempts to raise the threshold of criminal responsibility for tax evasion, but to date no decision has been made. Moreover, the draft criminal code provides for criminal responsibility for involuntary tax evasion. The implementation of this provision would only increase corruption.

Under the draft taxation code, which aims to unite all taxation regulations in a coherent document, the rights of the tax administration remain vast. It would be free to launch inspections, demand and withhold materials and documents, and forcibly execute tax payments. However, members of parliament have criticized this provision, and the administrative section of the code will probably be revised.

Most people are willing to pay bribes to smooth or accelerate the provision of services such as installing a telephone, obtaining a license to operate a business, and applying for official documents. They also pay bribes to receive otherwise-deficit services like entrance to a university and admission to a hospital. In turn, low salaries tempt officials to extort bribes. In polls conducted in March 2000 by the Ukrainian Center of Economic and Political Studies, 60.5 percent of respondents confessed that they had bribed officials to receive services to which they are entitled by law. There are no effective anticorruption educational programs.

In its 2000 Corruption Perceptions Index, Transparency International ranked Ukraine 87 out of 90 countries and gave it a score of 1.5 (where 10 represents the lowest level of corruption). Transparency International ranked Ukraine 75 out of 99 with a score of 2.6 in 1999, and 70 out of 85 with a score of 2.8 in 1998.Likewise, a recent survey by the World Bank and the European Bank for Reconstruction and Development of 247 Ukrainian businesses revealed that 32 percent were affected by illegal payments to influence public policy and public institutions.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
4.25	4.50	4.50	4.25

According to the State Statistics Committee, the share of GDP coming from the private sector in 1999 and 2000 was about 60 percent. The same committee has reported, though, that only 1.1 percent of industry is in purely private hands; 15.9 percent is entirely state or municipal property, while 0.4 percent is the property of foreigners. The remaining 82.6 percent, which contributes more than 54 percent of GDP, is former state property that has been corporatized and turned into shareholding companies. Between 25 and 50 percent of the shares in these enterprises remain in the state's hands, and this allows state officials to interfere in decision-making processes. Most observers, including the World Bank, believe that Ukraine's informal (or shadow) economy approaches 70 percent of GDP. The International Labour Organization estimates that 60 percent of Ukraine's labor force is employed in the private sector.

During the period covered by this report, the government adopted 159 documents on privatization, 87 of which parliament passed as laws. These documents were intended to increase the number of enterprises that may be privatized and to make the privatization process fairer. Nonetheless, there are still gaps in legislation that slow down the privatization process.

Between January and September 2000, the state budget received only UAH 1,260 million ($231 million) in privatization earnings. This was UAH 400-500 million less than the expected revenue. The state aims to raise $2.5 billion in the sale of its telecommunications company Ukrtelecom. The June 2000 privatization law calls for the sale of a 50-percent stake (without one share), of which 25 percent must be sold to an investor that has worked in the telecommunications sphere for at least three years.

In the previous years, insider privatization was accomplished through Ukraine's certificate and re-compensation programs. Under the certificate privatization program, which ended in January 1999, privatization certificates that could be exchanged for stock in enterprises were distributed to citizens. Management and large investors, in turn, used the program to gain additional shares.

Generally, the public does not support privatization because it sees few possibilities to reap its benefits. As the number of success stories increases and public relations for the process improves, it is quite possible that the public will change its attitude. After President Kuchma was reelected, he issued a decree On Urgent Measures to Foster the Reform of the Agricultural Sector of the Economy (December 3, 1999). By July 2000, 97.9 percent of Ukraine's agricultural lands were distributed to those who work on it. However, former collective farm leaders head 72 percent of the country's new agricultural units. Farmers are in control of only 6 percent. A Land Code to regulate the privatization of arable lands passed its first reading in June 2000.

Macroeconomic Policy

1998	1999-2000	2001
4.50	4.50	4.25

Ukraine's primary taxes are the value added tax (VAT), the personal income tax, the enterprise profit tax, and customs and excise duties. The major problems plaguing the tax system are high compliance costs, the unequal distribution of the tax burden, and the ad hoc introduction of unjustified taxes to increase budget revenues. The share of taxes in GDP in 1999 was 35.6 percent. The tax administration has become a means of exerting political pressure. During the summer of 1999, four alternative draft tax codes were introduced, but none were passed. The government proposed a new tax code I May 2000, and it passed its first reading in July.

Ukraine's banking system has two tiers. The National Bank of Ukraine (NBU) is the central and independent bank that functions according to the 1999 Law On the National Bank of Ukraine. NBU has been one of the most reform-oriented power bodies. However, the Council of the NBU, which is made up of parliamentary deputies and government officials, has broad authority over credit and financial policy and could undermine the NBU's independence. In September 2000, the NBU reported that its currency and

gold reserves totaled only $1,119 million, of which $1,012 million are liquid. Its reserves were kept $1,500 million through 1999, but the NBU's efforts to increase demand for the hryvnia have gradually sapped them.

Ukraine's 166 commercial banks possess a total capital of 3.2 billion hryvnias. A positive trend in 2000 has been the decrease in interest on loans from 52 percent in January to 35 percent in August. On February 21, 2000, the float value of the currency was introduced. As a result, the hryvnia was devalued but stabilized in May. The float rate of the currency helped maintain stability in the currency market and in the exchange rate. In October 1999, the exchange rate was UAH 4.5/$1. Immediately after the December 1999 presidential election, it rose to UAH 5.22/$1. By October 2000, the exchange rate was UAH 5.43/$1.

Since October 1999, the Ministry of Finance has accumulated a UAH 2.9 billion debt with the National Bank in missed treasury bill payments. In September 2000, the National Bank issued a formal protest and forced the Ministry to repay UAH 73 million instantly. A possible solution to the problem is the restructuring of existing debt and a refusal by the NBU to purchase further treasury debt notes.

Ukraine has traditionally relied on the IMF for emergency funds and financing of its budget deficit. At $2.7 billion, Ukraine's debt to the IMF is one-fifth of its foreign debt. In September 1999, the IMF suspended its loans when Ukraine failed to meet the conditions for funding. This matter is expected to be resolved by 2001.

Microeconomic Policy

1998	1999-2000	2001
5.25	4.75	4.50

During the period covered by this report, Ukraine showed modest success with regard to property rights, agricultural and energy sector reform, and growth in the production of goods and services. Annual inflation held steady at about 25 percent. According to the State Tax Administration, there are 1,770,000 private entrepreneurs in Ukraine. There are approximately 3.5 small enterprises per 1000 persons, employing 11 percent of the labor force. In comparison, the EU averages 42 small enterprises per 1000 persons.

The main threat to property rights in Ukraine is excessive regulation. The Tax Administration, in particular, may unilaterally seize bank assets from firms that are indebted to the budget and extra-budgetary funds. Up to 30 percent of all tax payments are extorted through this mechanism. There is a draft law that prescribes a property-based liability for the underpayment of taxes that only can be employed by a court decision. To date, it has not been adopted. Ukraine also maintains an overly complicated accounting system that requires parallel statistical and tax bookkeeping. International accounting standards are supposed to be introduced in 2001.

In April 2000, Ukraine took an important step in its protection of intellectual property when parliament passed the Law On Circulation of Audiovisual Production and Phonograms. The law replaces cumbersome and expensive procedures for obtaining permits to use audio and video products and creates a special marking for verifying a product's authenticity.

No further liberalization of consumer prices was achieved during the period covered by this report. The state controls some basic foodstuffs and provides subsidies for utilities and housing. The 2000 budget cut some social subsidies. Subsidies for people with low income are mostly indirect.

On May 6, 2000, the Cabinet of Ministers cancelled 259 normative acts providing subsidies and privileges that businesses often obtained through government connections. The Cabinet also cancelled 23 acts that allowed businesses to engage in barter trade or mutual debt cancellation instead of monetary transactions, mainly in the fuel and energy sector. (In 1999, these subsidies and privileges led to a UAH 4 billion decrease in budget revenues.) Most capital is accumulated in metallurgy and in fuel and energy production and distribution. Competition for government benefits prevents the concentration of capital in single hands but undermines the effectiveness and coherence of state policies. Arbitration remains fair but slow.

Laws on trade barriers that were adopted in 1999 and 2000 are contradictory, and frequent changes to legislation contributed to severe shortages of petroleum products. Capital controls imposed by the NBU were a factor in the decline in consumer imports. During the period covered by this report, the government took steps to attract foreign investment. According to the State Statistics Committee, in the first half of 2000 foreign investment in Ukraine totaled $420 million (or 58.6 percent more than in the first half of 1999). According to *Wall Street Journal* estimates, average per capita foreign direct investment in Ukraine is $25. (It is $125 in Poland, $130 in China, and $450 in Hungary.) Ukraine has not developed an integrated policy for improving the investment climate. Total foreign capital in Ukraine reached only $3.596 billion by July 2000.

Ukraine's energy sector is a particular problem. Many members of parliament opposed Prime Minister Yushchenko's decision to make Yuliya Tymoshenko responsible for energy reform. However, since her appointment, Tymoshenko reportedly has reduced corruption in the energy sector and significantly increased cash payments, thus replacing the barter system that had been predominant in recent years. The share of monetary transactions in the sector has risen by 117 percent.

The next step in the reform process—privatization of *oblenergos* (regional energy distribution monopolies)—has been postponed repeatedly. The 1999 experience indicates that, once privatized, the oblenergos actually decrease their share of monetary transactions from 30 percent to about 1 percent. Instead, they engage in barter and export the acquired goods for profit. The government wants to elimi-

nate loopholes that make this practice possible, but this goal has delayed the privatization process altogether.

Russia fulfills up to 50 percent of Ukraine's oil and gas needs, and Ukraine's debt to Russia is approximately $1.5 billion. Kazakhstan and Turkmenistan could provide Ukraine with gas. However, since their pipelines pass through Russian territory, Russia controls the supply. Several countries have expressed an interest in constructing a new pipeline that will unite Central Asian and European markets and pass through Ukrainian territory. There is also hope of an alternative Baku–Supsa–Odessa–Brody–Gdansk oil route from the Caspian region. The oil terminal in Odessa and a new pipeline to Brody might be ready in 2001, if sufficient funding is found.

Social Sector Indicators

The inability of Ukraine's public service sector to meet society's needs has undermined support for the government. Likewise, low wages have stimulated activity in the "shadow" economy. In the first quarter of 2000, according to the Ministry of Labor and Social Policy, expenditures on education were only 1.3 percent of GDP, on health care, 0.2 percent, and on social security, 2.2 percent. By the end of 1999, Ukraine was ranked 90 out of 185 countries in the United Nations Human Development Index. Monthly wages in the public service sector average UAH 150 to 300 (less than $55), and service providers seldom receive public budgetary funds in full and on time.

According to the Auditing Chamber, only 49.4 percent of social expenses were funded in the first quarter of 2000. Likewise, the International Labour Organization has reported that Ukraine used only 44 percent of its industrial capacity in 1999. The debt on wage payments was UAH 6.4 billion in June 2000. According to the United Nations, Ukraine's average monthly income dropped from $37 in 1998 to $25 in 1999. In July 2000, President Kuchma signed a decree that set the average wage for the first quarter of 2001 at UAH 194.

According to the Ministry of Labor and Social Policy, unemployment was 4.24 percent (1.9 million people) by September 1, 2000. This is 1.1 times the level one year earlier. The government has estimated that unemployment will rise even further. The number of vacancies has increased from 35,000 to 74,000 over the last three years. About a half of those who are unemployed go to employment services. In 1999 and 2000, the unemployment rate was 5.5 percent for women and 3.1 percent for men. Persons aged 35 to 39 account for 80.1 percent of unemployment. Persons under the age of 19 account for 10.7 percent.

In 1999, Ukraine owed UAH 1,973 million in pensions payment, but in 2000 the government claimed that it had repaid the debt. The government submitted a draft pension reform law in 2000 would extend the retirement age by 5 years (to age 65 for men and 60 for women) and diversify pension sources. Already people can opt for non-state pension funds, but the lack of consistent and comprehensive legislation prevents the system from functioning well.

The system of higher education in Ukraine is similar to that of economically developed nations in Europe. In 2000, there were 207 state and 96 private higher education facilities. One's first higher education degree is free of charge in state facilities, but state funding is insufficient. Corruption associated with examinations is common. In 2000, though, NGOs and foreign donors supported a new initiative to develop a system of independent educational testing.

According to International Labour Organization, Ukraine's population decreased from 52 to 50 million during the last decade. The Economics Institute of the National Science Academy has reported that average life expectancy is 68.6 years, or 73.9 years for women and 63.3 years for men. In its rating of national health protection systems, the United Nations has ranked Ukraine 79 out of 191 countries because of insufficient financing and treatment. Expenditures on health protection have declined from 4 percent to 2.5 percent of the state budget, and the average wage for medics is only UAH 130. In June 2000, Ukraine adopted a decree by the Cabinet of Ministers On the Realization of a Health Protection Program in Ukraine. The Ministry of Health Protection and the Academy of Medical Sciences of Ukraine also started a project to create community-based clinics at which patients will pay in cash for treatment.

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UZBEKISTAN

Polity: Presidential (dominant party)
Economy: Statist
Population: 24,800,000
GNP per capita at PPP $ (1999): 2,092
Capital: Tashkent
Ethnic Groups: Uzbek (80 percent), Russian (5.5 percent), Tajik (5 percent), Kazakh (3 percent), Karakalpak (2.5 percent), Tatar (1.5 percent), other (2.5 percent)
Size of private sector as % of GDP (mid-2000): 45

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	6.35	↓ 6.45	↑ 6.44	↓ 6.50
Rule of Law	na	na	6.25	6.25
Economic Liberalization	6.25	6.25	6.25	↑ 6.17

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	255.4	404.4	521.1	459.3	432.5	320.8	298.2
Real GDP growth (% change)	-4.2	-0.9	1.6	2.5	4.4	4.1	1.5
Inflation rate	1,568.0	304.6	54.0	58.9	17.8	29.1	50.0
Exports ($ millions)	2,940.0	3,475.0	3,534.0	3,695.0	2,888.0	2,778.0	2,771.0
Imports ($ millions)	2,727.0	3,238.0	4,240.0	3,767.0	2,717.0	2,587.0	2,380.0
Foreign Direct Investment ($ millions)	73.0	-24.0	90.0	167.0	140.0	121.0	73.0
Unemployment rate	0.4	0.4	0.4	0.4	0.5	0.5	0.6
Life Expectancy (years)	na	na	na	69.2	69.3	69.6	69.0

INTRODUCTION

The highly personalistic leadership of the country's Soviet-era party leader and current president, Islam Karimov, has emphasized economic progress as a precondition to political liberalization while moving further toward the complete domination of Uzbekistan's political life. The electoral system, political competition, the supremacy of law, civic development, and the independence of the judiciary and the press are broadly subordinated to national economic development strategies as articulated by the executive branch. On a rhetorical level, Uzbekistan's constitutional and legal framework provides for internationally accepted principles of civil rights and good governance. The Uzbek government claims to be committed to the goals of secular, market-oriented, democratic development. Yet in reality, Uzbekistan is a highly authoritarian state where fundamental human and political freedoms are severely restricted.

President Karimov maintains that commercial development, not European-style civil rights, is the true fruit of national independence. Thus, the government has stressed business-oriented welfare authoritarianism, resisting counsel from international organizations to strengthen Uzbekistan's civil and political foundations. However, Uzbekistan's progress in establishing the foundations of a market economy, including the adoption of private property protections, macroeconomic reform, privatization of enterprises, banking and financial sector reform, and a business-friendly policy environment continued to be overshadowed by the heavy hand of the central government. Emphasizing economic self-sufficiency and state-sponsored welfare programs, Uzbekistan postponed price liberalization, maintained government subsidies on many items, avoided adopting a convertible currency, and upheld a complex system of non-tariff trade barriers. The government maintained restrictions on trade and currency movement, adopted policies to protect highly subsidized government-controlled trading companies, and periodically closed its borders with its neighbors, citing security concerns.

In an effort to counter the effects of a deteriorating trade environment, the Uzbek government initiated a number of policy correctives in late 1999 and early 2000. These policy changes included plans for price liberalization, the long-postponed privatization of major state-owned enterprises, balancing the public and private sectors, eliminating artificial restrictions on currency convertibility and non-tariff restrictions on foreign trade, improving conditions for foreign direct investment, reorganization of the banking and financial sectors, and reducing corruption and other bureaucratic impediments. If successfully implemented, these steps promise a significant departure from the statist economic policies of previous years.

Uzbekistan's reform strategy appears to be based on the idea that internal opposition and troublesome outside influences can be minimized during the transition period through the heavy-handed but paternal guidance of a dominant central government. By avoiding the decision-costs associated with political constituencies and having to comply with international standards of civil and human rights, the government would be able to manage the country's social capital and economic resources from the top down. Critics of this strategy assert that the postponement of political liberalization will only undercut the chances for long-term economic success. Without a framework for good governance, transparency, and respect for civil and human rights, the pro-business strategy, say critics, will lead to diminished efficiency, greater demands for protectionism, corruption, and a deterioration of trade relations. In the long term, the critics claim, the Uzbek approach will lead to the institutionalization of special benefits for favored constituencies, resignation and cynicism on the part of the population at large, and risk-aversion on the part of entrepreneurs.

Two developments during the review period stand out as critically important in Uzbekistan's prospects for future political reform. The first of these is Uzbekistan's recent elections. During the past year elections took place at both the parliamentary and the presidential levels. However, in both cases the elections were examples of political ceremony rather than political competition. The outcome of the presidential election was such a foregone conclusion that even Karimov's opponent publicly announced his intention to vote for the incumbent president. The highly structured nomination process preordained the outcome of the parliamentary elections. Major international organizations chose not to send standard election observer missions to Uzbekistan in order to avoid dignifying such essentially flawed electoral processes.

The second key development is the Uzbek government's extensive counterinsurgency campaign. Dominance of Uzbekistan's public decision making by the executive branch of government was further reinforced during 2000 by the government's efforts to counter increasing pressures from political opposition and foreign-backed terrorists. Uzbekistan, sharing borders with war-torn Afghanistan and Tajikistan, is the target of terrorist organizations such as the Islamic Movement of Uzbekistan, a group that has claimed responsibility for terrorist attacks and has announced that its goal is the forcible overthrow of the Uzbek government. The government's counterinsurgency campaign, which has involved a sweeping crackdown on terrorist groups, has also cast a wide net that ensnared the regime's legitimate critics as well as many innocent victims. Numerous cases were reported by international human rights organizations of violations of human rights and Uzbek civil law by Uzbekistan's law enforcement authorities.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
6.25	6.50	6.50	6.75

The re-election of President Islam Karimov in January 2000 re-established, perhaps for his lifetime, his personal dominance of the political system. Karimov has been at the center of Uzbekistan's political life for more than a decade. The Communist Party elevated him in 1989 as a corruption fighter charged with straightening out the finances of Uzbekistan's cotton industry. As party leader at the time of the Soviet breakup, Karimov easily withstood challenges from political opponents to win election as Uzbekistan's first president in 1991. His first five-year term was extended to 2000 by a 1995 plebiscite. Uzbekistan's parliament subsequently voted to interpret the extension as part of Karimov's first term, making him eligible to run for re-election in 2000.

Uzbekistan's political elite is deeply entrenched in the system through strong but nearly invisible relationships of patronage, clan, and family. A political culture of authoritarianism pervades the public bureaucracy. A tightly bound network of regional political interests intersects with industrial and commercial interests to reinforce the stability of Karimov's rule. Karimov's critics view his leadership as reinforcing authoritarianism and despotism.

However, the ruling bureaucratic and clan-based elite has confronted an increasingly visible and resourceful opposition. New forms of Islamic ideological competition have emerged that threaten the stability of Karimov's secular, bureaucratic state. Polarization between the regime and its ideological opponents has grown in the past two years, driving the political opposition into hiding or exile and transforming some dissent into violent anti-regime activism.

A small but irreconcilable political opposition to the Uzbek government emerged during the national independence period of the late 1980s and early 1990s. The most determined opposition originated in Uzbekistan's Fergana valley, a densely populated agricultural region that has longstanding traditions of maintaining resilient opposition to outside influence. The opposition crystallized in the formation of such Islamic groups as Tavba (Repentance), Adolat (Justice), and Islom Lashkarlary (Fighters of Islam). These groups sought to establish an Islamic state in Central Asia, ridding the region of the influences of the Soviet period.

The Karimov government sought to establish a national state, breaking with the Soviet period but holding fast to the idea of a secular government integrated into the prevailing fabric of international institutions. Karimov targeted the Fergana groups as potential threats from early on. Members of these groups left Uzbekistan in order to take part in the Tajikistan civil war that erupted in September 1992. The aim of some of the opponents was jihad—a Muslim holy war—against the Uzbek government in order to spread the teachings of Muhammad ibn Abd al-Wahhab, a leader who appealed for the restoration of Islamic authority in Muslim lands and a purification of the state from outside influences.

In 1995, members of several religious groups from the Fergana region united to found the Islamic Revival Movement of Uzbekistan. The group initially was based in Peshawar, Pakistan, and later moved to Kabul, Afghanistan. In 1998 the group adopted the name Islamic Movement of Uzbekistan (IMU). Members of the IMU received financial and technical support from abroad, particularly from Afghanistan and Pakistan. Two of the group's leaders, Takhrir Yuldash and Juma Namangani, both natives of the Fergana valley city of Namangan, have been involved in planning and carrying out a number of terrorist acts in Uzbekistan. The IMU supports the violent overthrow of the government of Uzbekistan and was involved in the terrorist bombings of February 1999 in Tashkent that killed 16 people and injured more than 100. The U.S. State Department designated the IMU as a foreign terrorist organization in September 2000.

Parliamentary elections, the first in Uzbekistan since December 1994, took place on December 5, 1999. The 1999 election concerned 250 seats in the unicameral parliament, the Oliy Majlis. The Oliy Majlis is not considered a professional assembly. It convenes only four times a year for brief periods to pass legislation that has been prepared by parliamentary committees or by executive branch agencies.

The elections were governed by the Parliamentary Elections Law adopted on December 28, 1993 and amended in 1997 and 1999. The right to nominate candidates was reserved to registered political parties, the veliyat legislative councils, and the Karakalpakstan parliament. Political parties were required to satisfy the additional condition that they be registered with the Ministry of Justice no less than six months prior to the election and have collected 50,000 voters' signatures supporting the party's participation in the election. The law also extended the nomination right to citizens organized in groups of 100 or more from a single electoral district to nominate a candidate.

In response to criticism that the top-down nomination process stifled initiative, the Center for Support of Independent Candidates was established to assist independent candidates with the formation of citizen initiative groups, the registration process, and the campaign. According to the election rules, the count is considered valid if more than 50 percent of the electorate votes and if the winning candidate receives more than 50 percent of the votes cast. Otherwise, a runoff election is held. As a consequence of these nomination provisions, up to seven candidates could run in any given electoral district. This includes candidates nominated from the five registered political parties, one candidate nominated under the citizen's initiative provision, and one candidate nominated by the local authorities. Qualified to stand as parliamentary deputies are members of the government (with the exception of ministers and the prime

minister), judges, and staff of the prosecutor's office. However, members of the government, with the exception of hokims, must relinquish their official positions to take a seat in the Oliy Majlis.

More than 12.5 million voters registered to take part in the election, for which the turnout was reportedly more than 95 percent. In 184 constituencies, one candidate received more than 50 percent of the vote during the first round and was elected to parliament. Run-off elections in 66 constituencies took place on 19 December 1999.

International organizations and observers found the 1999 parliamentary elections to be seriously flawed. During the pre-election phase, individuals, groups, political parties, and nongovernmental organizations (NGOs) that oppose the government could not freely associate, present their views openly, and take part in the political and electoral process. Freedom of association was limited through denial of registration by the Ministry of Justice to NGOs and political parties that criticized state authorities or state policy. Freedom of assembly was limited by a Soviet-era decree, which permitted only indoor public meetings and demonstrations, and then only with the prior consent of authorities. The electronic and print media were subject to censorship through direct control, as well as licensing and registration obstacles.

Members of the People's Democratic Party won 48 seats in the Oliy Majlis, or 19 percent of the house. The Fidokorlar Party won 34 seats (14 percent), followed by Vatan Tarakkioti (20 seats, 8 percent), Adolat (11 seats, 4 percent), and Milli Tiklanish (10 seats, 4 percent). Executive bodies sent 110 deputies to parliament, while 16 became deputies under the citizens' initiative provision.

Uzbekistan's first post-independence presidential election took place on December 29, 1991, when Islam Karimov defeated Muhammed Solih of the opposition party Erk (Will) by a margin of 86 to 14 percent. Limitations on Solih's election campaign raised questions of the fairness of the election regarding restriction on pre-election rallies, dissemination of information, and media attention. The 1992 Uzbek constitution includes a limit of two consecutive terms for the president. On March 26, 1996, a referendum was held to extend President Karimov's term in office until the year 2000. It passed with over 99 percent voter turnout and 99 percent of the vote in favor of the extension. The Oliy Majlis rejected Karimov's suggestion that this extension be considered his second term. As a consequence, Karimov was eligible to run for reelection in 2000. Some argue that the 2000 presidential election may technically be considered Karimov's first term, given that the 1991 election occurred prior to the adoption of the current constitution. This interpretation would allow Karimov to stand for re-election in 2005.

Uzbekistan's most recent presidential election was held on January 9, 2000. According to the Uzbekistan Central Election Committee, the total number of registered voters was 12.7 million, and turnout was 95 percent. Karimov won 92 percent of the vote, while his opponent, Abdulhafiz Dzhalalov, won 4.17 percent. Leading international organizations refused to send observers to avoid dignifying the voting process. The elections were widely regarded as neither free nor fair.

Official figures suggest that voter turnout in Uzbekistan is exceptionally high. This high turnout, however, reflects not political participation but rather the ceremonial nature of Uzbekistan's elections. Elections are seen not as a plebiscite on public policy choice but as an opportunity to demonstrate patriotism. Manipulation, coercion, falsification, and the "family" voter phenomenon suggest that turnout figures are inflated.

The fundamental regulatory instruments establishing the ground rules of political competition include the law On the Elections for the Oliy Majlis, the law On the Central Election Commission (CEC), the law on political parties, and the laws regulating the functioning of the mass media. The CEC is a 14-member board established by the parliament on the advice of the president. It is responsible for oversight of the nomination process, campaign financing and publicity, and the organization of the election.

On May 25, 2000 Islam Karimov proposed in a speech to the Oliy Majlis that the unicameral legislature be reformed to create a second, higher chamber (Oliy Kengash, or Supreme Council) that would represent the interests of the country's various regions.

The People's Democratic Party (HDP), the successor to the Communist Party, is the dominant party and explicitly supports the president and the government. Other political parties include the Fatherland Progress Party (WTP), which is considered to be the "loyal opposition;" the Adolat Social Democratic Party, which promotes a "rule of law" agenda; the nationalist Democratic National Rebirth Party; and the Self-Sacrificers Party (Fidokorlar), formed in 1999 by young people, workers, artists, businessmen, and intellectuals. In 1996 Karimov withdrew from the National Democratic Party claiming that the president should be above partisan politics.

Several opposition parties remain unregistered or banned. The Islamic Renaissance Party and Adolat (not to be confused with the Adolat Social Democratic Party) have been refused registration by the Ministry of Justice on the grounds that they do not comply with the constitutional mandate of separation of church and state and the 1996 law on political parties. The Islamic Renaissance Party was headed by Abdulla Utaev until his disappearance December 1992. Since that time, the party's leadership has remained in exile or in hiding. Birlik and Erk have active informational programs in exile.

Provisions regulating the registration of political parties severely limit possibilities for the development and participation of new parties. Provisions for the registration of candidates favor self-recruitment and government manipulation. Election administration fails to guarantee true independence and impartiality. The law on elections to the Oliy

Majlis establishes unequal conditions for the nomination of candidates, in effect creating three classes of candidates with different requirements. The candidates who were not nominated by legislative bodies faced difficulties collecting the required number of signatures without the support of local authorities. They also encountered significant difficulties during the signature verification phase.

Executive power, in particular through its local branches, unduly interfered with the election process. The hokims (governors and mayors), having both legislative and executive powers, and hokimiats (executive apparatus) at regional, district, and city levels exercised determinative influence on the electoral process, including playing a key role in the nomination of candidates and the conduct of the elections. After registration, candidates faced further impediments from the hokimiats and election commissions during the campaign period. Some candidates were subjected to pressure by Hokimiats to withdraw from the election in favor of other candidates.

Party membership in Uzbekistan is difficult to gauge, partly because a number of parties are unregistered. The HDP claims between 300,000 and 400,000 members, and the WTP claims at least 35,000 members. These numbers are quite possibly inflated, with most political organizations' membership numbers in the low thousands. The existence of multiple parties in Uzbekistan has not led to political competition.

Civil Society

1997	1998	1999-2000	2001
6.50	6.50	6.50	6.50

Civil society development in Uzbekistan lags far behind that of countries in similar stages of economic development. A "citizen-subject" orientation rather than a "citizen-participant" orientation combines with Soviet-era traditions of a hierarchical social structure to make independent citizen initiatives difficult. In Uzbekistan, government-approved NGOs are often indistinguishable from government-organized NGOs. The Uzbek government, in particular the Ministry of Justice, has failed to appreciate that civic organizations can play a critical role in establishing democratic, market based economies by encouraging grassroots, constituency-based citizen involvement.

In the early stages of national independence in Uzbekistan a number of NGOs formed around social and political issues. But the organizations Birlik, the Committee to Save the Aral Sea, and Samarkand, (an organization to assist ethnic Tajiks) were seen by the government as possessing political rather than social goals and were denied registration. The Human Rights Society of Uzbekistan (HRSU) and the Independent Human Rights Organization of Uzbekistan (IHROU) have also unsuccessfully attempted to register.

According to the Ministry of Justice, there are 2,300 registered NGOs in Uzbekistan. This number includes 287 international and republican public organizations, of which 62 are international and 225 are republican. The total number also includes 2,023 local public organizations that have been registered by the Ministry of Justice of the Republic of Karakalpakstan, Boards of Justice of regions and the city of Tashkent.

There are three main types of civic organizations in Uzbekistan. The first includes indigenous civic organizations that play a public service role endorsed by the Uzbek government. These NGOs include nationwide organizations such as the Mahalla Foundation, the Association of the Disabled, and the Veteran's Fund. There are also specialized organizations that focus on key environmental or social issues. These organizations often are organized at the government's initiative and as such receive special privileges.

The second category consists of foreign donor-sponsored "implementing" NGOs that carry out the work of identifying and providing financial and technical support for indigenous citizen initiatives. Implementing organizations include Counterpart Consortium, the National Democratic Institute (NDI), the Initiative for Social Action and Renewal in Eurasia (ISAR), the American Bar Association Central and East European Legal Initiative (ABA/CEELI), and the International Foundation for Electoral Systems (IFES). Each of these organizations has provided support for the development of indigenous NGOs in Uzbekistan in different ways and to varying degrees. These implementing organizations are unlikely to develop financial sustainability on the basis of own-source revenues from Central Asia. Consequently, when donor government assistance comes to an end, the support for indigenous NGOs in Central Asia can be expected to evaporate.

The third category consists of those organizations directly engaged in the promotion of group or public interests through providing goods and services to the client population. NGO activity in the past year has focused on capacity building (training and other forms of knowledge-based technical assistance) and "leverage grants" that provide seed capital for previously existing or incipient civic initiative organizations. These foreign-supported domestic NGOs include a broad spectrum of civic groups ranging from expressly political to broadly social. They include legal foundations, child assistance organizations, women's rights groups, advocacy groups for the rights of underrepresented portions of the population, and environmental activists.

Indigenous NGOs reported marked improvement during the past three years in relations with the government. NGOs that have succeeded in registering often report that the effort was a learning process both for them and for the government officials who initially sought to restrain them. Taxation is the most problematic side of civic activity. Tax avoidance, if not evasion, is commonly viewed as one of the primary motivations of individuals involved in local NGOs.

The NGO registration process is complicated and threatening. There is a widespread belief within the Ministry of Justice and the tax service that nonprofit enterprises are merely fronts for tax evasion. There is an assumption within the public order ministries that the NGOs are fronts for political organizations. The distribution of income in contemporary Uzbekistan precludes many citizens from engaging in direct public interest activities. As a result, local NGOs have a keen appreciation of the approaching decline of foreign donor assistance. However, there are few creative attempts to confront this eventuality. Proposals for the establishment of externally-funded, local NGO support centers have met with caution due to concerns about the interference of the government (or other actors) after the withdrawal of foreigners from management positions.

Trade unions exist in Uzbekistan as an instrument of management rather than as a means of interest group-based collective bargaining. About 25 percent of Uzbekistan's labor force is in the main trade union that is under the aegis of the Ministry of Labor. Farmers' groups and small business associations also exist, but are primarily mechanisms for the dissemination of information rather than for interest promotion.

NGOs cover a spectrum of activities ranging from the governance-oriented (such as election monitoring) to the civic initiative- and advocacy-oriented (such as women's self-help associations) to the broadly social (such as child health collectives). Social needs in the region are exceptional and urgent. Structural change in government processes has been top down in origin and orientation.

Independent Media

1997	1998	1999-2000	2001
6.50	6.50	6.50	6.75

Uzbekistan is a challenging political environment for press and media. Government-sponsored media dominate the information arena, while government censorship, both active and passive, confronts independent journalists and media managers on a daily basis. This creates an atmosphere that chills free expression of views and opinions and limits access to facts and information.

All broadcast media are subject to a highly bureaucratic annual re-registration process. In late 1999 the republic's licensing commission closed two of the country's most progressive television stations over licensing issues. Station directors claim that the closures were politically motivated, because of their commitment to producing balanced reportage according to international standards. Government officials argued that the stations were uncooperative during the annual re-registration process. Media rights organizations charged that such closures and manipulation exacerbated an already difficult media atmosphere. There is evidence that broadcasting stations practice self-censorship for fear that criticism of government structures and individuals will bring negative consequences.

According to the Uzbek Ministry of Justice, the country has 477 newspapers, 136 journals, 4 information agencies, 25 Television studios, and 2 radio stations. Leading newspapers include *Tashkentskaya Pravda, Pravda Vostoka, Vremya I My, Toshkent Okshomi, Khalk Suzi*, and *Business Vestnik Vostoka*. The regulatory structure for the media includes a number of agencies and committees subordinate to the Cabinet of Ministers. The Uzbek Agency for Post and Telecommunications oversees telecommunications. The government recently established a Republic Radio and TV Industry Corporation (RTRC) that provides technical broadcasting services on contract to the state UzTeleRadio company. UzTeleRadio provides about 80 percent of the revenue of RTRC; the independent TV companies are responsible for the remaining 30 registered organizations. All programming is taped; a written government policy prohibits live programming.

Uzbekistan has an equally challenging economic environment for private commercial media organizations. Low advertising income results in unfair competition as the private media struggle to maintain the technical standards of the government media.

The newspaper distribution system remains under government control. There are several minor independent papers, particularly in Tashkent, which have a limited circulation. These tend to be business-oriented papers. Occasionally, illegal papers published by opposition groups in exile, usually in Moscow or Istanbul, find their way into Uzbekistan. Empowered by a Cabinet of Ministers decree, the State Communication Inspection Committee carries out annual inspections of media organizations. This procedure is referred to as the "Preservation and Security of Independent Radio Broadcast Stations," and contains a detailed list of requirements to be met by the stations.

In February 1999 Uzbek police arrested the writer Mamadali Makhmudov, who was accused of having links with the banned Erk political party. Ukrainian police also arrested and extradited two Uzbek nationals who had arrived in Kiev to pick up copies of the newspaper *Erk* for distribution in Uzbekistan. On August 18, 1999 a Tashkent city court sentenced these individuals to jail terms of 8 to 15 years for distributing a banned newspaper containing slanderous criticism of the president (under Article 158-3 of the Uzbek penal code); participating in a banned political association (under Article 216 of the penal code); and attempting to overthrow the regime (under Article 159 of the penal code).

Libel, public defamation of the president, and "irresponsible" journalism, i.e., spreading falsehoods, are all subject to financial penalty and possible imprisonment. These measures were enshrined in the 1997 Law on Media, which outlined the responsibilities and obligations of journalists. The Uzbek government has criticized foreign journalists, principally Russia-based journalists, for reporting "libelous"

stories and have either pressured them to leave the country or prohibited the distribution of their papers. This has been the case for journalists working for *Nezavisimaya gazeta*, *Izvestiia,* and Interfax.

In November 1997 Shadi Mardiev, a reporter known for his critical stance toward corrupt officials and for his writings in the satirical journal *Mushtum*, was arrested on charges of defamation and extortion. Mardiev was held in pretrial detention in Samarkand until June 1998, when his case was brought before the Syrdariya regional court. He was found guilty of defamation and extortion against a Samarkand prosecutor and sentenced to an 11-year prison term.

Freedom House's 2000 *Survey of Press Freedom* rates Uzbekistan's media Not Free.

Governance And Public Administration

1997	1998	1999-2000	2001
6.00	6.25	6.25	6.00

The constitution provides for the separation of executive, legislative, and judicial powers. The judicial system consists of three tiers, including the constitutional court, supreme court, and arbitrazh (commercial) court. The constitutional court has a mandate to exercise judicial review, but this has not taken place. Civilian control over the military is provided for by the constitution, which places ultimate authority over the military in the office of the president. A civilian, Kadyr Gulyamov, replaced Lieutenant-General Yuri Agzamov as Minister of Defense on September 29, 2000. National Security Council Secretary Mirakbar Rakhmankulov explained that the appointment sought to "establish civilian control over military structures within the state."

The president's executive powers are extensive. Included among them are: the right to form a government, direct the government, and appoint and dismiss the prime minister and cabinet ministers; to appoint and recall diplomats; to establish and dissolve ministries; to appoint and dismiss the procurator-general and his deputies; to nominate appointees to the constitutional court, supreme court, and board of the central bank; to appoint and dismiss judges of regional, district, city and arbitration courts; to appoint and dismiss hokims for violations of the law; to suspend or repeal acts of hokims; to sign all laws of the Oliy Majlis or return them for reconsideration; to declare a state of emergency; to serve as commander-in-chief of the armed forces; to declare war; to rule on matters of citizenship; to issue amnesties and pardons; and to appoint and dismiss heads of the national security service. The president also enjoys personal immunity. Parliamentary Deputies also enjoy immunity from prosecution, but are subject to the sanction of the parliament. No such restriction is placed on the immunity of the president. After his state service, the president becomes a lifetime member of the constitutional court.

The three-tiered judicial system is subordinate to the Ministry of Justice. The court system is funded from the state budget. In order to avoid partisanship, no judge may be a member of any political party. The procurator's office constitutes the prosecutorial arm of the justice system. Procurators are appointed by the president and are restricted from any political or party activity during their service. There are local and neighborhood conflict resolution committees, or mahalla, which reportedly function effectively at the local level, particularly in rural areas.

The Uzbek constitution outlines the powers of the Oliy Majlis (Chapter 17). It is charged with initiating and passing legislation, as well as executing policies through committee work. It meets two times a year plus any special sessions and holds both public and closed sessions. The constitution grants similar legislative authority to the president, thus throwing into question the actual powers of the legislature. In fact, the legislature spends most of its time in session discussing and passing presidential proposals and decrees, which suggests that it is not the effective rule-making body of Uzbekistan.

In terms of territorial organization, Uzbekistan has a centralized system of government with ultimate authority resting at the national level. Within this system, there are twelv*e veliyats* (provinces), one autonomous region, and one city government (Tashkent). All policies made and enforced at the veliyat level must comply with national laws. This also holds true for policies made and enforced at the level of the autonomous republic of Karakalpakstan. While hokims serve at the pleasure of the president, local officials serve at the pleasure of the hokims. In 1997 alone, more than half of the regional hokims were dismissed for a variety of reasons, usually due to poor harvests from their respective veliyats.

The most important administrative change in the period under review was the revitalization of an ancient institution, the mahalla committees, following an April 1999 presidential decree. According to Uzbek legislation and tradition, the mahalla level is local self-governing and is not considered part of the central government. In 1999 the government shifted greater emphasis to local public order activities by adopting a community-based approach to public law and order. Its novelty lies in the intensification of preventive measures in local communities and residential areas. This work is carried out by "prevention inspectors;" local officials who combine the duties of a neighborhood police officer, public health inspector, and good samaritan. In a short period of time these organizations have obtained a level of autonomy unknown for many years.

Veliyats and municipalities are responsible for collection of government revenue (taxes and other mandatory payments), but expenditure decisions are made at the national level. Very few categories of legitimate own-source revenue are available to local officials for purposes of policy programming. On the other hand, local officials wield exceptional interference powers. Lower level bureaucrats,

firms, and private parties that do not see eye to eye with local political officials have great difficulty acquiring the necessary government approvals, licenses, or permits to carry out their activities. Professional training institutions such as the Academy of Public Administration provide training in the theory and practice of government. However, the selection of government officials has not yet become a meritocratic process.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
6.50	6.50	6.50	6.50

The preamble of Uzbekistan's constitution (adopted December 8, 1992) notes that one of the principal goals of the people of Uzbekistan is to "create a humane and democratic rule of law." The constitution guarantees rights of freedom of speech, free assembly, religion, and the rights to express one's national heritage. According to a poll conducted by an Uzbek government-sponsored public opinion center on the topic "Uzbekistan - Our Common Home," 87 percent of the population believes that the rights and freedoms of Uzbek citizens are protected regardless of their nationality or religion. Half of respondents thought that the individual's rights were fully observed. Fewer than five percent of the respondents reported that their constitutional rights and freedoms were not respected. Given the nature of the Uzbek regime, however, respondents are unlikely to provide frank and honest answers—particularly to a state-sponsored poll.

The judicial system in Uzbekistan consists of the constitutional court, the supreme court, and the supreme economic court, along with the supreme court and the arbitration court of the republic of Karakalpakstan. Judges of these courts are elected to five-year terms. The judicial branch also includes regional, district, town, city, and arbitration courts appointed for five-year terms.

In theory, the judiciary is independent; in practice, however, its capacity to function as an independent branch of government is limited. While the constitution describes the legislature as the highest organ of power, in fact Uzbekistan has a unitary, presidential form of government. In reality, the branches of government are not coequal or balanced; the executive branch is dominant in virtually all matters. The president acts as the head of state and executive authority in the republic and there are no meaningful lower tiers of independent authority (i.e., federal divisions). A number of opposition figures, including Shukhrullo Mirsaidov, the former vice-president of Uzbekistan, have been convicted of crimes. Although many of them were amnestied, their criminal records remain, technically disallowing their possible candidacies for high public office.

The current version of the criminal code was introduced in 1995. It is based upon a similar code adopted in the Russian Federation. The code includes capital punishment for the most serious offenses. The government enforces criminal law energetically. At the same time, President Karimov has sought to present himself as a gracious and forgiving leader, issuing amnesties to prisoners on a periodic basis. For instance, prior to his June 1996 visit to the United States, he released over 80 prisoners, including two political prisoners.

Abuses of human rights and prisoners' rights are consistently and widely reported. These secret police are said to tap telephones, falsify evidence, and conduct illicit searches. Prosecutors are allowed to go over the heads of judges who rule against them. Judges, therefore, rarely examine suspicious evidence because they can be removed if their decisions are overturned twice by a higher court. Search warrants are authorized and issued by province or by local (mahalla and district) militia. There have been no successful challenges to the legality of such warrants.

A Helsinki Human Rights Watch report issued in March 2000 documents physical mistreatment of detainees by police, and law enforcement agencies' use of psychological harassment, including prolonged solitary confinement, public denunciation, intimidation, and threats of arrest. Reports continue to appear of prisoners being beaten and abused while in custody. Whether these are anecdotal accounts or official reports from the U.S. Department of State, Human Rights Watch, or Amnesty International, it is clear that this remains a chronic problem in Uzbekistan. Indeed, an official from Human Rights Watch experienced such abuse firsthand in 1996 when he was illegally detained in a local police headquarters. Political prisoners, such as the "Namangan 11," who were tried in 1996, have reported repeated abuse in prison and coerced confessions. Article 117 of the constitution provides defendants with the right to legal representation.

Special prisons and labor camps have been built for political prisoners, including a high-security penitentiary on a military base in Zhaslyk in northwestern Uzbekistan. Inmates reportedly are forced to squat with their hands behind their heads all day. They must ask permission from a guard to move and then must thank the president aloud. There are also reports of torture. The government insists, however, that there are no political prisoners. As of August 2000, the prison population was officially reported to be 63,900, with 36 percent jailed for theft and another 24 percent for unspecified "serious crimes."

The constitution lists a wide range of rights (Chapters 7-10), which include the rights to assembly, free speech, freedom of religion, due process, ownership of property, and gender and ethnic equality. However, Chapter 11 provides that individual rights shall be interpreted in terms of the greater interests of the state. Chapter 12 guarantees the right to engage in business and commercial activity and protects private property rights. Legislation has progressed on these fronts, especially since 1996. In that year, new laws on private property ownership, establishment of busi-

nesses, and business taxation were introduced. Economic rights, as outlined in the constitution, have been of particular importance as the government attempts to attract foreign investment in Uzbekistan.

The constitution, the Uzbek legal code, and presidential decrees address the issue of discrimination. In each instance, government stresses the need to protect minority groups and to create a system of recourse for their complaints. In February 1995, President Karimov appointed a human rights commissioner who is charged with enforcing such legislation. Over the past several years, there have also been efforts to support non-Uzbek-language media and educational programs. The Uzbek government has permitted the establishment of Russian cultural centers in Tashkent, Ferghana, and Samarkand, each of which has a large Russian community. In addition, the language law, which had designated Uzbek as the sole language of official communication, has been modified. No date has been set for the enactment of a new language policy. However, it must be noted that there have been instances of discrimination and forms of intimidation directed against ethnic minorities. Russians frequently complain of unfair treatment in social, business, and market settings, while Tajiks often claim that the Uzbek state is not meeting their needs as an ethnic group. Public organizations that promote the minority rights of Russians and Tajiks have consistently been refused registration and thus the right to participate in the political process.

Uzbekistan's principal crime problems is closely associated with its location on the drug trafficking route from Afghanistan. The Uzbek government has tried to respond by imposing strict visa requirements, but these requirements have had the contradictory effect of staunching business and commerce and fueling the black market. In October 2000, President Karimov signed a joint statement with Turkish president Ahmet Necdet Sezer pledging to cooperate in the fight against drug trafficking, terrorism, and organized crime. Likewise, the U.S. government promised in 2000 to provide $10 million to Uzbekistan and other Central Asian nations to fight international terrorism and drug trafficking.

Corruption

1999-2000	2001
6.00	6.00

Corruption has depressed economic life in Uzbekistan. Entrepreneurs in Tashkent report that they are overwhelmed by demands from tax inspectors and police for bribes and kickbacks. The World Bank estimates that one-third of annual profits from small private companies is paid in protection money and bribes. As Mikhail Degtiar noted in a recent article in *The Central Asian Times*, "At almost every level of government, 'extra' rates and tariffs are set for otherwise free services.... The mechanisms that were created to cope with corruption do not punish the wrongdoers but only serve to eliminate the undesirables."

Since medieval times in certain oasis cities of Central Asia government positions were sold rather than earned. While it may seem backwards that a person pay in order to receive a job, in fact this is economically rational in many cases because government positions carry high prestige, and an official can earn income to pay his superiors by levying "extra" taxes, fines, and service fees. In Central Asian cities this was considered standard practice. Such practices continue today, constituting a drain upon the efficiency and equity of government.

The Uzbek government has undertaken a number of initiatives to address the prevalence of official corruption. The government announced in September 2000 an analysis of investigations concerning 11,430 cases of alleged customs violations by businesspeople. This number included 9,300 cases by organizations and 176 cases of officials who allegedly committed violations. Of these cases, 1,319 invol-ved smuggling or drug trafficking. A customs whistleblower hotline was also established to identify violations.

The bureaucratic burden of maintaining strict currency controls can be expensive, and it unavoidably creates an unfavorable climate for trade. A policy of overvaluation creates a rationale for extending police sanctions even to the extent of replacing the goal of public safety with that of regulating private behavior. It can give rise to an incentive structure in which private parties have an interest in evading the legal framework through various forms of side payments and inducements. An overvalued currency also can be expected to lead to the depletion of foreign reserves, which, in turn, can bring about pressures for severe import restrictions and, eventually, the collapse of the free trade policy. According to the IMF, between $600 and $800 million leaves Uzbekistan each year in capital flight.

The Transparency International 2000 Corruption Perceptions Index measures perceptions of the degree of corruption as seen by businesspeople, risk analysts, and the general public. The values on the index range between 10 (highly clean) and 0 (highly corrupt). Uzbekistan ranked number 79 out of 90 countries with a score of 2.4.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1997	1998	1999-2000	2001
6.25	6.25	6.25	6.00

Macroeconomic Policy

1998	1999-2000	2001
6.25	6.25	6.25

Microeconomic Policy

1998	1999-2000	2001
6.25	6.25	6.25

Since 1991, Uzbekistan's economic policy has been characterized by a reliance on administrative measures and extensive government regulation of economic activity. In 1999, buoyed by an upturn in foreign exchange from exports of Uzbekistan's key commodities, cotton and gold, Uzbekistan's economy made some progress with growth in GDP at a respectable 4.4 percent. At the same time, Uzbekistan's foreign trade contracted by 25 percent and foreign debt increased by 20 percent. Currency restrictions had the effect of reducing exports, discouraging foreign direct investment, and leading the government to borrow heavily. During 2000, inflation and the devaluation of the *som*, Uzbekistan's national currency, continued to erode citizens' real earnings. Uzbekistan ranked 106 out of the 174 countries examined by the United Nations Development Program (UNDP) in its *Human Development Report 2000*. However, as major international financial institutions have pointed out, an accurate assessment of the country's social and economic health is difficult to achieve given the unreliability of the government's reported economic data.

Privatization legislation was passed during the Soviet period, although it was not widely implemented in Uzbekistan. After independence, the Uzbek government established the basic framework for private property rights and private commercial activity. The State Property Committee (SPC) was created by presidential decree in February 1994 on the basis of the Committee for State Property Management and the State Property Fund under the Ministry of Finance. The SPC was given responsibility for use and maintenance of state property, development of the privatization legal framework, maintaining the state's packet of shares in joint equity stock companies, determining forms of denationalization and privatization, and selling property. The regulations of the SPC define a property as privatized if it has been reconfigured as a joint stock company regardless of the ownership of the shares. Consequently, a joint stock company whose total shares are owned by the government is considered to be a privatized company. Given the fact that privatization has reassigned ownership but has not in many cases had a substantial effect upon actual management or financial practice, assumptions based on estimates of the proportion of property in private hands may be misleading.

The Uzbek national tax system is centrally administered and implemented at the local (veliyat) level. The tax system includes 13 types of taxes: income profit tax (on companies); unified simplified tax (for small enterprises); gross income tax (on companies); personal income tax (on individuals); unincorporated entities (on individuals); value added tax on the sales turnover of goods and services (on legal entities); excise tax on import values (on entities); property tax (on individuals and entities); land tax (on entities); agricultural land tax (on cooperatives); mineral resource tax (on entities); environment tax (on entities); and water use tax (on entities). The tax code was adopted by the Oliy Majlis in April 1997 and came into effect on January 1, 1998.

Banking reform began in Uzbekistan with the creation of the self-regulating Banking Association of Uzbekistan (BAU) in July 1995. In November 1995, the Cabinet of Ministers delegated to the BAU responsibility for conducting the National Banking Sector Development Program. Enterprises, organizations, and the government dominate deposits in Uzbekistan's banks. Private citizens hold fewer than two percent of bank deposits. This reflects the low citizen confidence in the banking system and the suspicion that bank deposits may be subject to review by government officials. To increase the savings rate, the government adopted an initiative in September 2000 to guarantee secrecy of deposits and protect savings. The measure requires that banks process transactions in both cash and non-cash and give cash to depositors on demand.

Uzbekistan left the ruble zone in November 1993 when it introduced a temporary currency, the som coupon. The Uzbek som, valued at four to the U.S. dollar, officially was introduced as a tradable, though not fully convertible, currency in June 1994. In September 1996, in connection with a shortfall in foreign reserves, the Uzbek Ministry of Finance imposed a system of import contract registration. The goal of the system was to ensure that scarce foreign currency was used primarily to import capital rather than to buy consumer goods, particularly luxury goods. However, in practice the system severely limited the availability of foreign exchange for all sectors of the economy and retarded economic activity. In subsequent years the Ministry of Finance periodically acted to make the system yet more rigorous as foreign currency reserves continued to dwindle. According to the policy, individuals and firms could purchase and sell hard currency only through exchange booths operated by four legally recognized banks. The policy had the effect of creating multiple foreign currency exchange rates. Government-licensed firms were entitled to buy foreign currency at the overvalued government rate, while unlicensed firms and individuals were required to buy at a commercial rate. This gave the government-preferred firms a great advantage, making possible "windfall" profits on currency transactions alone. A black market rate for the som quickly emerged. While the black market rate varied with conditions, at some points it was four times the official rate.

International donor organizations urge Uzbekistan to rethink its currency policies. The International Monetary Fund (IMF) suspended credits to Uzbekistan in November 1996 as a result of the country's adoption of the overvalued, artificial currency exchange rate. Since that time, the IMF has continued to work with the country, but has restricted its assistance to technical counsel. The IMF urged the Uzbek government on repeated occasions to abandon the artificial exchange rate. President Islam Karimov an-

nounced in 1999 that the country's currency would be fully convertible as of 1 January 2000. Some improvements were introduced. In May 2000 the Uzbek government devalued the official exchange rate for government transactions by about 50 percent, setting the Uzbek som at 231 to the U.S. dollar and establishing a system for regular weekly modifications of the official and commercial exchange rates based on market factors. The "commercial" rate was 148 percent below the official rate (683 Som=$1). This applied to firms that conducted legal transactions but did not have access to the government's "official" rate.

The Uzbek Republican Stock Exchange (URSE) was established in March 1994 by presidential decree. Other stock markets include the Tashkent, Bukhara, Namangan, Samarkand, and Ferghana exchanges. The markets provide a platform for trade in commodities and financial instruments. Public trading is regulated by the Uzbekistan Center for Regulation of the Securities Market (CRSM). Public offerings require that a firm first submit the prospectus for review by the CRSM. The legal framework provides for trade in joint-stock company securities, government bonds (that is, treasury notes, both national and local), corporate bonds, and promissory notes (state, commercial, common, and transferable). The volume of trading on the URSE and regional exchanges totaled 26.4 billion Uzbek Som ($114.2 million at the May 2000 official exchange rate after devaluation), compared with 8.1 billion Uzbek Som ($35 million) during the first six months of 1999. However, the trade volume figures are misleading because most of these contracts are prearranged by government transactions and do not represent free market forces. As a consequence, the volume of trade is low and most securities are illiquid. The Uzbek government plans to boost trade volumes and liquidity through plans to enhance transparency in secondary market operations and by establishing transparent and efficient settlement, clearing, and registration.

In August 2000 a presidential decree established the Uzbekistan State Committee of Demonopolization and Competition Development. The purpose of the committee is to carry out the provisions of the previous law On Competition And Restriction Of Monopoly Activity in Commodity Markets. The legislation was designed to establish a healthy competitive environment, create favorable legal and economic conditions for competition development, prevent attempts to monopolize the domestic market, improve antimonopoly legislation, and protect consumers' rights. The committee was charged with monitoring consumer goods prices and cooperating with consumer protection organizations in taking measures to prevent artificial price growth and sale of low-quality goods and services. The committee has the right to impose fines on companies and their executives, as well as on government officials.

The government has made social policy a priority in order to avoid social instability associated with high unemployment and price inflation. Explicit social protection policies are implemented in Uzbekistan through the state budget. The most significant change in the social safety net is the increased reliance on the mahalla (community) administrative system for the distribution of social benefits. The government provided subsidies for housing maintenance and municipal utilities such as water and heat. Heating and water heating subsidies were scheduled to expire in 2000 and 2004, respectively.

As in other post-Communist countries, women have borne a disproportionately large share of the burden of the costs of structural readjustment. Uzbekistan ranks 87 of 143 countries examined in the Gender-Related Development Index of the UNDP's *Human Development Report 2000.* The same report put Uzbekistan's maternal mortality rate at 21 per 100,000 live births in 1998. According to the CIA *World Factbook*, Uzbekistan's infant mortality rate was projected to be 72 per 1,000 live births in 2000.

The state pension fund is a national, state-guaranteed program but keeps its revenue separate from the general government operating budget. The Uzbekistan Ministry of Social Protection is responsible for administering the pension fund. Total expenditures of the fund represented ten percent of GDP in 1999. The fund is financed by a payroll tax paid by employers withholding tax of 37 percent. Most pensioners receive monthly minimum payments, but some are eligible for payments based on previous earnings. The pension fund also pays for other benefits such as disability, funeral, and some special veterans' benefits.

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YUGOSLAVIA

Polity: Parliamentary democracy
Economy: Mixed statist (transitional)
Population: 10,700,000
GNP per capita at PPP $ (1999): 2,561
Capital: Belgrade
Ethnic Groups: Serbian (63 percent), Albanian (14 percent), Montenegrin (5 percent), Hungarian (4 percent), other (11 percent)
Size of private sector as % of GDP: 40

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	na	4.90	↓↓ 5.50	↑↑ 4.63
Rule of Law	na	na	6.00	↑ 5.88
Economic Liberalization	na	4.83	↓↓ 5.33	5.33

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita ($)	1,392.0	na	1,470.0	1,576.0	1,752.0	1,195.0	1,225.0
Real GDP growth (% change)	2.5	6.1	7.8	10.1	1.9	-19.0	10.7
Inflation rate	3.3	78.6	94.3	21.3	29.5	37.1	60.4
Exports ($ millions)	1,482.0	1,531.0	1,842.0	2,368.0	2,858.0	1,498.0	1,700.0
Imports ($ millions)	1,895.0	2,666.0	4,102.0	4,799.0	4,849.0	3,296.0	3,600.0
Foreign Direct Investment ($ millions)	na	na	0.0	740.0	113.0	112.0	50.0
Unemployment rate	23.1	24.6	25.7	24.5	25.1	32.6	40.5
Life Expectancy (years)	71.7	71.9	72.0	72.0	72.2	72.3	72.0

INTRODUCTION

The year 2000 marked a major turning point in the history of the Federal Republic of Yugoslavia (FRY). On September 24, elections for the federation's president, legislature, and local municipal governments in Serbia resulted in a resounding defeat for incumbent President Slobodan Milosevic and his ruling coalition. Although Milosevic and his allies tried to deny opposition forces their victory, a major show of "people power" on October 5 in Belgrade, and indeed throughout Serbia, swept away the old regime and effectively ended more than 50 years of Communist rule. The winner in the presidential election, Vojislav Kostunica, a 56 year-old constitutional lawyer and long-time dissident, then assumed power along with an unwieldy 18-party coalition named the Democratic Opposition of Serbia (DOS). Despite the victory of Kostunica and DOS, the FRY faces considerable challenges in the years ahead. Kostunica and other DOS leaders have made it clear that reconceptualizing the relationship between Serbia and Montenegro, reforming the economy, and finding a meaningful way to reassert Yugoslav sovereignty over Kosovo are their immediate priorities.

Since Serbia and Montenegro proclaimed the formation of the FRY in April 1992, their common state has had a precarious existence. Formed in the midst of the wars in Croatia and in Bosnia and Herzegovina, the FRY has been plagued by a host of problems: international economic sanctions, war in neighboring states involving ethnic brethren, domestic political opposition to Slobodan Milosevic's regime, disagreements between the two federal partners, and violent rebellion in the Yugoslav province of Kosovo. All of these things have made this "third Yugoslavia" an inherently unstable entity. In 1997, Montenegro slowly began pursuing a strategy of disassociating itself from the Milosevic regime and from the Yugoslav federation itself. Meanwhile, in Kosovo, the Kosovo Liberation Army (KLA) began an uprising against Serbian control in the province. International concern over the fighting in Kosovo grew throughout 1998 as reports of numerous human rights abuses emerged.

In March 1999, NATO attacked the FRY ostensibly to pressure the Milosevic government into accepting a settlement for Kosovo dictated by the international community. During the war, government security forces and paramilitary units engaged in a campaign to forcibly expel the Albanian population from potential invasion routes into the country. In June 1999, after a 78-day bombing campaign, a settlement to the conflict was codified in United Nations Security Council Resolution (UNSCR) 1244. It effectively removed Kosovo from Belgrade's legal control and established a 50,000-strong NATO-led force (KFOR) to enforce the peace. However, UNSCR 1244 also explicitly noted that Kosovo would legally remain a part of the FRY. NATO's Kosovo campaign, therefore, did not bring the Kosovo question any closer to resolution. Moreover, during 2000, KLA offshoots began operating in adjacent areas of southern Serbia and northwestern Macedonia and threaten to destabilize the region once again.

By mid-1999, the FRY had effectively disintegrated into three distinct political entities: Kosovo, under NATO/UN control; Montenegro, where President Milo Djukanovic was maintaining a precarious peace; and Serbia (together with the FRY's other autonomous province, Vojvodina), where Milosevic was fully in charge.

Citizens of the FRY have experienced a precipitous drop in their living standards since the disintegration of the former Yugoslavia. According to some estimates, average per capita gross domestic product (GDP) in the FRY in 1999 was one-third its 1989 level. Wars, international economic isolation, and the Milosevic regime's consistent refusal to engage in meaningful economic reform played a significant role in the economic downturn. Much of the regime's strategy for maintaining power in such unfavorable circumstances had revolved around distributing control over state-owned companies to political allies and allowing a large black market to flourish. It is estimated that NATO's bombing campaign against Yugoslavia alone inflicted $30 to $40 billion worth of damage to the FRY's economic infrastructure.

DEMOCRATIZATION

Political Process

1998	1999-2000	2001
5.00	5.50	4.75

Since its inception in 1992, the FRY's political system has been a sui generis mixture of Milosevic's arbitrary rule, formal adherence to some constitutional restrictions, and recognition of the need for a bare minimum of popular democratic legitimacy. Milosevic, for instance, never resorted to a pure dictatorship. Indeed, the relative weakness of Milosevic's *Socijalisticka Partija Srbije* (Socialist Party of Serbia, SPS) and its ideologically kindred *Jugoslovenska Udruzena Levica* (Yugoslav United Left, JUL) repeatedly forced Milosevic into coalitions with not-so-reliable partners. Opposition parties, the independent press, and domestic nongovernmental organizations (NGOs) maintained a very significant and visible presence in the FRY's political life.

Yugoslavia's federal system, moreover, provided room for anti-Milosevic forces to gain considerable political space to maneuver. This was most notably the case in Montenegro, where a wing of the ruling *Demokratska Partija Socijalista—Crne Gore* (Democratic Party of Socialists-Montenegro, DPS-CG), led by Milo Djukanovic, broke with pro-Milosevic forces in 1997 and began pursuing an independent path. Similarly, in the Serbian province of Kosovo, the large Albanian majority (by the mid-1990s, accounting for 90 percent of Kosovo's total population) was able to create a shadow government and parallel society complete with its own schools and hospitals.

Throughout its brief history, the FRY has been a highly unstable political entity. The four main indicators of this are: (1) an unstable international environment, as well as problems associated with Montenegro and Kosovo, (2) highly contested and disputed elections and the regime's refusal to allow a normal turnover of power, (3) a catastrophic economic situation, and (4) the large number of politically-motivated assassinations.

Yugoslavia's international environment in the 1990s has been highly unstable. The wars in Bosnia and Croatia produced a large number of refugees who sought shelter in the FRY and greatly exacerbated social tensions in the country. Within Yugoslavia, the dispute between the Djukanovic government in Montenegro and the Milosevic regime increasingly threatened to break out into violent conflict in recent years. Adding to these tensions were disputes between the two main blocks in Montenegrin politics: Djukanovic's For a Better Life Coalition and the successor to the pro-Milosevic wing of the DPS-CG, the *Socijalisticka Narodna Partija* (Socialist People's Party, or SNP). Finally, the long-simmering rebellion in Kosovo, which intensified in 1998 and led to NATO's attacks on Yugoslavia in 1999, added another internal dimension to the instability plaguing the FRY.

The inherent instability of the FRY and Milosevic's regime was also been evident in the inability of the system to allow for democratic transfers of power through elections. Elections were organized to favor pro-regime parties. When the results still proved unfavorable, the regime resorted to falsifying electoral returns. Most recently, after the September 2000 elections, the regime employed various tactics to stay in power, even having the constitutional court declare the presidential vote invalid and calling for new elections. Popular revulsion against these actions culminated in the events of October 5.

Another aspect of the inherent instability of Milosevic's style of rule was evident in the FRY's disastrous economic performance in the 1990s. Most notably, there was growing economic disparity between the vast majority of Serbia's population and a small circle of SPS/JUL insiders. By 2000, most Yugoslav citizens had seen their living standards cut by two thirds in comparison with 1989 levels. Similarly, throughout the past decade inflation significantly eroded most households' savings. In January 1994, the FRY economy set a new world record for hyperinflation: 313,563,558 percent monthly!

One final indicator of the system's instability was the growing number of high-level assassinations between 1997 and 2000. During 2000 alone, the Yugoslav federal defense minister and the well-known warlord and paramilitary chief Zeljko Raznatovic-Arkan were gunned down in Belgrade along with a host of other figures. The Milosevic regime appears to have been directly linked to some of these killings.

The most recent elections to the bicameral federal assembly took place on September 24, 2000, concurrently with the elections for the FRY federal president (see tables 1 and 2). (Under the 1992 FRY constitution, the upper house is the 40-member council of republics and the lower house is the 138-member council of citizens. The republican assemblies elect their respective members to the council of republics, in which Montenegro and Serbia have equal representation. Delegates to the council of citizens are elected according to a complex formula that assigns 108 delegates to Serbia and 30 to Montenegro. Some delegates are popularly elected (in Serbia, 54; in Montenegro, 24), and while the remainder are elected according to constituency majorities. Delegates in both chambers serve four-year terms.

Pro-Milosevic parties controlled the composition of the federal assembly that was elected in November 1996. However, the importance of the federal assembly declined in inverse proportion to the intensity of the dispute between Montenegro and Serbia. For the elections on September 24, 2000, the democratic opposition in the FRY again had to campaign under very unfavorable circumstances. The regime refused to allow the opposition access to the most important media, and the opposition was frequently subjected to harassment from state security organs. A boycott by anti-Milosevic Montenegrin parties (over constitutional

Table 1. 2000 Parliamentary Elections, Council of Citizens

Party/Coalition	Mandates
Democratic Opposition of Serbia (DOS)	58
Socialist Party of Serbia/ Yugoslav United Left (SPS/JUL)	44
Serbian Radical Party (SRS)	5
Union of Vojvodina Hungarians (SVM)	1
Socialist People's Party (SNP)	28
Serbian People's Party (SNS)	2

Source: the Yugoslav government's official website, http://www.gov.yu

Table 2. 2000 Parliamentary Elections, Council of Republics

Party/Coalition	Mandates
Democratic Opposition of Serbia (DOS)	10
Socialist Party of Serbia/ Yugoslav United Left (SPS/JUL)	7
Serbian Radical Party (SRS)	2
Serbian Renewal Movement (SPO)	1
Socialist People's Party (SNP)	19
Serbian People's Party (SNS)	1

Source: the Yugoslav government's official website, http://www.gov.yu

changes in July 2000 that allowed delegates to the council of republics to be popularly elected) also hurt the opposition's chances for victory. Nevertheless, the DOS coalition scored a significant victory against pro-regime parties. In the new federal assembly, DOS and the SNP (under a former Milosevic ally) will have a strong majority.

Serbia and Montenegro each have popularly elected unicameral assemblies in which delegates serve four-year terms. Delegates to the 250-seat *Skupstina Srbije* (Serbian assembly) are elected according to a system of proportional representation. The latest elections for the Skupstina were held in September 1997 and were boycotted by two leading opposition parties, Zoran Djindjic's Democratic Party and Vesna Pesic's Civic Alliance of Serbia. Milosevic's ruling left-wing coalition lost its governing majority, gaining only 110 seats. The SRS, on the other hand, significantly increased its share of power, gaining 82 seats. Vuk Draskovic's SPO also improved its standing, winning 45 seats. Other smaller parties, including those representing ethnic minorities, shared the remaining 13 seats. After September 24, 2000, however, the composition of forces in the Serbian parliament did not reflect new political realities and DOS was able to force pro-Milosevic parties into calling early elections, scheduled for December 24, 2000.

In 1997, the DPS-CG split into two factions, one supporting the pro-Milosevic Montenegrin president Momir Bulatovic and the other supporting Milo Djukanovic, another leading DPS-CG member who favored greater autonomy for Montenegro within the Yugoslav federation. In the most recent elections to the Montenegrin parliament, held in May 1998, the Djukanovic-led coalition Za Bolji Zivot (For a Better Life) won 42 seats; Bulatovic's Socialist People's Party (SNP) of Montenegro, 29; the Liberal Alliance of Montenegro, 5; and the Democratic Union of Albanians, 1. In contrast to elections held in Serbia, the Organization for Security and Co-operation in Europe (OSCE) has deemed elections in Montenegro to be "free and fair."

In Kosovo, the Albanian population consistently boycotted Serbian and Yugoslav elections from 1989 on. In 1990, Serbian authorities promulgated a new republican constitution that rescinded the broad autonomy that Serbia's two provinces, Kosovo and Vojvodina, had enjoyed since 1974. Albanian delegates in the Kosovo assembly responded by declaring Kosovo a constituent republic in Yugoslavia (but independent of Serbia). Serbian authorities responded by dissolving the Kosovo assembly. In May 1992, Kosovo Albanians voted for a new assembly and elected Ibrahim Rugova as president of the self-declared Republic of Kosovo. Serbian authorities immediately declared the elections illegal, and the Kosovo Albanian's state remained unrecognized by the international community. On March 22, 1998, Kosovo Albanians again held elections for their self-declared parliament and presidency, FRY authorities again declared the vote invalid. The Republic of Kosovo also remained unrecognized by foreign governments. United Nations Security Council Resolution 1244, which was passed in June 1999, calls for a wide degree of autonomy for the province.

In October 2000, Ibrahim Rugova's Democratic League of Kosovo won 58 percent of the vote in elections to Kosovo's city and town halls. The Democratic Party of Kosovo, which is led by the former head of the Kosovo Liberation Army, won only 27 percent of the vote. Analysts suggested that the Democratic League's strong showing signaled that Rugova would be the likely frontrunner in a future province-wide election. According to the OSCE, turnout for the local elections was 79 percent.

The most recent elections for the FRY presidency were held on September 24, 2000. In earlier years, the federal president had been elected by the federal assembly and required the approval of a majority of both Serbian and Montenegrin delegates. In July 2000, constitutional changes pushed through the federal assembly by pro-Milosevic parties called for the federal president to be chosen through direct popular elections. Milosevic's belief that he could win a popular vote against a respectable opponent proved to be the biggest political miscalculation of his career. To run against Milosevic, the Serbian opposition nominated Vojislav Kostunica, a 56-year-old constitutional lawyer and the leader of the small *Demokratska Stranka Srbije* (Democratic Party of Serbia, DSS). Kostunica, who had impeccable credentials both as a principled opponent of the Milosevic regime and as a strong defender of Serbian national interests, captured 50.4 percent (2,470,304 votes) of the popular vote on September 24; Milosevic won only 37.1 percent (or 1,826,788 votes).

According to the FRY constitution, the Yugoslav presidency is a largely ceremonial post. In reality, however, Milosevic's control over the SPS and various state security organs made him by far the most powerful man in the country. Kostunica, as the leader of an unwieldy 18-party coalition, who must deal with Montenegro's demands for a considerable redefinition of the federal state, will undoubtedly be in a much weaker position in the long term to exert much practical political power in the country. Nevertheless, at the end of 2000, Kostunica enjoyed tremendous political and moral prestige both within Yugoslavia and internationally. He will probably be able to exert more influence over the next year or two than his official powers would suggest.

The president of Serbia is popularly elected. Slobodan Milosevic won the first multiparty elections in December 1990 and was reelected in December 1992. In December 1997, Milan Milutinovic won the Serbian presidency after four rounds of voting and amid widespread rumors of ballot stuffing to assure a 50-percent turnout. Despite the changes that have occurred as a result of the events of October 5, 2000, as of this writing there were no plans to hold early elections for the Serbian presidency. Milutinovic's current term runs out in December 2001.

The president of Montenegro is also popularly elected. The current president, Milo Djukanovic, was elected in multiparty elections in October 1997. His opponent, in-

cumbent President Momir Bulatovic, who accused the Djukanovic camp of widespread vote fraud, disputed Djukanovic's victory.

None of the elections held in Yugoslavia over the past several years, whether at the national, republican, or municipal levels, can be considered free and fair. An OSCE report on the Serbian presidential and parliamentary elections in 1997, for instance, noted that the "overall election process in the Republic of Serbia is fundamentally flawed." The U.S. State Department has claimed that "in practice citizens cannot exercise the right to change their government." Opposition parties have been routinely denied access to state-owned media, and the Milosevic regime habitually manipulated the electoral process in numerous ways. Although elections in Montenegro have generally been fairer, there have been numerous complaints about pro-government coverage of electoral activities by state-owned media.

Voter turnout has varied significantly over the years. Kosovo's Albanian population boycotted all Serbian and Yugoslav elections in the 1990s. In recent elections in Serbia proper, there have been signs of voter fatigue. In the October 1997 presidential elections in Montenegro, voter turnout was approximately 73 percent. In the September 24, 2000, elections, official estimates claimed that voter turnout had been 69.7 percent, but opposition leaders claimed that turnout was over 75 percent. In Montenegro, due to the boycott called by the Djukanovic government, approximately 24 percent of the electorate turned out. In Kosovo, the municipal elections of October 28, 2000, which were organized by the international community, drew an 80 percent voter turnout.

Since the first set of contested elections were held throughout the former SFRY in 1990, both Serbia and Montenegro have had a very active multiparty system. The FRY constitution guarantees citizens freedom of political association (Article 41). At the federal Yugoslav, republican, and municipal levels, numerous parties compete in elections and participate in government. By 1995, there were approximately 200 parties functioning at the federal and republican levels. Many of these, however, were small parties with little or no infrastructure or coherent political platform.

Article 42 of the FRY constitution forbids any political parties or organizations that advocate the violent overthrow of the constitutional order. In the fall of 1997, Serbian officials prevented a party representing Muslims in the Sandzak from forming an electoral coalition with the Kosovo-based Democratic Reform Party of Muslims.

The power and influence of the various parties has varied significantly. By virtue of its control over the state security forces, the most important mass media, and the most important segments of the economy, the SPS enjoyed a disproportionate share of power at all levels of government until October 2000. DOS's victory in the September 24 elections, however, led to the swift disintegration of the SPS's hold on power. In the future, we can expect to see a fairer and more equal distribution of power throughout the government and society. In Kosovo's October 2000 municipal elections, more than 20 parties competed for office.

Exact figures on political party membership are difficult to obtain because many parties are reluctant to release such data. Hitherto, the SPS had claimed a membership of approximately 600,000, making it by far the largest political party in Yugoslavia. *Nova Demokratija* (New Democracy) claims to have 40,000 members. Official membership figures, however, do not generally reflect a party's overall strength or level of popular support. This is better determined by analyzing voting results since 1990. Public support for Milosevic's SPS, for instance, has declined considerably over the past decade. In the 1990 elections, the SPS gained more than 2,300,000 votes; in the 1997 elections, this number fell to 1,200,000. Vuk Draskovic's SPO has consistently won between 700,000 and one million votes over the past decade. Support for Vojislav Seselj's SRS also fluctuates considerably. In the elections between 1990 and 1997, the SRS gained anywhere between 600,000 and 1,038,000 votes.

The elections of September 24, 2000, however, significantly reshuffled the political scene in Serbia. The SPO and the SRS suffered their worst electoral showings in years. Whether these two parties will remain important players in Serbia's political scene is unclear. Similarly, as of this writing, Milosevic's SPS was breaking up along several lines, most notably between moderates and hard-liners. An SPS party congress that is scheduled for December 2000 is expected to lead to a formal split between these factions and to the formation of new parties.

Reliable figures for Montenegrin political parties are also difficult to obtain. Of Montenegro's approximately 450,000 registered voters, it is generally assumed that most Montenegrins who either identify themselves as Serbs or favor close ties with Serbia vote for Momir Bulatovic's SNP. Djukanovic's electoral successes, on the other hand, come from votes his For a Better Life coalition has received from Albanians, Croats, Muslims, and the segment of the Orthodox population that has traditionally favored Montenegrin independence.

No information is available on the percentage of women registered in political parties. Legally, there are no restrictions on women's participation in politics, and women are active in political organizations. Nevertheless, they are underrepresented in party and governmental offices. According to a U.S. Department of State estimate, women hold less than 10 percent of the ministerial level positions in the Serbian and Federal governments. Throughout the period of nationalist mobilization in the 1990s, women have been withdrawing from active participation in politics. For instance, in the federal and municipal elections of 1996, 60 percent of women decided not to vote. Of the 178 members of the federal assembly who were elected in 1996, only one was female. In the current Serbian assembly (elected in 1997), only 8 out of 250 delegates (or 3.5 percent) are women.

Ethnic minorities in the FRY have generally formed their own political parties. Apart from Kosovo Albanians, who have not participated in the FRY's political life for the past decade, smaller ethnically based parties have included the *Savez Vojvodjanskih Madjara* (Union of Vojvodina Hungarians, SVM) and various parties representing ethnic Muslims in the Sandzak. Both the SVM and the main Muslim-Sandzak party joined the DOS coalition for the September 2000 elections.

Civil Society

1998	1999-2000	2001
5.00	5.25	4.00

Like most of East-Central Europe, the FRY has witnessed an explosion in the number of NGOs operating in the country over the past decade, although the exact number and the size of their memberships are difficult to determine. NGOs in the FRY are still officially registered as "social organizations" or "associations of citizens," in accord with the terms used during the socialist period. Since 1991, observers believe that 500 NGOs have been formed, the most numerous focusing on ecological, humanitarian, or human rights issues.

Among the more active and visible NGOs are the Belgrade-based Center for Anti-War Action (formed in 1991) and the Helsinki Committees that are active in Belgrade, Pristina, and the Sandzak. The Helsinki Committees in Belgrade and Pristina often collaborate in monitoring the human rights situation in Kosovo. The Serbian Orthodox Church is active in providing charitable assistance to refugees and the poor. In Kosovo, a predominantly Serbian group of citizens known as the Serb Resistance Movement was created in the mid-1990s to protest the Milosevic regime's policies in that province. The Students Club in Belgrade and the Independent Union of Students in Kosovo have also played prominent roles over the past several years. Several environmental and women's rights groups are also active. Among the most prominent of the latter are the Belgrade-based Women in Black, Krajina and Tara, Tera, and Woman, and the Pristina-based League of Albanian Women and Mikya.

Perhaps the most important NGO to have emerged in Serbia in the past decade is the student movement Otpor (Resistance). Otpor was created in 1998 to reflect the younger population's disgust with the incessant infighting of the official Serbian opposition. Within a matter of months, Otpor developed a sophisticated strategy of nonviolent resistance to the regime and an amorphous organizational structure designed to prevent the authorities from destroying or co-opting its leadership. Various Western agencies have provided Otpor with significant funding and training support.

As of late 2000, the legal and regulatory environment for NGOs was in considerable flux. Hitherto, although legal provisions for registering NGOs have been relatively liberal at the federal level, politically active NGOs often have had to confront various forms of governmental harassment. By virtue of being able to cause problems for businesses, the government could discourage business support for the NGO community. Humanitarian assistance is tax exempt only if it is distributed through the Red Cross or the Office of the Serbian Refugee Commissioner. Some NGOs raise funds by charging for services and engaging in other revenue-raising activities. Revenues used to support programs and core administrative costs are not subject to taxation. Laws on citizens' associations at the republican and federal levels have not been brought into conformity with the republican and federal constitutions, and there is no legal framework for international NGOs. Consequently, all groups find themselves in various forms of legal limbo. For instance, in June 2000, the Federal Ministry of Justice refused to register Otpor as a "social organization," claiming that its members had been engaged in activities aimed at overthrowing the legal constitutional order.

In Montenegro, the government has promoted more liberal policies towards NGOs. On July 22, 1999, the Montenegrin parliament replaced the earlier Law on Citizen's Organizations with a new law that simplifies registration procedures, details taxation benefits, and grants foreign and domestic NGOs equal status. The new legislation was written with the help of the Center for Democracy and Human Rights in Podgorica and was reviewed by other NGOs in Montenegro.

Most NGOs operate on shoestring budgets and depend on volunteer support. Activists generally lack fundraising skills. The depressed state of the Yugoslav economy means that most NGO's will remain dependent on the international donor community for the foreseeable future. Some NGOs receive in-kind support (e.g., the use of office space) from reform-minded municipal authorities in cities and towns run by the opposition.

The FRY's trade union movement has been relatively weak over the past decade, despite considerable legal guarantees. Article 41 of the FRY constitution guarantees workers the right to form free trade unions. All workers, except military and police personnel, are entitled to join or form unions. Out of a total estimated labor force of 2.3 million, the government-controlled Alliance of Independent Labor Unions has an estimated membership of 1,000,000. The independent United Branch of Independent Labor Unions has about 170,000 members. Other unions are smaller and more sector-specific. The Union of Bank Employees, for instance, claims some 12,000 members. Numerous smaller unions representing transportation workers, educational employees, journalists, retirees, etc., are very active, at least judging by their proclivity to strike. In Kosovo, the Association of Independent Trade Unions (formed in 1990) represents 24 unions with approximately 250,000 workers.

Independent unions suffered from the Milosevic regime's attempts to suppress their activities. For example,

unions were often prohibited from busing their members to strikes or demonstrations held in different parts of the country. Public opinion surveys conducted prior to the recent change-of-power in Belgrade showed that only 12 percent of the population had much faith in either the official governmental or independent trade unions. The *Savez Sindikata Srbije* (SSS) was in a highly-favored position vis-à-vis the government, which made it possible for the SSS to inherit all property belonging to trade unions from the Communist period and often allowed it to distribute scarce consumer goods. The Milosevic regime also considered the SSS its only official interlocutor in labor negotiations. Labor activists claim that the government has turned down some 300 requests to officially register unions. They have also criticized the FRY's Law on Strikes, which calls for workers to notify businesses five days in advance, and government agencies ten days in advance, of any strike plans.

Articles 39 and 41 of the FRY constitution grant citizens the right to form political parties and organizations and the right to assemble freely. Numerous interest groups represent ethnic constituencies (especially Albanians, Hungarians, Muslims, and Roma), business interests (such as the Yugoslav Chamber of Commerce and Industry), women's rights, etc.

Independent Media

1998	1999-2000	2001
4.50	5.75	4.50

The media scene in the FRY over the past decade has been very lively, especially at the local level. According to one estimate, in 1997 there were 300 privately owned radio stations and 100 privately owned television stations in Yugoslavia. Belgrade has several daily newspapers.

Until now, the largest and most influential media in Yugoslavia have been state-owned. The most important television station is the government-owned RTS, whose signal covers most of the country. While Milosevic was in power, RTS's editorial policy was strictly pro-government. In the run-up to the September 2000 elections, for example, RTS news programs devoted nine and a half hours to SPS/JUL activities and only 21 minutes to DOS.

Montenegro and each of the provinces have their own state television services as well. In 1997, after Djukanovic split with Milosevic, Montenegro's state-run television network (*TV Crna Gora*) began broadcasting a more objective and open news program. Under new editorial leadership, opposition political parties began to receive more coverage, and collaboration with independent news media in Belgrade such as Radio B-92 or the Studio B television station increased. *TV Crna Gora* also stopped rebroadcasting RTS's main nightly news program. During 2000, however, there were increasing complaints that state-owned media in Montenegro were towing a pro-Djukanovic line.

In both Kosovo and Vojvodina, there are RTS broadcasts in Albanian and Magyar, respectively, but the editorial slant had traditionally been pro-Milosevic. Yugoslavia also has numerous print media for ethnic minorities published in their native languages. These include Novi Sad's *Magyar Szo,* a Hungarian-language daily with estimated circulation of 26,000, and Pristina's *Koha Ditore*, an Albanian-language newsmagazine edited by the well-known Albanian activist Veton Surroi. In 1998, a new Albanian-language daily, *Koha Sot*, began publishing with a circulation of 35,000 and an editorial line that pursued a middle course between the more militant *Koha Ditore* and the pro-Rugova elements in the Albanian population.

The largest daily newspapers are *Blic*, *Vecernje Novosti*, and *Glas Javnosti*. One of the largest print dailies, the Belgrade-based *Politika* (estimated circulation: 100,000), used to be one of the most respected daily newspapers in Eastern Europe. During the Milosevic era, however, it became a tool of the regime. After the events of October 5, 2000, the editorial staff of *Politika* revolted against its management and demanded a complete overhaul of its leadership. There are a variety of opposition publications, and their popularity has increased in recent years. According to one report, by 1997 the overall circulation of the independent press surpassed that of the state media. The Belgrade-based newsweeklies *Vreme* and *NIN* were strongly antiregime. In recent years, tabloids such as Belgrade's *Blic* have also gained in popularity. In 1998, however, as part of Milosevic's overall crackdown on society, a number of print media, including *Nasa Borba*, *Demokratija*, *Dnevni Telegraf*, *Evropljanin* and *NT Plus,* were closed.

Among the most important privately owned electronic media are Belgrade's B-92 radio station and the Studio B independent television station. B-92 has long been noted for its strong anti-war stance. During the Belgrade demonstrations of 1996 and 1997, B-92 gained many new listeners because people wanted to get more objective reporting. B-92 has also organized a network of 24 opposition radio stations throughout Serbia, Vojvodina, and Montenegro that reaches 70 percent of Serbia's population. After the NATO bombing campaign began in March 1999, one of the regime's first acts was to arrest B-92's editor-in-chief, Veran Matic. Matic was subsequently released, but B-92 was forced to operate under strict governmental supervision for the duration of the war.

Over the past several years, Belgrade's Studio B television station has given opposition parties much more coverage than they could receive on RTS. Studio B's signal, however, only reaches limited parts of Belgrade, and the former government repeatedly refused to allow Studio B to obtain a stronger transmitter. Opposition cadres from the *Zajedno* coalition took charge of Studio B after the results of the 1996 municipal elections were recognized, but in September 1997 squabbling among opposition parties led Vuk Draskovic's SPO to purge the station of Zoran Djindjic's supporters. Opposition figures subsequently

claimed that Studio B had become the SPO equivalent of Milosevic's RTS.

Apart from government harassment, the main problem facing independent media in the FRY over the past decade has been making a profit. Practically no independent media outlet is financially viable. And most, such as *Vreme* and Radio B-92, depend on foreign donations to survive.

Newspapers and other print media are disseminated through several well-established distribution chains, most of which are government affiliated. In larger cities, independent publications are easily obtained, even at state-owned kiosks. The terms under which government-owned chains distribute independent publications, however, are usually not financially favorable to the publication. The government-owned chains also frequently delay or postpone payments to independent media outlets. Given the level of inflation, this means that newsstand earnings are usually worthless. A common form of government harassment involved denying independent publications newsprint or making the cost of newsprint prohibitively expensive. The NATO bombing campaign made it even more difficult for independent media outlets to gather information and to distribute their publications.

Until October 5, 2000, state-owned media towed the government line. Private and independent media, on the other hand, had completely independent editorial policies, and many newspapers, magazines, and radio stations were vehemently antiregime. The Milosevic government tolerated this state of affairs because it believed that these media outlets had relatively little impact on mass public opinion. The independent media's limited impact was mainly the result of two factors. First, most people simply cannot afford to buy alternative or independent publications. Second, Yugoslavia's rural population relies on state-owned media for most information. Nevertheless, on some occasions the regime did not to take any chances. In the run-up to the Serbian elections in the summer of 1997, for example, the Milosevic government temporarily shut down 77 private radio and television stations around the country.

Officially, Articles 36 and 38 of the FRY constitution guarantee freedom of the press and prohibit censorship with one stipulation: media outlets enjoy these freedoms only if they are registered with the government. In practice, independent or alternative media frequently have been subjected to legalistic and bureaucratic harassment. By 1998 and 1999, as opposition to the Milosevic regime grew, this turned into outright persecution. A 1998 media law, for instance, imposed undisclosed fees on the allocation of frequencies to television and radio station. This left officials free to price independent media houses out of business.

In October 1998, with the threat of NATO bombardment imminent, the Serbian government passed a decree on media conduct in a situation of immediate war danger. This enabled the government to close or impose punitive measures against any media outlets of its choice. The decree resulted in the closure of several independent papers. After the immediate crisis passed, many of the measures were adopted as permanent legislation.

When the NATO bombing campaign actually began on March 24, 1999, the government passed a new set of decrees imposing a system of wartime censorship. Media houses were provided with suggested language for describing NATO, the KLA, etc., and journalists were prohibited from reporting on military or civilian casualties. In April, the publisher of *Dnevni Telegraf*, Slavko Curuvija, was assassinated in Belgrade. His murderers were never found. Many independent journalists were taken into temporary custody. In a very controversial act, Yugoslav media also came under attack from NATO when cruise missiles destroyed the building housing RTS and killed 16 reporters, editors, and technicians. Western human rights organizations called the attack on RTS a war crime. Under Kostunica, the new FRY government is expected to move quickly to rescind all of the draconian media legislation enforced by the Milosevic regime.

The environment in which independent media operate in Montenegro has been somewhat different since the Djukanovic government came to power in 1997. The passage of a new Law on Information in Montenegro in 1998 marked a change in official government policy and led to substantial growth in the number of independent and private media. The high fees for radio and television frequencies were considered excessive, and the government was forced to halve them in 1999. Montenegro's independent media generally survive with foreign donations. The money earned from selling advertising space or commercial airtime is only symbolic.

As of mid-2000, there were about 135 print media operating in Montenegro. The three main daily newspapers are the pro-government *Pobjeda*, the privately owned *Vijesti*, and the pro-Socialist People's Party *Dan*. Important weeklies include *Monitor*, *Polis*, *Istok*, and *Grafiti*. Montenegro also has fifteen government radio stations, established either by republic or local municipal authorities; ten privately owned radio outlets; and five television stations. Several radio stations rebroadcast the programs of Radio Free Europe, Deutsche Welle, the BBC, and the Voice of America.

Montenegro's Law on Public Information is fairly liberal and allows foreigners 100-percent ownership of media outlets. Professional journalists, however, criticize the fact that a program council for Montenegrin state-TV has been formed through an agreement between political parties in parliament. There have also been complaints that state-owned media have towed a very pro-government line.

Laws prohibiting slander against private individuals and government officials exist, but prior to 1998 the Milosevic regime rarely used such forms of harassment. The October 1998 decree on the media allowed media outlets to be fined for publishing items of a personal nature without the

consent of the concerned individual. The decree also allowed private individuals or organizations to sue media outlets for being "insufficiently patriotic" or for disseminating information that does not uphold "the territorial integrity, sovereignty and independence of the country." The most typical legal penalty has been an imposition of exorbitant fine that is intended to destroy a media outlet's financial viability.

According to the International Telecommunication Union, there were 80,000 Internet users in Yugoslavia, or 75.21 users per 10,000 people, in 1999. There were also 9.91 Internet hosts per 10,000 people and 2.07 personal computers per 100 people in 1999. Limited access to the Internet is more the result of a lack of computers than of government restrictions. Many individuals have access to the Internet through academic institutions, governmental institutions, or business enterprises. According to some informal estimates, the number of people with access to the Internet could be as high as 300,000 people. Belgrade also has numerous cyber cafés.

The Internet was an important battleground between the Milosevic regime and Serbian civil society. In November 1996, after widespread protests erupted throughout Serbia to protest the Milosevic government's annulment of municipal election results, Radio B-92 began to broadcast reports on the protests via the Internet. The regime then tried to jam B-92's radio signals. B-92 responded by using the RealAudio computer program to broadcast its radio programs, thus allowing audiences both inside and outside Yugoslavia to listen. The U.S. manufacturer of RealAudio subsequently donated even more powerful equipment to B-92, which allowed more than 500 people to listen to the Internet broadcasts simultaneously. Rumors circulated at the time that the regime had pressured Internet service providers into disconnecting Serbia from the World Wide Web.

The Albanian-language daily *Koha Ditore* established Kosovo's first E-mail system, Zananet, in 1994, as part of the ZaMir network. By March 1999, there were four Internet service providers in Kosovo: Pronet (owned and managed by Albanians), Eunet, Co.yu, and the PTT. Prior to the NATO bombing campaign against Yugoslavia, Pronet's staff frequently had to hide its equipment during police raids. Estimates suggest that Pronet was serving several hundred users. Radio 21, an independent Albanian radio station based in Pristina, also broadcast its reports via the Web. In the aftermath of the Kosovo conflict, Internet gateway Anonymizer.com created the Kosovo Privacy Project, which offered anyone in Yugoslavia a dedicated gateway for sending email without being monitored by security services.

Yugoslavia was rated "Not Free" from 1991 to 1999 in Freedom House's annual *Survey of Press Freedom*. For 1999 and 2000, it was rated "Partly Free."

Governance and Public Administration

1998	1999-2000	2001
5.00	5.50	5.25

Under the Milosevic regime there were few checks and balances between legislative and executive authority in the FRY. Two factors, however, prevented Milosevic from creating an outright dictatorship. First, the FRY's federal system allowed anti-Milosevic forces in Montenegro to come to power and capture official governmental institutions. Second, throughout the post-1992 period, Milosevic's SPS was never strong enough to rule alone. At various times, Milosevic had to form alliances or coalitions either with extreme right parties (i.e., Seselj's SRS) or with more moderate parties (i.e., Vuk Draskovic's SPO).

The federal assembly became increasingly irrelevant as a rule-making body as the dispute between Milosevic and Montenegro grew. In 1997, it convened only once, and the Milosevic government increasingly ruled by decree. This state of affairs became more pronounced as the Milosevic regime slowly lost its monopoly on state institutions and had to allow opposition forces into government institutions. In Montenegro, for instance, the reformist victory in October 1997 forced Milosevic loyalists out of office. In Serbia, the opposition parties' victory in the November 1996 municipal elections gave them a toehold on power at local levels, and the September 1997 Serbian parliamentary elections gave non-SPS parties a majority in the Skupstina.

Sessions of the Yugoslav federal assembly, the Serbian Skupstina, and the Montenegrin Skupstina are frequently televised or covered by the press. However, much of the actual decision making takes place behind closed doors. Milosevic's SPS often acted unilaterally. A recent example of this occurred in July 2000 when the SPS/JUL coalition pushed through a controversial set of constitutional amendments to the electoral rules. Despite such actions, draft legislation has usually been available for public debate. In 2000, for example, a draft Law on Terrorism circulated in the Yugoslav press for several weeks before the government decided to withdraw it because it could not gain the SRS's support. On other occasions, though, the government submitted legislation and passed it within the space of one day, thereby effectively preventing any public debate on the issues at hand.

The Yugoslav federal system allows for significant devolution of power. The FRY constitution grants the republics considerable autonomy and guarantees the right to local self-government (Article 6). However, when Momir Bulatovic was the president of Montenegro most decision making was centralized. After October 1997, the Djukanovic leadership began to reassert its authority as an equal partner in the federation. Within the republics, there is a high degree of centralization. The republican education ministries design school curricula and textbooks that must be adopted throughout the republic. Prices for various utilities are determined at the republic level, not at the municipality

level. Most importantly, control over police forces is the responsibility of the republics and, in both Serbia and Montenegro, is highly centralized.

Under Tito's system of socialist self-management, local governments enjoyed a considerable degree of autonomy. After opposition forces came to power in most of Serbia's major urban areas in 1997, though, the Milosevic regime sought to curb the power of local office holders. In several Serbian cities, Milosevic's SPS cadres essentially emptied municipal coffers before the opposition could take power. The regime then punished municipalities that had voted for the opposition by denying them funds from the republican budget. After opposition leaders came to power in the city of Kragujevac, for example, republican authorities slashed the city's budget from 40 million DM in 1997 to seven million in 2000. Central authorities also began a campaign to reduce local competencies; for instance, municipal governments lost the right to grant foreign companies concessions for communal utility services. In November 1999, the Serbian parliament passed a new 226-article law that brought all local government financing under central control. The new law even gave the central government the right to dismiss local administrations and rule by decree when, for example, feuding opposition parties could not form a municipal government within 60 days of elections.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1998	1999-2000	2001
5.00	5.75	5.50

The rule of law existed in the FRY in the 1990s only in the most formal and superficial sense. Since the proclamation of the FRY in April 1992, there has been no major constitutional reform. The closest attempt came in August 1999 when the Montenegrin government proposed a new plan for defining relations between the two federal republics. The Platform on the New Relationship between Montenegro and Serbia would have renamed the FRY the Union of Montenegro and Serbia and would have curtailed the powers of the federal government so severely that it would have transformed the FRY into a confederation. The Serbian parliament refused to consider the proposal and referred it to the federal assembly, whose authority Montenegro does not recognize. (Since 1997, Montenegro has refused to accept the validity of decisions passed by federal judicial organs.) When Kostunica and DOS came to power in Belgrade, they made it clear that rebuilding the Yugoslav federation was their first priority. Major constitutional reforms can be expected in 2001.

Over the past several years, the judicial system has usually interpreted the constitution in ways that are favorable to the Milosevic regime. In December 1997, for instance, the federal state prosecutor overturned a decision by the Montenegrin supreme court that declared the anti-Milosevic wing of the DPS-CG the legitimate successor to the formerly united party. Similarly, in late 1998, the federal constitutional court ruled against allowing the Montenegrin president to select all 20 Montenegrin representatives to the federal assembly's chamber of republics. This reversed a 1994 decision allowing Milosevic's ruling coalition to do the same while he was the Serbian president. More recently, in July 2000 the federal constitutional court endorsed amendments to the FRY constitution that were pushed through the Federal Assembly by the SPS, despite protests from the Montenegrin government. On October 4, 2000, in a last-ditch effort to sow confusion in the population and keep Milosevic in power, the federal constitutional court annulled the presidential election results of September 24 and called for new elections at an unspecified date.

No significant reform of the criminal code was accomplished during the Milosevic years either. The former SFRY's federal criminal code remains in force, although work on a new criminal code has been ongoing for the past several years. In theory, judicial authorities authorize searches and issue warrants; in practice, however, the police often do these things on their own. The FRY constitution prohibits the use of torture against detainees or criminal suspects, but human rights organizations have documented numerous cases of abuse and beatings by security forces. This was true especially in Kosovo throughout the past decade and in Belgrade during the winter demonstrations of 1996 and 1997. The criminal justice system is hampered because it often takes months, or even years, for cases to reach the courts, and executive institutions generally show little interest in enforcing judicial decisions.

The FRY constitution guarantees Yugoslav citizens all human rights and civil liberties, regardless of ethnicity, race, gender, religion, or political creed. Citizens are guaranteed freedom of assembly, a free press, and the right to own property, and national minorities are guaranteed the right to use their own language in educational institutions and in legal proceedings. In practice, however, these rights have been difficult to secure, most notably in the case of the Kosovo Albanians. After the beginning of the KLA armed rebellion in Kosovo in late 1997, the random abuse of human rights and civil liberties increased significantly.

The Milosevic regime's dismal human rights record affected all of Yugoslavia's citizens, regardless of ethnicity. Defense attorneys frequently complained about being denied access to detainees or having difficulty acquiring copies of official indictments. Some judges prevented defense attorneys from reading court files. The judicial system also seemed more willing to support human and civil rights in Serbia proper, whereas in Kosovo and the Sandzak judges frequently supported the actions of the state security apparatus. In contrast, Montenegro's security apparatus has had

"a relatively clean human rights record since 1995," according to the U.S. State Department.

Numerous antibias and antidiscrimination laws exist. Articles 44 through 48 of the constitution guarantee national minorities the right to education and information in their native language, the right to form educational and cultural institutions, and the right to foster relations with co-nationals outside the borders of the FRY. Article 50 makes incitement of national, racial, or religious hatred unconstitutional. It has often proved difficult, however, for minorities to enjoy these rights in practice. Similarly, women's groups have argued that during the period of nationalist mobilization women's rights were frequently ignored.

The independence of the judiciary was a major problem in the FRY during the Milosevic years. The majority of judges are leftovers from the communist period. In most instances, judges rule fairly and impartially on cases that do not concern politics. Court proceedings are conducted in public, unless there is a perceived need to protect government secrets, public order, or public morality. The courts came under attack by the Milosevic regime on repeated occasions. For instance, on July 13, 2000, the Serbian parliament sacked 16 judges in a move that was widely seen as an attempt to assert the regime's control over the judiciary as popular dissatisfaction with the regime was mounting. Sometimes these purges had ethnic overtones, as in Vojvodina in the early 1990s when there were charges that an inordinate number of non-Serb judges were dismissed from their positions.

The FRY constitution calls for a strict separation of powers between the executive, legislative, and judicial branches of government (Article 12). Justices in the federal constitutional court and the federal court, as well as the federal public prosecutor, may not belong to political parties (Article 42). In practice, though, the judicial system often acted as an adjunct of the SPS. Since the tenure and salaries of judges are not fixed, they have been susceptible to regime pressure when deciding on cases with political implications. The prime example of this came in the wake of the 1996 municipal elections when the court system overturned opposition victories in several cities throughout Serbia.

Criminal investigations were also used to intimidate and harass political opponents of the Milosevic regime. Sometimes, however, even "democratic" governments in the FRY acted in a similar manner. Such was the case in February 1998 when the Djukanovic government charged former Montenegrin president Momir Bulatovic with destabilizing the "constitutional order" by allegedly organizing a demonstration in Podgorica in which several people were hurt. The state must provide suspects with public defenders if they cannot provide one for themselves. Accused persons also have the right to have court proceedings translated into their native language.

Enforcement of judicial decisions depends upon the consent of executive bodies. Since the courts rarely rule against the interests of the regime, law enforcement and security institutions do enforce rulings made by the courts. But this general rule has become complicated by the Djukanovic government's drive to increase Montenegro's autonomy. The federal constitution declares that it is up to the constituent republican authorities to enforce decisions of the federal constitutional court; however, since the Djukanovic government no longer recognizes that court's rulings, it has refused to enforce any of its decisions.

Corruption

1999-2000	2001
6.25	6.25

A key way the Milosevic regime controlled the country was by putting high-level government officials in charge of the most important economic enterprises. In practice, there were no significant limitations on the participation of government officials in the country's economic life. Legal and ethical boundaries between private and public sector activity were seldom, if ever, enforced. Individuals with the right political connections routinely violated constitutional provisions, laws, and regulations. Upon assuming power in October 2000, Vojislav Kostunica stated that dealing with the endemic corruption in the FRY's political and economic system would be one of his government's top priorities.

The overlap between individuals playing leading roles in both government and the economy was especially important in several strategic sectors of the economy, notably those that involved the importation of products such as fuel, pharmaceuticals, food staples, coffee, and cigarettes. Enterprises in these sectors could draw hard currency from the National Bank of Yugoslavia (NBY) to pay for imports at the official exchange rate. They then quickly sold the hard currency on the black market for a hefty profit.

Prior to DOS's assumption of power, financial disclosure and conflict of interest laws for politicians did not exist. Although, many prominent officials were arrested and tried for corruption during the Milosevic years, critics charged that these officials were arrested because they had fallen afoul of the regime politically rather than for criminal activities. There are laws prohibiting racketeering and other forms of organized crime, but since such activities became part and parcel of the Milosevic regime, little effort was spent to thwart them. Similar problems emerged in Kosovo, where international officials claim that the former KLA leadership is deeply involved in extortion, racketeering, smuggling, and kidnapping. Although there have been international efforts to curb such abuses, a lack of personnel and funds has made corruption in Kosovo difficult to investigate.

Corruption in Yugoslavia increased in the 1990s partly as a result of the international sanctions against the FRY and partly as a result of corruption within the regime itself. And it took numerous forms. A longtime Milosevic loyalist, for instance, was in charge of the federal customs agency. This allowed Milosevic and the SPS to control the flow of goods

into and out of the country and to impose arbitrary financial penalties and fees on individuals crossing the border. A common practice throughout the former Yugoslavia is to provide doctors and nurses with gifts in exchange for better care. This practice became even more widespread after sanctions were imposed in 1992 and the health system broke down. There have also been charges that some professors at Belgrade University charge students bribes for passing grades. Protection rackets are active in many areas, and municipal authorities often charge kiosk operators considerable sums for the privilege of operating on city property.

Declining salaries for civil servants have contributed to the problem. The average monthly salary of a government employee in 1996 was YUD 901 (approximately $163 according to December 1996 exchange rates). The salary for a representative in the Republic Assembly in Serbia in 1998 was YUD 12,264. University professors received about YUD 2,100, and doctors only made YUD 1800 per month.

A 1998 study by the UN International Crime and Justice Research Institute (UNICRI) reported that 17 percent of respondents in Yugoslavia claimed they were the victims of official corruption, as compared with an 11 percent global average. A study completed in the first half of 2000 showed that one out of every five citizens in Serbia proper (i.e., excluding Montenegro and Kosovo) claimed to have been asked for a bribe. One out of every four citizens claimed to have offered bribes on various occasions to doctors, potential employers, customs officials, etc. The study also noted that there was a widespread belief among the general public that government officials at all levels are corrupt. No anti-corruption public education efforts have been initiated in recent years.

In 2000, the FRY rated 89 out of 90 countries surveyed for Transparency International's Corruption Perceptions Index. It received a score of 1.3, where 10 represents the least corrupt and 0 the most corrupt. In the 1999 survey, Yugoslavia was ranked 90 out of 99 countries, with a score of 2.0.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization

1998	1999-2000	2001
4.50	5.00	5.00

In the 1990s, the FRY made little progress in laying the foundations for a free market economy. Today, the Serbian economy is effectively bankrupt. Milosevic's system of rule required a significant concentration of economic power and wealth among those close to the regime. Consequently, there were few serious attempts to allow a private sector to flourish. Reforms of the banking system, property legislation, capital market infrastructure, etc., were avoided. And, in 1994, the Property Transformation Revaluation Act annulled the privatization of 87 percent of the enterprises that had previously been privatized.

The private sector accounts for approximately 40 percent of the FRY's GDP. The vast majority of officially registered businesses are privately owned; by 1995 this figure stood at 91 percent. Most of these are so-called micro-companies that employ less than ten people and are usually involved in small-scale trading activities. Some 27 percent of Yugoslavia's workforce is officially registered in the private sector; however, the actual figure is believed to be much higher because many individuals are working in the black or gray markets. According to some recent estimates, between 30 and 40 percent of average household incomes are tied to earnings from shadow economy activities. In Kosovo, public enterprises for energy production, water supply, transport, and telecommunications accounted for as much as 80 percent of GDP prior to March 1999.

Although the Serbian government heralded 1999 as the "Year of Small and Medium Sized Firms", the NATO bombing campaign effectively put a halt to any economic reform programs for the year. In April 2000, Serbian officials tried to jumpstart the privatization process by ordering firms to speed up their compliance with a law on registering their assets. If they failed to do so before June 30, they faced closure and liquidation. The Belgrade Commercial Court has 83,000 firms registered, but only 20 percent of them have complied with the law. According to a market research firm in Belgrade, the number of insolvent companies ripe for receivership procedures or liquidation stood at 27,508 at the end of February 2000.

Privatization has progressed somewhat further in Montenegro. In 1992, the Skupstina passed a Law on Ownership and Control Transformation that allowed enterprises to be privatized in various ways. These included the issuance and sale of shares to employees of enterprises stated for privatization, debt-equity swapping, investment in an enterprise, and the sale of enterprises to management. The vast majority of Montenegrin firms decided to privatize either by distributing free vouchers or by transferring their capital to privatization funds.

According to one estimate, 95 percent of the enterprises in Montenegro had undergone ownership transformation by September 1997. (However, this process occurred in an environment of patronage and corruption.) Fifty-six enterprises, with a net worth of DEM 128 million, were completely privatized, and the private sector was estimated to account for 30 to 35 percent of GDP. After Djukanovic became president in January 1998, the government promised more radical moves towards privatization. Western firms such as Merrill Lynch and Coopers and Lybrand have been involved in deals to privatize a variety of enterprises, includ-

ing an aluminum combine, a health spa, and a tobacco factory. Western firms are also bidding for concessions to build a hydroelectric plant.

The NATO attacks on Yugoslavia temporarily halted the privatization process in Montenegro. On April 20, 2000, the Montenegrin parliament voted to proceed with the voucher privatization of some 242 firms. Nineteen of the companies were to be sold by international tender. The sale of several strategic companies—including Jugopetrol, Telekom-CG, Elektroprivreda, Montenegrin Railways, and the Port of Bar—were to be handled separately. The sale of several hotels along Montenegro's Adriatic coast fell through in 2000 because of infighting between government factions. On September 19, Montenegrin officials announced a massive round of voucher privatizations for May 2001. Vouchers will be provided to 450,000 citizens, who will then be able to buy shares in firms at auction. The privatization will be carried out according to Montenegro's 1996 Law on Privatization. Considerable opposition to the process is expected. The Montenegrin assembly still needs to pass a law on restitution.

In May 2000, UNMIK released a draft Enterprise Development Strategy. According to the plan, privatization in Kosovo will begin with the sale of small (up to 50 workers) and medium (250 workers) state enterprises to the highest bidder at a planned rate of 20 per week. The privatization scheme does not call for restructuring or valuation. It is simply aimed to turning enterprises over to private investors as quickly as possible.

Over 75 percent of the arable land in Yugoslavia is privately owned, mainly by farmers with small holdings. The FRY's agricultural system, however, is plagued by the fact that it is still based on the old, inefficient SFRY system. Yugoslavia's housing stock at the end of 1995 was estimated to comprise 3,123,000 units, of which 687,000 were state owned.

Insiders have taken considerable advantage of the economic "reforms" enacted to date. Under the terms of the Property Transformation Revaluation Act, ownership of many enterprises was turned over to their largest debt-holders, which generally were state-owned banks. Thus, bank directors and managers were installed on the managerial boards of most of the largest enterprises in the country. Since the October 2000 revolution, Kostunica and other leaders have promised to reverse many of the more questionable insider privatization deals.

Macroeconomic Policy

1998	1999-2000	2001
5.00	5.50	5.50

Tax compliance has been very difficult to enforce. The use of checks and credit cards is minimal, and most people make their transactions in cash with hard currencies. To some extent widespread tax-avoidance was accepted by the Milosevic regime for the sake of social peace. Moreover, strictly imposing tax regulations would only worsen the Yugoslav economy's liquidity problems. An additional problem was the fact that regime supporters frequently received tax waivers for various imported goods. For example, only half of the revenue that should have been raised from the sale of cigarettes was actually collected, because many individuals close to the Milosevic regime controlled the cigarette trade.

For most of the past decade, the private sector bore the brunt of propping up the economy. Since state and socially owned enterprises were unprofitable, the private sector made up for the public sector's weaknesses. This resulted in a higher tax burden on both individuals and enterprises in the private sector. In February 1998, the federal government began examining ways to squeeze more money out of the gray economy, including the introduction of a value added tax (VAT) and payment mechanisms designed to reduce the amount of cash in circulation. To date, however, no concrete steps in these directions have been taken.

Domestic political obstruction and the constraints imposed by Yugoslavia's diplomatic and economic isolation throughout the 1990s stymied serious moves towards banking reform. The National Bank of Yugoslavia (NBY) enjoyed some independence in the early 1990s when it was headed by Dragoslav Avramovic, the man credited with developing the successful anti-inflation program of 1993 to 1994. After Avramovic began publicly criticizing the Milosevic regime in April 1996, however, he was quickly dismissed. In subsequent years, the NBY lost much of its independence. Its influence was further limited by the fact that the Montenegrin Monetary Council usurped many of its powers vis-à-vis monetary policy in that republic.

The NBY has only been partially successful in setting monetary policy, largely because monetary policy was frequently subordinated to the Milosevic regime's most immediate political problems. Thus, the regime often sought to buy a measure of social peace prior to elections by printing money to settle wage and pension arrears, raise salaries, or increase energy supplies. Prior to the September 2000 elections, for instance, the FRY's money supply increased from YUD 19–20 billion (approximately $418 million) in July to YUD 22 billion ($440 million) in August because the regime began printing money to finance its electoral campaign. Given such political interference, it has been difficult for the NBY to exercise effective control over the monetary supply.

The private commercial banking sector in the FRY also suffers from exceptional weakness. From 1994 to 1996, the banking sector lost a considerable amount of money as the volume of loan arrears increased. The banking sector lost YUD 480 million (approximately $145 million) in 1994 and YUD 100 million ($30.3 million) in 1995. The banks that did manage to turn a profit during this period did so on the basis of foreign-exchange speculation rather than

investment. Individual depositors in Yugoslavia have enjoyed few guarantees and, consequently, have had little reason to keep their money in the banking system.

Most private banks suffer from severe liquidity problems. Total holdings of the 100-odd private commercial banks in the FRY were estimated to be about $15 billion at the end of 1996. The country's largest banking conglomerate, the Beogradska Banka system, which includes the FRY's three largest banks (Beobanka, Investbanka and Agrobanka, along with nineteen other banks around the country), is almost constantly non-liquid. The Beogradska system represents about half the total potential capital in the FRY banking system. Beogradska's total financial potential is YUD 128.4 billion with capital of around YUD 11 billion. Under a decision by the NBY during the NATO air strikes, almost all the banks in Serbia were linked to Beogradska Banka, whose director was a close Milosevic associate.

The Montenegrin government has been somewhat more serious about banking reform and more successful in world financial markets. Over the past few years, the Montenegrin government has assumed responsibility for $170 million in debts to international banks that Montenegrin enterprises had accumulated; by so doing, however, it reduced Montenegro's external debts by one-third, down to an estimated $340 million in 1997. During 2000, Montenegro adopted legislation allowing foreign banks to operate there. In September, Euromarket a.d. began operations in Podgorica. The Soros Economic-Development Fund, the U.K.'s Culture Investment bank, and Sarajevo's Market banka put up the bank's initial capital of $12 million.

Much hope is being placed on reviving the FRY's commercial banking sector by attracting foreign banks. After the European Union (EU) lifted sanctions on the FRY in 1996, banks in Austria, Germany, Switzerland, and several other European countries expressed interest in investing in Yugoslav banks. British, Dutch, and Austrian banks (and, reportedly, some American investment funds) have purchased shares in Vojvodjanska Banka, a Novi-Sad based bank that is valued at several hundred million marks. Similarly, talks are underway between Beobanka and Chinese Bank, the largest bank in the PRC, to establish the first Yugoslav-Chinese bank. Jugobanka is the majority shareholder in Moscow's Veksim Bank, which has an annual turnover of $580 million and is in charge of servicing credits to the FRY that are approved by the Russian government.

The FRY's currency, the Yugoslav *dinar* (YUD), was under attack from several fronts during the 1990s. In the late 1980s and early 1990s, the dinar lost much of its value as inflation began spiraling upward. In 1991, the average rate of inflation was 120 percent, and by 1994 it reached an unprecedented 331,563,558 percent per month. On November 25, 1995, the federal government passed the Foreign Currency Transactions Law pegging the YUD to the Deutsche mark (DEM) at a rate of 3.3 to 1. Since, then, however, the YUD has been repeatedly devalued. Immediately after the Kosovo conflict, the YUD fell to a new black market rate of 14 to 1. As of June 2000, there were at least six different exchange rates in the FRY. The official exchange rate was 6 dinars to the DEM. Customs officials were using 14 dinars per DEM. For hard currency savings accounts, the NBY was offering an exchange rate of 20 dinars to the DEM. Street dealers were offering 22 to 23 dinars per DEM. In Montenegro, meanwhile, the official exchange rate was 25 dinars to the DEM. Finally, the inter-enterprise black-market exchange rate was 30 dinars per DEM.

In keeping with President Milo Djukanovic's policies of slowly easing Montenegro out of the Yugoslav federation, the smaller republic in the FRY has steadily pursued its own monetary and fiscal policies over the past three years. On November 2, 1999, Montenegro introduced the DEM as legal tender and began paying pensions and salaries with it. In mid-2000, the National Bank of Montenegro (NBM) announced that Yugoslav dinars only accounted for 1 percent of all the money in bank accounts in Montenegro and only 5 percent of the entire money supply. NBM officials also announced that it had DEM 80 million in reserves and that an estimated DEM 50 million was being held by Montenegrin citizens. There were also an estimated YUD 90 million (DEM 2.5 million at current rates) in Montenegrin bank accounts, and about YUD 12 million in cash circulation. By July 2000, the official exchange rate in Montenegro for the YUD was YUD 25 to DM 1. In September 1999, the UNMIK decided to introduce the DEM as legal tender in Kosovo.

Since privatization has only barely begun in the FRY, the capital market infrastructure has hardly developed. The Belgrade Stock Exchange reopened in 1990 after being closed for almost 50 years. Foreign countries, particularly Britain and Italy, partially financed its activities. The Podgorica (formerly Titograd) Stock Exchange opened in 1996. Securities trading on two exchanges is limited, and the regulatory infrastructure for widespread stock and bond trading barely exists. Most activity involves trading short-term (30 day or less) commercial paper and government bonds; the sale of stocks is practically nonexistent.

Microeconomic Policy

1998	1999-2000	2001
5.00	5.50	5.50

Article 51 of the FRY constitution explicitly recognizes the right to own property, and Article 53 guarantees intellectual property rights. However, there were several well-publicized cases in which the Milosevic regime seized privately owned enterprises. In February 1999, the Serbian government announced the takeover of the Belgrade plant of ICN Pharmaceuticals, which was owned by the prominent regime opponent and Serbian-American businessman Milan Panic. The takeover apparently was motivated partly out of political considerations. It was also carried out so that the

state could avoid paying the $175 million it owed ICN for medicines provided to the FRY health care system. Serbian government officials charged that ICN Pharmaceuticals had not met its obligations under a contract signed in 1990.

On the whole, courts are believed to be relatively impartial in resolving property and contract disputes. The FRY's legislation regarding investment disputes meets international standards, and the country accepts binding international arbitration for investment disputes between foreign investors and the state. The main problems are inconsistent implementation and lack of enforcement of judicial rulings both for foreign and domestic investors. Foreign observers have also complained that governmental and judicial decisions often seem to be influenced by the ruling party. Prior to March 1999, the FRY government was making legal, regulatory, and accounting systems more transparent in accordance with international standards.

Officially, business competition is encouraged in the FRY. The constitution prohibits the creation of monopolies and explicitly states that the "terms of business shall be the same for all" (Article 74). In practice, however, individuals and enterprises associated with the Milosevic regime were granted import monopolies for a wide range of goods, including fuel, pharmaceuticals, and cigarettes. Regime opponents also frequently charged that government employees were instructed to buy goods and supplies from individuals and firms with close ties to the regime. Much of the FRY's agricultural sector, for instance, was controlled by members of Milosevic's immediate family and/or key associates through the Commodity Reserves Network, a Communist-era institution that set agricultural prices.

For much of the 1990s, Yugoslavia's trade with the outside world was severely limited by the economic sanctions on the FRY. During the FRY election campaign in August and September 2000, the United States and the EU promised to begin lifting sanctions if a new leadership were elected. Soon after Kostunica assumed power on October 5, Western countries began to make good on those promises.

Yugoslavia currently adheres to the World Trade Organization's Customs Valuation Agreement, which provides for fair, uniform, and neutral valuations of imports and exports, and its convention on anti-dumping duties. Yugoslavia has signed the Convention on Subsidies and Countervailing Duties, but acceptance is pending. Duty rates, most of which are ad valorem, were in the 0 to 40 percent range in 1997. Most duties, however, were in the 5 to 20 percent range. Food products were the exception. To protect domestic fruit and vegetable producers, duties were raised to as much as 200 percent on April 1, 1997. Imports to Yugoslavia are also subject to a cumulative 16 percent ad valorem import tax.

International trade was severely disrupted by the NATO attacks on the country. Three important bridges across the Danube at Novi Sad were destroyed, blocking the river to shipping between the Black Sea and Central Europe. FRY authorities had insisted that they would not open the Danube to international shipping until NATO countries paid to rebuild the bridges. The destruction of many bridges and stretches of roadway along the Belgrade—Nis highway also disrupted trade flows and significantly increased transportation costs for exporters and importers throughout the region. All together, some 50 road bridges, 19 railway bridges, and 12 airports were severely damaged during the NATO bombing campaign.

According to a package of economic reforms adopted by the federal parliament in May 1996, foreigners were granted the right to invest in areas such as energy production, telecommunications, transportation, and the forest and lumber industries. Restrictions continued to apply regarding investment in the media. The Federal Ministry of Trade has final approval over both the establishment of foreign firms and the purchase of majority shares in firms. Officially, foreigners enjoy the right to own property and businesses on the basis of reciprocity, i.e., to the same extent that Yugoslav citizens enjoy those rights in the investor's country. Foreigners may also seek arbitration of disputes in foreign courts. The government does reserve the right to expropriate property "in the public interest." Expropriation and nationalization are prohibited in free zones. Repatriation of capital for foreigners is free of restrictions. However, there have been complaints that high tariffs and surcharges have made it too expensive for foreign firms to import the quantity of goods needed to launch operations on a larger scale. Although there is no formal discrimination against foreign investors, there have been charges that domestic firms manipulate FRY law and governmental institutions to give them an advantage over foreign firms.

Montenegro has been promoting itself as a center for offshore business activities. In July 1996, for example, the Skupstina passed an Offshore Companies Act granting substantial tax benefits to foreign entities operating in Montenegro. Montenegro is also trying to attract foreign investors for its plan to privatize tourist attractions.

The first major foreign direct investment in Kosovo came in June 2000, after the United Nations assumed control of province. Switzerland's Holderbank Financiere Glaris signed a 10-year lease to manage and operate the Sharr cement works in southern Kosovo. The investment included DEM 34 million plus an undisclosed amount for training, social, and environmental projects.

Foreign investment and capital flow to Yugoslavia have been constrained since 1996 by the "outer wall" of sanctions the U.S. imposed in 1996. After the UN Security Council lifted the original sanctions regime, the United States announced a new set of conditions that Yugoslavia had to fulfill to gain membership in the International Monetary Fund (IMF) and the World Bank. These new conditions include handing over war crimes suspects, making real progress towards democratization, and agreeing with the other former Yugoslav republics on sharing the SFRY's assets. With Kostunica's assumption of power in October 2000, it is believed that the new authorities in Belgrade will move quickly to make progress on all of these issues.

All told, the international sanctions have had severe long-term consequences for Yugoslavia's economy and society. Yugoslav studies have claimed that losses attributable to the sanctions in the period from 1991 to 1996 amount to $61.95 billion. In the first two years of the sanctions, almost 10 percent of Yugoslavia's workforce that was employed in scientific research and development left the country.

The FRY engaged in little meaningful reform of its energy sector during the Milosevic period. Part of Milosevic's system of rule depended on buying a minimal degree of social peace by providing the population with cheap energy. Both the electrical power system and the fuel-oil sectors are still state-owned. Reform of the rest of the energy industry has also been negligible. The government controls import licenses for mineral fuels, and under Milosevic these licenses invariably went to individuals with close ties to the regime. The sanctions regime also allowed organized smuggling rings to earn vast sums of money by circumventing the blockade and importing fuel. Currently, Yugoslavia owes some $500 million to Russia (for gas) and China (for oil) but continues to import fuel from them through barter arrangements. In June 2000, Gazprom stopped deliveries of gas to the FRY altogether because debts for the first five months of 2000 alone reached $65 million. Some reports have suggested that Yugoslavia may have to settle its energy debts with Russia and China by giving them shares of state-owned enterprises that are scheduled for privatization.

Traditionally, the Yugoslav energy sector received significant technical advice and support from Germany. With the impositions of economic sanctions, however, the energy industry began to orient itself toward other countries, most notably China. In June 2000, the Shanghai Electrical Import-Export Corporation agreed to supply *Elektroprivreda Srbije* (EPS, the state-owned electrical company) with $31 million worth of mining equipment and $46 million worth of electrical equipment. It was believed that the money came as part of a $300 million loan made by the Chinese government to the FRY in 1999.

Overall, the FRY's energy sector is in desperate shape. Both the state oil company, *Naftna-industrija Srbije* (NIS), and EPS run large deficits. Despite occasional price increases, Serbia still had the lowest electricity prices in Europe. Gasoline prices in Yugoslavia are lower than in Western Europe. However, the price of gasoline in Belgrade (when it could be found) doubled after the Kosovo conflict.

The NATO attacks on Yugoslavia did severe damage to the country's energy production capabilities. A third of Serbia's power grid and its two largest crude oil refineries were destroyed during the bombing. In the aftermath of the bombing, the UN estimated that Yugoslavia would only be able to produce 50 to 70 percent of its electrical energy requirements during the winter, thereby increasing Yugoslavia's dependence on Russian gas supplies. The Kosovo War also highlighted Hungary's importance to Yugoslavia. Hungary, through which Russian gas transits, shut off supplies to Yugoslavia in keeping with the Western fuel embargo. Afterwards, restoring the flow was hampered because Yugoslavia owed Hungary $20 million.

The FRY has attempted to develop its own indigenous sources of energy in recent years. In 1996, development of a new oil field in Vojvodina began. In 1998, annual production stood at 1.2 million metric tons but only met about 25 percent of the FRY's needs. Despite the NATO bombing raids on the Pancevo oil refinery, by June 2000 the plant was refining over 1,000 tons of oil daily. Overall, industrial growth and development will be impossible without significant reform and reconstruction of the energy sector. According to 1996 estimates, the Yugoslav energy sector needed some $700 million in investments for infrastructure modernization and improvement. This figure is now considerably higher given the destruction caused by the NATO bombing campaign. Plans have been made to privatize state energy conglomerates such as EPS and NIS, the latter of which also owns a large network of gas stations, and to sell shares to foreign investors.

Yugoslavia also has plans to construct a southern and eastern Serbia network of natural gas pipelines and a western Serbia network that would include Montenegro. The proposed system would be integrated into the petroleum, gas, and electricity transmission system based on the Caspian and Black Sea regions and would include most of the countries of the former Soviet Union, as well as Bulgaria, Romania, and Turkey. Concrete work on the project, however, is still far from being realized. Serbian consumers are estimated to need some 200,000 cubic meters of natural gas daily, of which domestic production can supply 70,000 cubic meters. In 1998, Russia provided 80 percent of the FRY's natural gas supplies.

Social Sector Indicators

Given the upheavals of the past decade, the FRY has been afflicted by many economic and social problems. One of the most severe is unemployment. In particular, the mass dissatisfaction of young people, who form the bulk of the unemployed, had disastrous consequences for the Milosevic regime in October 2000.

In 1998, the size of the Yugoslav workforce was estimated to be five million. As of mid-1999, there were an estimated 2 million unemployed persons in Yugoslavia, more than half of which were under 30. (This figure included both officially unemployed individuals and those laid off from their places of employment.) Refugees from the wars in Croatia, Bosnia, and Kosovo were also swelling the ranks of the unemployed

In 1999, out of a potential labor force of some 1,330,000 people in the Kosovo Albanian population, 65 percent were economically inactive or unemployed. Women are believed to be exceptionally hard-hit by the high unemployment rates in Kosovo. Overall, women comprised about

42.7 percent of the Yugoslav workforce in 1998. The labor force participation ratio of female to male citizens was 0.7.

Unemployment benefits are roughly equivalent to the minimum wage, which in 1998 was YUD 250 to 500 dinars (approximately $20-40) per month. The minimum wage, however, is not enough to cover minimal expenses for a worker and his or her family. In 1998, the cost of food and utilities for a family of four was estimated to be YUD 2,150 ($230).

The FRY's pension system has been in crisis for several years, and payments are made irregularly. Along with the other social welfare programs, it is largely financed by high payroll taxes. In 1998, there were 1,333,300 individuals receiving pensions in the FRY. Of these, 81,906 were in Montenegro and 1,251,394 in Serbia. In 1997, the FRY pension fund alone ran a deficit of some $1.26 billion. As of mid-1999, the government owed pensioners and state employees an estimated YUD 18 billion in wage and pension arrears. In June 2000, the government began paying out the first half of April 2000 pensions. Private sector employees, including agricultural workers, must contribute a portion of their salaries into special funds that provide benefits to people not employed in the state sector.

The economic problems of the past decade have resulted in a steady drop in their standard of living. Since 1994, after factoring in inflation rates, Yugoslav citizens have experienced an almost continual decline in their incomes. Average monthly salaries were 102 DEM in 1994, 93.5 DEM in 1995, 128.5 DEM in 1996, 160.2 DEM in 1997, 130 DEM in 1998, and 82 DEM in 1999.

As of April 2000, average salaries in the FRY varied significantly by republic. In Montenegro, the average salary stood at DEM 185, while in Serbia the average salary was only DEM 88. However, average prices were significantly higher in Montenegro. For instance, the price of liter of milk in Serbia was DEM 0.21, but in Montenegro it was DEM 0.33. Similarly, a liter of cooking oil in Serbia was DEM 0.64, but in Montenegro it was DEM 1.33 to 1.55.

Wage arrearages are a major problem in the economy, especially for workers employed in the public sector. Monthly wages are often paid several months late. The government has ameliorated public dissatisfaction in part by being lax in the collection of utility payments. Barter is another significant way in which individuals have made do. In lieu of salaries, individuals often are allowed to have some of the products their firm produces. They, in turn, sell these items on the gray or black markets. Many individuals still have strong ties to the countryside and are able to obtain basic foodstuffs from relatives or friends in their native villages. Private sector wages are generally higher than public sector wages, but specific percentages are not available.

Although women are officially entitled to equal pay for equal work, traditional attitudes often prevent them from reaching higher levels of management. In broader terms, the transition from socialism to something resembling a market economy has diminished women's economic position in society significantly. Women are often the first to be laid off when firms run into economic difficulties. In 1998, one estimate claimed that 75 percent of the unemployed workers in the FRY were women.

The FRY's educational system has also suffered considerably over the past decade. Although state support for education has dwindled, the educational system has also had to cope with the influx of tens of thousands of refugee children. The FRY has a compulsory primary school program of eight years and a secondary program of three to four years. The adult literacy rate in 1995 was 97.9 percent. In the 1997–1998 school year, there were 877,445 students enrolled in elementary schools, 355,311 in secondary schools, and 46,821 students in institutions of higher education. In 1995, the proportion of 8 to 18 year olds enrolled in the educational system was 72 percent. The national student to teacher ratio in 1998 was 18:1 in the elementary school system. Total expenditures on education as a percentage of GDP in 1990–1991 (the latest year for which figures are available) were 4.5 percent.

The educational system in Kosovo has been especially disrupted. In 1990, the Milosevic regime closed Albanian schools in the province when Albanian instructors refused to offer the curriculum authorized by the Republic of Serbia, including courses in Serbian history and language. Subsequently, Albanians in the province created a parallel school system for primary, secondary, and post-secondary education.

According to the World Bank, the United Nations Development Programme, and other sources, many indicators of the FRY population's health worsened during the 1990s. The infant mortality rate was 13 per 1,000 live births in Yugoslavia in 1998. Life expectancy in 1998 was 72 years (70 years for males and 75 for females.) The crude birth rate was 11 per 1000 people. In 1997, there were 1,776 recorded cases of suicide; of those, 1,216 suicides were committed by males and 550 by females.

The FRY has a well-developed health care system, although it is less extensive in Kosovo and Montenegro. Currently, there are 209 primary health care centers, 58 polyclinics, 50 general hospitals, 17 specialized hospitals, and 10 clinical centers. From 1990 to 1998, the number of physicians averaged 2 per 1,000 members of the population in Yugoslavia. The number of hospital beds per 1000 people equaled 5.3. In 1996, the FRY had 21,697 doctors, 4,146 dentists, 2,005 pharmacists, and 58,257 hospital beds. Long-term data on average and median wages for doctors, nurses, and medics is unavailable; however, the average doctor made approximately YUD 1,800 per month ($165). A cardiologist earned approximately YUD 3,500 ($320). Throughout the 1990s, total Yugoslav expenditures on health care were approximately 7 percent of GDP.

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